

2002 Board of Directors Meetings Minutes

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**BOARD OF DIRECTORS MEETING**

January 24, 2002

MINUTES

The quarterly meeting of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the Jefferson Hotel, 1200 16th Street, NW, Washington, DC, on Thursday, January 24, 2002. Mr. Frank Gumper, Chair of the Board, called the meeting to order at 9:03 a.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the USAC CEO, called the roll on behalf of Mr. Ed Eichler, Secretary.

The quarterly meeting of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the Jefferson Hotel, 1200 16th Street, NW, Washington, DC, on Thursday, January 24, 2002. Mr. Frank Gumper, Chair of the Board, called the meeting to order at 9:03 a.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the USAC CEO, called the roll on behalf of Mr. Ed Eichler, Secretary.

Fifteen of the nineteen members were present, representing a quorum:	
Bryant, Anne	Hess, Kevin
Buller, Karen	Jackson, Jimmy
Cornell, Diane	Lineberry, Isiah - <i>by telephone</i>
Davis, Fr. Bill	Lubin, Joel
Eichler, Ed	Parrino, Cheryl
Gonzalez, Dan	Swanson-Hull, Camie
Gregg, Billy Jack	Talbott, Brian
Gumper, Frank	
Two members joined the meeting in progress:	
Coltharp, James	Rivera, Robert
Two members were absent:	
Campbell, Anne	Sanders, Dr. Jay
Officers of the Corporation present:	
Haga, Robert - Assistant Treasurer	Barash, D. Scott - Assistant Secretary
Others present for the meeting:	
Name	Company
Aylward, Jillian	USAC
Blackwell, Mel	USAC
Faunce, Donna	USAC
Flannery, Irene	USAC

Howard, Cathy	USAC
Khan, Sameer	USAC
Krzos, Joe	USAC
Law Hsu, Diane	FCC
McDonald, George	USAC
McLaren, Kirk	USAC
Miller, Linda	USAC
Rodda, Jim	USAC
Scott, Wayne	USAC

Due to the number of new Board members and USAC staff at the meeting, Mr. Gumper conducted a round of introductions of all meeting participants and attendees.

ACTION ITEMS:

a1. Annual Election of Officers and Committee Chairs and Vice Chairs. Mr. Lineberry, Chair of the Nominating Committee, reported to the Board the nominations for officers and Committee Chairs and Vice Chairs as resolved by the Nominating Committee and the respective programmatic Committees.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors accepts the recommendations of the USAC Nominating Committee to elect **Mr. Frank Gumper** as Chair of the Board of Directors; **Mr. Joel Lubin** as Vice Chair; **Mr. Jimmy Jackson** as Secretary; **Mr. Ed Eichler** as Treasurer; **Mr. D. Scott Barash** as Assistant Secretary; and **Mr. Robert Haga** as Assistant Treasurer for the term of one year that shall begin at the conclusion of the January 2002 quarterly Board meeting and that shall conclude at the close of the January 2003 quarterly Board meeting; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendations of the USAC High Cost & Low Income Committee to elect **Mr. Ed Eichler** as Chair and **Mr. Joel Lubin** as Vice Chair of the USAC High Cost & Low Income Committee for the term of one year that shall begin at the conclusion of the January 2002 quarterly Board meeting and that shall conclude at the close of the January 2003 quarterly Board meeting; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendations of the USAC Rural Health Care Committee to elect **Dr. Jay Sanders** as Chair and **Mr. Isiah Lineberry** as Vice Chair of the USAC Rural Health Care Committee for the term of one year that shall begin at the conclusion of the January 2002 quarterly Board meeting and that shall conclude at the close of the January 2003 quarterly Board meeting; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendations of the USAC Schools & Libraries Committee to elect **Mr. Brian Talbott** as Chair and **Mr. Kevin Hess** as Vice Chair of the USAC Schools & Libraries Committee for the term of one year that shall begin at the conclusion of the January 2002 quarterly Board meeting and that shall conclude at the close of the January 2003 quarterly Board meeting; and

meeting; and

RESOLVED FURTHER, That the USAC Board of Directors establishes a policy that in the event that the chairmanship of a programmatic committee becomes vacant during the term of the incumbent chair, the Vice Chair of the Committee shall be designated as the Chair of the Committee and shall assume all responsibilities of the Chair, including serving on the Executive Committee, until the Board elects a new Chair for the Committee.

- a2. Approval of the Minutes.** On a motion duly made and seconded, the Board approved the minutes as distributed of the meetings of Tuesday, October 23, 2001, and Monday, December 17, 2001.
- a3. Reports from the Committee Chairs.** Each of the following Board members presented a report on the activities of each of their January quarterly Committee meetings, respectively: Mr. Hess (Vice Chair) - Schools & Libraries Committee; Mr. Eichler (Vice Chair) - High Cost & Low Income Committee; Mr. Lineberry (Vice Chair) and Mr. Blackwell (USAC staff) - Rural Health Care Committee; and Mr. Gumper - Executive Committee. Mr. Gumper noted that Mr. Eichler would report during **Executive Session** on the selection of a vendor to perform support services concerning the new Interstate Common Line Support Mechanism. See **Executive Session** for a report of this discussion.

Board member James Coltharp joined the meeting at this point.

- a4. Photo Shoot - USAC Board of Directors.** The Board members gathered in the room to have their picture taken. It will be included in USAC's annual report.
- a5. Adoption of Resolutions Honoring Departing Board Members.** Ms. Parrino reviewed the resolutions and reported that plaques along with a copy of the resolution will be sent to each departing member commemorating their service on the USAC Board of Directors.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors hereby expresses its profound appreciation to Ms. Martha Hogerty for her service on the Board of Directors of the Universal Service Administrative Company, and wishes her the best in her retirement and all future endeavors; and

RESOLVED FURTHER, That the USAC Board of Directors hereby expresses its profound appreciation to Ms. Kathleen "KG" Ouye for her service on the Boards of Directors of the Universal Service Administrative Company and the Schools and Libraries Corporation, respectively, and wishes her the best in her future endeavors; and

RESOLVED FURTHER, That the USAC Board of Directors hereby expresses its profound appreciation to Ms. Lisa Rosenblum for her service on the Board of Directors of the Universal Service Administrative Company, and wishes her the best in her future endeavors; and

RESOLVED FURTHER, That the USAC Board of Directors hereby expresses its profound appreciation to Mr. Allan Thoms for his service on the USAC Board of Directors of the Universal Service Administrative Company, and wishes him the best in his future

endeavors; and

RESOLVED FURTHER, That the USAC Board of Directors hereby expresses its profound appreciation to Mr. Thomas Wheeler for his service on the USAC Board of Directors of the Universal Service Administrative Company, and wishes him the best in his future endeavors.

a6. Approval of April 2003 - January 2004 Board of Directors Quarterly Meeting Schedule. Ms. Howard reviewed the proposed schedule of quarterly meetings.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors adopts the following Board of Directors and Committee quarterly meetings schedule for April 2003 - January 2004:

Executive Committee	Programmatic Committees & Board of Directors
April 17, 2003	<i>Wednesday & Thursday - April 23 & 24, 2003</i>
July 17, 2003	July 21 & 22, 2003
October 16, 2003	October 20 & 21, 2003
January 15, 2004	<i>Wednesday & Thursday - January 21 & 22, 2004</i>

Board member Robert Rivera joined the meeting at this point.

a7. Delegation of Authority to the Executive Committee for Review and Final Approval of the USAC Annual Report to the FCC and Congress. Mr. Blackwell distributed draft copies of the 2001 Annual Report. He requested comments be provided to him by February 1. He recommended that, as in previous years, the Board delegate final approval of the report to the Executive Committee.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors delegates the final review and approval of the USAC Annual Report to the Executive Committee and directs staff to provide each Board member with a copy of the final Annual Report.

a8. Approval of Annual 2002 and 2nd Quarter 2002 USAC Common and Consolidated Budgets. Ms. Parrino distributed a revised page 3 of the issue paper as well as a copy of the proposed USAC organization chart. Ms. Parrino reviewed the 2nd Quarter 2002 budget and estimated 2002 annual budget. She noted that the annual 2002 budget estimate is higher than last year's budget due mainly to the anticipated implementation of additional components of the High Cost Support Mechanism (specifically the new Interstate Common Line Support Mechanism), a continued increase in audit activity, and the proposed addition of several new USAC staff members to be hired this year. The Board requested that going forward staff include in Attachment G both the total budget and expenditures to provide a better overall comparison.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve an annual 2002 USAC common budget of \$5,608,100; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 2nd Quarter 2002 USAC common budget of \$1,520,100; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve an annual 2002 USAC consolidated budget of \$46,021,500; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 2nd Quarter 2002 USAC consolidated budget of \$11,245,700.

- a9. Approval of 2nd Quarter 2002 Revenue Projections and Resolutions for the March 2, 2002, FCC Filing.** Mr. Haga reported that final numbers are not yet available. He noted that the 2nd Quarter 2002 High Cost Support Mechanism filing number on Attachment B should be revised to match the projected support approved by the High Cost and Low Income Committee. The support projections will be updated again for the January filing and if the contribution base changes beyond the established variance threshold, the Executive Committee will need to meet to approve the March 2, 2002, FCC filing.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors, having reviewed a summary of the current status of the March 2, 2002, FCC filing requirements, accepts the recommendation of the USAC Executive Committee to authorize staff to proceed with the required March 2, 2002, filing to the FCC on behalf of USAC. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

- a10. Miscellaneous.** None.

Information Items

- i1. Report of Legislative and Media Activity.** For information only. No discussion held.

- i2. Assistant Treasurer's Report.** Mr. Haga reviewed the report contained in the issue paper and explained the contribution and distribution methodology used by USAC.

Board member Anne Bryant left the meeting at this point.

- i3. Regulatory Report.** For information only. No discussion held.

- i4. Report on Accounts Receivable, Bankruptcy, and Collection Efforts.** Mr. Gumper called the Board's attention to the paragraph in the issue paper explaining the error in the figures reported for June and September of 2001. Accounts receivable over 30 days in relationship to the total billed for June and September 2001 has actually decreased.

- i5. Status of Transition to PricewaterhouseCoopers and LaSalle Bank for Financial Support Services for USAC.** Mr. Haga informed the Committee that most aspects of the transition have gone smoothly. The banking functions are being performed well by LaSalle. However, USAC staff has identified some significant issues that will likely require modifications to the contract between USAC and PricewaterhouseCoopers. The budget includes a contingency to address those changes. USAC and PricewaterhouseCoopers staff are reviewing operations in order to determine what changes need to be made in order to complete the transition and satisfactorily maintain operations.

- i6. Disposition of Administrator Appeals by USAC Staff.** Mr. Barash explained the appeals process and reviewed the outstanding appeals as listed in the issue paper.
- i7. Update on Universal Service Support Mechanisms Enforcement Trends.** For information only. No discussion held.
- i8. Status of USAC Clarification Requests at the FCC.** For information only. No discussion held.
- i9. Report on Pending Litigation.** For information only. No discussion held.
- i10. USAC Internal Audit Plan and Approach and Status Report on USAC Audits; Status Report on the FCC's Fiscal Year 2001 Financial Audit of the Universal Service Fund.** Mr. Gumper explained that staff has information concerning two audits that staff recommends should be discussed in **Executive Session** in accordance with guidelines previously approved by the Board. The Schools and Libraries Support Mechanism matter involves a pending investigation that should remain confidential. Discussion concerning the FCC financial audit relates to pre-decisional matters that, in addition, may implicate the attorney-client privilege. On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors determines that discussion of the specific ongoing investigation of a Schools and Libraries Support Mechanism beneficiary be conducted in **Executive Session**; and

RESOLVED FURTHER, That the USAC Executive Committee determines that a detailed report on the status of the FCC's fiscal year 2001 financial audit of the Universal Service Fund be conducted in **Executive Session**.

See **Executive Session** for a report of these discussions.

Mr. Scott reviewed the Internal Audit Development Plan as outlined in the issue paper.

- i11. USAC Timeline and Key Dates.** For information only. No discussion held.
- i12. Miscellaneous.** None.

High Cost & Low Income Committee:

- i13. High Cost and Low Income Support Mechanisms Update.** For information only. No discussion held.
- i14. Report on the Implementation of the Interstate Common Line Support Mechanism.** For information only. No discussion held.
- i15. Review of the Annual 2002 and 2nd Quarter 2002 High Cost and Low Income Programmatic Budgets.** For information only. No discussion held.
- i16. Review of 2nd Quarter 2002 High Cost and Low Income Projections and Resolution on the January 31, 2002, FCC Filing.** For information only. No discussion held.

Rural Health Care Committee:

- i17. Rural Health Care Support Mechanism Update.** For information only. No discussion held.
- i18. Review of Annual 2002 and 2nd Quarter 2002 Rural Health Care Programmatic Budget.** For information only. No discussion held.

i19. Review of 2nd Quarter 2002 Rural Health Care Projections and Resolution on the January 31, 2002, FCC Filing. For information only. No discussion held.

Schools & Libraries Committee:

i20. Schools and Libraries Support Mechanism Update. For information only. No discussion held.

i21. Review of 2002 Annual and 2nd Quarter 2002 Schools and Libraries Programmatic Budget. For information only. No discussion held.

i22. Review of 2nd Quarter 2002 Schools and Libraries Projections and Resolution on the January 31, 2002, FCC Filing. For information only. No discussion held.

Board member Camie Swanson-Hull left the meeting at this point.

At 11:10 a.m., on a motion duly made and seconded, the Board voted to move into *Executive Session* for purposes of discussing the two confidential and proprietary items as noted above. At the call of the Chair, the Board recessed at 11:10 a.m. At the call of the Chair, the Board reconvened in ***Executive Session*** at 11:21 a.m.

Executive Session

a3. Reports from the Committee Chairs. Mr. Eichler reported that the High Cost & Low Income Committee has authorized USAC staff to negotiate an agreement with a vendor to perform support services in connection with the new Interstate Common Line Support Mechanism.

i10. USAC Internal Audit Plan and Approach and Status Report on USAC Audits; Status Report on the FCC's Fiscal Year 2001 Financial Audit of the Universal Service Fund. Ms. Parrino briefed the Committee on the status of the FCC's fiscal year 2001 financial audit of the Universal Service Fund. Mr. Barash briefed the Committee on the status of an ongoing investigation of a Schools and Libraries Support Mechanism beneficiary.

The Board **DIRECTED** staff to develop a question and answer sheet for use in answering potential media inquiries concerning the audit of Schools and Libraries Support Mechanism beneficiaries.

