

2003 Board of Directors Meetings Minutes

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

January 23, 2003

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 Thursday, January 23, 2003. 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.

Eighteen of the nineteen members were present representing a quorum:	
Bryant, Anne - <i>by telephone</i>	Hughes, Alison
Buller, Karen - <i>by telephone</i>	Jackson, Jimmy - Secretary
Campbell, Anne	Jortner, Wayne
Conn, David	Lubin, Joel - Vice Chair
Cornell, Diane	Parrino, Cheryl
Davis, Fr. Bill	Rivera, Robert
Eichler, Ed - Treasurer	Sanders, Dr. Jay
Gumper, Frank - Chair	Sanford, Jo Anne
Hess, Kevin	Talbott, Dr. Brian
One member joined the meeting in progress:	
Coltharp, Jim	
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 and Libraries Division	
Others present for the meeting:	
Name	Company
Davis, Craig	USAC
Davis, Ta'Nea	USAC
Faunce, Donna	USAC
Gallant, Pam	USAC
Garnett, Paul	FCC

Khan, Sameer	USAC
Howard, Cathy	USAC
Majcher, Karen	USAC
Miller, Linda	USAC
Parry, John	NECA
Scott, Wayne	USAC
Trew, Anne Marie	USAC

ACTION ITEMS:

- a1. Annual Election of Officers and Committee Chairs and Vice Chairs.** Ms. Parrino reported to the Board the nominations for officers and Committee Chairs and Vice Chairs as recommended by the Nominating Committee and the respective programmatic Committees. However, she said that no nominations for Treasurer had yet been put forth. Mr. Jortner was then nominated Treasurer. Ms. Parrino recommended that the Board elect Mr. Robert Haga, USAC Vice President of Strategic Planning & USAC Operations, as Assistant Secretary in an effort to align the responsibilities for USAC corporate records under one person. She said that the Vice President of Strategic Planning & USAC Operations is currently responsible for all corporate records, including the records retention policy and the safe keeping of confidential materials, and therefore recommended that the Board elect Mr. Haga as Assistant Secretary.

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. Wayne Jortner** as Treasurer; **Mr. Robert Haga** as Assistant Secretary; and **Mr. Mark Carmichael** as Assistant Treasurer for the term of one year that shall begin at the conclusion of the January 2003 quarterly Board meeting and that shall conclude at the close of the January 2004 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. Kevin Hess** 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 2003 quarterly Board meeting and that shall conclude at the close of the January 2004 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. Jimmy Jackson** 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 2003 quarterly Board meeting and that shall conclude at the close of the January 2004 quarterly Board meeting; and,

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendations of the USAC Schools & Libraries Committee to elect **Dr. Brian Talbott** as Chair and **Ms. Anne Bryant** as Vice Chair of the USAC Schools & Libraries Committee for the term of one year that shall begin at the conclusion of the January 2003 quarterly Board meeting and that shall conclude at the close of the January 2004 quarterly Board meeting; and,

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendations of the USAC Audit Committee to elect **Mr. Ed Eichler** as Chair and **Ms. Anne Campbell** as Vice Chair of the USAC Audit Committee for the term of one year that shall begin at the conclusion of the January 2003 quarterly Board meeting and that shall conclude at the close of the January 2004 quarterly Board meeting.

- 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 22, 2002, and Monday, December 16, 2002.
- a3. **Reports from the Committee Chairs.** Each of the Chairs of the programmatic Committees reported on the issues discussed and the action taken within each Committee since the October 2002 quarterly meetings, respectively: Dr. Talbott - Schools & Libraries Committee; Mr. Lubin - High Cost & Low Income Committee; Dr. Sanders - Rural Health Care Committee; Mr. Eichler - Audit 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.
- a4. **Board of Directors Photo Shoot.** Mr. Blackwell distributed a rough draft of the USAC 2002 Annual Report and requested comments be sent to him by February 7, 2003. He said that a group picture would not be necessary for the report as he is planning on inserting individual pictures rather than a group picture in the report.
- a5. **Adoption of a Resolution to Honor Mr. Isiah Lineberry.** Ms. Parrino reviewed the proposed resolution and letter commemorating Mr. Isiah Lineberry's service on the USAC Board of Directors and as a charter member of the Board of Directors of the former Rural Health Care Corporation. Mr. Lineberry's term ended December 31, 2002. Dr. Sanders echoed Ms. Parrino's sentiments.

The Board **DIRECTED** USAC staff to send Mr. Lineberry a copy of the resolution along with a plaque commemorating his service as a founding member of the USAC Board.

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

RESOLVED, That the USAC Board of Directors hereby expresses its profound appreciation to Mr. Isiah Lineberry for his service on the Boards of Directors for the Universal Service Administrative Company and the Rural Health Care Corporation, respectively, and wishes him the best in his future endeavors.

- a6. **Approval of January 2004 - January 2005 Board of Directors Quarterly Meeting Schedule.** Ms. Howard reviewed the proposed schedule of quarterly Board and committee meetings through January 2005. She noted that USAC staff is recommending a change to the established January 2004 meeting dates to a week later, which in turn would move the due dates for drafting and finalizing issue papers to after the first of the year, in an effort to alleviate having to prepare issue papers over the holiday season.

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 January 2004 - January 2005:

Executive Committee	Programmatic Committees & Board of Directors
January 22, 2004	January 26 & 27, 2004
April 15, 2004	April 19 & 20, 2004
July 15, 2004	July 19 & 20, 2004
October 14, 2004	October 18 & 19, 2004
January 20, 2005	January 24 & 25, 2005

- a7. Review of the Board Meeting Attendance Policy.** Mr. Gumper reviewed the history of the Board's current Meeting Attendance Policy. He reminded the Board that the policy only applies to quarterly Board meetings, members are allowed to participate by phone, excused absences are at the discretion of the Chair, and USAC cannot remove a Board member found in violation of the policy, because only the FCC Chair has the authority to remove a USAC Board member.

After discussion among the Board, the consensus was to leave the current policy in place but to **DIRECT** the CEO to review the policy with new Board members during orientation. The sense of the Board was that attendance problems at the Committee level would be addressed on a case-by-case basis by the Committee chairs. The Board also determined that although some felt it more productive if members participated in person for the meetings, the USAC By-laws clearly state that participation by telephone is acceptable and that by allowing telephone participation, the Board is supporting one of the goals of the Universal Service Support Mechanisms, which is to connect people through telecommunications services. No action was taken on this item.

- a8. Approval of Audit Committee Charter.** Ms. Parrino recalled for the Committee that when the USAC Board of Directors formed the Audit Committee on December 16, 2002, USAC management proposed to create an Audit Committee Charter to define the role, responsibilities, and reporting structure of the new Committee. She said that USAC staff developed the draft Audit Committee Charter based on "best practices" in the industry. She pointed out two changes to the Board's initial thinking regarding the charter: (1) instead of requiring that the two at-large members have a background in financial reporting, accounting, auditing, or other financial expertise, the language now states that at least one of any of the five members of the Committee should have this background, and (2) added independent requirements for Audit Committee membership that address previous or current employment with USAC and possible family relationships with members of USAC management. Ms. Parrino said that the Audit Committee accepted the proposed Audit Committee Charter as presented.

After discussion among the Board, the Board determined to postpone approval of the Audit Committee Charter and **DIRECTED** USAC staff to revise the charter based on Board member comments, including the following: (1) clearly define "accept" versus "approve" when used in a resolution "accepting" or "approving" audit reports; (2) more thoroughly detail the relationship between the programmatic committees and the Audit Committee, including the role of each regarding audit responsibilities, audit report review, and audit report approval; (3) clarify the budget authority of the Audit Committee; (4) clarify standards for other Board member attendance at Executive Sessions of the Audit Committee; and (5) review the charter to determine if the

directives cover both programmatic and financial audits that may be performed by or for USAC. No action was taken on this item.

In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in Executive Session, and at the direction of Mr. Gumper, Mr. Barash explained that USAC staff recommends that discussion of confidential and proprietary agenda items aBOD09, aBOD10, aBOD13, aBOD14_02, and aBOD14_03 be conducted in Executive Session for the following reasons:

- a9. Approval of Course of Action Regarding USAC's Contract for Billing, Collection, Disbursement, and Other Financial Services - Confidential & Proprietary - Executive Session.** Discussion of this matter-which relates to USAC's procurement strategy and contract negotiations-in open session would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund.
- a10. Approval of Proposed USAC Washington Office Space Plan and Authorization to Enter into a Lease - Confidential & Proprietary - Executive Session.** Discussion of this matter-which relates to USAC's procurement strategy and contract negotiations-in open session would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund.
- a13. Board of Directors Governance Matters - Confidential & Proprietary - Executive Session.** Discussion of this matter-which, among other things, relates to issues regarding the fiduciary obligations of Board of Directors members upon which the Board has consulted with and sought the advice of counsel-in open session would compromise the continued applicability of the attorney-client privilege.
- a14. Miscellaneous.**

_02. Authorization to Sign Memorandum of Understanding with FCC Inspector General and the Department of the Interior Inspector General Regarding Audits of Beneficiaries and Approval of Necessary Budget Increase - Confidential & Proprietary - Executive Session. 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. This matter also concerns USAC's audit plans, the disclosure of which could compromise program integrity. Moreover, certain matters discussed in this document implicate the attorney-client privilege; therefore, they should not be discussed in open session.

_03. Settlement of Bankruptcy Claim - Confidential & Proprietary - Executive Session. Discussion of this matter-which is about a settlement offer of a claim pending in bankruptcy court and involves matters that are subject to the attorney-client privilege-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 agenda items aBOD09, aBOD10, aBOD13, aBOD14_02, and aBOD14_03 shall be conducted in *Executive Session*.

See *Executive Session* for a report of discussion and action taken on each of these items.

a12. Approval of 2nd Quarter 2003 Revenue Projections and Resolutions for the February 28, 2003, FCC Filing. Mr. Carmichael reported that staff would be incorporating the recent contribution base methodology changes ordered by the FCC into calculation of the Universal Service Fund contribution base. He stated that the contribution factor was maintained at approximately 7.3 percent for the 1st Quarter 2003 and that approximately \$246 million in unused Schools and Libraries Support Mechanism funds were used to offset collections. However, Mr. Carmichael noted that pursuant to FCC order the 1st Quarter 2003 was the last quarter that unused funds would be used. This will result in a likely increase to the contribution factor for 2nd Quarter 2003.

Board members expressed concern that if the contribution base increases dramatically, there could be negative consequences with contributors and **DIRECTED** USAC staff to develop a communication and education strategy to address that issue.

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 January 23, 2003, a summary of the current status of the February 28, 2003, FCC filing requirements, accepts the recommendation of the USAC Executive Committee to authorize staff to proceed with the required February 28, 2003, filing to the FCC on behalf of USAC using a preliminary estimate of \$18,774.078 million for the contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

a14. Miscellaneous.

_01. Board of Directors Survey. Mr. Gumper reminded the Board members to complete the survey and return it to Ms. Howard.

Information Items

ii. Report of Legislative and Media Activity. Mr. Blackwell reported that the 107th Congress had adjourned resulting in all pending legislation dying. To date, there were no bills introduced affecting the Universal Service Fund from the 108th Congress.

He then discussed media activity and reviewed several recent media reports concerning the integrity of the Schools and Libraries Support Mechanism. The Board discussed the media reports and their potential impact on the Universal Service Fund. Ms. Parrino asked to revisit this item during Executive Session, specifically the issues raised in the media articles, because further discussion of this matter in open session would result in public disclosure of confidential techniques and procedures that would compromise the integrity of the administration of the universal service support mechanisms. She also suggested that the Board form an ad hoc committee to further address the issues raised in the media reports. The Board agreed. Ms. Buller, Mr. Coltharp, Ms. Cornell, Mr. Gumper, Mr. Lubin, Ms. Parrino, and Dr. Talbott volunteered to serve on the committee.

i2. Assistant Treasurer's Report. For information only. No discussion held.

