

1998 Executive Committee Meetings Minutes

Budget and Finance Committee

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** Denotes Budget and Finance Committee Minutes*

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

EXECUTIVE COMMITTEE MEETING

Budget and Finance

February 6, 1998

MINUTES

The initial meeting of the Budget and Finance Committee of the Universal Service Administrative Company (USAC) was held via conference call on the above date. The meeting was called to order at 10:00 A.M. EST by Edward English, Acting Secretary and Treasurer of USAC. Four Committee members were present, representing a quorum, as follows: Frank Gumper, Martha Hogerty, Donald Lynch, and Tom Wheeler. Others present for various parts of the meeting are included in the list attached to these minutes as Attachment I.

1. Mr. English welcomed the Committee and called the roll. He explained that the purpose of the meeting was to:
 - a. Review the supporting detail and underlying assumptions in the proposed budget, make any modifications deemed necessary and recommend adoption by the full USAC Board.
 - b. Determine the amount of committed and uncommitted lines of credit USAC should establish to ensure an uninterrupted flow of funds to service providers.
 - c. Review plans for improving the February billing cycle and procedures for assessing late payment penalties.
 - d. Discuss the invoicing procedure between USAC and the National Exchange Carrier Association (NECA), the Schools and Libraries Corporation (SLC) and the Rural Health Care Corporation (RHCC)(the Corporations).
2. Mr. Wheeler expressed his desire that USAC, SLC and RHCC perform their respective operations as efficiently as possible. The Committee concurred. The Committee then discussed its responsibilities with respect to disbursements made by USAC for the administrative costs of SLC and RHCC. The Committee concluded that USAC, in its role as billing and collection administrator for all the funds, was not responsible for monitoring the expenses submitted by the Corporations. The Committee decided to recommend that the USAC Board obtain a legal memorandum from outside counsel confirming this conclusion.
3. Mr. English presented the proposed budget and associated detail and responded to questions from the Committee. It was decided that the budget should be modified to reduce the amounts necessary to obtain a committed credit line. With that modification the Committee decided to recommend that the USAC Board adopt the following resolution:

RESOLVED that the USAC Board accepts the recommendation made by the Budget and Finance Committee to adopt a budget for USAC of \$4,924,000 for calendar year 1998.

4. The Committee addressed the need for committed and uncommitted lines of credit for USAC. The Committee recommended the following action:
 - a. Seek formal authorization from the FCC for borrowing,
 - b. Defer action at this time on obtaining any lines of credit.
5. Mr. English presented planned improvements to the February billing cycle and procedures for assessing late payment penalties. The Committee concurred with these plans. He then explained the planned invoicing procedure to be followed between USAC and the Corporations. The Committee accepted his report.

There being no further business to attend to, the meeting was adjourned at 11:15 A.M.

Ed English
Secretary/Treasurer, USAC

Attachment 1 - Attendees

Name	Company
Lisa Rosenblum	USAC
Ed English	USAC
Ken Levy	NECA
Jim Frame	NECA
Ron Cook	NECA
Fred Hughes	NECA
Jim Rodda	MCI

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

EXECUTIVE COMMITTEE MEETING

Budget and Finance

April 6, 1998

MINUTES

A meeting of the Budget and Finance Committee of the Universal Service Administrative Company (USAC) was held via conference call on the above date. The meeting was called to order at 10:00 AM EDT by Edward English, Secretary and Treasurer of USAC.

Four Committee members were present, representing a quorum, as follows:	
Lynch, Donald	Gumper, Frank
Hogerty, Martha	Wheeler, Tom
Others present for various parts of the meeting are included in the list attached to these minutes as Attachment 1.	

1. Mr. English welcomed the Committee and called the roll. He explained that the purpose of the meeting was to:
 - a. select a Chair;
 - b. review topics included in the premeeting materials, and
 - c. recommend the 3rd Quarter USAC expense budget.
2. On a motion duly made and seconded, the Committee elected Donald Lynch as Chair. The Committee then unanimously approved the Minutes of the February 6, 1998 meeting.
3. Mr. English summarized the current status of the steps being taken to obtain credit lines. The banks want to know what priority will be given to creditors in the event of future shortfalls. Toward that end, it has been requested that counsel prepare an opinion letter on the treatment of unsecured creditors contained in either the orders or rules. The Committee decided to seek the opinion letter from counsel.

The FCC has not yet responded to USAC's request for borrowing authority. Mr. Levy indicated that the Commission probably would delegate to the Common Carrier Bureau authority to allow USAC to borrow to meet specific funding shortfalls on a quick turnaround basis. Mr. English suggested it would be helpful if the Commission's directive included language which would guarantee repayment to the lending institution through future fund contributions. The Committee discussed the merits of reducing payments to service providers as opposed to borrowing to meet shortfalls.

4. Mr. English summarized the current status of the collection effort as of March 31. Approximately 2% of the billed amount remains uncollected. Names of nonpayers have been turned over to the FCC for disposition. For purposes of the 3rd Quarter filing, it was decided that a recommendation will be made to include an amount for uncollectibles, representing staff's best estimate of the potential uncollectibles. Mr. Ricker will prepare an analysis for the full Board.
5. On a motion duly made and seconded, the Committee unanimously voted to recommend that one-fourth of the annual budget (\$1,231,000) be included in the filing for the 3rd Quarter contribution factors.
6. Mr. Hughes summarized for the Committee the requirement that USAC select an external auditor to perform an annual financial/operational audit for the corporation, and an Agreed Upon Procedures Audit under guidelines established by the Commission. The Committee requested that a Request for Proposal be prepared and circulated to prospective auditors. The Committee targeted the July 20 meeting of the Board to finalize the selection.
7. Mr. English summarized recent discussions with the Schools and Libraries Corporation (SLC) concerning the payment of invoices. SLC is making commitments based on annual funding. However, SLC may be required to approve disbursements which USAC has not yet collected. The Committee discussed the process to be followed if disbursement requests exceed available funds at USAC. The Committee differentiated between netters and non-netters. It was decided that the mechanism chosen should be neutral with regard to a service provider status as a contributor or non-netter. Staff would prepare a recommendation for the full Board to discuss.