The Board adjourned from ***Executive Session*** and reconvened in open session at 12:15 p.m. to report out the discussion and the action of the Board during ***Executive Session***.

There being no further business to attend to, Mr. Gumper adjourned the meeting at 12:18 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**BOARD OF DIRECTORS MEETING**

April 23, 2002

MINUTES

The quarterly meeting of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the Westin Grand, 2350 M Street, N.W., Washington, DC, on Tuesday, April 24, 2001. Mr. Frank Gumper, Chair of the Board, called the meeting to order at 9:00 a.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the USAC CEO, called the roll on behalf of Mr. Edwin Eichler, Secretary.

Fifteen of the nineteen members (there is one vacancy) were present, representing a quorum:	
Bryant, Anne	Ouye, Kathleen
Davis, Fr. William	Parrino, Cheryl
Eichler, Edwin	Rivera, Robert
Gold, Heather	Rosenblum, Lisa - <i>by telephone</i>
Gumper, Frank	Sanders, Dr. Jay
Hess, Kevin	Talbott, Dr. Brian
Hogerty, Martha	Thoms, Allan
Jackson, Jimmy	

One member joined the meeting in progress:	
Lubin, Joel	
Two members were absent:	
Lineberry, Isiah	Wheeler, Tom
Officers of the Corporation present:	
Barash, D. Scott - Assistant Secretary	
Haga, Robert - Assistant Treasurer	
Others present for the meeting:	
Name	Company
Blackwell, Mel	USAC
Faunce, Donna	USAC
Flannery, Irene	USAC
Howard, Cathy	USAC
Miller, Linda	USAC
Moore, Kate	USAC

Ricker, John	NECA
Rodda, Jim	USAC
Sandy, Colin	NECA
Schroder, Katherine	FCC

ACTION ITEMS:

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Board approved the minutes, as distributed, of the USAC Board of Directors' meeting of Tuesday, January 30, 2001.
- a2. Reports from the Committee Chairs.** Each of the Committee Chairs briefly reported on the activity from each of their April quarterly Committee meetings, respectively: Ms. Ouye - Schools & Libraries Committee; Ms. Hogerty - High Cost & Low Income Committee; Dr. Sanders - Rural Health Care Committee; and Mr. Gumper - Executive Committee.
- a3. Approval of Notification to the FCC of USAC Board of Directors' Terms that Expire on December 31, 2001, and Approval of Annual Notification Thereafter.** Ms. Parrino stated that although it is eight months before some of the Board members' terms expire, experience shows that allowing for more lead-time allows the FCC and the constituency groups sufficient time to find replacements or to re-nominate a current Board member. For future years, USAC staff is recommending that they be authorized to notify the FCC annually, early in the year and without further Board approval, of Board terms expiring at the end of that year.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors authorizes staff to notify the FCC of the Board members' terms that expire on December 31, 2001; and

RESOLVED FURTHER, That the USAC Board of Directors authorizes staff, going forward, to automatically notify the FCC annually of Board members' terms that expire on December 31 of that year.

- a4. Authorization of the Executive Committee to Perform Audit Oversight Functions.** Ms. Parrino explained the need to define the Board-level audit oversight of USAC's audits. A general corporate practice is for a board of directors to have a separate audit committee that oversees all of the company's audit functions. USAC staff recommends that the audit oversight responsibility be given to the Executive Committee rather than forming a new committee. The membership of the Executive Committee provides balanced representation of all aspects of USAC's operations, and the Executive Committee has served many of these functions as well as serving the functions of the finance committee. The proposed resolution would formally grant authority over audits to the Executive Committee. Mr. Gumper noted that the Executive Committee approved the recommendations at its April 19, 2001, quarterly meeting.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors adopts the recommendation of the USAC Executive Committee and hereby authorizes the Executive Committee to oversee all corporate audit functions; and

RESOLVED FURTHER, That the USAC Board of Directors adopts the recommendation of the USAC Executive Committee to direct staff to develop an Internal Audit Charter defining the role, responsibilities, and reporting structure for the Director of Internal Audits and internal audit staff.

- a5. Approval of 3rd Quarter 2001 USAC Common and Consolidated Budgets.** Ms. Bryant said that the annual budget is the same as presented at the January 2001 Board meeting with one exception-an increase to implement the change in the contribution methodology as a result of the recent FCC order. Staff estimates the changes will increase administrative expenses by \$255,000 for the 3rd Quarter 2001. Ms. Faunce reviewed the increases and decreases to the 3rd Quarter 2001 budget.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 3rd Quarter 2001 USAC common budget of \$904,600; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 3rd Quarter 2001 USAC consolidated budget of \$7,959,000.

- a6. Approval of Revised 2nd Quarter 2001 Revenue Projections, Revisions to the Variance Threshold Procedures, Report on the Deadline for Revising Revenue Filings, and Report on Maintaining the Late Filing Fee.** Mr. Haga distributed revised Attachments A, B, and C. He also informed the Board of the three missing numbers on page 6 of the issue paper. Mr. Haga reviewed the FCC order released in March 2001 in which the FCC directed that the interval between the accrual of revenues and the USF contribution assessment based on those revenues be shortened by six months. Accordingly, USAC will need to file the revenue projection associated with the April 2, 2001; revenue filing at the beginning of May and those revenues will be used to restate carrier contributions in the second quarter. Further, USAC will be required to submit a supplemental revenue data filing to the FCC at the beginning of the third month of each quarter. Because data will be reported in quarterly amounts instead of semi-annual amounts, staff is recommending reducing the variance threshold from \$2.5 billion to \$1.25 billion for future filings. Staff further recommends Board approval to file the revenue base associated with the April 2, 2001, revenue data collection, revision of the variance threshold for future filings, and explicit delegation to the Executive Committee to approve the 3rd Quarter 2001 revenue base to be filed with the FCC on June 1, 2001.

On a motion duly made and seconded, the Board adopted the following resolutions with one amendment (in italics):

RESOLVED, That the Board of Directors accepts the recommendation of the USAC Executive Committee to delegate to the Executive Committee the authority to review the new revenue base filing that is due at the FCC on June 1, 2001; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to thereafter authorize staff to file Contribution Base amounts with variances not exceeding \$1.25 billion for the international and interstate revenue base of the Board-approved contribution base amounts, and variances at or below the above level are deemed approved by the Board. For variances above \$1.25 billion for the international and interstate revenue base the Board delegates the authority to review and approve the filings to the FCC to the Executive Committee; and

RESOLVED FURTHER, That the USAC Board of Directors, having reviewed a summary of the current status of telecommunications service provider revenues for July through December 2000 as provided in revised Attachment A, accepts the recommendation of the Executive Committee to authorize staff to proceed with the required May 2, 2001, filing to the FCC on behalf of USAC. Staff may make adjustments in accordance with approved variance thresholds.

The Board **DIRECTED** staff to provide the Board with a schedule of changes in both interstate and international revenues along with total revenues for the periods that USAC has collected this information.

- a7. Procedure for Handling Appeals Concerning Contribution and Data Collection and Proposed Resolution of Three Such Appeals.** Mr. Barash reviewed the recommended procedure for handling appeals concerning contributions and data collection. He noted that the Board's programmatic committees have authorized USAC staff to resolve appeals within the programs in the absence of unusual or novel circumstances. The proposed procedure mirrors the processes currently in place for the programmatic committees. These are the first appeals received by USAC seeking review of contribution and collection matters, which creates the need for USAC procedures to handle them. Mr. Thoms questioned why the Board is not resolving all appeals directly, because the FCC rules governing USAC's operations contemplate parties appealing to the USAC Board of Directors, not to the staff.

Mr. Thoms expressed concern about public perception should staff handle appeals based on authority delegated by the Board. Several other Board members observed that the separate programs receive too many appeals for the Board to resolve directly, but that the Board is ultimately responsible for all activities specified in the FCC rules that are delegated to staff. Ms. Ouye noted that the Schools & Libraries Program alone had over 2,000 appeals in the year 2000.

The Board **DIRECTED** USAC staff to discuss this issue with FCC staff. Mr. Barash then discussed the specifics of the three pending appeals concerning contribution and collection matters, and recommended a course of action concerning those appeals to the Board.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors directs USAC staff to implement the proposed procedures for adjudication of appeals to USAC for matters relating to billing, collection, or disbursement disputes, and

RESOLVED FURTHER, That the USAC Board of Directors directs USAC staff to dispose of three pending appeals by contributors in accordance with the recommendation in this issue paper.

Mr. Jackson voted no. Dr. Sanders abstained.

- a8. Approval of Contract Negotiations for USAC's Billing, Collection, Disbursement, and Financial Services - Confidential & Proprietary.** On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that discussion of matters related to USAC's RFP for billing, collection, disbursement, and financial services shall be conducted in Executive Session.

See Executive Session.

- a9. Miscellaneous.** None.

Information Items

- i1. Report of Legislative and Media Activity.** For information only. No discussion held.
- i2. Assistant Treasurer's Report.** Mr. Haga reported that the 1st Quarter 2001 financial results are presented to the Board and that the numbers speak for themselves. Ms. Parrino pointed out that the major findings in Attachment E, a draft of Arthur Andersen's review of USAC's operations, have been highlighted for ease of scanning the document.
- i3. Regulatory Report.** For information only. No discussion held.
- i4. Report on Accounts Receivable and Collection Efforts.** For information only. No discussion held.
- i5. Bankruptcy Report.** For information only. No discussion held.
- i6. Status of USAC Clarification Requests at the FCC.** For information only. No discussion held.
- i7. USAC Timeline and Key Dates.** For information only. No discussion held.
- i8. Summary of FCC's Revenue Base Change Order.** For information only. No discussion held.
- i9. Report on Adding User Search Capabilities to Support Mechanism Data.** Mr. Haga reported that the many requests from the public for data concerning the universal service support mechanisms have taken a considerable amount of USAC staff time; therefore, staff decided to automate the database so that anyone could easily access the information directly. This reduces the workload for staff and provides stakeholders with timely information. Currently, USAC staff is working on entering as much information on the USAC web site as possible in a form that users can then cut and paste to other computer software programs if desired. Eventually staff plans to provide users with the ability to customize the information they are seeking and to search the USAC databases to find that information on the USAC web site.

- i10. Report on Pending Litigation.** For information only. No discussion held.
- i11. Report on USAC's FCC Financial Reporting Issues - Confidential & Proprietary.** On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that discussion of matters related to USAC's FCC financial reporting shall be conducted in Executive Session.

See Executive Session.

- i12. Miscellaneous.** None.

Rural Health Care Program:

- i13. Rural Health Care Support Mechanism Status Report.** For information only. No discussion held.
- i14. Review of 3rd Quarter 2001 Rural Health Care Programmatic Budget.** For information only. No discussion held.
- i15. Review of 3rd Quarter 2001 Rural Health Care Projections and Resolution on the May 2001 FCC Filing.** For information only. No discussion held.

Schools and Libraries Program:

- i16. Schools and Libraries Program Status Report.** For information only. No discussion held.
- i17. Summary of Management's Response to the Consultant's Report on the Schools and Libraries Division's Invoice Payment Process.** For information only. No discussion held.
- i18. Review of 3rd Quarter 2001 Schools and Libraries Programmatic Budget.** For information only. No discussion held.
- i19. Review of 3rd Quarter 2001 Schools and Libraries Projections and Resolution on the May 2001 FCC Filing.** For information only. No discussion held.

High Cost & Low Income Committee:

- i20. High Cost and Low Income Programs Status Report.** For information only. No discussion held.
- i21. Report on the Implementation of New Initiatives for the High Cost and Low Income Programs.** For information only. No discussion held.
- i22. Review of 3rd Quarter 2001 High Cost and Low Income Programmatic Budgets.** For information only. No discussion held.
- i23. Review of 3rd Quarter 2001 High Cost and Low Income Projections and Resolution on the May 2001 FCC Filing.** For information only. No discussion held.

On a motion duly made and seconded, the Board voted at 10:09 a.m. Eastern Time to go into Executive Session for purposes of discussing the two confidential and proprietary items as noted above. Mr. Gumper called a recess at 10:10 a.m. At the call of the Chair, the Board reconvened at 10:22 a.m. Mr. Gumper called the meeting to order and asked that the roll be taken. Ms. Howard called the roll.

Fourteen of the nineteen members were present (there is one vacancy), representing a quorum.:

Bryant, Anne	Jackson, Jimmy
Davis, Fr. William	Lubin, Joel
Eichler, Edwin	Ouye, Kathleen
Gold, Heather	Parrino, Cheryl
Gumper, Frank	Rivera, Robert
Hess, Kevin	Sanders, Dr. Jay
Hogerty, Martha	Talbott, Dr. Brian

Two members joined the Executive Session in progress:

Rosenblum, Lisa - by telephone	Thoms, Allan
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Two members were absent:

Lineberry, Isiah	Wheeler, Tom
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Officers of the Corporation present:

Barash, D. Scott - Assistant Secretary
Haga, Robert - Assistant Treasurer

Others present for the meeting:

Name	Company
Blackwell, Mel	USAC
Faunce, Donna	USAC
Flannery, Irene	USAC
Howard, Cathy	USAC
Moore, Kate	USAC
Schroder, Katherine	FCC

EXECUTIVE SESSION:

- a8. Approval of Contract Negotiations for USAC's Billing, Collection, Disbursement, and Financial Services - Confidential & Proprietary.** Mr. Gumper explained that the Board has requested that the Executive Committee review the proposed course of action concerning the billing, collection, disbursement, and financial services procurement before bringing the matter before the Board. At its April 29, 2001, quarterly meeting, the Executive Committee reviewed and approved the course of action as recommended by USAC staff. The Board discussed details of the ongoing contract negotiations.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors accepts the recommendation of the Executive Committee and approves the course of action proposed by USAC

management regarding the proposals received in response to the Request for Proposals for Billing, Collection, Disbursement, and Financial Services, including, but not limited to, engaging in further discussions with more than one proposed vendor.

The Board **DIRECTED** staff going forward to provide the Board with a list of all significant contracts, including the dollar amount and expiration date of each.

i11. Report on USAC's FCC Financial Reporting Issues - Confidential & Proprietary. The Board held a discussion on USAC's FCC financial reporting issues.

The Board adjourned from Executive Session and reconvened in Open Session at 11:19 a.m. Eastern Time to report out the discussion and the action of the Board during Executive Session. There being no further business to attend to, Mr. Gumper adjourned the meeting at 11:20 a.m. Eastern Time.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**BOARD OF DIRECTORS MEETING**

June 10, 2002

MINUTES

A meeting of the Board of Directors of the Universal Service Administrative Company (USAC) was held at USAC, 2120 L Street, N.W., Suite 600, Washington, DC, on Monday, June 10, 2002. Mr. Frank Gumper, Chair of the Board, called the meeting to order at 12:00 p.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll on behalf of Mr. Jimmy Jackson, Secretary.