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

- i4. Report on Accounts Receivable Delinquent Over 30 Days and Collection Efforts.** For information only. No discussion held.
- i5. Disposition of Administrator Appeals by USAC Staff.** For information only. No discussion held.
- i6. Report on Pending Litigation and Bankruptcy Matters.** For information only. No discussion held.
- i7. Update on Universal Service Support Mechanisms Enforcement Activity.** For information only. No discussion held.
- i8. USAC Organization Chart.** For information only. No discussion held.
- i9. USAC Timeline and Key Dates.** For information only. No discussion held.
- i10. Miscellaneous.** None.

AUDIT COMMITTEE

- i11. Status Report on USAC Audits.** For information only. No discussion held.
- i12. 2003 USAC Internal Audit Plan.** For information only. No discussion held.
- i13. Internal Audit Division Report on the 2002 Internal Audit Plan.** For information only. No discussion held.

HIGH COST & LOW INCOME COMMITTEE

- i14. High Cost and Low Income Support Mechanisms Update.** For information only. No discussion held.
- i15. Review of Annual 2003 and 2nd Quarter 2003 High Cost and Low Income Programmatic Budgets.** For information only. No discussion held.
- i16. Review of 2nd Quarter 2003 High Cost and Low Income Support Mechanisms Projections and Resolution on the January 31, 2003, 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 2003 and 2nd Quarter 2003 Rural Health Care Programmatic Budgets.** For information only. No discussion held.

i19. Review of 2nd Quarter 2003 Rural Health Care Support Mechanism Projections and Resolution on the January 31, 2003, 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 Annual 2003 and 2nd Quarter 2003 Schools and Libraries Programmatic Budgets. For information only. No discussion held.

i22. Review of 2nd Quarter 2003 Schools and Libraries Support Mechanisms Projections and Resolution on the January 31, 2003, FCC Filing. For information only. No discussion held.

At 11:52 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 12:08 p.m. Ms. Howard called the roll at the request of the Chair.

Fifteen of the nineteen members were present, representing a quorum:	
Buller, Karen - <i>by telephone</i>	Hess, Kevin
Campbell, Anne	Hughes, Alison
Coltharp, James	Jackson, Jimmy - Secretary
Conn, David	Lubin, Joel - Vice Chair
Cornell, Diane	Parrino, Cheryl
Davis, Fr. Bill	Sanders, Dr. Jay
Eichler, Ed - Treasurer	Talbott, Dr. Brian
Gumper, Frank - Chair	
Three members joined the meeting in progress:	
Jortner, Wayne	Sanford, Jo Anne
Rivera, Robert	
One member was absent:	
Bryant, Anne	

Executive Session

Board members Ms. Sanford and Mr. Rivera joined the meeting during the discussion of the following item:

a9. Approval of Course of Action Regarding USAC's Contract for Billing, Collection, Disbursement, and Other Financial Services - Confidential & Proprietary - Executive Session. Mr. Carmichael reviewed the history of USAC's contract with PricewaterhouseCoopers Consulting (PwCC) for billing, collection, disbursement, and other financial functions related to administration of the Universal Service Fund; the acquisition of PwCC by IBM Corporation and subsequent assignment of the contract to

IBM Corporation; and the conflict of interest issues created by the fact that IBM is both a USAC contractor and a recipient of substantial funding through the Schools and Libraries Support Mechanism. Mr. Carmichael described various options and recommended a course of action for USAC to take regarding this matter. Mr. Carmichael noted that a new resolution was being proposed to address the budget increase necessary to implement the recommended course of action. The Board discussed the various options and amended the added resolution to correct the amount of the proposed budget increase.

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

RESOLVED, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee and approves the course of action proposed by staff regarding the performance of billing, collection, and other services associated with the administration of the Universal Service Fund; and

RESOLVED FURTHER, That the USAC Board of Directors approves an increase in the USAC budget of \$5,411,826 for one time costs and \$5,550,600 recurring annual costs in association with the approval of the course of action proposed by staff regarding the performance of billing, collection, and other services associated with the administration of the Universal Service Fund.

a14. Miscellaneous.

_03. Settlement of Bankruptcy Claim - Confidential & Proprietary - Executive Session. Mr. Barash reviewed the details of the settlement of a bankruptcy claim and the recommended course of action.

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

RESOLVED, That the USAC Board of Directors authorizes, pending FCC consent, USAC staff to accept the proposed settlement of the unsecured proof of claim in the pending bankruptcy proceeding involving Viatel, Inc. as presented at the January 23, 2003, Board of Directors meeting.

Board members Mr. Coltharp, Mr. Hess, Mr. Lubin, and Ms. Sanford left the meeting at this point.

a10. Approval of Proposed USAC Washington Office Space Plan and Authorization to Enter into a Lease - Confidential & Proprietary - Executive Session. Mr. Haga reviewed the options and recommended course of action for office space for USAC in Washington, DC.

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 course of action proposed by USAC management regarding the office space needs for the USAC Washington office.

Board member Mr. Jortner joined the meeting during discussion of the following item.

a14. Miscellaneous.

_02. Authorization to Sign Memorandum of Understanding with FCC Inspector General and the Department of the Interior Inspector General Regarding Audits of Beneficiaries and Approval of Necessary Budget Increase - Confidential & Proprietary - Executive Session. Ms. Parrino explained that the FCC has directed USAC to sign a Memorandum of Understanding (MOU) in which USAC agrees that the Department of the Interior's Office of Inspector General would conduct audits of schools under its jurisdiction that have received Schools and Libraries Support Mechanism funds and that the costs of those audits would be borne as an administrative expense of USAC. The Board expressed its strong support for taking aggressive steps to deter, detect, and disclose waste, fraud, and abuse in the Schools and Libraries Support Mechanism and reiterated that audits are critical to the overall ability to protect against waste, fraud, and abuse as evidenced by the large budgetary commitment USAC continues to make to auditing beneficiaries. However, as in the Executive and Schools & Libraries Committee quarterly January 2003 meetings, Board members raised several concerns about this arrangement, including the perception that the proposed agreement could be viewed as targeting Native American beneficiaries in a way that might seem disproportionate from how other schools and libraries across the country are audited, as well as the view that certain members of the American Indian community have great skepticism of the Bureau of Indian Affairs and giving audit responsibility to the Department of Interior Inspector General may increase the level of concern. The Board voted to approve entering into the MOU, but requested that the Chair communicate the Board's concerns to the FCC. The Board called for a roll call vote.

On a motion duly made and seconded, the Board adopted the following resolutions *as amended (in italics and strikeout)*. The vote count was as follows: YES = 7; NO = 5. Mr. Eichler and Mr. Jortner abstained.

RESOLVED, that the USAC Board of Directors hereby authorizes USAC management *to comply with the FCC directive* to enter into a proposed Memorandum of Understanding between USAC, the Department of Interior Inspector General, and the FCC Inspector General to conduct reviews of certain Schools and Libraries Support Mechanism beneficiaries in federal fiscal year 2003; and

RESOLVED FURTHER, *that the USAC Board of Directors approves an increase of \$500,000 in the 2003 annual programmatic budget for the Schools and Libraries Support Mechanism to cover the anticipated costs of a Memorandum of Understanding between the USAC, the Department of Interior Inspector General, and the FCC Inspector General; and,*

RESOLVED FURTHER, *that the USAC Board of Directors approves an increase of \$167,000 in the 2nd Quarter 2003 programmatic budget for the Schools and Libraries Support Mechanism to cover the anticipated costs in the 2nd Quarter 2003 of a Memorandum of Understanding between the*

USAC, the Department of Interior Inspector General, and the FCC Inspector General.

a13. Board of Directors Governance Matters - Confidential & Proprietary - Executive Session. Mr. Gumper announced that due to the unexpected length of the Board meeting, he suggested that the Board postpone this item until the Board's April 2003 quarterly meeting. The Board agreed.

The Board adjourned from Executive Session and reconvened in open session at 1:52 p.m. to report the discussions and actions of the Board during Executive Session and to continue with other agenda items in open session.

Board member Ms. Campbell left the meeting at this point.

a11. Approval of Annual 2003 and 2nd Quarter 2003 USAC Common and Consolidated Budgets. Mr. Carmichael distributed a supplement of the revised budget numbers to reflect increases that affect both the annual 2003 and 2nd Quarter 2003 USAC consolidated budgets as approved at the respective 2003 January quarterly meetings. These include the changes discussed in agenda items #aBOD09 and #aBOD14_02 reflected in these minutes and the change discussed in agenda item #aSL07_02 of the USAC Schools & Libraries Committee minutes of January 22, 2003.

On a motion duly made and seconded, the Board adopted the following resolutions *as amended (in italics)*. Ms. Buller voted no due to the concerns expressed in agenda item #aBOD14_02.

RESOLVED, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve an annual 2003 USAC common budget of \$6,939,500; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 2nd Quarter 2003 USAC common budget of \$1,835,200; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve an annual 2003 USAC consolidated budget of \$63,595,438; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 2nd Quarter 2003 USAC consolidated budget of \$18,299,466.

There being no further business, Mr. Gumper adjourned the meeting at 2:00 p.m.

Robert W. Haga
Assistant Secretary

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

April 24, 2003

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 Thursday, April 24, 2003. Mr. Frank Gumper, Chair of the Board, called the meeting to order at 8:01 a.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the USAC CEO, called the roll.

Fifteen of the nineteen members were present, representing a quorum:	
Bryant, Anne - <i>by telephone</i>	Jackson, Jimmy – Secretary
Buller, Karen - <i>by telephone</i>	Jortner, Wayne – Treasurer
Conn, David	Lubin, Joel – Vice Chair – <i>by telephone</i>
Cornell, Diane	Parrino, Cheryl
Eichler, Ed	Sanders, Dr. Jay
Gumper, Frank – Chair	Sanford, Jo Anne – <i>by telephone</i>
Hess, Kevin	Talbott, Dr. Brian
Hughes, Alison	
Three members joined the meeting in progress:	
Campbell, Anne	Rivera, Robert
Coltharp, James	
One member was absent:	
Davis, Fr. Bill	
Officers of the Corporation present:	
Barash, D. Scott - Vice President and General Counsel	
Blackwell, Mel - VP, External Communications and Rural Health Care Division	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George - VP, Schools and Libraries Division	
Others present for the meeting:	
Name	Company
Alco, John	USAC
Carroll, Kristy	USAC
Davis, Ta'Nea	USAC
Gallant, Pam	USAC
Garnett, Paul	FCC
Howard, Cathy	USAC
Majcher, Karen	USAC
Marshall, Debra	USAC

Miller, Linda	USAC
Panton, Marci	NECA
Scott, Wayne	USAC
Trew, Anne Marie	USAC

ACTION ITEMS:

- a1.** Approval of the Minutes. On a motion duly made and seconded, the Board approved the minutes as distributed of the meeting of Thursday, January 23, 2003.

Board member Ms. Campbell joined the meeting during the following item.

- a2.** Reports from the Committee Chairs. Each of the Chairs of the programmatic Committees reported on issues discussed and action taken within each Committee since the January 2003 quarterly meetings, respectively: Mr. Eichler reported on the Audit Committee meetings of April 17 and 23, 2003; Mr. Hess reported on the High Cost & Low Income Committee meeting of April 23, 2003; Dr. Sanders reported on the Rural Health Care Committee meeting of April 23, 2003; Dr. Talbott reported on the Schools & Libraries Committee meetings of March 28, 2003 and April 14 and 23, 2003; and Mr. Gumper reported on the Executive Committee meetings of April 1 and 17, 2003. The minutes of each Committee meeting provide a full accounting of the discussions and actions taken by the Committees.