Eleven of the nineteen members were present representing a quorum (there are two vacancies):	
Bryant, Anne - <i>by telephone</i>	Lubin, Joel - <i>by telephone</i>
Buller, Karen - <i>by telephone</i>	Parrino, Cheryl - <i>by telephone</i>
Eichler, Ed - <i>by telephone</i>	Rivera, Robert - <i>by telephone</i>
Gumper, Frank - <i>by telephone</i>	Sanders, Dr. Jay - <i>by telephone</i>
Hess, Kevin - <i>by telephone</i>	Swanson-Hull, Camie - <i>by telephone</i>
Jackson, Jimmy - <i>by telephone</i>	
Three members join the meeting in progress:	
Campbell, Anne - <i>by telephone</i>	Talbott, Dr. Brian - <i>by telephone</i>
Lineberry, Isiah - <i>by telephone</i>	
Three members were absent:	
Coltharp, James	Sanders, Dr. Jay
Davis, Fr. William	
Officers of the Corporation present:	
Barash, D. Scott - Assistant Secretary	Carmichael, Mark - VP, Finance - <i>by telephone</i>
Haga, Robert - Assistant Treasurer	
Others present for the meeting:	
Name	Company
Claremont, Susan - <i>by telephone</i>	Arthur Andersen
Guiltinan, Barbara - <i>by telephone</i>	Arthur Andersen
Griffin, Felice - <i>by telephone</i>	Arthur Andersen
Kaplan, Dan - <i>by telephone</i>	Arthur Andersen
Scott, Wayne	USAC
Simmons, Ann	USAC

ACTION ITEMS:

a1. Acceptance of USAC 2001 Financial Audit and Agreed Upon Procedures

Review. Ms. Parrino introduced Barbara Gultinan, Felice Griffin, Dan Kaplan, and Susan Claremont of Arthur Andersen LLP. Ms. Parrino explained that they are the personnel who have been working with USAC staff on the 2001 financial audit and agreed upon procedures review. Ms. Parrino informed the Board that USAC received a "clean" audit opinion from Andersen regarding the financial statement of USAC. The agreed upon procedures review did not identify any major issues. USAC management has taken or initiated corrective action to comply with the recommendations in Andersen's reports. A draft management letter responding to the findings has been submitted to the Committee for review. She thanked Andersen's staff for bringing the audit reports to the Committee ahead of schedule.

Ms. Gultinan reviewed for the Committee the audit findings of the 2001 Financial Audits indicating the following: Andersen received good cooperation from management; the financial statements are appropriately supported by the Company's accounting records; Andersen reviewed the conversion of data to the new service provider relating to the billing, collection, and disbursement systems and verified the integrity of the data; USAC's controls over the information systems environment are adequate; there were no material weaknesses; and the FCC has reviewed and approved the audit. She then reviewed for the Committee the breakdown of the fees paid to Andersen for work performed in 2001.

Mr. Kaplan reviewed the results of the agreed upon procedures review indicating the following: Andersen received good cooperation from management; the audit disclosed only minor exceptions from standard procedure, primarily due to isolated errors; the audit identified some control deficiencies, which occurred primarily during the transition of the collections and disbursements functions to the new service provider, and management has implemented or is in the process of implementing an appropriate corrective action plan; the audit disclosed no material weakness or breakdown in internal control; the FCC has reviewed and approved the audit; and Support Mechanism management, particularly SLD and RHC, should be commended for the excellent results achieved again this year.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors accepts the 2001 financial audit report of the Universal Service Administrative Company; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the USAC 2001 agreed upon procedures review report; and

RESOLVED FURTHER, That the USAC Board of Directors authorizes the CEO to send a management response to Andersen, with a copy to the FCC, accepting the 2001 financial audit and agreed upon procedures reports and committing to take the actions necessary to address the issues that were identified in the agreed upon procedures audit; and

RESOLVED FURTHER, That the USAC Board of Directors authorizes Andersen to file the final 2001 financial audit report and agreed upon procedures review report with the FCC.

- a2. Election of an Assistant Treasurer.** Ms. Parrino stated that Mr. Haga is the current Assistant Treasurer. In January of 2002, USAC split the position of Vice President of Finance and Operations into two positions: Vice President - Strategic Planning & USAC Operations, and Vice President - Finance. Mr. Haga has been appointed Vice President - Strategic Planning & USAC Operations. Mr. Mark Carmichael has been hired as the Vice President - Finance. Ms. Parrino recommends that Mr. Carmichael be elected as the corporation's Assistant Treasurer since his position with USAC is more appropriate to serve as the corporation's Assistant Treasurer.

Mr. Gumper thanked Mr. Haga for his dedication and service as Assistant Treasurer. He also stated that the Board is looking forward to continue working with him in his new capacity.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors elects **Mr. Mark Carmichael** as Assistant Treasurer of USAC.

- a3. Miscellaneous.** None

Information Items

- i1. Report of the Financial Audit of the FCC for the Year Ending September 30, 2001.** Ms. Parrino reported that the FCC has completed its audit of the Universal Service Fund for the fiscal year ending September 30, 2001. The audit report has been provided to the Board. The FCC received a qualified opinion. A number of the issues identified relating to the Universal Service Fund are repeat findings, most of which relate to the lack of clarity regarding the "federal funds" issues. Since the audit report was issued, USAC staff has met with the FCC staff to review issues that may need to be addressed as a result of the recommendations in the FCC audit report. Both parties continue to improve overall reporting and relations.
- i2. Miscellaneous.** None.

There being no further business, Mr. Gumper adjourned the meeting at 12:40 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

BOARD OF DIRECTORS MEETING

July 23, 2002

MINUTES

The quarterly meeting of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the Westin Grand, 2350 M Street, NW, Washington, DC, on Tuesday, July 23, 2002. Mr. Frank Gumper, Chair of the Board, called the meeting to order at 9:05 a.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the USAC CEO, called the roll.

Eleven of the nineteen members were present representing a quorum (there are two vacancies):	
Bryant, Anne	Gumper, Frank - Vice Chair
Buller, Karen	Hess, Kevin - <i>by telephone</i>
Campbell, Anne	Lubin, Joel - Vice Chair
Cornell, Diane	Parrino, Cheryl
Davis, Fr. Bill	Talbott, Dr. Brian
Eichler, Ed - Treasurer	
Three members join the meeting in progress:	
Coltharp, James	Rivera, Robert
Swanson-Hull, Camie - <i>by telephone</i>	
Three members were absent:	
Jackson, Jimmy - Secretary	Sanders, Dr. Jay
Lineberry, Isiah	
Officers of the Corporation present:	
Barash, D. Scott - Assistant Secretary; Vice President & General Counsel	
Blackwell, Mel - VP, External Communications & Rural Health Care Division	
Carmichael, Mark - Assistant Treasurer; VP, Finance & Financial Operations	
Flannery, Irene - VP, High Cost & Low Income Division	
Haga, Robert - VP, Strategic Planning & USAC Operations	
McDonald, George - VP, Schools & Libraries Division	
Others present for the meeting:	
Name	Company
Cheng, Anita	FCC
Conn, David	McLeodUSA, Inc.
Faunce, Donna	USAC

French, Laurie	USAC
Gallant, Pam	USAC
Jortner, Wayne	Maine Public Advocate Office
Kaplan, Peter	Funds for Learning
Howard, Cathy	USAC
Lenhardt, Chris	USAC
Majcher, Karen	USAC
Miller, Linda	USAC
Scott, Wayne	USAC

ACTION ITEMS:

a7. Miscellaneous.

- Election of Two Directors to the USAC Board of Directors and Appointments of the Directors to Committees of the Board.** Mr. Gumper announced that USAC received a letter from FCC Chairman Powell on July 17, 2002, appointing two new members to the USAC Board of Directors to fill the vacancies created by the resignations of Mr. Billy Jack Gregg (formerly the state consumer advocate representative) and Mr. Daniel Gonzalez (formerly the competitive local exchange carrier representative). Mr. Gumper noted that the new Board members are required to serve on certain committees of the Board in accordance with USAC's By-laws. Mr. Gumper asked the Board to take this item up as the first order of business so that the two new Board members could immediately become voting members of the Board.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors accepts the recommendation of the Executive Committee, and with the nomination made by the FCC Chairman and in accordance with USAC's corporate By-laws, and due to the resignation of Board member Mr. Billy Jack Gregg, hereby elects Mr. Wayne R. Jortner to the USAC Board of Directors, whose term shall begin immediately and expire on December 31, 2004; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the Executive Committee, and with the nomination made by the FCC Chairman and in accordance with USAC's corporate By-laws, and due to the resignation of Board member Mr. Daniel Gonzalez, hereby elects Mr. David R. Conn to the USAC Board of Directors, whose term shall begin immediately and expire on December 31, 2002; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the Executive Committee, and in accordance with USAC's corporate By-laws hereby appoints Mr. Wayne R. Jortner and Mr. David R. Conn to the High Cost & Low Income Committee as the state consumer advocate representative and competitive local exchange carrier representative, respectively; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the Executive Committee, and in accordance with USAC's corporate By-laws hereby appoints Mr. Wayne R. Jortner to the Rural Health Care Committee as the state consumer advocate representative.

Mr. Conn and Mr. Jortner joined the meeting as voting Board members at this point. Board member Ms. Swanson-Hull also joined the meeting at this point.

a1. Approval of the Minutes. On a motion duly made and seconded, the Board approved the minutes as distributed of the meetings of Tuesday, April 23, 2002, and Monday, June 10, 2002.

Board member Mr. Rivera joined the meeting during the discussion of the next item.

a2. Reports from the Committee Chairs. Each of the Chairs of the programmatic Committees reported on the issues discussed and the action taken at their July 2002 quarterly Committee meetings, respectively: Dr. Talbott - Schools & Libraries Committee; Mr. Eichler - High Cost & Low Income Committee; Mr. Blackwell (on behalf of Dr. Sanders) - Rural Health Care Committee; and Mr. Gumper - Executive Committee. Mr. Blackwell distributed a summary of respondents' comments to the FCC Notice of Proposed Rulemaking (NPRM) released on April 19, 2002, seeking comments on a variety of changes to the Rural Health Care Support Mechanism. See the minutes of each Committee meeting for a full accounting of the discussions and actions taken by the Committees.

a3. Approval of the Course of Action for Entering into a New Contract for the Rural Health Care and the Schools and Libraries Support Mechanisms Programmatic Support Services - Confidential & Proprietary - Executive Session. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash explained that USAC management recommends that this matter be discussed in **Executive Session** because discussion and public disclosure at this time of the matters discussed in this paper, which relate to USAC's procurement strategy, would compromise USAC's business negotiation strategy to the detriment of the Corporation and the Universal Service Support Mechanisms. Moreover, he said that to the extent that these matters relate to the interpretation of contractual terms and conditions, discussion of these issues in open session would compromise USAC's *attorney-client privilege*.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that discussion of a strategy for contracting for programmatic support services for the Rural Health Care and the Schools and Libraries Support Mechanisms for years after June 30, 2003, shall be

conducted in Executive Session.

See *Executive Session* for a report of the discussion and action taken by the Board concerning this item.

- a4. Approval of Universal Service Contributor Revenue Data Collection Contract - Confidential & Proprietary - Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash explained that USAC management recommends that this matter be discussed in *Executive Session* because discussion of this matter, which relates to USAC's *procurement strategy* and contract negotiations, and public disclosure of the matters discussed in this paper would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund. Moreover, he said that certain matters discussed in this document implicate the attorney-client privilege and, therefore, should not be discussed in open session.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that discussion of extending its agreement with the National Exchange Carrier Association, Inc., (NECA) to perform the universal service contributor revenue data collection for a one-year term shall be conducted in *Executive Session*.

See *Executive Session* for a report of the discussion and action taken concerning this item.

Board member Mr. Coltharp joined the meeting during the discussion of the next item.

- a5. Approval of 4th Quarter 2002 USAC Common and Consolidated Budgets and Revised Annual 2002 Consolidated Budget.** Mr. Carmichael reviewed the 4th Quarter 2002 budget and revised annual 2002 consolidated budget. He noted that staff is recommending a decrease in the annual budget of \$560,000 due to the elimination of the \$900,000 contingency to re-code the High Cost Model and the addition of \$340,000 to accommodate increased forms volume for the Rural Health Care support mechanism. Mr. Carmichael also mentioned that costs have increased for outside counsel, but that compensation and benefits expenses that were not incurred in the first and second quarters will be used to offset those costs. A Board member questioned the almost doubled increase in rent for fourth quarter 2002. Ms. Parrino explained that USAC is now at full staff and has outgrown the current office space in Washington, DC. She said that a team of USAC staff has been formed to find a new location and they hope to find something before the end of the year. Ms. Parrino clarified that the increase in rent takes into account increased square footage as well as an estimated increase in the cost per square foot and build-out costs for work that may need to be done to the new location.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 4th Quarter 2002 USAC common budget of \$1,519,500; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 4th Quarter 2002 USAC consolidated budget of \$13,045,900; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a decrease of \$560,000 in the annual 2002 consolidated budget due to budget revisions in the High Cost and Rural Health Care Support Mechanisms annual programmatic budgets, resulting in a revised total annual consolidated budget of \$47,699,600.

- a6. Approval of 4th Quarter 2002 Revenue Projections and Resolutions for the September 1, 2002, FCC Filing.** Mr. Carmichael explained that since the due date for the contribution base is a Sunday this quarter (September 1, 2002), USAC staff will submit the contribution base filing on Friday, August 30, 2002. He said that staff continues to use a rolling four-quarter average to determine the contribution base estimate for Board approval. He also noted that as required by the recent FCC order concerning the Schools and Libraries Support Mechanism, unused Funding Years 1999 and 2000 funds will be used to stabilize the collection requirement for fourth quarter 2002 and first quarter 2003. The following documents were distributed at the meeting: Revised Attachment B reflecting updated numbers; Attachment D, which contains historical trend reports; and a revised resolution reflecting language the USAC Executive Committee recommends adding.

The Board **DIRECTED** USAC staff going forward to include in Attachment B how the calculation of the quarterly contribution factor is derived.

On a motion duly made and seconded, the Board adopted the following resolution as *amended (in italics)*:

RESOLVED, That the USAC Board of Directors, having reviewed at its meeting on July 23, 2002, a summary of the current status of the September 1, 2002, FCC filing requirements, accepts the recommendation of the USAC Executive Committee to authorize staff to proceed with the required September 1, 2002, filing to the FCC on behalf of USAC *using a preliminary estimate of \$19,487,555,000 for the contribution base*. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

a7. Miscellaneous.

- **Corporate Governance.** Mr. Gumper explained that in light of the recent highly publicized corporate scandals as well as the fact that there are many new USAC Board members, he and the USAC Leadership Team believe it would be appropriate for the Board to review and discuss corporate governance principles and objectives. Ms. Parrino outlined two main objectives of the discussion. First, to present an overview of USAC's corporate structure and the unique aspects of its governance and to review general corporate governance issues and fiduciary obligations of Board members and officers. Second, Ms. Parrino seeks guidance from the Board on an appropriate level of oversight by the Board over USAC and on the amount and level of detail presented to the Board.

Ms. Parrino and Mr. Barash reviewed the fiduciary responsibilities of USAC's directors and officers to the corporation. Mr. Barash stated that corporate law generally, and Delaware law in particular, has recognized that corporate directors have certain fiduciary obligations to the corporation they serve. Although these duties are sometimes stated in different ways, they are, in principle and in practice, overlapping, reinforcing, and cumulative, representing an integrated set of responsibilities to the well-being and success of the corporation. The Duty of Care requires a director to participate in the decisions of the Board and to be informed as to data relevant to such decisions: the director should be reasonably informed to participate in decisions and to do so in good faith and with the care of an ordinarily prudent person in similar circumstances. Mr. Barash noted that with the Duty of Care comes a corresponding protection-the Business Judgment Rule, which holds that courts will not interfere with directors' exercise of business judgment as long as it is exercised in good faith and there is no fraud or illegal misconduct at issue. Mr. Barash discussed the Duty of Oversight, noting that although it is really a subset of the Duty of Care, a more recent trend is to impose a specific duty of oversight on directors. He stated his view that we are likely to see that trend become even stronger in light of current events. Mr. Barash also discussed the Duty of Loyalty, which requires directors to exercise their powers in good faith in the best interests of the company-not in the best interests of the individual director or his employer. Moreover, he advised that the Duty of Loyalty requires directors to disclose and avoid conflicts of interest, noting that the USAC Board of Directors has adopted a Statement of Ethical Conduct that specifically addresses conflicts of interest in light of the unique representative nature of USAC's Board. Further, he discussed the Duty of Confidentiality, stating that although this is really a subset of the Duty of Loyalty, corporate law is beginning to recognize a separate Duty of Confidentiality, which means that a director must not disclose information about the corporation's legitimate activities unless they are already known by the public or are of public record.

Ms. Parrino and Mr. Barash commented on how the unique nature of USAC affects the exercise of those fiduciary duties and the overall governance of the corporation. In addition, they discussed the unique constraints on the USAC Board of Directors. Ms. Parrino noted a few of the many unique constraints on the USAC Board of Directors. She pointed out that USAC does not nominate or select its own directors or the CEO, does not have final control over its investment policies, and does not have final approval of the corporate budget. She stated that ultimately, the USAC Board has an overarching, cumulative set of obligations and is constrained in ways that differ significantly from most boards of directors.

In light of the request by Mr. Gumper and Ms. Parrino for legal advice concerning the fiduciary obligations of USAC's directors and in accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that further discussion of this issue involving specific legal advice on corporate governance and fiduciary duties be discussed in **Executive Session** in order to preserve USAC's *attorney-client privilege*.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that discussion of specific legal advice regarding corporate governance shall be conducted in Executive Session.

See *Executive Session* for a report of this discussion.

Information Items

- i1. Assistant Treasurer's Report.** Mr. Carmichael reported that as of May 31, 2002, USAC had disbursed \$2.014 billion in universal service support. As mentioned in item #a6 above, he reiterated that unused Funding Years 1999 and 2000 Schools and Libraries support mechanism funds will be used to stabilize the collection requirement for fourth quarter 2002 and first quarter 2003, thus the cash balance will decrease. Mr. Eichler, USAC Treasurer, informed the Board that the May quarterly Investment Committee meeting was held in Chicago at LaSalle Bank, which provided an excellent opportunity for him and other USAC staff to meet with USAC's financial services vendor representatives and tour their facilities and operations.
- i2. Report on Accounts Receivable Delinquent Over 30 Days and Collection Efforts.** Mr. Carmichael reported that staff has provided a new metric for measuring delinquent accounts in the report: "Days Sales Outstanding" - the number of days it takes to collect outstanding accounts receivable. He noted that USAC's numbers are representative of the economy and market place and match other industry trends. He verified that WorldCom, a substantial contributor to the Universal Service Fund, which may imminently seek federal bankruptcy protection, is current in its payments to USAC, and that currently we have no reason to believe that WorldCom will not continue to meet its universal service obligations. Concerning collection efforts, Mr. Carmichael said that in benchmarking USAC against other industry sectors, USAC is doing extremely well in collecting accounts receivable. USAC staff is working with the FCC on how to move bad debts from USAC's books to the Department of Treasury so that the government can more aggressively pursue collections.

The Board **DIRECTED** USAC staff to provide additional data on the total amount billed versus total amount owed by industry type, if possible.

- i3. Report on Pending Litigation and Bankruptcy Matters.** For information only. No discussion held.
- i4. USAC Internal Audit Status Report on USAC Audits.** Mr. Scott reviewed the audits currently in progress and the plans for anticipated audits. He especially noted that a request for proposals has been issued for the 2002 independent financial audit and agreed upon procedures review for which the USAC Executive Committee at its July 18, 2002, meeting authorized the filing of the audit plan with the FCC, and that the Board will be required to meet sometime in September to approve the engagement of an auditor.

Ms. Barash said that USAC staff has confidential updates on an ongoing beneficiary audit investigation and on a pre-decisional audit matter under consideration by the FCC. In accordance with the guidelines regarding **Executive Session** approved by the USAC Board of Directors, he recommended that because there is an ongoing

investigation regarding a beneficiary review, and because of the sensitivity of the potential allegations and the potential for enforcement action, discussion of the matter concerning one beneficiary should be held in **Executive Session**. Mr. Barash recommended that the audit matter under consideration by the FCC also be discussed in **Executive Session** because it relates to *pre-decisional matters* pending before the FCC to which USAC is privy.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that discussion of the specific ongoing investigation of a Schools and Libraries Support Mechanism beneficiary and of a pre-decisional audit matter under consideration by the FCC be conducted in **Executive Session**.

See *Executive Session* for a report of these discussions.

- i5. Report of Legislative and Media Activity.** Mr. Blackwell noted that the Senate Commerce Committee held a hearing in June 2002 on the future of the Universal Service Fund (USF). The comments and questions centered on how the USF should be funded.
- i6. Outreach Plan and Report.** Mr. Blackwell reported that since its inception, USAC staff has engaged in a variety of outreach activities for the various support mechanisms. USAC staff determined that it was time to coordinate these efforts and thus a consolidated Outreach Plan was developed. Each division will be responsible for implementing specific portions of the plan, but they are now centrally coordinated to better utilize and track USAC's outreach efforts. Mr. Blackwell said copies of the Outreach Plan are available for any Board member interested in reviewing the document.
- i7. Regulatory Report.** For information only. No discussion held.
- i8. Disposition of Administrator Appeals by USAC Staff.** For information only. No discussion held.
- i9. Status of Transition to PricewaterhouseCoopers and LaSalle Bank for Financial Support Services for USAC.** For information only. No discussion held.
- i10. USAC Timeline and Key Dates.** For information only. No discussion held.
- i11. Miscellaneous.** None.

HIGH COST & LOW INCOME COMMITTEE:

- i12. High Cost and Low Income Support Mechanisms Update.** For information only. No discussion held.
- i13. Report on the Implementation of the Interstate Common Line Support Mechanism (ICLS).** For information only. No discussion held.
- i14. Report on Pending Litigation and Bankruptcy Matters.** For information only. No

discussion held.

i15. Review of 4th Quarter 2002 High Cost and Low Income Support Mechanisms Projections and Resolution on the August 2, 2002, FCC Filing. For information only. No discussion held.

RURAL HEALTH CARE COMMITTEE:

i16. Rural Health Care Support Mechanism Update. For information only. No discussion held.

i17. Review of 4th Quarter 2002 and Revised Annual 2002 Rural Health Care Programmatic Budgets. For information only. No discussion held.

i18. Review of 4th Quarter 2002 Rural Health Care Support Mechanism Projections and Resolution on the August 2, 2002, FCC Filing. For information only. No discussion held.

SCHOOLS & LIBRARIES COMMITTEE:

i19. Schools and Libraries Support Mechanism Update. For information only. No discussion held.

i20. Review of the 4th Quarter 2002 Schools and Libraries Programmatic Budget. For information only. No discussion held.

i21. Review of 4th Quarter 2002 Schools and Libraries Support Mechanism Projections and Resolution on the August 2, 2002, FCC Filing. For information only. No discussion held.

At 10:38 a.m., on a motion duly made and seconded, the Board voted to move into Executive Session for purposes of discussing the confidential and proprietary items as noted above. The Board then voted to recess. At the call of the Chair, the Board reconvened in Executive Session at 10:47 a.m. Ms. Howard called the roll at the request of the Chair.

Thirteen of the nineteen members were present representing a quorum:	
Bryant, Anne	Jortner, Wayne
Campbell, Anne	Lubin, Joel
Coltharp, James	Parrino, Cheryl
Conn, David	Rivera, Robert
Davis, Fr. Bill	Swanson-Hull, Camie - <i>by telephone</i>
Gumper, Frank	Talbott, Dr. Brian
Hess, Kevin	
Three members join the meeting in progress:	
Buller, Karen	Lineberry, Isiah - <i>by telephone</i>
Eichler, Ed	
Three members were absent:	

Cornell, Diane	Sanders, Dr. Jay
Jackson, Jimmy	

The Board adjourned from **Executive Session** and reconvened in open session at 12:06 p.m. to report the discussions and actions of the Board during **Executive Session**.

Executive Session

Board members Ms. Buller, Mr. Eichler, and Mr. Lineberry joined the meeting and Board member Mr. Coltharp left the meeting during the discussion and before the vote of the next item.

a3. Approval of the Course of Action for Entering into a New Contract for the Rural Health Care and the Schools and Libraries Support Mechanisms Programmatic Support Services - Confidential & Proprietary - Executive Session. Mr. McDonald and Mr. Blackwell reviewed the details and strategy concerning the contract for programmatic support services for the Rural Health Care and the Schools and Libraries Universal Service Support Mechanisms. Ms. Parrino reported that the USAC Executive Committee discussed this issue so that the Chairs of the programmatic committees would have a sense of the Executive Committee's view of the proposed course of action, but the Executive Committee did not act on this issue. However, both the Rural Health Care and Schools & Libraries Committees recommend the course of action before the Board.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors accepts the recommendations of the Rural Health Care and the Schools & Libraries Committees to authorize USAC staff to enter into negotiations concerning a proposed extension of the current contract for programmatic support services for the Rural Health Care and the Schools and Libraries Universal Service Support Mechanisms.

a4. Approval of Universal Service Contributor Revenue Data Collection Contract - Confidential & Proprietary - Executive Session. Mr. Carmichael discussed the history of the current contract with NECA and the details of the proposed revised contracting and bidding schedule for support services for the universal service contributor revenue data collection.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee and approves the revised contracting and bidding schedule for support services associated with universal service contributor revenue data collection, and approves extending the current contract or entering into a new contract with the National Exchange Carrier Association, Inc. to perform those services.

a7. Miscellaneous.

- **Corporate Governance.** Mr. Parrino and Mr. Barash discussed corporate governance, providing the Board with specific legal advice on the Board members' duties and responsibilities and solicited ideas of how USAC staff can help the Board best perform those duties and responsibilities. Mr. Barash also provided legal advice concerning the requirements of the Statement of Ethical Conduct approved by the Board.

In addition, Ms. Parrino and Mr. Barash discussed other additional issues. As a counterpoint to the discussion of fiduciary duties held earlier in the meeting, Mr. Barash highlighted Board member rights, noting that in order to exercise the Duties of Care and Oversight in an effective manner, Board members have the right of access to corporate management, the right to access corporate books and records, the right to seek legal or other professional advice concerning a particular matter, the right to bring any matter to the Board for consideration, and the right of a director to act in reliance on information received from regular sources whom the director reasonably regards as trustworthy. Ms. Parrino discussed the role of directors to exercise oversight and control of corporate operations as opposed to managing the day-to-day affairs of the corporation. She solicited Board input on whether the level of information currently being provided to the Board enabled members to exercise appropriate oversight. The Board members expressed satisfaction with the current level of information being provided. Mr. Barash reminded the Board that any member has the right to request more specific information regarding any matter. Finally, Ms. Parrino noted that staff is reviewing the Audit Committee Charter approved by the Executive Committee (in its capacity as the Audit Committee) in July 2001 in light of the hiring of a Director of Internal Audit and recent events involving other corporations.

- i4. USAC Internal Audit Status Report on USAC Audits.** Mr. Barash briefed the Board on the status of an ongoing investigation of a Schools and Libraries Support Mechanism beneficiary. Ms. Parrino informed the Board of an audit matter under consideration by the FCC regarding the support mechanisms.

There being no further business, Mr. Gumper adjourned the meeting at 12:07 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**BOARD OF DIRECTORS MEETING**

October 4, 2002

MINUTES

A joint meeting of the Board of Directors of the Universal Service Administrative Company (USAC) and its Rural Health Care Committee was held at the USAC office in Washington, DC on Friday, October 4, 2002. Mr. Frank Gumper, Chair of the Board, called the meeting to order at 3:38 p.m. Eastern Time. Ms. Howard, Executive Assistant to the USAC CEO, called the roll.