In addition, Dr. Talbott discussed an FCC order approved on April 23, 2003, in which the FCC takes steps to improve the operation of the Schools and Libraries Universal Service Support Mechanism, while improving oversight over the support mechanism.

Dr. Talbott then requested an opportunity to report in **Executive Session** on a matter discussed at the April 23, 2003, Schools & Libraries Committee meeting. 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 involves discussion of the details of specific participants' requests for universal service support, the disclosure of which in open session would compromise program integrity and/or reveal trade secrets or commercial or financial information obtained from the specific applicant.

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

RESOLVED, That the USAC Board of Directors determines that discussions of pending Schools and Libraries Support Mechanism applications shall be conducted in **Executive Session**.

See **Executive Session** for a report of the discussion on this item.

- a3. Approval of the Audit Committee Charter.** Mr. Scott, Director of USAC Internal Audit, recalled for the Board that the USAC Audit Committee had presented the Audit Committee Charter to the Board at its January 23, 2003, meeting, but that the Board requested revisions. Mr. Scott reported that in accordance with Board direction, revisions have been made regarding the roles and responsibilities of the Committee, budgetary authority of the Committee, and the attendance policy for **Executive**

Sessions of the Committee. Mr. Scott reviewed item number V.A.3. of the Charter regarding the attendance policy. The Board determined to keep the item numbered V.A.3. in the Charter but **DIRECTED** that the words' "FOR DISCUSSION" be struck.

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

RESOLVED, That the USAC Board of Directors accepts the USAC Audit Committee's recommendation to approve the proposed revised Audit Committee Charter.

- 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 this matter should be conducted 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.

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

RESOLVED, That the USAC Board of Directors determines that discussion of its agreement with NECA to perform the universal service contributor revenue data collection shall be conducted in **Executive Session**.

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

Board member Mr. Coltharp joined the meeting during the following item:

- a5. Approval of the 3rd Quarter 2003 and Revised 2003 Annual USAC Common and Consolidated Budgets.** Mr. Carmichael explained that staff is recommending an increase in the annual budget to cover expenses associated with responding to the recent Congressional inquiry regarding the Schools and Libraries Support Mechanism and that the increase in the 3rd Quarter 2003 budget compared to 3rd Quarter 2002 is due to transitioning the billing, collection, and disbursement functions in-house.

Members of the Board expressed concern over the increasing consolidated budget. Mr. Carmichael explained that some of the costs of the transition of the billing, collection, and disbursements functions in-house are one-time costs and that recurring costs for the function are estimated at \$5 million per year. However, he stated that USAC's goal is to bring down those costs over time as USAC staff becomes more familiar and proficient at performing this service. Mr. Gumper reassured the Board that USAC staff carefully assesses the options for processing each component of the universal service support mechanisms and evaluates both the short- and long-term costs of performing work in-house versus outsourcing. He also reminded the Board that when USAC first started business it did not do all the tasks it does today. He noted, for example, that USAC's costs associated with audits have increased considerably over time, which has driven up the budget considerably. In response to an inquiry regarding USAC office space and rent, Mr. Haga explained that the USAC Space Team investigated purchasing a building rather than leasing, but that in order to justify buying over leasing, USAC would need to find a building in which it could occupy a substantial portion of the building, and USAC is not big enough to do that yet.

The Board's concerns regarding the rising administrative budget led the Board to **DIRECT** USAC staff to: (1) closely monitor every budget change, making special note of those increases that are a result of specific FCC action, and (2) continue to present changes to the budget to the Board for approval as the directives occur rather than estimating costs of possible changes and adding them to the budget before the directive has been given.

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 revised annual 2003 USAC common budget of \$10,484,600; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 3rd Quarter 2003 USAC common budget of \$3,639,900; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a revised annual 2003 USAC consolidated budget of \$63,945,600; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 3rd Quarter 2003 USAC consolidated budget of \$16,566,400.

- a6. Approval of 3rd Quarter 2003 Revenue Projections and Resolutions for the May 30, 2003, FCC Filing.** Mr. Carmichael reported that consistent with staff expectations, the contribution factor for the 3rd Quarter 2003 is projected to increase from the 9.1 percent 2nd Quarter 2003 figure.

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 April 24, 2003, a summary of the current status of the May 30, 2003, FCC filing requirements, accepts the recommendation of the USAC Executive Committee to authorize staff to proceed with the required May 30, 2003, filing to the FCC on behalf of USAC using a preliminary estimate of \$18,655.081 million for the contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

- a7. Strategic Planning Input from Board Members.** Mr. Gumper deferred this item until the last item of the meeting. See below after Executive Session.

- a8. Board of Directors Governance Matters – 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 matter be conducted in **Executive Session** because discussion of specific internal controls, and/or confidential company data could result in disclosure of confidential techniques and procedures that would compromise the integrity of the administration of the universal service support mechanisms. In addition, certain matters discussed in this document relate to USAC's procurement strategy and contracts, and public disclosure of the matters discussed in this paper would compromise USAC's procurement 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 in order to maintain the continued applicability of the 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 certain matters regarding corporate governance and corporate fiduciary duties shall be conducted in **Executive Session**.

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

a9. Miscellaneous.

_01. Solicit Ideas for July Committee Agenda. Mr. Gumper reported that Ms. Parrino and he discussed the process for preparing the agendas for the quarterly meetings and decided to include this miscellaneous item on each quarterly agenda. Mr. Gumper said that Board members may offer suggestions for agenda items at each quarterly meeting or by contacting him or Ms. Parrino between quarterly meetings with suggestions.

_02. Approval of Proposed Strategy for Office Space in Washington, DC – 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 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.

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

RESOLVED, That the USAC Board of Directors determines that discussion of entering into negotiations for office space in Washington, DC shall be conducted in **Executive Session**.

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

Information Items

i1. Assistant Treasurer's Report. Mr. Carmichael explained that USAC closes its financial books the fifth working day following the end of the month, so that at the time this issue paper was written, the books had not been closed yet for the first quarter, so the report provides numbers as of February 28, 2003. He further stated that the upcoming implementation of the Debt Collection Improvement Act (DCIA) on July 1, 2003, could positively affect the Fund balance. He explained that under the DCIA, USAC would transfer uncollectible accounts over 90 days to the FCC for collection and then on to the Treasury Department after another 30 days if still outstanding, and ultimately to the Department of Justice for final collection efforts. Mr. Carmichael said that delinquent carriers will be notified of the new collection process before implementation and he anticipates that the letters alone will result in a reduction in the number of delinquent accounts. He further stated that in over 99 percent of delinquent cases, USAC has been able to collect the outstanding funds within 180 days. A Board member asked Mr. Carmichael whether the DCIA applies only to carrier delinquencies or if it also applies to

USAC's efforts to recover overpayment because of applicant or other error. Mr. Carmichael responded that the initial implementation contemplated only contribution delinquencies; however he said that staff has been and would continue its discussions of this issue with the FCC.

- i2. Status of IBM Billing, Collection, and Disbursement Contract.** Mr. Carmichael reported that the transition of the billing, collection, and disbursements functions in-house is on schedule and within budget. He stated that Phase I was completed on April 14 as scheduled. He said that the FCC has requested that a status report on this issue be sent to the FCC by May 1, 2003. He reiterated that the risks are significant and assured the Board that staff is making every effort to mitigate those risks.
- i3. Report of Legislative and Media Activity.** Mr. Blackwell reported that USAC has responded in full to the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight inquiry concerning the Schools and Libraries Support Mechanism. He said that USAC staff remains available to members of the Congressional committee to answer questions regarding the material provided to the committee. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that certain details of this matter be discussed in **Executive Session** because discussion of specific requests for Schools and Libraries Support Mechanism funding, and discussion of internal controls, and/or confidential company data could result in disclosure of confidential techniques and procedures, would compromise the integrity of the administration of the universal service support mechanisms.

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

RESOLVED, That the USAC Board of Directors determines that discussion of certain matters regarding USAC's response to the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight's, inquiry concerning the Schools and Libraries Support Mechanism shall be conducted in **Executive Session**.

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

Mr. Blackwell also reported that the Senate Commerce Committee Subcommittee on Communications held a hearing on the current state of the Universal Service Fund on April 2, 2003. Mr. Blackwell said that media interest has been steady but low regarding these issues.

- i4. Regulatory Report.** For information only. No discussion held.
- i5. Report on Pending Litigation and Bankruptcy Matters.** Mr. Barash informed the Board of two new items. First, on April 22, 2003, USAC received a notice of a lawsuit related to the bankruptcy of Actel. Mr. Barash said that this case is similar to other matters that USAC has been able to resolve successfully. Second, Mr. Barash reported that on April 23, 2003, USAC received a copy of a subpoena addressed to Arthur Andersen LLP that seeks certain information regarding audits of USAC performed by Arthur Andersen in 1999 and 2000. Mr. Barash said that the underlying litigation in this matter appeared to be a class action lawsuit against certain telecommunications providers concerning the Universal Service Fund charges assessed against their customers. He said that USAC staff is working through the issue with both counsel for Arthur Andersen and counsel for the plaintive. Mr. Barash said that he would keep the Board informed on both matters as circumstances warranted.

- i6. Update on Universal Service Support Mechanisms Enforcement Activity.** For information only. No discussion held.
- i7. Disposition of Administrator Appeals by USAC Staff.** For information only. No discussion held.
- i8. Board of Directors Survey Results and Proposed Staff Response.** For information only. No discussion held.
- i9. Miscellaneous.** None.

AUDIT COMMITTEE

i10. Report of the Financial Audit of the FCC for the Year Ending September 30, 2002. Ms. Parrino noted that this year, as in past years, the FCC has received a clean audit opinion regarding the Universal Service Fund from the FCC’s independent auditors. However, she stated that there are two issues that have recurred in these reports since the FCC began including the USF in the FCC financial statements: (1) To what extent is the Fund considered public monies and for what purpose, and (2) What accounting rules should be followed by the Fund? Mr. Gumper said that presently FCC rules mandate that USAC use Generally Accepted Accounting Principles (GAAP).

- i11. Status Report on USAC Audits.** For information only. No discussion held.
- i12. Status Report on Actions Taken on Final Audits.** For information only. No discussion held.
- i13. Review of the Revised 2003 USAC Internal.** For information only. No discussion held.

PROGRAMMATIC COMMITTEES

- i14. Review of the Revised Annual 2003 and 3rd Quarter 2003 Programmatic Budgets.** For information only. No discussion held.
- i15. Review of 3rd Quarter 2003 High Cost, Low Income, Rural Health Care, and Schools and Libraries Support Mechanisms Projections for the May 2, 2003, Demand Estimate Filing with the FCC.** For information only. No discussion held.

At 9:18 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 Chair then recessed the meeting. At the call of the Chair, the Board reconvened in **Executive Session** at 9:30 a.m. Ms. Howard called the roll at the request of the Chair.

Seventeen of the nineteen members were present, representing a quorum:	
Bryant, Anne	Hughes, Alison
Buller, Karen	Jackson, Jimmy – Secretary
Campbell, Anne	Jortner, Wayne – Treasurer
Coltharp, James	Lubin, Joel – Vice Chair – <i>by telephone</i>

Conn, David	Parrino, Cheryl
Cornell, Diane	Sanders, Dr. Jay
Eichler, Ed	Sanford, Jo Anne – <i>by telephone</i>
Gumper, Frank – Chair	Talbott, Dr. Brian
Hess, Kevin	
One member joined the meeting in progress:	
Rivera, Robert	
One member was absent:	
Davis, Fr. Bill	

Executive Session

a9. Miscellaneous.

_02. Approval of Proposed Strategy for Office Space in Washington, DC – Confidential & Proprietary – Executive Session. Mr. Haga reviewed the options and recommended course of action for office space for USAC in Washington, DC.