Ten of the nineteen members were present (the is one vacancy) representing a quorum :	
Cornell, Diane - <i>by telephone</i>	Lineberry, Isiah - <i>by telephone</i>
Gumper, Frank - Chair - <i>by telephone</i>	Parrino, Cheryl - <i>by telephone</i>
Hess, Kevin - <i>by telephone</i>	Rivera, Robert - <i>by telephone</i>
Jackson, Jimmy - Secretary - <i>by telephone</i>	Sanders, Dr. Jay - <i>by telephone</i>
Jortner, Wayne - <i>by telephone</i>	Talbott, Dr. Brian - <i>by telephone</i>
One member joined the meeting in progress:	
Buller, Karen - <i>by telephone</i>	
Seven members were absent:	
Bryant, Anne	Davis, Fr. Bill
Campbell, Anne	Eichler, Ed
Coltharp, James	Lubin, Joel - Vice Chair
Conn, David	
Officers of the Corporation present:	
Barash, D. Scott - Assistant Secretary; Vice President & General Counsel	
Blackwell, Mel - VP, External Communications & Rural Health Care Division	
Carmichael, Mark - Assistant Treasurer; VP, Finance & Financial Operations	
Haga, Robert - VP, Strategic Planning & USAC Operations	
McDonald, George - VP, Schools & Libraries Division	
Others present for the meeting:	
Name	Company
Faunce, Donna	USAC
Howard, Cathy- <i>by telephone</i>	USAC

Miller, Linda	USAC
Scott, Wayne	USAC

Board member Karen Buller joined the meeting during the discussion and before the vote of agenda item a1.

ACTION ITEMS:

- a1. Approval of Course of Action Regarding the Proposal by the National Exchange Carrier Association to Provide Continued Programmatic Support Services for the Rural Health Care and Schools and Libraries Universal Service Support Mechanisms - Confidential & Proprietary - *Executive Session*.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash recommended that this matter be discussed in *Executive Session* because public discussion of this matter, which relates to USAC's *procurement strategy and contract negotiations*, and public disclosure of the matters discussed in this paper would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund. Moreover, certain matters discussed in this document implicate the *attorney-client privilege* and, therefore, should not be discussed in open session.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that discussion of the course of action regarding the proposal by the National Exchange Carrier Association to provide continued programmatic support services for the Rural Health Care and Schools and Libraries Universal Service Support Mechanisms shall be conducted in *Executive Session*.

See [Executive Session](#) for a report of the discussion and action taken by the Board on this item.

The Board of Directors and Rural Health Care Committee immediately voted to go into *Executive Session* to address the confidential and proprietary item as noted above.

Executive Session

- a1. Approval of Course of Action Regarding the Proposal by the National Exchange Carrier Association to Provide Continued Programmatic Support Services for the Rural Health Care and Schools and Libraries Universal Service Support Mechanisms - Confidential & Proprietary - *Executive Session*.** Mr. Blackwell stated that the National Exchange Carrier Association (NECA) has provided excellent support services for the Rural Health Care Support Mechanism during the first two years of the contract. Mr. Blackwell noted that on October 3, 2002, the Schools & Libraries Committee recommended that the Board of Directors approve the proposed extension of the contract with NECA. He reviewed the details of the proposed contract extension for programmatic support services for the Rural Health Care Support Mechanism. He discussed the term, cost, options, performance benchmarks, proposed software systems, and staffing needs of the contract proposal with respect to the Rural Health Care Support Mechanism. He also reviewed how the efficiencies proposed in the

contract extension allows for a significantly increased workload to be processed at a lower price and for expanded measures to be used in the detection of waste, fraud, and abuse.

Mr. McDonald reviewed the details of the proposed contract extension for programmatic support services for the Schools and Libraries Support Mechanism. He focused on the software system changes being proposed and the long-term advantages of such systems to USAC compared with the systems being used today. He reviewed how the enhancements proposed in the contract extension would mean significant improvements in efficiency, processing times, and customer satisfaction. Mr. McDonald and Mr. Blackwell noted that overall the proposed extension represented the best overall value to the corporation at this time.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors accepts the recommendations of the Rural Health Care Committee and the Schools & Libraries Committee and hereby approves the proposed contract extension with the National Exchange Carrier Association, Inc., to provide programmatic support services for the Rural Health Care and Schools and Libraries Universal Service Support Mechanisms, subject to completion of satisfactory terms and conditions to be finalized by staff consistent with the authority granted by the Board of Directors in this resolution.

The Board and Rural Health Care Committee adjourned from Executive Session and reconvened in open session at 4:10 p.m. to report the discussion and action taken by the Board and the Rural Health Care Committee during **Executive Session**. The Rural Health Care Committee voted to adjourn after the Committee's report on **Executive Session**. The Board continued in open session with the other agenda items.

Action Items

- a2. Selection of an Independent Accounting Firm to Perform an Agreed-Upon Procedures Review of Universal Service Contributor Revenue for 2000 and 2001 - Confidential & Proprietary - Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that this matter be discussed in **Executive Session** because public discussion of this matter, which relates to USAC's *procurement strategy and contract negotiations*, and public disclosure of the matters discussed in this paper would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that discussion of the proposals to select an independent accounting firm to perform the agreed-upon procedures review of the contributor revenue base for USAC shall be conducted in Executive Session.

See [Executive Session](#) for a report of the discussion and action taken by the Board on this item.

- a3. Retention of Expert Consultant for Bankruptcy Preference Litigation - Confidential & Proprietary - *Executive Session*.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in ***Executive Session***, Mr. Barash recommended that this matter be discussed in ***Executive Session*** because this item concerns the conduct of pending litigation involving USAC and involves matters that are subject to the *attorney-client privilege*. Discussion of these matters in open session would compromise the continued applicability of the attorney-client privilege.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that discussion of retention of an expert consultant for bankruptcy preference litigation shall be conducted in ***Executive Session***.

See [Executive Session](#) for a report of the discussion and action taken by the Board on this item.

On a motion duly made and seconded, the Board of Directors unanimously voted to go into ***Executive Session*** at 4:14 p.m. to address the confidential and proprietary items as noted above.

Executive Session

- a2. Selection of an Independent Accounting Firm to Perform an Agreed-Upon Procedures Review of Universal Service Contributor Revenue for 2000 and 2001 - Confidential & Proprietary - *Executive Session*.** Mr. Scott, USAC's Director of Internal Audit, provided an overview of the selection process for an independent accounting firm to perform this audit, and explained how the evaluation team rated the proposals and arrived at the recommendation of Deloitte & Touche LLP.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors authorizes USAC to select the independent accounting firm of Deloitte & Touche LLP to conduct the agreed-upon procedures review of the universal service contributor revenue base for 2000 and 2001 revenues and for the option years, pending agreement on final terms and conditions of the engagement.

- a3. Retention of Expert Consultant for Bankruptcy Preference Litigation - Confidential & Proprietary - *Executive Session*.** Mr. Barash reviewed the litigation matters before USAC. He explained the rationale for retaining Kroll Zolfo Cooper, Inc, as an expert consultant in one pending matter and the need to continue to retain the firm for future cases.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors authorizes staff to continue the engagement with Kroll Zolfo Cooper Inc. as an expert consultant to assist USAC in the conduct of litigation involving the Universal Service Fund in United States Bankruptcy Court.

a4. Miscellaneous. None.

There being no further business, Mr. Gumper adjourned the Board meeting at 4:53 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**BOARD OF DIRECTORS MEETING**

October 22, 2002

MINUTES

The quarterly meeting of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the Westin Grand, 2350 M Street, NW, Washington, DC, on Tuesday, October 22, 2002. Mr. Frank Gumper, Chair of the Board, called the meeting to order at 9:01 a.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the USAC CEO, called the roll.

Thirteen of the nineteen members were present representing a quorum (there is one vacancy):	
Bryant, Anne	Jackson, Jimmy - Secretary
Campbell, Anne	Jortner, Wayne
Conn, David	Lineberry, Isiah - <i>by telephone</i>
Cornell, Diane	Parrino, Cheryl
Eichler, Ed - Treasurer	Sanders, Dr. Jay - <i>by telephone</i>
Gumper, Frank - Chair	Talbott, Dr. Brian
Hess, Kevin	
Three members joined the meeting in progress:	
Buller, Karen	Rivera, Robert
Lubin, Joel - Vice Chair	
Two members were absent:	
Coltharp, James	Davis, Fr. Bill
Officers of the Corporation present:	
Barash, D. Scott - Assistant Secretary; Vice President & General Counsel	
Blackwell, Mel - VP, External Communications & Rural Health Care Division	
Carmichael, Mark - Assistant Treasurer; VP, Finance & Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - VP, Strategic Planning & USAC Operations	
McDonald, George - VP, Schools & Libraries Division	
Others present for the meeting:	
Name	Company
Anderson, Bob	NECA
Bond, Don	Public Service Telephone Company

Chaney, Ross	NITI
Davis, Craig	USAC
Davis, Ta'Nea	USAC
Faunce, Donna	USAC
Gallant, Pam	USAC
Gill, Charlie	NSI
Khan, Sameer	USAC
Howard, Cathy	USAC
Majcher, Karen	USAC
Miller, Linda	USAC
Parry, John	NECA
Pendergrass, Pierre	Spectrum Communications
Scott, Wayne	USAC
Trew, Anne Marie	USAC
Webber, Sharon	FCC

ACTION ITEMS:

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Board approved the minutes as distributed of the meetings of Tuesday, [July 23, 2002](#), and Friday, [October 4, 2002](#).

Board member Ms. Buller joined the meeting during the reports of the next item.

- a2. Reports from the Committee Chairs.** Each of the Chairs of the programmatic Committees reported on the issues discussed and the action taken at each of their October 2002 quarterly Committee meetings, respectively: Dr. Talbott – Schools & Libraries Committee; Dr. Sanders – Rural Health Care Committee; Mr. Eichler – High Cost & Low Income Committee; and Mr. Gumper – Executive Committee. See the minutes of each Committee meeting for a full accounting of the discussions and actions taken by the Committees.

Mr. Gumper informed the Board that the Board would need to have a special meeting in December to elect new Board members. The meeting will be scheduled as soon as approval of Board appointments is received from the FCC.

- a3. Photo Shoot.** Mr. Blackwell was unable to make it to the meeting in person to take pictures of the Board of Directors for the USAC Annual Report. A photo shoot will be scheduled during the January 2003 quarterly meeting. In addition, Mr. Blackwell

requested each Board member to send a suitable photograph of him or herself to him, if available.

- a4. Appointment of a Nominating Committee and Direction to Committees for the Appointment of Committee Chairs and Committee Vice-Chairs.** Ms. Parrino reminded the Board that annual officer and committee elections occur at each January quarterly meeting of the Board pursuant to USAC's By-laws. She explained that, if appointed, the Nominating Committee would be tasked with two responsibilities: (1) Bring to the Board at its January 2003 quarterly meeting nominations for the officer positions of the Board, and (2) bring to the Board at its anticipated December 2002 special Board meeting recommendations for Committee assignments for the anticipated new Board members. In addition, staff recommended that the Board task each programmatic committee with bringing to the Board at its January 2003 quarterly meeting nominations for committee Chairs and Vice Chairs.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors establishes a Nominating Committee for the purpose of recommending to the USAC Board of Directors at its January 2003 meeting nominations for the elected USAC officer positions and to bring to the USAC Board of Directors at the anticipated December 2002 special Board meeting recommendations for Committee appointments for new Board members; and

RESOLVED FURTHER, That the USAC Board of Directors appoints **Mr. Robert Rivera** as Nominating Committee chair and **Ms. Anne Bryant** and **Mr. Kevin Hess** as members of the Nominating Committee; and

RESOLVED FURTHER, That the USAC Board of Directors directs each Committee of the USAC Board of Directors to bring to the Board of Directors at its January 2003 meeting nominations for a chair and vice-chair of each respective Committee.

- a5. Approval for Reimbursing a Board Member to Attend an Event Other Than a USAC Board or Committee Meeting or Event.** Ms. Parrino reviewed the recommendation to approve a request being made by the USAC Treasurer, Mr. Eichler, for reimbursement from USAC for expenses he would incur for a trip to Chicago to meet with one of USAC's financial services vendors, Bank One, in conjunction with the 2002 quarterly Investment Committee meeting there on November 14. She reminded the Board that it approved a similar request for Mr. Eichler in April 2002 when he traveled to Chicago to meet with USAC's other financial services vendor, LaSalle Bank, in May 2002 and that the expenses he submitted for that trip stayed within his estimated expenses.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That in accordance with the "Procedures for Requesting Approval and Reimbursing a Member of the Board of Directors for Expenses Incurred in Conducting USAC Business other than Board of Directors Meetings" approved by the USAC Board of Directors, the USAC Board of Directors authorizes the Corporation to reimburse the USAC Treasurer, Mr. Ed Eichler, for expenses incurred by him to visit USAC's investment banker, Bank One, in Chicago on November 14, 2002, in connection with the quarterly USAC Investment Committee meeting on the same date.

Board member Mr. Rivera joined the meeting during the discussion of the next item.

- a6. Biennial Review and Approval of USAC Employee Ethical Standards.** Ms. Parrino explained that she is required to report to the USAC Board of Directors every two years on the adequacy of and compliance with the USAC employee ethical standards, and to suggest revisions as needed. She reported that in her judgment the standards have been adequate and that there have been only minor instances of non-compliance, which were quickly addressed and resolved. Ms. Parrino reported that, in consultation with the General Counsel, they used discretion in resolving an ethical issue involving a baby gift to an employee. Finally, she noted that USAC staff is recommending a few minor clarifications as well as correcting a typographical error in the standards. Ms. Parrino informed the Committee that USAC's General Counsel would be presenting a training session on the ethics policy and compliance issues with USAC staff at the November monthly meeting of USAC staff.

In response to an inquiry from the Board, Ms. Parrino explained in those circumstances where it would be rude to refuse a gift due to cultural norms, the employee may accept the gift on behalf of USAC, but such a gift is made available to the entire staff or a lottery is held for non-management employees of USAC. A Board member suggested that the federal government's policy regarding gifts from a foreign government might be useful in cases where a USAC employee receives a gift from a Native American stakeholder group.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors accepts the recommendations of the Executive Committee to modify the "Statement of Ethical Conduct for Employees," "Definition of Gifts Prohibited," "Definition of Financial Interest," "Outside Employment," and "Acceptance of Payment from Outside Sources for USAC Employees' Travel Expenses" documents as recommended by staff to clarify when it is appropriate for USAC employees to accept reimbursement of travel expenses from an outside source and to make minor corrections and modifications as noted by USAC staff.

- a7. Selection of the Audit Firm to Conduct a Large Scale Audit of Schools and Libraries Support Mechanism Beneficiaries and Authorization to Engage the Firm for the Audit – Confidential & Proprietary – Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash recommended that this matter be discussed in *Executive Session* because discussion and public disclosure of this matter at this time, which relates to USAC's procurement strategy and contract negotiations, would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that discussion of the proposals to select an audit firm to conduct a large scale audit of Schools and Libraries Universal Service Support Mechanism beneficiaries for USAC shall be conducted in *Executive Session*.

See *Executive Session* for a report of the discussion and action taken.

- a8. Approval to Enter into Negotiations for Office Space in Washington, D.C. – Confidential & Proprietary – Executive Session.** This item was withdrawn from the agenda.

Board member Mr. Lubin joined the meeting during the discussion of the next item.

- a9. Approval of the 1st Quarter 2003 USAC Consolidated and Common Budgets and Information on Estimated 2003 Annual Budget.** Ms. Parrino reported that the estimated 2003 annual budget is slightly less than one percent above the 2002 actual budget. She reported that this budget is the product of an effort to limit expenditures only to essential items. She explained that USAC staff is not recommending leasing new office space in Washington, DC at this time, as the necessary increase in budget would not be prudent in light of the state of the telecommunications industry, the questions surrounding the universal service contribution base, and USAC's overall mandate to minimize administrative expenses. She assured the Committee that even though space is crowded now in the Washington office, there is still enough workspace for all employees, and that additional temporary space may be procured during 2003 if necessary to accommodate the addition of five new employees. Ms. Parrino also reported that staff is requesting only the minimum number of new positions in response to specific operational requirements, and that several proposed positions recommended by staff have not been included in the budget.

Ms. Parrino noted that USAC is anticipating that the FCC may issue several decisions related to the operations of the fund that could dramatically affect the budget. She said that the proposed budget did not contain any contingencies to address those potential changes because a meaningful estimate of the costs cannot be provided at this time. She recommended that the Board of Directors address such items as they occur during the course of the year rather than trying to predict the administrative changes that may be required in 2003. She remarked that USAC staff has verbally informed the FCC of the potential financial impacts of proposed changes where sufficient details have been provided to make such an estimate. Mr. Gumper informed the Board that contribution methodology changes are expected from the FCC in November; in which case the Executive Committee would then meet to approve any budget changes.

A revised Attachment F was distributed. Ms. Parrino explained and reviewed additional detailed information concerning the proposed budget for the Board, focusing particularly on comparisons of historic annual administrative expenses with the proposed quarterly and annual budgets.

A Board member asked whether Congress knew how well USAC is doing keeping administrative costs down, particularly as compared to the amount of disbursements, a typical measure of efficiency for non-profits. Mr. Gumper responded that it is difficult to devise a comparison that can adequately offset any perception that USAC's administrative costs are so low only because the fund as a whole is so large. He said that USAC staff is looking into other types of comparisons that would indicate the efficiency of USAC such as how much USAC spends on processing forms compared to other government agencies. Mr. Blackwell assured the Board that USAC continues to meet with Congressional members at their request to keep them informed of the status of USAC's operations.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 1st Quarter 2003 USAC common budget of \$1,612,300; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 1st Quarter 2003 USAC consolidated budget of \$13,113,100.

a10. Approval of 1st Quarter 2003 Revenue Projections and Resolutions for the December 2, 2002, FCC Filing. Mr. Carmichael reported that the recently completed annual true-up of contributor revenue information reported on FCC Form 499-A with information reported quarterly on FCC Form 499-Q produced a variance of approximately \$80 million that results in prior period adjustments to first quarter 2003 in the form of funding requirement decreases. He noted that there has been a dramatic decrease in the number of Form 499-Qs distributed due either to companies choosing to file on a consolidated basis or to USAC closing accounts of non-respondents. The following documents were distributed at the meeting: revised pages 4 and 5 of the issue paper reflecting a typo correction to the resolution and revised Attachment B reflecting updated numbers. Mr. Carmichael concluded that although the revenue base has grown since the inception of USAC, it has decreased in recent quarters.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors, having reviewed at its meeting on October 22, 2002, a summary of the current status of the December 2, 2002, FCC filing requirements, accepts the recommendation of the USAC Executive Committee to authorize staff to proceed with the required December 2, 2002, filing to the FCC on behalf of USAC using a preliminary estimate of \$19,210.299 million for the contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

a11. Feedback on Timing of Board Materials. Ms. Parrino held a discussion with the Board on the process of preparing and distributing the quarterly Committee and Board meeting materials. She explained that the materials this time were sent out almost a week earlier than in the past. Several Board members expressed appreciation for the extra time they had to review the materials. Ms. Parrino said that she would be sending out a survey to the Board before the next quarterly meeting to solicit their ideas on the usefulness of the materials being prepared. She encouraged the Board members to contact her if they have any suggestions on how to improve the process or materials they receive for the meetings.

a12. Miscellaneous.

- Board Attendance Policy. Mr. Gumper withdrew this item from the agenda. He asked that this issue be included on the agenda for the January 2003 Board meeting.
- Adoption of a Resolution Honoring Ms. Camie Swanson-Hull. Ms. Parrino reviewed the proposed resolution and letter commemorating the service on the USAC Board of Directors of Ms. Camie Swanson-Hull, who resigned from the Board effective October 1, 2002.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors hereby expresses its appreciation for the service Ms. Camie Swanson-Hull has provided to the Universal Service Administrative Company and wishes her the best in her future endeavors; and

FURTHER RESOLVED, That the USAC Board of Directors directs staff to send a letter of commendation signed by the Board Chair and the CEO to Ms. Swanson-Hull.

INFORMATION ITEMS

- i1. USAC Internal Audit Status Report on USAC Audits.** For information only. No discussion held.
- i2. Assistant Treasurer's Report.** Mr. Carmichael introduced the newest member of the USAC Finance Division staff, Ms. Anne Marie Trew, Director of Billing and Collections. He then gave his assistant treasurer report stating that the balance attributable to the support mechanisms was approximately \$2.6 billion at the end of August 2002 and that he anticipates approximately the same level with a slight decrease over the next few quarters as the excess Schools and Libraries Support Mechanism funds are used to maintain the contribution factor at 7.2805 percent as required by FCC order.
- i3. Report on Accounts Receivable Delinquent Over 30 Days and Collection Efforts.** Mr. Carmichael reported that the "Days Sales Outstanding" continue to decrease as do the number of delinquent accounts due mainly to improved collection efforts and tighter controls over the collection process. He verified that WorldCom, a substantial contributor to the Universal Service Fund that is currently in bankruptcy, continues to stay current in its payments to USAC. He noted that per the Board's request at the July quarterly meeting, additional data on the total amount billed versus total amount owed by industry type has been added to Attachment B. In response to an inquiry from a Board member as to how the uncollectible factor affects the contribution factor, he explained that the uncollectible factor is reviewed every year based on USAC's history and is taken into account by the FCC when determining the collection factor. Mr. Gumper went on to say that USAC is working with the FCC to determine the extent to which USAC will take advantage of the Debt Collection Improvement Act, which would allow USAC to transfer uncollectible accounts at some point to the FCC books and then those accounts would be transferred to the Treasury Department, and ultimately the Department of Justice would enforce collection. Mr. Carmichael verified that USAC does impose and collect late payment fees in accordance with Board direction.
- i4. Report on Pending Litigation and Bankruptcy Matters.** Mr. Barash reported that there has been significant activity in USAC's bankruptcy-related litigation in the third quarter and reviewed the details of several cases. He said that bankruptcies overall have leveled off somewhat both in the numbers and filing amounts. Of those bankruptcy cases that have been settled, USAC is receiving some payments.

Mr. Barash said that USAC staff has confidential updates on USAC's litigation strategy and in accordance with the guidelines regarding **Executive Session** approved by the USAC Board of Directors, he recommended that the updates be discussed in **Executive Session** because this item concerns pending litigation matters that are subject to the attorney-client privilege and discussion of this item in open session would compromise the continued applicability of the attorney-client privilege.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that discussion of an update on pending litigation to which USAC is a party shall be conducted in **Executive Session**.

See **Executive Session** for a report of this discussion.

- i5. **Update on Universal Service Support Mechanisms Enforcement Activity.** For information only. No discussion held.
- i6. **Disposition of Administrator Appeals by USAC Staff.** For information only. No discussion held.
- i7. **Regulatory Report.** For information only. No discussion held.
- i8. **Report of Legislative and Media Activity.** For information only. No discussion held.
- i9. **Status of Support Services for USAC provided by PricewaterhouseCoopers, LaSalle Bank, and NECA.** Mr. Carmichael reported that one of USAC's financial services vendors, PricewaterhouseCoopers (PwC), was acquired by IBM Corporation effective September 30, 2002, and is now part of IBM Consulting. Mr. Carmichael reported that IBM receives a significant amount of Schools and Libraries Support Mechanism funding as a provider of internal connections services and USAC staff is taking steps to address any actual, potential, or perceived conflict of interest. USAC and IBM staff are working to further tighten controls and more explicitly document the checks being used so that any appearance or real conflict of interest can be appropriately addressed. Mr. Carmichael also reported that the financial accounting services being provided by IBM have stabilized after an initial period of significant quality control issues. USAC has devoted significant resources toward ensuring proper controls are in place and that the quality of the work fully meets USAC's needs. USAC staff continues to closely monitor the situation and will reevaluate IBM's performance again at the end of this year. At that time, USAC staff will determine whether it is more appropriate to bring the financial accounting service operations in-house. Finally, Mr. Carmichael reported that per Board approval, USAC has extended the current contract with NECA for one year to continue performing support services associated with universal service contributor revenue data collection.

Mr. Barash said that USAC staff has confidential information to report on an internal audit that USAC performed on the financial services being provided by PwC and that in accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, he recommended this matter be discussed in **Executive Session** because discussion of specific audit plans, internal controls, and/or confidential company data would result in disclosure of confidential techniques and procedures that would compromise program integrity.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, that the USAC Board of Directors determines that discussion of specific internal audit findings shall be conducted in Executive Session.

See **Executive Session** for a report of this discussion.

i10. USAC Acronyms, Forms, and Frequently Asked Questions. Ms. Parrino noted that the three documents provided in this item are information that the Board previously requested.

i11. USAC Timeline and Key Dates. For information only. No discussion held.

i12. Miscellaneous. None.

HIGH COST & LOW INCOME COMMITTEE:

i13. High Cost and Low Income Support Mechanisms Update. For information only. No discussion held.

i14. Report on the Implementation of the Interstate Common Line Support Mechanism (ICLS). For information only. No discussion held.

i15. Review of the 1st Quarter 2003 High Cost and Low Income Programmatic Budgets and Information on Estimated 2003 Annual Budget. For information only. No discussion held.

i16. Review of 1st Quarter 2003 High Cost and Low Income Support Mechanisms Projections and Resolution on the November 1, 2002, FCC Filing. For information only. No discussion held.

RURAL HEALTH CARE COMMITTEE:

i17. Rural Health Care Support Mechanism Update. For information only. No discussion held.

i18. Review of 1st Quarter 2003 Rural Health Care Programmatic Budget and Information on Estimated 2003 Annual Budget. For information only. No discussion held.

i19. Review of 1st Quarter 2003 Rural Health Care Support Mechanism Projections and Resolution on the November 1, 2002, FCC Filing. For information only. No discussion held.

SCHOOLS & LIBRARIES COMMITTEE:

i20. Schools and Libraries Support Mechanism Update. For information only. No discussion held.

i21. Review of the 1st Quarter 2003 Schools and Libraries Programmatic Budget and Information on Estimated 2003 Annual Budget. For information only. No discussion held.

i22. Review of 1st Quarter 2003 Schools and Libraries Support Mechanism Projections and Resolution on the November 1, 2002, FCC Filing. For information only. No discussion held.

At 10:45 a.m., on a motion duly made and seconded, the Board voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above. The Board then voted to recess. At the call of the Chair, the Board reconvened in **Executive Session** at 11:03 a.m. Ms. Howard called the roll at the request of the Chair. Sixteen of the nineteen members were present (there is one vacancy), representing a quorum:

Sixteen of the nineteen members were present (there is one vacancy), representing a quorum:	
Name	Company
Bryant, Anne	Jackson, Jimmy – Secretary
Buller, Karen	Lineberry, Isiah – <i>by telephone</i>
Campbell, Anne	Lubin, Joel – Vice Chair
Conn, David	Parrino, Cheryl
Cornell, Diane	Rivera, Robert
Eichler, Ed – Treasurer	Sanders, Dr. Jay – <i>by telephone</i>
Gumper, Frank – Chair	Talbott, Dr. Brian
Hess, Kevin	
Two members were absent:	
Coltharp, James	Davis, Fr. Bill

Mr. Gumper announced that he and Ms. Parrino along with USAC staff are planning to hold a tutorial session on how each support mechanism works for interested Board members following the quarterly Board meeting on January 23, 2003. Lunch will be available for all Board members after the meeting and before the tutorial.

Executive Session

a7. Selection of the Audit Firm to Conduct a Large Scale Audit of Schools and Libraries Support Mechanism Beneficiaries and Authorization to Engage the Firm for the Audit – Confidential & Proprietary – Executive Session. Mr. Scott provided an overview of the selection process for an independent accounting firm to perform this audit, and explained how the evaluation team rated the proposals and arrived at the recommendation of KPMG LLP. He clarified that the evaluation team scored the technical piece of each proposal before reviewing the pricing component.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors authorizes USAC to select the independent accounting firm of KPMG LLP to conduct an audit of beneficiaries of the Schools and Libraries Universal Service Support Mechanism for funding year 2000, with an option to renew for up to three additional years, pending agreement on final terms and conditions of the engagement.

- i4. Report on Pending Litigation and Bankruptcy Matters.** Mr. Barash reviewed pending litigation matters.
- i9. Status of Support Services for USAC provided by PricewaterhouseCoopers, LaSalle Bank, and NECA.** Mr. Gumper informed the Board of the results of an internal audit that USAC performed on the financial services being provided by PricewaterhouseCoopers.

The Board adjourned from **Executive Session** and reconvened in open session at 11:36 a.m. to report the discussions and actions of the Board during **Executive Session**.

There being no further business, Mr. Gumper adjourned the meeting at 11:37 a.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**BOARD OF DIRECTORS MEETING**

October 22, 2002

MINUTES

The quarterly meeting of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the Westin Grand, 2350 M Street, NW, Washington, DC, on Tuesday, October 22, 2002. Mr. Frank Gumper, Chair of the Board, called the meeting to order at 9:01 a.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the USAC CEO, called the roll.