On a motion duly made and seconded, the Board adopted the following resolution as revised (in ~~strikeout~~ and underline):

RESOLVED, That the USAC Board of Directors ~~accepts the recommendation of the USAC Executive Committee and~~ authorizes USAC’s CEO to enter into a ten-year lease for the rental of office space ~~professional activities~~ at 2000 L Street, N.W., Washington, DC. Such authority is contingent upon negotiation of acceptable lease terms and conditions.

i3. Report of Legislative and Media Activity – Confidential & Proprietary – Executive Session. Mr. Blackwell and Mr. Barash answered questions and discussed the materials that were presented to the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight, in response to an inquiry concerning the Schools and Libraries Support Mechanism.

a4. Approval of Universal Service Contributor Revenue Data Collection Contract – Confidential & Proprietary – Executive Session. Mr. Carmichael reviewed the options and recommended course of action for the data collection agent function performed by USAC through a contract with NECA.

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 extending the current contract or entering into a new contract with the National Exchange Carrier Association, Inc., to perform support services associated with universal service contributor revenue data collection, for a term ending on December 31, 2004.

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

a8. Board of Directors Governance Matters – Confidential & Proprietary – Executive Session. The Board had a discussion on corporate governance matters and corporate fiduciary duties, and requested that USAC staff seek further legal advice

regarding these matters.

The Chair called a recess at 11:17 a.m. At the call of the Chair, the Board reconvened in Executive Session at 11:21 a.m.

a2. Reports from the Committee Chairs – Confidential & Proprietary – Executive Session. Dr. Talbott reported on the status of certain outstanding Schools and Libraries Support Mechanism applications. Board members Mr. Conn and Mr. Rivera recused themselves due to potential business conflicts with the applicants under discussion and left the room during the discussion.

The Board adjourned from Executive Session and reconvened in open session at 11:58 a.m. to report the discussions and actions of the Committee during Executive Session.

ACTION ITEM:

a7. Strategic Planning Input from Board Members. Mr. Haga asked that the Board members divide themselves into three groups for group discussions and input on USAC strategic planning.

There being no further business, Mr. Gumper adjourned the meeting at 12:25 p.m.

Robert W. Haga
Assistant Secretary

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

July 22, 2003

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 22, 2003. Mr. Gumper, Chair of the Board, called the meeting to order at 8:01 a.m. Eastern Time. Ms. Howard, Executive Assistant to the CEO, called the roll.

Sixteen of the nineteen members were present, representing a quorum:	
Bryant, Anne	Hess, Kevin
Buller, Karen - <i>by telephone</i>	Jackson, Jimmy – Secretary
Campbell, Anne	Jortner, Wayne – Treasurer
Conn, David	Lubin, Joel – Vice Chair
Cornell, Diane	Parrino, Cheryl
Davis, Fr. Bill	Sanders, Dr. Jay – by telephone
Eichler, Ed	Sanford, Jo Anne
Gumper, Frank – Chair	Talbott, Dr. Brian
One member joined the meeting in progress:	
Coltharp, James	
Two members were absent:	
Hughes, Alison	Rivera, Robert
Officers of the Corporation present:	
Barash, D. Scott - Vice President and General Counsel	
Blackwell, Mel - VP, External Communications and Rural Health Care Division	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George - VP, Schools and Libraries Division	
Others present for the meeting:	
Name	Company
Davis, Ta'Nea	USAC
Franklin, Karen	FCC
Gallant, Pam	USAC
Howard, Cathy	USAC
Miller, Linda	FCC
Panton, Marci	USAC
Parry, John	NECA
Scott, Wayne	USAC
Stevenson, Mark	Send Technologies LLC

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 Thursday, April 24, 2003.
- a2. **Reports from the Committee Chairs.** Each of the Chairs of the USAC programmatic Committees reported on issues discussed and action taken within each Committee since the April 2003 quarterly meetings: Mr. Eichler reported on the Audit Committee meetings of July 17 and 23, 2003; Mr. Hess reported on the High Cost & Low Income Committee meetings of June 24 and July 21, 2003; Mr. Jackson on behalf of Dr. Sanders reported on the Rural Health Care Committee meeting of July 21, 2003; Dr. Talbott reported on the Schools & Libraries Committee meetings of June 12, June 20, July 11, and July 21, 2003; and Mr. Gumper reported on the Executive Committee meeting of July 17, 2003. Dr. Talbott noted that the action taken on July 11 by the Schools & Libraries Committee needs to be reconsidered by the Committee and that they would do so today after the Board meeting. The minutes of each Committee meeting provide a full accounting of the discussions and actions taken by the Committees.

Dr. Talbott then requested an opportunity to report in **Executive Session** on a matter discussed at the July 21, 2003, Schools & Libraries Committee meeting regarding Schools and Libraries Support Mechanism applications under review. 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 involves discussion of a matter of *investigatory records or pending or contemplated enforcement action* against participants of the universal service support mechanisms, the disclosure of which could compromise law enforcement efforts.

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

RESOLVED, That the USAC Board of Directors determines that discussions of Schools and Libraries Support Mechanism applications under review shall be conducted in Executive Session.

See **Executive Session** for a report of the discussion on this item.

- a3. **Action on USAC 2002 Financial Audit and Agreed Upon Procedures Review.** Ms. Parrino introduced this item and said that the USAC Audit Committee approved the recommendations to the USAC Board of Directors at its quarterly meeting on July 21, 2003. Ms. Parrino noted that USAC received a clean audit opinion on its financial statements and that there were no major findings in the agreed upon procedures (AUP) review. Mr. Eichler pointed out that the USAC Board is not provided with an opportunity to review a "clean" copy of the audit reports before they go to the FCC and requested that the Board direct the auditors to send the USAC Board a "clean" copy for review next year before it is submitted to the FCC. The Board so **DIRECTED**. Mr. Eichler also requested that the USAC Board direct USAC staff to determine if it would be more efficient and practical to combine the management response with filed report rather than as a separate attachment. The Board so **DIRECTED**.

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 Audit Committee and directs that the USAC 2002 financial audit report as submitted by Deloitte & Touche LLP be deemed final; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Audit Committee and directs that the USAC 2002 agreed upon procedures review report as submitted by Deloitte & Touche LLP be deemed final; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Audit Committee and authorizes the USAC CEO to submit a management response to Deloitte & Touche LLP, with a copy to the FCC, accepting the USAC 2002 financial audit report and agreed upon procedures review report and committing to take the actions necessary to address the issues that were identified in the agreed upon procedures review report; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Audit Committee and authorizes Deloitte & Touche LLP to file the final USAC 2002 financial audit report and agreed upon procedures review report with the FCC.

a4. Approval of the Procedures for Referring Issues to the USAC Audit Committee.

Mr. Eichler introduced this item and reminded the Board that it was brought to the attention of the USAC Audit Committee at its April 17, 2003, quarterly meeting that USAC needed procedures for referring issues to the Audit Committee. He said that the Audit Committee modified the procedures presented by USAC staff to state that reports on issues referred to the Committee will be provided to the USAC Board of Directors "as appropriate." Mr. Eichler confirmed that (a) anyone may submit the form referring an issue to the Audit Committee; (b) instructions for filing a form are included in the procedures and on the "Request for USAC Audit Committee Review" form; and (c) these procedures were established primarily for internal parties to refer issues; however, when appropriate, issues may also be sent to the Committee via the whistleblower hotline or other means.

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 Audit Committee and approves the "Procedures for Referring Issues to the Audit Committee" and the "Request for Audit Committee Review" form as presented by the Audit Committee, and further directs the USAC Audit Committee to use the procedures and request form in handling issues that are referred to the Committee. USAC staff is authorized to make minor editorial changes to the procedures and form before finalizing.

a5. Assignment of the Rural Health Care and Schools and Libraries Support Mechanisms Services Agreement – 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 this matter relates to USAC's *procurement strategy and contract negotiations*, and public disclosure of this matter would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund. Moreover, certain of these matters 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 assignment of the Rural Health Care and Schools and Libraries Program Services Agreement with the National Exchange Carrier Association, Inc. to NECA Services, Inc. (NSI) shall be conducted in Executive Session.

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

- a6. Approval of Revised USAC Funds Guidelines for Investments.** Mr. Carmichael introduced this item and explained that the USAC Investment Committee had reviewed and revised the *Guidelines* at its May 13, 2003, quarterly meeting. Ms. Parrino clarified that the revisions will conform the *Guidelines* to USAC's investment policies for the last two years, which is to invest in U.S. Government-backed securities only. The revisions also eliminate the limitation to short-term maturities contained in the current *Guidelines*, which will allow USAC to invest in maturities greater than one year but less than two.

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 Investment and Executive Committees to adopt the revised *USAC Funds Guidelines for Investments* as presented by USAC staff and further directs the USAC Treasurer and Assistant Treasurer to adhere to the revised *Guidelines* in managing the Universal Service Fund.

- a7. Authorization to Negotiate Payment Agreements with Contributors.** Mr. Carmichael introduced this item and noted that a revised issue paper was distributed to the Board. Mr. Gumper explained that at its July 17, 2003, quarterly meeting, the USAC Executive Committee determined to revise the recommendation to the Board by reducing the budgeted estimated costs of the payment plan effort from \$500,000 to \$250,000.

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

RESOLVED, That the USAC Board of Directors authorizes USAC staff to enter into payment plans with delinquent Universal Service Fund contributors under established criteria as directed by the FCC; and

RESOLVED FURTHER, That the USAC Board of Directors authorizes USAC staff to proceed with related expenditures of an estimated ~~\$500,000~~ *\$250,000* to cover the costs of implementing contributor payment plans as directed by the FCC. A budget increase in 2003 for this activity will not be required due to the fact that USAC is under budget in other areas.

- a8. Approval of the 4th Quarter 2003 USAC Common and Consolidated Budgets and the Revised 2003 Annual Consolidated Budget.** Mr. Carmichael introduced this item and presented the final budget numbers for consideration. Mr. Gumper explained that the budget numbers are different from what the USAC Executive Committee reviewed and approved at its July 17, 2003, quarterly meeting due to a \$1,000,000 budget increase approved by the USAC Schools & Libraries Committee at its July 21, 2003, quarterly meeting to cover the costs of converting Program Integrity Assurance (PIA) temporary employees to permanent, consolidating the FCC Form 471

review steps, and adding Schools and Libraries Division staff in order to be able to meet certain Schools and Libraries Support Mechanism performance criteria for Funding Year 2004.

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 revised annual 2003 USAC consolidated budget of \$64,970,600, and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 4th Quarter 2003 USAC consolidated budget of \$16,991,600; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 4th Quarter 2003 USAC common budget of \$3,397,200.

- a9. Approval of 4th Quarter 2003 Revenue Projections and Resolutions for the August 29, 2003, FCC Filing.** Mr. Carmichael introduced this item. There were no questions or further discussion.

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 July 22, 2003, a summary of the current status of the August 29, 2003, FCC filing requirements, accepts the recommendation of the USAC Executive Committee to authorize staff to proceed with the required August 29, 2003, filing to the FCC on behalf of USAC using a preliminary estimate of \$18,695.147 million for the contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

- a10. Board of Directors Governance Matters – Confidential & Proprietary – Executive Session.** Mr. Barash explained that the USAC Board of Directors previously directed USAC staff to seek legal advice from outside counsel concerning certain corporate governance and corporate fiduciary duties issues and that legal advice is now ready for Board review. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of these matters regarding corporate governance and corporate fiduciary duties be conducted in **Executive Session** in order to ensure the continued applicability of the *attorney-client privilege*.

A Board member questioned the rationale for **Executive Session**, stating that the legal advice contained in the memo is more a prospective analysis of how to operate as a corporation rather than specific advice pertaining only to USAC. The Board then discussed this matter. Ms. Parrino noted that the Board has been following the guidelines for **Executive Session** since the Board approved the guidelines in October 2002 and that previous discussions concerning legal advice regarding corporate governance issues have been conducted in **Executive Session**. Ms. Bryant called for the vote.

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

RESOLVED, That the USAC Board of Directors determines that discussion of certain matters regarding corporate governance and corporate fiduciary duties shall be conducted in Executive Session.

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

a11. Miscellaneous.

- Solicit Ideas for July Committee Agenda. Mr. Gumper reminded Board members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him or Ms. Parrino between quarterly meetings.

Board member Mr. Conn arrived during discussion of the next agenda item.

Information Items

i1. Assistant Treasurer's Report. Mr. Carmichael reported that the balance of the Universal Service Fund (USF) continues to be approximately \$2.4 billion. He noted that the estimated collection requirement for the USF was less than the actual amount billed to carriers due to the FCC directing USAC staff to round up to two digits on the billing invoices compared to the four digits that USAC staff uses when estimating the collection requirement. He said that the over collection would be included in the prior period true-up for each of the support mechanisms in the fourth quarter 2003 USAC filing with the FCC.

Mr. Carmichael reported that interest rates continue to be low (in the 1 percent range) but now that the Board has approved the revisions to the *USAC Funds Guidelines for Investments* as noted in item a6 above, USAC will be investigating longer-term investments, which should realize better returns.

Mr. Carmichael informed the Board that USAC expects to be directed to convert the USF's accounting system from the current Generally Accepted Accounting Practices (GAAP) to Government Accounting and Auditing Standards perhaps as early as next year. He further clarified that the USF is subject to Government Accounting and Auditing Standards but that USAC is only subject to GAAP. In response to a Board member's concern, Ms. Parrino assured the Board that the difference in the two systems should not cause significant inefficiencies.

i2. Report on Accounts Receivable Delinquent Over 30 Days and on Collection Efforts. For information only. No discussion held.

i3. Status of Financial Operations Transition to USAC. Mr. Carmichael reported that the transition of the billing, collection, and disbursements functions from contractor personnel to USAC staff is going well. Phase 1 is complete and Phases 2-7 are on or ahead of schedule. He said that 30 new employees were hired during the last quarter, with 3 positions left to fill. Mr. Carmichael reported that the caliber of the new employees have exceeded USAC management's expectations. In addition, he reported that USAC staff favorably negotiated a modification to the financial services contract with USAC's current vendor, resulting in an approximately \$1,000,000 savings, thereby allowing USAC to offset other programmatic budget needs.

i4. Report of Legislative and Media Activity. Mr. Blackwell reported that USAC staff continues to provide information to the U.S. House of Representatives Committee on

Energy and Commerce, Subcommittee on Investigations and Oversight (Subcommittee) regarding the Subcommittee's inquiry concerning the Schools and Libraries Support Mechanism. He said that the Subcommittee has now requested information from approximately 15 service providers. Mr. Blackwell believes that a hearing will be scheduled for sometime in September 2003, but that the date and type of hearing has yet to be determined. Mr. Gumper observed that the Subcommittee has expressed interest in the results of the audits of the 75 Schools and Libraries Support Mechanism beneficiaries when those audits are completed. Mr. Gumper stated his opinion that the Subcommittee likely will view these audit results as a clear indication of the level of waste, fraud, and abuse in the Schools and Libraries Support Mechanism. Ms. Parrino pointed out that USAC agreed to perform the audits according to Government Auditing Standards, and to use findings of "compliant," "partially compliant," and "noncompliant" consistent with the FCC Office of Inspector General's categories, thereby allowing for some errors without rejecting the beneficiary as a whole.

- i5. Outreach Plan and Report.** For information only. No discussion held.

- i6. Regulatory Report.** For information only. No discussion held.

- i7. Report on Pending Litigation and Bankruptcy Matters.** For information only. No discussion held.

- i8. Disposition of Administrator Appeals by USAC Staff.** For information only. No discussion held.

- i9. Review of Strategic Planning Framework.** Mr. Haga reviewed the new brochure outlining USAC's Strategic Planning Framework that was created using the input given by the Board members, USAC staff, and stakeholders. He said that he plans to have staff begin working on the action plan needed to complete the goals outlined in the framework either towards the end of this year or the beginning of next year. He stated that the process is dynamic and that he welcomes input at any time from the Board members. The Board offered three points of input regarding the brochure: (1) include more information about what USAC does – internal connections for schools and libraries, facilitate delivery of health care to rural areas, etc.; (2) emphasize the cost efficiencies more; and (3) ensure that the goals are distinguishable from what USAC has already accomplished.

- i10. USAC Timeline and Key Dates.** For information only. No discussion held.

- i11. Miscellaneous.** None.

AUDIT COMMITTEE

- i12. Status Report on USAC Audits.** For information only. No discussion held.

- i13. Status Report on Actions Taken on Final Audits.** For information only. No discussion held.

PROGRAMMATIC COMMITTEES

i14. Review of the Revised Annual 2003 and 4th Quarter 2003 Programmatic Budgets. For information only. No discussion held.

i15. Review of 4th Quarter 2003 High Cost, Low Income, Rural Health Care, and Schools and Libraries Support Mechanisms Projections for the August 1, 2003, Demand Estimate Filing with the FCC. For information only. No discussion held.

At 10:08 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 Chair then recessed the meeting. At the call of the Chair, the Board reconvened in Executive Session at 10:24 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	Hess, Kevin
Buller, Karen	Jackson, Jimmy – Secretary
Campbell, Anne	Jortner, Wayne – Treasurer
Cornell, Diane	Lubin, Joel – Vice Chair
Davis, Fr. Bill	Parrino, Cheryl
Eichler, Ed	Talbott, Dr. Brian
Gumper, Frank – Chair	
One member joined the meeting in progress:	
Coltharp, James	Sanford, Jo Anne
Conn, David	
One member was absent:	
Hughes, Alison	Sanders, Dr. Jay
Rivera, Robert	
Officers of the Corporation present:	
Barash, D. Scott – Vice President and General Counsel	
Blackwell, Mel – VP, External Communications and Rural Health Care Division	
Carmichael, Mark – Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene – VP, High Cost and Low Income Division	
Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George – VP, Schools and Libraries Division	
Others present for the meeting:	
NAME	COMPANY
Davis, Ta'Nea	USAC
Howard, Cathy	USAC
Miller, Linda	USAC
Scott, Wayne	USAC

Executive Session

Board members Mr. Conn, Mr. Coltharp, and Ms. Sanford arrived during discussion of the next agenda item.

- a5. Assignment of the Rural Health Care and Schools and Libraries Support Mechanisms Services Agreement – Confidential & Proprietary – Executive Session.** Ms. Parrino introduced this item. Mr. Gumper explained the history of this agreement with the National Exchange Carrier Association, Inc. (NECA). Dr. Talbott informed the Board that at its July 21, 2003, quarterly meeting, the USAC Schools & Libraries Committee approved this assignment but amended the resolution to include a stipulation that some of the management employees who would be assigned by NECA Services, Inc. (NSI) be NSI employees. Mr. Jackson informed the Board that at its July 21, 2003, quarterly meeting, the USAC Rural Health Care Committee also approved the assignment as well as the amendment being recommended by the Schools & Libraries Committee, and further amended the resolution to include a directive to USAC staff to negotiate some performance incentive plans for the Rural Health Care portion of the agreement similar to the performance incentive plans in place for the Schools and Libraries portion of the agreement. The Board concurred.

On a motion duly made and seconded, the Board adopted the following *amended* resolution (*amendments in italics*). Mr. Hess abstained.

RESOLVED, That the USAC Board of Directors accepts the recommendation of the USAC Rural Health Care and USAC Schools & Libraries Committees and authorizes the USAC CEO to assign the Rural Health Care and Schools and Libraries Program Services Agreement between USAC and the National Exchange Carrier Association, Inc. (NECA), to NECA Services, Inc. (NSI), subject to mutual agreement on modifications to the current Agreement reflecting the terms and conditions of the assignment, *and provided that some of the management employees assigned to this agreement be NSI employees, and provided that USAC staff negotiates performance incentive plans for the Rural Health Care portion of the agreement similar to the performance incentive plans in place for the Schools and Libraries portion of the agreement.*

- a10. Board of Directors Governance Matters – Confidential & Proprietary – Executive Session.** Mr. Barash introduced this item and clarified that USAC management is not recommending any action on this matter at this time. The Board reviewed and discussed the legal advice provided by outside counsel regarding corporate governance issues, and concluded that the Board should continue its current approach of providing Board members with confidential information concerning USF operations, unless there is a serious conflict of interest.
- a2. Reports from the Committee Chairs.** Dr. Talbott reported on the status of certain Schools and Libraries Support Mechanism applications that are under review and led a discussion with the Board on this matter. No action was taken.

The Board adjourned from **Executive Session** and reconvened in open session at 11:19 a.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Mr. Gumper adjourned the meeting at 11:20 a.m.

Robert W. Haga
Assistant Secretary

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

September 30, 2003

MINUTES

A joint meeting of the Board of Directors of the Universal Service Administrative Company (USAC) and its Audit and Schools & Libraries Committees was held at the USAC office in Washington, DC on Tuesday, September 30, 2003. Mr. Gumper, Chair of the Board, called the meeting to order at 3:10 p.m. Eastern Time. Ms. Howard, Executive Assistant to the USAC CEO, called the roll. Twelve of the eighteen directors of the Board were present, representing a quorum. (There is one vacancy on the Board.)

Twelve of the eighteen directors of the Board were present, representing a quorum:	
Bryant, Anne – <i>by telephone</i>	Jortner, Wayne – Treasurer – <i>by telephone</i>
Buller, Karen – <i>by telephone</i>	Parrino, Cheryl – <i>by telephone</i>
Cornell, Diane – <i>by telephone</i>	Rivera, Robert – <i>by telephone</i>
Eichler, Ed – <i>by telephone</i>	Sanders, Dr. Jay – <i>by telephone</i>
Gumper, Frank – Chair – <i>by telephone</i>	Sanford, Jo Anne – <i>by telephone</i>
Hughes, Alison – <i>by telephone</i>	
Jackson, Jimmy – Secretary – <i>by telephone</i>	
Two directors joined the meeting in progress:	
Coltharp, Jim – <i>by telephone</i>	Talbott, Dr. Brian – <i>by telephone</i>
Two members were absent:	
Campbell, Anne	Hess, Kevin
Davis, Bill	Lubin, Joel – Vice Chair
Officers of the Corporation present:	
Barash, D. Scott - Vice President and General Counsel	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George - VP, Schools and Libraries Division	
Others present for the meeting:	
Name	Company
Howard, Cathy – <i>by telephone</i>	USAC
Scott, Wayne	USAC

Board member Dr. Talbott joined the meeting during the vote to move into **Executive Session** for the following item. Board member Ms. Buller left the meeting during the discussion of the following item but returned before the vote on the resolution of the item. Board member Mr. Coltharp briefly joined the meeting during the discussion of the following item but left before the vote on the resolution of the item.

ACTION ITEMS:

- a1. Authorization to Extend the Memorandum of Understanding with FCC Inspector General and the Department of the Interior Inspector General Regarding Audits of Schools and Libraries Support Mechanism Beneficiaries for Federal Fiscal Year 2004 and to Establish the Necessary Budget – Confidential & Proprietary – *Executive Session Recommended*.** 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 discussion of this matter be conducted in ***Executive Session*** because this matter relates to a *pre-decisional matter* before the FCC to which USAC is privy, and discussion of such matters in open session would undermine the agency’s deliberative process or would result in the disclosure of an agency’s conclusions or rationales before the agency had formally decided the matter. In addition, this matter concerns a USAC *procurement issue*, and discussion of this matter in open session could compromise USAC’s negotiating strategy to the detriment of the corporation. Finally, this matter relates to the detail of USAC’s audit program, the disclosure of which could *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 the Memorandum of Understanding between USAC, the FCC Inspector General, and the Department of the Interior Inspector General Regarding Schools and Libraries Support Mechanism Beneficiaries Audits shall be conducted in *Executive Session*.