Thirteen of the nineteen members were present representing a quorum (there is one vacancy):	
Bryant, Anne	Jackson, Jimmy - Secretary
Campbell, Anne	Jortner, Wayne
Conn, David	Lineberry, Isiah - <i>by telephone</i>
Cornell, Diane	Parrino, Cheryl
Eichler, Ed - Treasurer	Sanders, Dr. Jay - <i>by telephone</i>
Gumper, Frank - Chair	Talbott, Dr. Brian
Hess, Kevin	
Three members joined the meeting in progress:	
Buller, Karen	Rivera, Robert
Lubin, Joel - Vice Chair	
Two members were absent:	
Coltharp, James	Davis, Fr. Bill
Officers of the Corporation present:	
Barash, D. Scott - Assistant Secretary; Vice President & General Counsel	
Blackwell, Mel - VP, External Communications & Rural Health Care Division	
Carmichael, Mark - Assistant Treasurer; VP, Finance & Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - VP, Strategic Planning & USAC Operations	
McDonald, George - VP, Schools & Libraries Division	
Others present for the meeting:	
Name	Company
Anderson, Bob	NECA
Bond, Don	Public Service Telephone Company

Chaney, Ross	NITI
Davis, Craig	USAC
Davis, Ta'Nea	USAC
Faunce, Donna	USAC
Gallant, Pam	USAC
Gill, Charlie	NSI
Khan, Sameer	USAC
Howard, Cathy	USAC
Majcher, Karen	USAC
Miller, Linda	USAC
Parry, John	NECA
Pendergrass, Pierre	Spectrum Communications
Scott, Wayne	USAC
Trew, Anne Marie	USAC
Webber, Sharon	FCC

ACTION ITEMS:

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Board approved the minutes as distributed of the meetings of Tuesday, July 23, 2002, and Friday, October 4, 2002.

Board member Ms. Buller joined the meeting during the reports of the next item.

- a2. Reports from the Committee Chairs.** Each of the Chairs of the programmatic Committees reported on the issues discussed and the action taken at each of their October 2002 quarterly Committee meetings, respectively: Dr. Talbott – Schools & Libraries Committee; Dr. Sanders – Rural Health Care Committee; Mr. Eichler – High Cost & Low Income Committee; and Mr. Gumper – Executive Committee. See the minutes of each Committee meeting for a full accounting of the discussions and actions taken by the Committees.

Mr. Gumper informed the Board that the Board would need to have a special meeting in December to elect new Board members. The meeting will be scheduled as soon as approval of Board appointments is received from the FCC.

- a3. Photo Shoot.** Mr. Blackwell was unable to make it to the meeting in person to take pictures of the Board of Directors for the USAC Annual Report. A photo shoot will be scheduled during the January 2003 quarterly meeting. In addition, Mr. Blackwell

requested each Board member to send a suitable photograph of him or herself to him, if available.

- a4. Appointment of a Nominating Committee and Direction to Committees for the Appointment of Committee Chairs and Committee Vice-Chairs.** Ms. Parrino reminded the Board that annual officer and committee elections occur at each January quarterly meeting of the Board pursuant to USAC's By-laws. She explained that, if appointed, the Nominating Committee would be tasked with two responsibilities: (1) Bring to the Board at its January 2003 quarterly meeting nominations for the officer positions of the Board, and (2) bring to the Board at its anticipated December 2002 special Board meeting recommendations for Committee assignments for the anticipated new Board members. In addition, staff recommended that the Board task each programmatic committee with bringing to the Board at its January 2003 quarterly meeting nominations for committee Chairs and Vice Chairs.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors establishes a Nominating Committee for the purpose of recommending to the USAC Board of Directors at its January 2003 meeting nominations for the elected USAC officer positions and to bring to the USAC Board of Directors at the anticipated December 2002 special Board meeting recommendations for Committee appointments for new Board members; and

RESOLVED FURTHER, That the USAC Board of Directors appoints **Mr. Robert Rivera** as Nominating Committee chair and **Ms. Anne Bryant** and **Mr. Kevin Hess** as members of the Nominating Committee; and

RESOLVED FURTHER, That the USAC Board of Directors directs each Committee of the USAC Board of Directors to bring to the Board of Directors at its January 2003 meeting nominations for a chair and vice-chair of each respective Committee.

- a5. Approval for Reimbursing a Board Member to Attend an Event Other Than a USAC Board or Committee Meeting or Event.** Ms. Parrino reviewed the recommendation to approve a request being made by the USAC Treasurer, Mr. Eichler, for reimbursement from USAC for expenses he would incur for a trip to Chicago to meet with one of USAC's financial services vendors, Bank One, in conjunction with the 2002 quarterly Investment Committee meeting there on November 14. She reminded the Board that it approved a similar request for Mr. Eichler in April 2002 when he traveled to Chicago to meet with USAC's other financial services vendor, LaSalle Bank, in May 2002 and that the expenses he submitted for that trip stayed within his estimated expenses.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That in accordance with the "Procedures for Requesting Approval and Reimbursing a Member of the Board of Directors for Expenses Incurred in Conducting USAC Business other than Board of Directors Meetings" approved by the USAC Board of Directors, the USAC Board of Directors authorizes the Corporation to reimburse the USAC Treasurer, Mr. Ed Eichler, for expenses incurred by him to visit USAC's investment banker, Bank One, in Chicago on November 14, 2002, in connection with the quarterly USAC Investment Committee meeting on the same date.

Board member Mr. Rivera joined the meeting during the discussion of the next item.

- a6. Biennial Review and Approval of USAC Employee Ethical Standards.** Ms. Parrino explained that she is required to report to the USAC Board of Directors every two years on the adequacy of and compliance with the USAC employee ethical standards, and to suggest revisions as needed. She reported that in her judgment the standards have been adequate and that there have been only minor instances of non-compliance, which were quickly addressed and resolved. Ms. Parrino reported that, in consultation with the General Counsel, they used discretion in resolving an ethical issue involving a baby gift to an employee. Finally, she noted that USAC staff is recommending a few minor clarifications as well as correcting a typographical error in the standards. Ms. Parrino informed the Committee that USAC's General Counsel would be presenting a training session on the ethics policy and compliance issues with USAC staff at the November monthly meeting of USAC staff.

In response to an inquiry from the Board, Ms. Parrino explained in those circumstances where it would be rude to refuse a gift due to cultural norms, the employee may accept the gift on behalf of USAC, but such a gift is made available to the entire staff or a lottery is held for non-management employees of USAC. A Board member suggested that the federal government's policy regarding gifts from a foreign government might be useful in cases where a USAC employee receives a gift from a Native American stakeholder group.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors accepts the recommendations of the Executive Committee to modify the "Statement of Ethical Conduct for Employees," "Definition of Gifts Prohibited," "Definition of Financial Interest," "Outside Employment," and "Acceptance of Payment from Outside Sources for USAC Employees' Travel Expenses" documents as recommended by staff to clarify when it is appropriate for USAC employees to accept reimbursement of travel expenses from an outside source and to make minor corrections and modifications as noted by USAC staff.

- a7. Selection of the Audit Firm to Conduct a Large Scale Audit of Schools and Libraries Support Mechanism Beneficiaries and Authorization to Engage the Firm for the Audit – Confidential & Proprietary – Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash recommended that this matter be discussed in *Executive Session* because discussion and public disclosure of this matter at this time, which relates to USAC's procurement strategy and contract negotiations, would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that discussion of the proposals to select an audit firm to conduct a large scale audit of Schools and Libraries Universal Service Support Mechanism beneficiaries for USAC shall be conducted in *Executive Session*.

See *Executive Session* for a report of the discussion and action taken.

- a8. Approval to Enter into Negotiations for Office Space in Washington, D.C. – Confidential & Proprietary – Executive Session.** This item was withdrawn from the agenda.

Board member Mr. Lubin joined the meeting during the discussion of the next item.

- a9. Approval of the 1st Quarter 2003 USAC Consolidated and Common Budgets and Information on Estimated 2003 Annual Budget.** Ms. Parrino reported that the estimated 2003 annual budget is slightly less than one percent above the 2002 actual budget. She reported that this budget is the product of an effort to limit expenditures only to essential items. She explained that USAC staff is not recommending leasing new office space in Washington, DC at this time, as the necessary increase in budget would not be prudent in light of the state of the telecommunications industry, the questions surrounding the universal service contribution base, and USAC's overall mandate to minimize administrative expenses. She assured the Committee that even though space is crowded now in the Washington office, there is still enough workspace for all employees, and that additional temporary space may be procured during 2003 if necessary to accommodate the addition of five new employees. Ms. Parrino also reported that staff is requesting only the minimum number of new positions in response to specific operational requirements, and that several proposed positions recommended by staff have not been included in the budget.

Ms. Parrino noted that USAC is anticipating that the FCC may issue several decisions related to the operations of the fund that could dramatically affect the budget. She said that the proposed budget did not contain any contingencies to address those potential changes because a meaningful estimate of the costs cannot be provided at this time. She recommended that the Board of Directors address such items as they occur during the course of the year rather than trying to predict the administrative changes that may be required in 2003. She remarked that USAC staff has verbally informed the FCC of the potential financial impacts of proposed changes where sufficient details have been provided to make such an estimate. Mr. Gumper informed the Board that contribution methodology changes are expected from the FCC in November; in which case the Executive Committee would then meet to approve any budget changes.

A revised Attachment F was distributed. Ms. Parrino explained and reviewed additional detailed information concerning the proposed budget for the Board, focusing particularly on comparisons of historic annual administrative expenses with the proposed quarterly and annual budgets.

A Board member asked whether Congress knew how well USAC is doing keeping administrative costs down, particularly as compared to the amount of disbursements, a typical measure of efficiency for non-profits. Mr. Gumper responded that it is difficult to devise a comparison that can adequately offset any perception that USAC's administrative costs are so low only because the fund as a whole is so large. He said that USAC staff is looking into other types of comparisons that would indicate the efficiency of USAC such as how much USAC spends on processing forms compared to other government agencies. Mr. Blackwell assured the Board that USAC continues to meet with Congressional members at their request to keep them informed of the status of USAC's operations.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 1st Quarter 2003 USAC common budget of \$1,612,300; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 1st Quarter 2003 USAC consolidated budget of \$13,113,100.

a10. Approval of 1st Quarter 2003 Revenue Projections and Resolutions for the December 2, 2002, FCC Filing. Mr. Carmichael reported that the recently completed annual true-up of contributor revenue information reported on FCC Form 499-A with information reported quarterly on FCC Form 499-Q produced a variance of approximately \$80 million that results in prior period adjustments to first quarter 2003 in the form of funding requirement decreases. He noted that there has been a dramatic decrease in the number of Form 499-Qs distributed due either to companies choosing to file on a consolidated basis or to USAC closing accounts of non-respondents. The following documents were distributed at the meeting: revised pages 4 and 5 of the issue paper reflecting a typo correction to the resolution and revised Attachment B reflecting updated numbers. Mr. Carmichael concluded that although the revenue base has grown since the inception of USAC, it has decreased in recent quarters.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors, having reviewed at its meeting on October 22, 2002, a summary of the current status of the December 2, 2002, FCC filing requirements, accepts the recommendation of the USAC Executive Committee to authorize staff to proceed with the required December 2, 2002, filing to the FCC on behalf of USAC using a preliminary estimate of \$19,210.299 million for the contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

a11. Feedback on Timing of Board Materials. Ms. Parrino held a discussion with the Board on the process of preparing and distributing the quarterly Committee and Board meeting materials. She explained that the materials this time were sent out almost a week earlier than in the past. Several Board members expressed appreciation for the extra time they had to review the materials. Ms. Parrino said that she would be sending out a survey to the Board before the next quarterly meeting to solicit their ideas on the usefulness of the materials being prepared. She encouraged the Board members to contact her if they have any suggestions on how to improve the process or materials they receive for the meetings.

a12. Miscellaneous.

- Board Attendance Policy. Mr. Gumper withdrew this item from the agenda. He asked that this issue be included on the agenda for the January 2003 Board meeting.
- Adoption of a Resolution Honoring Ms. Camie Swanson-Hull. Ms. Parrino reviewed the proposed resolution and letter commemorating the service on the USAC Board of Directors of Ms. Camie Swanson-Hull, who resigned from the Board effective October 1, 2002.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors hereby expresses its appreciation for the service Ms. Camie Swanson-Hull has provided to the Universal Service Administrative Company and wishes her the best in her future endeavors; and

FURTHER RESOLVED, That the USAC Board of Directors directs staff to send a letter of commendation signed by the Board Chair and the CEO to Ms. Swanson-Hull.

INFORMATION ITEMS

- i1. USAC Internal Audit Status Report on USAC Audits.** For information only. No discussion held.
- i2. Assistant Treasurer's Report.** Mr. Carmichael introduced the newest member of the USAC Finance Division staff, Ms. Anne Marie Trew, Director of Billing and Collections. He then gave his assistant treasurer report stating that the balance attributable to the support mechanisms was approximately \$2.6 billion at the end of August 2002 and that he anticipates approximately the same level with a slight decrease over the next few quarters as the excess Schools and Libraries Support Mechanism funds are used to maintain the contribution factor at 7.2805 percent as required by FCC order.
- i3. Report on Accounts Receivable Delinquent Over 30 Days and Collection Efforts.** Mr. Carmichael reported that the "Days Sales Outstanding" continue to decrease as do the number of delinquent accounts due mainly to improved collection efforts and tighter controls over the collection process. He verified that WorldCom, a substantial contributor to the Universal Service Fund that is currently in bankruptcy, continues to stay current in its payments to USAC. He noted that per the Board's request at the July quarterly meeting, additional data on the total amount billed versus total amount owed by industry type has been added to Attachment B. In response to an inquiry from a Board member as to how the uncollectible factor affects the contribution factor, he explained that the uncollectible factor is reviewed every year based on USAC's history and is taken into account by the FCC when determining the collection factor. Mr. Gumper went on to say that USAC is working with the FCC to determine the extent to which USAC will take advantage of the Debt Collection Improvement Act, which would allow USAC to transfer uncollectible accounts at some point to the FCC books and then those accounts would be transferred to the Treasury Department, and ultimately the Department of Justice would enforce collection. Mr. Carmichael verified that USAC does impose and collect late payment fees in accordance with Board direction.
- i4. Report on Pending Litigation and Bankruptcy Matters.** Mr. Barash reported that there has been significant activity in USAC's bankruptcy-related litigation in the third quarter and reviewed the details of several cases. He said that bankruptcies overall have leveled off somewhat both in the numbers and filing amounts. Of those bankruptcy cases that have been settled, USAC is receiving some payments.

Mr. Barash said that USAC staff has confidential updates on USAC's litigation strategy and in accordance with the guidelines regarding **Executive Session** approved by the USAC Board of Directors, he recommended that the updates be discussed in **Executive Session** because this item concerns pending litigation matters that are subject to the attorney-client privilege and discussion of this item in open session would compromise the continued applicability of the attorney-client privilege.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that discussion of an update on pending litigation to which USAC is a party shall be conducted in **Executive Session**.

See **Executive Session** for a report of this discussion.