The Board and the Audit and Schools & Libraries Committees each voted to move into *Executive Session*. (See the respective meeting minutes for each Committee.)

Ms. Parrino reviewed the progress of the audits being performed by the Department of the Interior’s Office of Inspector General of schools under its jurisdiction that have received Schools and Libraries Support Mechanism funds. She said that by September 30, 2003, at which time the Memorandum of Understanding is scheduled to expire, the budgeted funds would be exhausted. Ms. Parrino reported that the FCC Office of Inspector General has requested a one-year extension of the Memorandum of Understanding. The Board expressed its strong support for taking aggressive steps to deter, detect, and disclose waste, fraud, and abuse in the Schools and Libraries Support Mechanism and reiterated that audits are critical to the overall ability to protect against waste, fraud, and abuse as evidenced by the large budgetary commitment USAC continues to make to auditing beneficiaries. Certain Board members, however, again raised several concerns about this arrangement, including the perception that the proposed agreement could be viewed as disproportionately targeting Native American beneficiaries.

The Audit Committee and the Schools & Libraries Committee approved the recommendation proposed by USAC management. Thereafter, the Chair of the Board called for a roll call vote of the Board and on a motion duly made and seconded, the Board approved the resolution as set forth in these minutes. Directors in support of the resolution reiterated the concern that the audits appear to be targeted to certain beneficiaries but expressed the view that cooperation with the FCC in this matter was in the overall best interest of the corporation. Directors who opposed the resolution or abstained from the vote stated that even though they supported systematic auditing and cooperation with the FCC, they could not support a plan that targets a single ethnic

group for intensive auditing.

The vote count was as follows: YES = 9 (Ms. Bryant, Ms. Cornell, Mr. Eichler, Mr. Gumper, Ms. Hughes, Mr. Jortner, Ms. Parrino, Ms. Sanford, and Dr. Talbott); NO = 3 (Ms. Buller, Mr. Jackson, and Dr. Sanders); ABSTAIN = 1 (Mr. Rivera).

RESOLVED, that the USAC Board of Directors accepts the recommendation of the USAC Schools & Libraries and Audit Committees and hereby authorizes USAC management to continue the Memorandum of Understanding between USAC, the Department of Interior Inspector General, and the FCC Inspector General to conduct reviews of certain Schools and Libraries Support Mechanism beneficiaries for federal fiscal year 2004.

Board member Ms. Bryant left the meeting at this point.

The Board and the Audit and Schools & Libraries Committees adjourned from **Executive Session** and reconvened in open session at 4:16 p.m. to report the discussion and action of the Board and Committees during **Executive Session**.

Information Items

i1. Miscellaneous. Ms. Parrino reported that the FCC would be issuing an order soon directing USAC to prepare financial statements for the Universal Service Fund consistent with generally accepted accounting principles for federal agencies (Federal GAAP) and to keep the Funds in accordance with the United States Government Standard General Ledger (USGSGL). She said that the order would also require USAC to conduct audits of the Fund pursuant to generally accepted government auditing standards (GAGAS).

There being no further business to attend to, Mr. Gumper adjourned the joint meeting of the Board and the Audit and Schools & Libraries Committees at 4:20 p.m.

Robert W. Haga
Assistant Secretary

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

October 21, 2003

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 21, 2003. Mr. Gumper, Chair of the Board, called the meeting to order at 9:00 a.m. Eastern Time. Ms. Howard, Executive Assistant to the CEO, called the roll.

Fifteen of the nineteen members were present, representing a quorum (there is one vacancy):	
Buller, Karen – <i>by telephone</i>	Jortner, Wayne – Treasurer
Campbell, Anne	Lubin, Joel – Vice Chair
Cornell, Diane	Parrino, Cheryl
Davis, Fr. Bill	Rivera, Robert – <i>by telephone</i>
Eichler, Ed	Sanders, Dr. Jay – <i>by telephone</i>
Gumper, Frank – Chair	Sanford, Jo Anne
Hughes, Alison	Talbott, Dr. Brian
Jackson, Jimmy – Secretary	
Two directors joined the meeting in progress:	
Bryant, Anne – <i>by telephone</i>	Coltharp, James
One member was absent:	
Hess, Kevin	
Officers of the Corporation present:	
Barash, D. Scott – Vice President and General Counsel	
Blackwell, Mel – VP, External Communications and Rural Health Care Division	
Carmichael, Mark – Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene – VP, High Cost and Low Income Division	
Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George – VP, Schools and Libraries Division	
Others present for the meeting:	
Name	Company
Byrd, Vickie	FCC
Dawson, Theron	USAC
Howard, Cathy	USAC
Krzos, Joe	USAC
McLaren, Kirk	USAC
Miller, Linda	USAC
Foskett, Ken	Atlanta Journal-Constitution
Scott, Wayne	USAC
Trew, Anne Marie	USAC

ACTION ITEMS:

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Board approved the revisions to the minutes of Monday, [December 16, 2002](#), as distributed, and approved the minutes of [July 22, 2003](#), as distributed.

Board member Ms. Bryant joined the meeting at this point.

- a2. Reports from the Committee Chairs.** Each of the Chairs of the USAC programmatic Committees reported on issues discussed and action taken by each Committee since the July 2003 quarterly meetings: Mr. Eichler reported on the Audit Committee meetings of September 30 and October 16 and 20, 2003; Mr. Lubin, at the request of Mr. Hess, reported on the High Cost & Low Income Committee meetings of August 19 and October 20, 2003; Dr. Talbott reported on the Schools & Libraries Committee meetings of July 22, August 13, September 17 and 30, and October 20, 2003; Mr. Gumper reported on the Executive Committee meetings of August 29 and October 16, 2003; and Dr. Sanders reported on the Rural Health Care Committee meeting of October 20, 2003. In addition, Dr. Sanders announced to the Board that he has been invited to attend a speech by Chairman Powell on November 7 at the University of Virginia. He noted that it is possible that Chairman Powell will discuss issues concerning the Rural Health Care Support Mechanism that will be addressed by the Commission in WC Docket 02-60.

The minutes of each Committee meeting provide a full accounting of the discussions and actions taken by the Committees.

- a3. Appointment of a Nominating Committee and Direction to Committees for the Appointment of Committee Chairs and Committee Vice-Chairs.** Mr. Gumper explained that a special meeting of the Board would be required sometime in December after the FCC Chair has announced the appointments to the Board to fill the vacancy left by Mr. David Conn and the six Board terms that expire the end of this year. Ms. Parrino introduced the item. There was no further discussion.

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 2004 meeting nominations for the elected USAC officer positions and to bring to the USAC Board of Directors at the anticipated December 2003 special Board meeting recommendations for Committee appointments for new Board members; and,

RESOLVED FURTHER, That the USAC Board of Directors appoints **Mr. Ed Eichler** as Nominating Committee chair and **Mr. James Coltharp** and **Ms. Diane Cornell** 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 2004 meeting nominations for a chair and vice chair of each respective Committee.

- a4. Approval for Reimbursing a Board Member to Attend an Event Other Than a USAC Board or Committee Meeting or Event.** Ms. Parrino introduced this item. She informed the Board that Mr. Jortner, USAC Treasurer and Investment Committee Chair, is requesting reimbursement for expenses to attend the November quarterly

Investment Committee meeting at LaSalle Bank in Chicago, Illinois in person. In response to a question, she explained that even though the amount being requested for reimbursement is a small amount, according to FCC rules and Board policy, the resolution must come before the Board or appropriate Committee for approval. She noted that because the Investment Committee is not a formal Committee of the Board, the request was brought before the full Board for approval. A copy of the completed Request for Approval form is attached to these minutes per procedures.

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 and Chair of the Investment Committee, Mr. Wayne Jortner, for expenses incurred by him to visit USAC's investment banker, LaSalle Bank, in Chicago on November 13, 2003, in connection with the quarterly USAC Investment Committee meeting on the same date.

- a5. Authorization to Appeal Adverse Bankruptcy Litigation Decision – 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 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 whether to appeal an adverse bankruptcy litigation decision shall be conducted in **Executive Session**.

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

- a6. Approval of 1st Quarter 2004 USAC Consolidated and Common Budgets and Information on Estimated 2004 Annual Budget.** Mr. Carmichael introduced a new member of the USAC Finance Division, Mr. Theron Dawson, Financial Analyst II; Mr. Dawson is responsible for processing the payment plans for delinquent accounts. Mr. Carmichael then introduced this item and presented the final budget numbers for consideration. In response to a question, Mr. Barash explained that the increase in the budget for legal expenses is to cover costs for outside counsel separate from the litigation matter addressed in agenda item #a5. He said that litigation cases and USAC's involvement continues to increase often requiring outside counsel coverage in distant parts of the United States in order to represent USAC in pending judicial proceedings, primarily in the bankruptcy area. In response to another question, Mr. Carmichael said that the Finance Division has added 42 full-time employees to perform the work previously outsourced to IBM.

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 2004 USAC common budget of \$3,434,800; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee to approve a 1st Quarter 2004 USAC consolidated budget of \$17,293,600.

- a7. Approval of 1st Quarter 2004 Revenue Projections and Resolutions for the December 2, 2003, FCC Filing.** Mr. Carmichael introduced this item. The Committee **DIRECTED** USAC staff to provide charts in the future showing demand projections without prior period adjustments and then a chart showing prior period adjustments and separate out any adjustments that relate to one specific support mechanism so that such variances are easily distinguishable. Mr. Carmichael indicated that these charts would be an excellent way to show the Committee that if the contribution factor drops, it may not necessarily be due to demand going down but rather due to a unique prior period adjustment. Mr. Gumper requested that drafts of the charts be sent to Mr. Lubin and himself for review before finalizing.

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 21, 2003, a summary of the current status of the December 2, 2003, FCC filing requirements, accepts the recommendation of the USAC Executive Committee to authorize staff to proceed with the required December 2, 2003, filing to the FCC on behalf of USAC using a preliminary estimate of \$18,724.968 million for the contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

- a8. Adoption of a Resolution Honoring Mr. David Conn.** Ms. Parrino introduced this item. There were no questions or discussion.

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

RESOLVED, That the USAC Board of Directors hereby expresses its sincere appreciation for the service Mr. David Conn has provided to the Universal Service Administrative Company and wishes him the best in his future endeavors; and

RESOLVED FURTHER, That the USAC Board of Directors directs the Board Chair and the CEO to send a letter Mr. David Conn expressing the Board's appreciation for his service.

Board member Mr. Coltharp joined the meeting at this point.

- a9. Consideration of Whether to Provide Additional Materials to the USAC Board of Directors.** Ms. Parrino introduced this item. Mr. Rivera clarified that he is not requesting copies of all communications between USAC and FCC, but only on specific policy issues. Mr. Gumper explained that most of the communications between USAC and the FCC is ongoing and said that a rough survey provided to the Board indicated a large number of documents per month are exchanged between the two entities, not including telephone conversations. He said that USAC practice has been for the USAC

CEO and staff to determine what information is relevant and necessary for the USAC Board of Directors to see in order to carry out their fiduciary responsibilities without overwhelming them with paperwork; USAC management creates summaries of correspondence and conversations and presents them to the Board for review and action as appropriate. Other Board members noted that in some instances they might not actually want certain information due to possible conflicts of interest or in instances where the FCC requests confidentiality of information until after it has rendered a decision, and that they rely on and trust USAC management to determine when to present particular information to them. Ms. Parrino reassured the Board that she and other members of the management team have and will continue to bring all relevant issues to the Board and Committees as appropriate.

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

RESOLVED, That the USAC Board of Directors directs USAC management to continue its current practices regarding reporting issues discussed with the FCC concerning the administration of the universal service support mechanisms.

- a10. Elevation of the Position of Director of Internal Audit to Vice President – Internal Audit Division and Designation of the Position as an Officer of the Corporation.** Ms. Parrino introduced this item. She said that Mr. Gumper asked her to do a rough analysis of the responsibilities of each vice president of the corporation and compare them to the responsibilities of the Director of Internal Audit. After reviewing the comparison, and consulting with Audit Committee Chair Mr. Eichler, that Mr. Gumper and Mr. Eichler concurred that the responsibilities of the Director of Internal Audit are now at the same level as a vice president within the corporation, thus, the position should appropriately be a vice president of the corporation.

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 and establishes the position of Vice President – Internal Audit Division; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Executive Committee, consistent with resolutions adopted by the USAC Board of Directors at its April 23, 2002, meeting, designates the Vice President – Internal Audit as an officer position of the Corporation; and

RESOLVED FURTHER, That the USAC Board of Directors designates Mr. Wayne Scott, Vice President – Internal Audit Division, as an officer of the Corporation, subject to the terms and conditions set forth in resolutions adopted by the USAC Board of Directors at its April 23, 2002 meeting.

- a11. Approval of Board Member Annual Disclosure of Corporate or Entity Affiliations and Approval of Identification of Auditees to Board Members in Order to Mitigate Any Actual or Potential Conflict of Interest Issues.** Mr. Barash introduced this item. Mr. Gumper clarified that the proposed disclosure form would only be used by USAC management to help directors determine if they may have a potential conflict of interest regarding any issues that may come before the Board. He reiterated that management would not automatically withhold information from a director based on what is identified on this disclosure form, but rather would use this opportunity to identify potential conflicts for the director and then contact the director to discuss the situation and determine appropriate action. Even then, he said, the

director may still be given the document but with the understanding that the director would need to disclose the conflict to the rest of the directors and either recuse oneself from discussion of the issue or abstain from voting on a resolution regarding the issue. In response to a question, Ms. Parrino affirmed that each USAC employee annually completes a disclosure form, each of which is reviewed by Ms. Parrino for potential conflicts.

The Board **DIRECTED** the USAC General Counsel to provide additional guidance to directors who are members of or work for trade associations on potential conflicts of interest.

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

RESOLVED, That the USAC Board of Directors accepts the recommendation of the USAC Audit Committee to adopt a policy requiring members of the USAC Board of Directors to disclose, on an annual basis, corporate or other affiliations with entities that do business with USAC in order to identify actual and/or potential conflict of interest issues; and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Audit Committee to direct the ~~Director~~ *Vice President* of Internal Audit Division to distribute a list of audit reports that includes the identities of the entities referred to in such reports to the USAC Board of Directors prior to the distribution of any meeting materials for the meetings of the Committee or Board at which the audit reports will be reviewed.

a12. Miscellaneous.

- **Solicit Ideas for January 2004 Board Agenda.** Mr. Gumper reminded Board members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him or Ms. Parrino between quarterly meetings.

Board member Ms. Sanford left the meeting at this point.

Information Items

- i1. Assistant Treasurer's Report.** Mr. Carmichael reported that as of August 31, 2003, the balance of the Universal Service Fund (USF) was approximately \$2.6 billion. He then explained how prior period adjustments affect the contribution base and factor, and that the size of the adjustments can greatly fluctuate from quarter to quarter making difficult to predict demand with any accuracy.

Mr. Carmichael reported that USAC received inquiries from several companies in response to USAC's Request for Proposals for investment management services and that the USAC Investment Committee is expected to approve the selection of a firm at its November 2003 quarterly meeting.

Mr. Carmichael informed the Board that the FCC released an order earlier this month directing USAC to prepare financial statements for the Universal Service Fund consistent with generally accepted accounting principles for federal agencies (Federal

GAAP) and to convert the accounting for the Funds to be in accordance with the United States Government Standard General Ledger (USGSGL) by October 1, 2004.

Finally, Mr. Carmichael explained how the uncollectability factor affects the contribution base and factor.

- i2. Report on Collection Efforts.** Mr. Carmichael stated that during the last quarter, USAC's Days Sales Outstanding (DSO) has improved dramatically primarily due to a stabilization of the outstanding accounts receivable and increased collections enforcement pursuant to the Debt Collection Improvement Act (DCIA). Mr. Carmichael said that as of this date, USAC has transferred approximately \$40 million of delinquent debt representing 166 entities to the FCC under DCIA. He said that the threat of further transfers has led several delinquent carriers to now pay on time, clear up their delinquent balances, or seek payment plans. He said that USAC received more requests for payment plans than anticipated (approximately 30 versus the fewer than 10 anticipated). He further noted that although the professional fees and costs associated with the payment plan process have been lower than expected, the process is taking more staff resource time than anticipated due to the rigorous steps each carrier must be taken through before a payment plan is negotiated, if at all. Mr. Barash cautioned the Board that rejection of payment plans likely would generate more appeals by contributors, but that USAC staff is prepared to handle the workload associated with those potential appeals.
- i3. Status of Financial Operations Transition to USAC.** For information only. No discussion held.
- i4. Report of Legislative and Media Activity.** In response to a question about the bills pending before Congress that could affect universal service, Mr. Blackwell stated that based on his experience the chance of any of those bills passing is slim at this point because Congress is likely to adjourn soon. He noted that USAC staff continues to respond to questions and clarifications regarding documents presented to the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight in response to their inquiry concerning the Schools and Libraries Support Mechanism.
- i5. Regulatory Report.** For information only. No discussion held.
- i6. Report on Pending Litigation and Bankruptcy Matters.** For information only. No discussion held.
- i7. Disposition of Administrator Appeals by USAC Staff.** For information only. No discussion held.
- i8. Update on Universal Service Support Mechanisms Enforcement Activity.** For information only. No discussion held.
- i9. Report on USAC Financial Reporting Issues and the Nature of the Universal Service Fund.** For information only. No discussion held.

i10. Miscellaneous.

- **Meeting between USAC Directors and FCC Senior Staff.** Mr. Gumper informed the Board that he and Dr. Talbott would be meeting with senior members of the FCC staff later this same date to discuss three issues concerning USAC: (1) the Memorandum of Understanding with FCC Inspector General and the Department of the Interior Inspector General regarding audits of Schools and Libraries Support Mechanism beneficiaries; (2) description of the nature of the Universal Service Fund; and (3) a USAC personnel issue. Mr. Gumper stated that he would discuss the personnel issue with the Board in **Executive Session** per the Board's policy to discuss such matters in **Executive Session**.
- **Verbal Report on Board Member Request for the RHC/SL Contract Statement of Work.** Ms. Parrino explained that at an August 29, 2003, meeting, the USAC Executive Committee directed USAC staff to schedule a meeting of the USAC Board of Directors to address the request presented by Mr. Rivera for access to certain confidential information regarding support mechanism operations. Ms. Parrino reported that after further discussions between herself, Mr. Gumper, Dr. Talbott, and Mr. Rivera following that meeting, and after Mr. Gumper consulted with the Board through an email message dated September 3, 2003, it was determined that sending a redacted version of the Statement of Work (SOW), in which the parts that include specific details about the triggers for application review that would provide either a service provider or a school/library applicant with information that could advantage them in the review process were redacted, should satisfy Mr. Rivera's request. Mr. Rivera stated that the redacted version met his needs. Therefore, Ms. Parrino said that a meeting of the full Board to address this issue was no longer necessary. She said Mr. Rivera has since submitted some questions regarding the SOW and USAC staff are preparing a response and anticipate sending it to Mr. Rivera shortly.
- **Verbal Report on the Status of Certain Schools and Libraries Support Mechanism Applications that are Under Review.** 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 this item involves discussion of a *program integrity* matter of *investigatory records or pending or contemplated enforcement action* against participants of the universal service support mechanisms, the disclosure of which could compromise law enforcement efforts.

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

RESOLVED, That the USAC Board of Directors determines that discussion of Schools and Libraries Support Mechanism applications under review shall be conducted in **Executive Session**.

See **Executive Session** for a report of the discussion on this item.

Audit Committee

i11. Status Report on USAC Audits. For information only. No discussion held.

i12. Status Report on Actions Taken on Final Audits. For information only. No discussion held.

Programmatic Committee

i13. Review of 1st Quarter 2004 and Estimated 2004 Annual Programmatic Budgets. For information only. No discussion held.

i14. Review of 1st Quarter 2004 High Cost, Low Income, Rural Health Care, and Schools and Libraries Support Mechanisms Projections for the October 31, 2003, Demand Estimate Filing with the FCC. For information only. No discussion held.

At 10:55 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 Chair then recessed the meeting. At the call of the Chair, the Board reconvened in **Executive Session** at 11:06 a.m. Ms. Howard called the roll at the request of the Chair. Sixteen of the nineteen members were present, representing a quorum (there is one vacancy):

Fifteen of the nineteen members were present, representing a quorum (there is one vacancy):	
Bryant, Anne – <i>by telephone</i>	Jackson, Jimmy – Secretary
Buller, Karen – <i>by telephone</i>	Jortner, Wayne – Treasurer
Campbell, Anne	Lubin, Joel – Vice Chair
Cornell, Diane	Parrino, Cheryl
Davis, Fr. Bill	Rivera, Robert – <i>by telephone</i>
Eichler, Ed	Sanders, Dr. Jay – <i>by telephone</i>
Gumper, Frank – Chair	Sanford, Jo Anne
Hughes, Alison	Talbott, Dr. Brian
One member joined the meeting in progress:	
Coltharp, James	
One member was absent:	
Hess, Kevin	
Officers of the Corporation present:	
Barash, D. Scott – Vice President and General Counsel	
Blackwell, Mel – VP, External Communications and Rural Health Care Division	
Carmichael, Mark – Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene – VP, High Cost and Low Income Division	
Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George – VP, Schools and Libraries Division	
Scott, Wayne – VP, Internal Audit Division	
Others present for Executive Session:	
Name	Company
Byrd, Vickie	FCC
Howard, Cathy	USAC

Executive Session

a5. Authorization to Appeal Adverse Bankruptcy Litigation Decision – Confidential & Proprietary – Executive Session. Mr. Barash introduced this item and answered questions.

On a motion duly made and seconded, the Board adopted the following resolution per the following roll call vote as requested by the Chair. The vote count was as follows: YES = 14 (Ms. Bryant, Ms. Buller, Ms. Campbell, Ms. Cornell, Fr. Davis, Mr. Eichler, Mr. Gumper, Ms. Hughes, Mr. Jackson, Mr. Lubin, Ms. Parrino, Dr. Sanders, Ms. Sanford, and Dr. Talbott); NO = 3 (Mr. Coltharp, Mr. Jortner, and Mr. Rivera).

RESOLVED, That the USAC Board of Directors authorizes USAC the corporation to appeal the adverse decision of the Bankruptcy Appellate Panel of the United States Court of Appeals for the Ninth Circuit in *Post-Confirmation Committee of Unsecured Creditors of Incomnet Communications Corporation v. USAC* to the full United States Court of Appeals for the Ninth Circuit.

i10. Miscellaneous.

- **Memorandum of Understanding with FCC Inspector General and the Department of the Interior Inspector General Regarding Audits of Schools and Libraries Support Mechanism Beneficiaries.** Due to the concern several directors had regarding these audits of Native American schools, the Board **DIRECTED** USAC staff to create a grid showing the ratio of Native American schools being audited versus non-Native American schools.
- **Verbal Report on the Status of Certain Schools and Libraries Support Mechanism Applications that are Under Review.** Dr. Talbott and Ms. Parrino reported on and led a discussion on the status of certain Schools and Libraries Support Mechanism applications that are under review. No action was taken.
- **USAC Personnel Issue.** Mr. Gumper informed the Board that Cheryl Parrino has informed him that she will resign as USAC Chief Executive Officer effective Jan. 31, 2004. He told the Board that he regretfully accepted that resignation. USAC has retained an executive search firm and anticipates naming a successor prior to Ms. Parrino's departure.