- i5. Update on Universal Service Support Mechanisms Enforcement Activity.** For information only. No discussion held.
- i6. Disposition of Administrator Appeals by USAC Staff.** For information only. No discussion held.
- i7. Regulatory Report.** For information only. No discussion held.
- i8. Report of Legislative and Media Activity.** For information only. No discussion held.
- i9. Status of Support Services for USAC provided by PricewaterhouseCoopers, LaSalle Bank, and NECA.** Mr. Carmichael reported that one of USAC's financial services vendors, PricewaterhouseCoopers (PwC), was acquired by IBM Corporation effective September 30, 2002, and is now part of IBM Consulting. Mr. Carmichael reported that IBM receives a significant amount of Schools and Libraries Support Mechanism funding as a provider of internal connections services and USAC staff is taking steps to address any actual, potential, or perceived conflict of interest. USAC and IBM staff are working to further tighten controls and more explicitly document the checks being used so that any appearance or real conflict of interest can be appropriately addressed. Mr. Carmichael also reported that the financial accounting services being provided by IBM have stabilized after an initial period of significant quality control issues. USAC has devoted significant resources toward ensuring proper controls are in place and that the quality of the work fully meets USAC's needs. USAC staff continues to closely monitor the situation and will reevaluate IBM's performance again at the end of this year. At that time, USAC staff will determine whether it is more appropriate to bring the financial accounting service operations in-house. Finally, Mr. Carmichael reported that per Board approval, USAC has extended the current contract with NECA for one year to continue performing support services associated with universal service contributor revenue data collection.

Mr. Barash said that USAC staff has confidential information to report on an internal audit that USAC performed on the financial services being provided by PwC and that in accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, he recommended this matter be discussed in **Executive Session** because discussion of specific audit plans, internal controls, and/or confidential company data would result in disclosure of confidential techniques and procedures that would compromise program integrity.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, that the USAC Board of Directors determines that discussion of specific internal audit findings shall be conducted in Executive Session.

See **Executive Session** for a report of this discussion.

i10. USAC Acronyms, Forms, and Frequently Asked Questions. Ms. Parrino noted that the three documents provided in this item are information that the Board previously requested.

i11. USAC Timeline and Key Dates. For information only. No discussion held.

i12. Miscellaneous. None.

HIGH COST & LOW INCOME COMMITTEE:

i13. High Cost and Low Income Support Mechanisms Update. For information only. No discussion held.

i14. Report on the Implementation of the Interstate Common Line Support Mechanism (ICLS). For information only. No discussion held.

i15. Review of the 1st Quarter 2003 High Cost and Low Income Programmatic Budgets and Information on Estimated 2003 Annual Budget. For information only. No discussion held.

i16. Review of 1st Quarter 2003 High Cost and Low Income Support Mechanisms Projections and Resolution on the November 1, 2002, FCC Filing. For information only. No discussion held.

RURAL HEALTH CARE COMMITTEE:

i17. Rural Health Care Support Mechanism Update. For information only. No discussion held.

i18. Review of 1st Quarter 2003 Rural Health Care Programmatic Budget and Information on Estimated 2003 Annual Budget. For information only. No discussion held.

i19. Review of 1st Quarter 2003 Rural Health Care Support Mechanism Projections and Resolution on the November 1, 2002, FCC Filing. For information only. No discussion held.

SCHOOLS & LIBRARIES COMMITTEE:

i20. Schools and Libraries Support Mechanism Update. For information only. No discussion held.

i21. Review of the 1st Quarter 2003 Schools and Libraries Programmatic Budget and Information on Estimated 2003 Annual Budget. For information only. No discussion held.

i22. Review of 1st Quarter 2003 Schools and Libraries Support Mechanism Projections and Resolution on the November 1, 2002, FCC Filing. For information only. No discussion held.

At 10:45 a.m., on a motion duly made and seconded, the Board voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above. The Board then voted to recess. At the call of the Chair, the Board reconvened in **Executive Session** at 11:03 a.m. Ms. Howard called the roll at the request of the Chair. Sixteen of the nineteen members were present (there is one vacancy), representing a quorum:

Sixteen of the nineteen members were present (there is one vacancy), representing a quorum:	
Name	Company
Bryant, Anne	Jackson, Jimmy – Secretary
Buller, Karen	Lineberry, Isiah – <i>by telephone</i>
Campbell, Anne	Lubin, Joel – Vice Chair
Conn, David	Parrino, Cheryl
Cornell, Diane	Rivera, Robert
Eichler, Ed – Treasurer	Sanders, Dr. Jay – <i>by telephone</i>
Gumper, Frank – Chair	Talbott, Dr. Brian
Hess, Kevin	
Two members were absent:	
Coltharp, James	Davis, Fr. Bill

Mr. Gumper announced that he and Ms. Parrino along with USAC staff are planning to hold a tutorial session on how each support mechanism works for interested Board members following the quarterly Board meeting on January 23, 2003. Lunch will be available for all Board members after the meeting and before the tutorial.

Executive Session

a7. Selection of the Audit Firm to Conduct a Large Scale Audit of Schools and Libraries Support Mechanism Beneficiaries and Authorization to Engage the Firm for the Audit – Confidential & Proprietary – Executive Session. Mr. Scott provided an overview of the selection process for an independent accounting firm to perform this audit, and explained how the evaluation team rated the proposals and arrived at the recommendation of KPMG LLP. He clarified that the evaluation team scored the technical piece of each proposal before reviewing the pricing component.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors authorizes USAC to select the independent accounting firm of KPMG LLP to conduct an audit of beneficiaries of the Schools and Libraries Universal Service Support Mechanism for funding year 2000, with an option to renew for up to three additional years, pending agreement on final terms and conditions of the engagement.

- i4. Report on Pending Litigation and Bankruptcy Matters.** Mr. Barash reviewed pending litigation matters.
- i9. Status of Support Services for USAC provided by PricewaterhouseCoopers, LaSalle Bank, and NECA.** Mr. Gumper informed the Board of the results of an internal audit that USAC performed on the financial services being provided by PricewaterhouseCoopers.

The Board adjourned from **Executive Session** and reconvened in open session at 11:36 a.m. to report the discussions and actions of the Board during **Executive Session**.

There being no further business, Mr. Gumper adjourned the meeting at 11:37 a.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

BOARD OF DIRECTORS MEETING

December 16, 2002

MINUTES

A meeting of the Board of Directors of the Universal Service Administrative Company (USAC) was held on Monday, December 16, 2002, at the USAC office in Washington, DC. Mr. Frank Gumper, Chair of the Board, called the meeting to order at 3:04 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the USAC CEO, called the roll.

Thirteen of the 19 members were present (there is one vacancy), representing a quorum:	
Bryant, Anne - <i>by telephone</i>	Jackson, Jimmy - <i>by telephone</i>
Buller, Karen - <i>by telephone</i>	Jortner, Wayne - <i>by telephone</i>
Campbell, Anne - <i>by telephone</i>	Lubin, Joel - <i>by telephone</i>
Cornell, Diane - <i>by telephone</i>	Parrino, Cheryl
Eichler, Ed - Treasurer - <i>by telephone</i>	Sanders, Dr. Jay - <i>by telephone</i>
Gumper, Frank - Chair	Talbott, Dr. Brian - <i>by telephone</i>
Hess, Kevin - <i>by telephone</i>	
One member joined the meeting in progress:	
Coltharp, Jim - <i>by telephone</i>	
Four members were absent:	
Conn, David	Lineberry, Isiah
Davis, Fr. Bill	Sanders, Jay
Officers of the Corporation present:	
Barash, D. Scott - Assistant Secretary; Vice President & General Counsel	
Carmichael, Mark - Assistant Treasurer; VP, Finance & Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - VP, Strategic Planning & USAC Operations	
Others present for the meeting:	
Name	Company
Howard, Cathy - <i>by telephone</i>	USAC
Hughes, Alison	University of Arizona - Rural Health Care Office
Scott, Wayne	USAC

ACTION ITEMS

Board member Anne Bryant left the meeting during discussion of the next item due to cell phone interference.

a1. Election of Directors to the USAC Board of Directors. Mr. Rivera, Chair of the Nominating Committee, reported that the USAC Board of Directors Nominating Committee met on December 10, 2002, to review the FCC Chair's appointments of Board members to fill the Board member terms that expire the end of this year. In addition, he said that the FCC had appointed a new Board member to fill a current vacancy on the Board. The Nominating Committee recommended that the Board accept the appointments and elect the seven Board members to the USAC Board of Directors to fill the various open terms. Ms. Parrino explained that after the voting today, she will send out an email message to Board members seeking nominations for the Board of Directors officers' positions.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors accepts the recommendation of the Nominating Committee, and with the nominations made by the FCC Chairman and USAC's corporate By-laws, the USAC Board of Directors elects Ms. Karen Buller, Mr. David Conn, Mr. Ed Eichler, Ms. Alison M. Hughes, Mr. Jimmy Jackson, and Mr. Brian Talbott to the USAC Board of Directors for three year terms beginning on January 1, 2003; and,

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the Nominating Committee, and with the nomination made by the FCC Chairman and USAC's corporate By-laws, and due to the resignation of Board member Ms. Camie Swanson-Hull, the USAC Board of Directors elects Ms. Jo Anne Sanford to the USAC Board of Directors, whose term shall begin immediately and expire on December 31, 2003.

Board members Anne Bryant and James Coltharp joined the meeting during the discussion and before the vote on the next item.

a2. Establishment of an Audit Committee and Delegation of Authority. Ms. Parrino reported that the USAC Executive Committee determined at its October 17, 2002, quarterly meeting to recommend to the Board to create an Audit Committee of the USAC Board of Directors.

On a motion duly made and seconded, the Board adopted the following resolutions:

RESOLVED, That the USAC Board of Directors approves the formation of an Audit Committee consisting of five members with a representative from each of the three programmatic committees and two at-large Board members, preferably with financial, auditing, and/or accounting experience, and designates authority to that Committee to oversee the audit functions of the corporation; and

RESOLVED FURTHER, That the USAC Board of Directors hereby appoints Ms. Jo Anne Sanford as the High Cost & Low Income Committee representative, Ms. Alison Hughes as the Rural Health Care Committee representative, Ms. Anne Campbell as the School &

Libraries Committee representative, and Mr. Ed Eichler and Mr. Kevin Hess as the at-large representatives to the Audit Committee, and hereby appoints Mr. Ed Eichler as Interim Chair and Ms. Anne Campbell as Interim Vice Chair of the Audit Committee; and

RESOLVED FURTHER, That the USAC Board of Directors determines that the Internal Audit Director shall report to the Board of Directors through the Audit Committee; and

RESOLVED FURTHER, That the USAC Board of Directors determines that the Chair of the Audit Committee shall also serve on the Executive Committee.

Board member Anne Bryant left the meeting at this point due to cell phone interference.

- a3. Appointment of Directors to Committees of the Board.** Mr. Rivera, Chair of the Nominating Committee, reported that the USAC Board of Directors Nominating Committee met on December 10, 2002, to determine the nominations of Board members for appointments to the Committees of the Board. Ms. Parrino explained that the Committees themselves would bring nominations for Chairs and Vice Chairs of the Programmatic Committees to the Board at the Board's quarterly January 2003 meeting.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors accepts the recommendations of the Nominating Committee and hereby appoints Ms. Karen Buller as the Low Income Consumer representative, Mr. David Conn as the competitive local exchange carrier representative, Mr. Kevin Hess as the incumbent local exchange carrier representative which represents rural telephone companies as that term is defined in 47 USC 153(37), and Ms. Jo Anne Sanford as the state regulator representative to the High Cost & Low Income Committee; Ms. Alison M. Hughes as the rural health care representative and Ms. Jo Anne Sanford as the state regulator representative to the Rural Health Care Committee; and Mr. James Coltharp as the service provider representative, Mr. Jimmy Jackson as the at-large representative, and Mr. Brian Talbott as the school representative to the Schools & Libraries Committee.

INFORMATION ITEMS

- i1. Update on KPMG LLP Contract to Conduct a Large Scale Audit of Schools and Libraries Support Mechanism Beneficiaries - Confidential & Proprietary - Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that this matter be discussed in **Executive Session** because discussion and public disclosure of this matter at this time, which relates to USAC's *procurement strategy and contract negotiations*, would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that an update on the KPMG LLP contract to conduct a large scale audit of Schools and Libraries Universal Service Support Mechanism beneficiaries for USAC shall be conducted in **Executive Session**.

See **Executive Session** for a report of the discussion and action taken.

- i2. **Update on the Transfer of USF Disbursement Functions from IBM Consulting In-house to USAC - Confidential & Proprietary - Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion and public disclosure of this matter at this time, which relates to USAC's *procurement strategy and contract negotiations*, would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that the discussion of the transfer of USF disbursement functions from IBM Consulting in-house to USAC shall be conducted in **Executive Session**.

See **Executive Session** for a report of this discussion.

- i3. **Report on a Pending Litigation Matter.** Mr. Barash said that he had a confidential report on a pending litigation matter involving USAC and in accordance with the guidelines regarding **Executive Session** approved by the USAC Board of Directors, he recommended that the report be discussed in **Executive Session** because this item concerns a pending litigation matter that is subject to the *attorney-client privilege* and discussion of this item in open session would compromise the continued applicability of the attorney-client privilege.

On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, That the USAC Board of Directors determines that discussion of an update on pending litigation to which USAC is a party shall be conducted in **Executive Session**.

See **Executive Session** for a report of this discussion.

At 3:26 p.m., on a motion duly made and seconded, the Board voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above. The Board adjourned from **Executive Session** and reconvened in open session at 4:46 p.m. to report the discussions of the Board during **Executive Session**.

[Executive Session](#)

- i1. **Update on KPMG LLP Contract to Conduct a Large Scale Audit of Schools and Libraries Support Mechanism Beneficiaries - Confidential & Proprietary - Executive Session.** Ms. Parrino updated the Board on some changes that are being made to USAC's audit contract with KPMG LLP.
- i2. **Update on the Transfer of USF Disbursement Functions from IBM Consulting In-house to USAC - Confidential & Proprietary - Executive Session.** Ms. Parrino updated the Board on the status of the transfer of the USF disbursement functions from IBM Consulting in-house to USAC.

i3. Report on a Pending Litigation Matter. Mr. Barash reported on a new litigation case involving USAC and said that even though the settlement amount is within the CEO's authority to approve, USAC staff felt that this case was a novel issue and should be brought to the Board's attention per the Board's previous direction.

There being no further business, Mr. Gumper adjourned the meeting at 4:47 p.m.

D. Scott Barash
Assistant Secretary