The Board adjourned from **Executive Session** and reconvened in open session at 12:25 p.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Mr. Gumper adjourned the meeting at 12:28 a.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

BOARD OF DIRECTORS MEETING

October 27, 2003

MINUTES

Board of Directors Action

The Board of Directors of the Universal Service Administrative Company (USAC) took action on Monday, October 27, 2003, on a resolution to withdraw the request to the FCC to hold Board of Directors meetings outside of the Washington, DC area. The Board approved the following resolution by signed ballots as sent by email by Ms. Cheryl Parrino, CEO of USAC. The signed ballots are included as an attachment to these minutes.

a1. Withdrawal of Request to FCC to Hold Board of Directors Meetings Outside of the Washington, DC Area. The USAC Board of Directors approved the following resolution through means of signed ballots:

RESOLVED, That the USAC Board of Directors directs USAC management to withdraw USAC's December 10, 1999, request to the FCC to hold at least one Board of Directors meeting per year at a location other than Washington, DC.

Fifteen of the nineteen directors submitted signed ballots (there is one vacancy), representing a quorum. The vote count was as follows: YES = 14 (Ms. Bryant, Ms. Buller, Ms. Campbell, Ms. Cornell, Fr. Davis, Mr. Eichler, Mr. Hess, Ms. Hughes, Mr. Jackson, Mr. Jortner, Ms. Parrino, Dr. Sanders, Ms. Sanford, and Dr. Talbott); NO = 0; ABSTAIN = 1 (Mr. Gumper). Mr. Coltharp, Mr. Lubin, and Mr. Rivera did not submit a ballot.

Robert W. Haga
Assistant Secretary

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

December 18, 2003

MINUTES

A meeting of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the USAC office in Washington, DC, on Thursday, December 18, 2003. Mr. Gumper, Chair of the Board, called the meeting to order at 11:02 a.m. Eastern Time. Ms. Howard, Executive Assistant to the CEO, called the roll.

Thirteen of the nineteen members were present, representing a quorum (there is one vacancy):	
Bryant, Anne - <i>by telephone</i>	Hughes, Alison - <i>by telephone</i>
Campbell, Anne - <i>by telephone</i>	Jackson, Jimmy - Secretary - <i>by telephone</i>
Cornell, Diane - <i>by telephone</i>	Jortner, Wayne - Treasurer - <i>by telephone</i>
Davis, Fr. Bill - <i>by telephone</i>	Parrino, Cheryl
Eichler, Ed - <i>by telephone</i>	Sanders, Dr. Jay - <i>by telephone</i>
Gumper, Frank - Chair - <i>by telephone</i>	Talbott, Dr. Brian - <i>by telephone</i>
Hess, Kevin - <i>by telephone</i>	
Five members were absent:	
Buller, Karen	Rivera, Robert
Coltharp, James	Sanford, Jo Anne
Lubin, Joel - Vice Chair	
Other Officers of the Corporation present:	
Barash, D. Scott - Vice President and General Counsel	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George - VP, Schools and Libraries Division	
Scott, Wayne - VP, Internal Audit Division	
Others Present for the Meeting:	
Name	Company
Askin, Jonathan	Association for Local Telecommunications Services
Baker, David	Earthlink, Inc.
Duff, Bridget	Cox Communications, Inc.
Howard, Cathy	USAC
Miller, Linda	USAC

ACTION ITEMS

- a1. Election of Directors to the USAC Board of Directors.** Mr. Eichler, Chair of the USAC Nominating Committee, reported that the Nominating Committee met on

December 16, 2003, and at that meeting determined to recommend that the Board accept the FCC Chairman's appointments and elect six Board members to fill the Board member terms that expire the end of this year, one new Board member to fill a current vacancy on the Board, and one new Board member to fill a vacancy that will be created due to a resignation of a Board member as of December 31, 2003. Ms. Parrino explained that after the voting today, she would send out an e-mail message to Board members seeking nominations for the Board of Directors officers' positions. The Board then thanked Fr. Davis for his service on the Board, as his term expires December 31, 2003.

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 Nominating Committee, and with the nominations made by the FCC Chairman and USAC's corporate By-laws, the USAC Board of Directors elects **Mr. David Baker, Dr. Douglas Christensen, Mr. Kevin Hess, Mr. Joel Lubin, Dr. Jay Sanders**, and **Ms. Jo Anne Sanford** to the USAC Board of Directors for three-year terms beginning on January 1, 2004; and,

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC Nominating Committee, and with the nomination made by the FCC Chairman and USAC's corporate By-laws, and due to impending resignation of Board member Mr. James Coltharp, the USAC Board of Directors elects **Ms. Bridget Duff** to the USAC Board of Directors, whose term shall begin on January 1, 2004, and expire on December 31, 2004: and

RESOLVED FURTHER, That the USAC Board of Directors accepts the recommendation of the USAC 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 Mr. David Conn, the USAC Board of Directors elects **Mr. Jonathan Askin** to the USAC Board of Directors, whose term shall begin immediately and expire on December 31, 2005.

At this point, Board member Mr. Askin became a voting member of the Board.

a2. Appointment of Directors to Committees of the Board. Mr. Eichler, as Chair of the USAC Nominating Committee, introduced this item. He reported that the Nominating Committee met on December 16, 2003, and at that meeting determined to recommend the following appointments as listed in the resolutions. He noted that there was competition for the service provider representative on the Schools & Libraries and that the Nominating Committee vote was a split 2-1 decision with regard to that Committee position. Mr. Gumper reminded the Board that even if they are not members of a Committee, they are welcome to participate in any meeting of a Committee of the Board as an observer, where they can still give input even though they cannot vote on the resolutions.

A Board member then questioned why the resolution did not include the appointment of Mr. Hess and Ms. Sanford to the Audit Committee, as their terms are being renewed. The Board determined to revise the resolution to correct this oversight.

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

RESOLVED, That the USAC Board of Directors accepts the recommendations of the USAC Nominating Committee and hereby appoints to the High Cost & Low Income Committee, Mr. Jonathan Askin as the representative for competitive local exchange carriers (CLECs), Mr. Kevin Hess as the representative for incumbent local exchange carriers (ILECs) that represent rural telephone companies as that term is defined in 47 U.S.C. 153(37), Mr. Joel Lubin as the representative for interexchange carriers (IXCs) with more than \$3 billion in annual operating revenues, and Ms. Jo Anne Sanford as the representative for state regulators; to the Rural Health Care Committee, Ms. Bridget Duff as the representative for service providers, Dr. Jay Sanders as the representative for rural health care providers that are eligible to receive discounts, and Ms. Jo Anne Sanford as the representative for state regulators; ~~and~~ to the Schools & Libraries Committee, Dr. Douglas Christensen as the representative for schools that are eligible to receive discounts and Mr. David Baker as the representative for service providers; *and to the Audit Committee, Mr. Kevin Hess as one of the at-large representatives and Ms. Jo Anne Sanford as the High Cost & Low Income Committee representative.*

- a3. Approval of Revised USAC Funds Guidelines for Investments.** Mr. Carmichael introduced this item. A Board member asked about the proposed revisions that would allow the Investment Committee to contract with firms to provide investment management, advisory, and custody services to USAC without seeking Executive Committee or Board approval as long as the annual fees from the firm are less than \$600,000, and questioned whether there was a limit to the number of such contracts that could be engaged in by the Investment Committee. Mr. Carmichael explained that there are no limits to the number of contracts but that all contracts for such services made by the Investment Committee must be reported to the USAC Executive Committee and/or Board of Directors so that there will always be Board oversight on such contracts.

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 Investment Committee to modify the *USAC Funds Guidelines for Investments* in the form set forth as **Attachment A** and directs the USAC Treasurer and Assistant Treasurer to adhere to the revised *Guidelines* in managing the Universal Service Fund.

- a4. Approval of Proposed Course of Action Regarding the Proposals Received in Response to the Request for Proposals for Investment Portfolio Management and Advisory Services - Confidential & Proprietary - Executive Session Recommended.** 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 of this matter, which relates to USAC's *procurement strategy and contract negotiations*, and public disclosure of such matters 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 proposed selection of a firm and award of a contract based on the proposals received in response to the Request for Proposals for Investment Portfolio Management and Advisory Services (RFP) shall be conducted in **Executive Session**.

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

- a5. Termination of Retirement Benefit Plan for USAC CEO Cheryl L. Parrino - Confidential & Proprietary - Executive Session Recommended.** 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 of this matter relates to an *internal personnel matter* regarding a USAC employee.

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 a personnel matter regarding a USAC employee shall be conducted in **Executive Session**.

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

Information Items

- i1. Information on the FCC Budget for Federal Fiscal Year 2004.** Ms. Parrino informed the Board that the FCC requested \$3 million be budgeted in fiscal year 2004 for audits of the Universal Service Fund beneficiaries to be conducted by the FCC Inspector General, but that both the House and the Senate denied the budget request. The Senate Report stated that because the funds are managed outside of the Treasury, it would not be appropriate for the cost of the audits to come from appropriated funds. Mr. Gumper requested that Ms. Parrino forward the exact language of the denial to Ms. Jane Mago at the FCC, Office of Strategic Planning and Policy Analysis.

i2. Information on Schools and Libraries Support Mechanism Issues.

- Ms. Parrino informed the Board that on December 17, 2003, the FCC acted on additional steps to improve the Schools and Libraries Support Mechanism. One of those improvements gives USAC permission to rollover unused Schools and Libraries Support Mechanism funds from previous years into Funding Year 2003. Ms. Parrino said that the Schools & Libraries Committee would take up this issue at a meeting in January 2004.
- Ms. Parrino reported on a press report regarding the School and Libraries Support Mechanism beneficiary audits in which a House of Representatives staff member indicated that the House would likely conduct hearings in 2004 as to the matter of

possible waste, fraud, and abuse in the program.

At 11:38 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.

Executive Session

a4. Approval of Proposed Course of Action Regarding the Proposals Received in Response to the Request for Proposals for Investment Portfolio Management and Advisory Services - Confidential & Proprietary - Executive Session Recommended. Mr. Carmichael introduced this item. He answered questions and explained how the Investment Committee came to the recommendation 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 USAC Investment Committee's recommendation to select and retain Evergreen Investments for investment portfolio management, advisory, and custody services, and authorizes USAC management to enter into an Investment Management Agreement with Evergreen Investments.

Mr. Gumper requested that everyone except Board members and Ms. Howard leave the meeting at this point.

a5. Termination of Retirement Benefit Plan for USAC CEO Cheryl L. Parrino - Confidential & Proprietary - Executive Session Recommended. Mr. Gumper explained the process for terminating the retirement benefit plan for the USAC CEO, Cheryl L. Parrino, who is resigning effective January 30, 2004. He informed the Board of the status of the search for a new CEO and indicated that the search has generated a number of strong candidates thus far, but that the search is still open.

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 Chairman of the Board to inform Bank One Trust Company, NA, the Trustee of the Trust Agreement for the Retirement Benefit Plan for USAC CEO Cheryl L. Parrino, that Cheryl L. Parrino is fully vested and eligible for payment of all funds held in the Trust as of 11:59 pm on January 30, 2004, and to provide specific instructions to the Trustee for the payment of the funds to Ms. Parrino, including any tax withholding information; and

FURTHER RESOLVED, That the USAC Board of Directors accepts the recommendation of the USAC Chairman of the Board to terminate the Trust Agreement for the Retirement Benefit Plan for USAC CEO Cheryl L. Parrino effective January 31, 2004.

The Board adjourned from **Executive Session** and reconvened in open session at 12:02 p.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Mr. Gumper adjourned the meeting at 12:04 p.m.

Robert W. Haga
Assistant Secretary