Mr. Wheeler and Ms. Hogerty excused themselves from the meeting at 10:50 AM.

8. Mr. English informed the Committee that SLC would be requesting that USAC disburse funds directly to Schools and Libraries for the first 6 months of 1998. He explained that this could have a significant impact on operations. Mr. Gumper explained SLC rationale and that it would require discussion with the Commission before making the retroactive payments. The Committee decided to wait until SLC made its request.
9. Ms. Rosenblum discussed plans for providing compensation and benefits to the USAC CEO. The Committee approved seeking a full benefit package. The National Telephone Cooperative Association (NTCA) is providing benefits to NECA and SLC at a reasonable cost. The Committee requested that staff pursue a benefit package with NTCA.

There being no further business to attend to, the meeting was adjourned at 11:05 A.M.

Ed English
Secretary/Treasurer, USAC

Meeting Attachment 1 - Attendees:

Name	Company
Lisa Rosenblum	USAC
Heather Gold	USAC
Ken Levy	NECA
Jim Frame	NECA
Ron Cook	NECA
Fred Hughes	NECA
John Ricker	NECA
Jim Rodda	MCI

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

EXECUTIVE COMMITTEE MEETING

Budget and Finance

July 20, 1998

MINUTES

A meeting of the Budget and Finance Committee of the Universal Service Administrative Company (USAC) was held via conference call on the above date. The meeting was called to order at 9:05 AM EDST by Cheryl Parrino, CEO of USAC. Mr. English was asked to call the roll.

Three Committee members were present, representing a quorum, as follows:	
Gold, Heather	Gumper, Frank
Hogerty, Martha	
<u>Don Lynch joined the meeting in progress. Others present for various parts of the meeting are included in the list attached to these minutes as Attachment 1.</u>	

1. The Committee requested that Ms. Parrino act as the Chair in the absence of Mr. Lynch. Ms. Parrino welcomed the Committee and proceeded to go through the agenda. On a motion duly made and seconded, the Committee unanimously approved the Minutes of the April 6, 1998 meeting.
2. Ms. Parrino then presented the USAC Results of Operations for 1998. The Committee discussed the issue of uncollected receivables and the FCC's procedure to assist USAC in the collection effort. Mr. English indicated that the process of issuing Notices of Apparent Liability was not working as quickly as desired. The Committee requested that Ms. Parrino make contact with the appropriate staff at the FCC in an attempt to streamline the process. The Committee discussed interfund transfers between the high cost and low-income fund to make up for a shortfall due to delayed payment by a large IXC. Mr. English pointed out that the low-income fund was reimbursed with interest as soon as funds became available. The Committee discussed overages in the High Cost and Low Income funds. Mr. Ricker pointed out that funding levels would be reduced in the 3rd and 4th quarter to bring receipts and disbursements more in line.
3. Mr. Lynch joined the meeting and assumed the Chair. Ms. Parrino then presented the revised budget for the balance of 1998. She explained that reallocations had been made out of various categories and into the Data Systems Development line to support systems work necessitated by changing FCC requirements. Overall spending is still projected to be within the original budget. After a brief discussion, on a motion duly made and seconded, the Committee unanimously adopted the following resolution:

RESOLVED , that the Budget and Finance Committee recommends that the USAC Board adopt a 4th Quarter budget for USAC of \$1,231,000.

4. The Committee then reviewed a letter to Mr. English from James D. Schlichting, Deputy Chief, Common Carrier Bureau of the FCC. The letter requested that USAC refrain from commercial borrowing while the Commission was examining the applicability of the Antideficiency Act to USAC's operations.
5. Ms. Parrino advised the Committee of the status of the Request For Proposal for external auditing. Upon approval of the audit plan by the FCC, USAC would put the audit out to bid.
6. The Committee then addressed two policy issues related to administration of the programs. Mr. Ricker presented the issues.
 - a. The first issue concerned non-netting contributors that owed monies to the funds and were also due money from the funds. The Committee agreed with the staff recommendation that these entities be forced to net contributions with payments until their accounts were no longer in arrears. It was decided to recommend that the full Board request that the FCC approve this treatment.
 - b. The second issue addressed the determination of De minimus status. The Committee concluded that a six month test using a \$5,000 threshold was what the rules intended and that there would be no retroactive treatment during a calendar year for any entity whose status changed during the year. It was decided to recommend that the full Board request that the FCC approve this treatment.

There being no further business to attend to, Mr. Lynch adjourned the meeting at 10:55 AM.

Ed English
Secretary/Treasurer, USAC

Meeting Attachment 1 - Attendees:

Name	Company
Jim Rodda	MCI
Dick Lavery	GTE
Robert Haga	NECA
John Anthony Butler	USAC Board
John Ricker	NECA
Cheryl Parrino	USAC Board
Ed Eichler	USAC Board
Ken Levy	NECA
Allan Thoms	USAC Board
Kevin Hess	USAC Board

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

EXECUTIVE COMMITTEE MEETING

Budget and Finance

August 21, 1998

MINUTES

A meeting of the budget and finance Committee of the Universal Service Administrative Company (USAC) was held via conference on August 21, 1998. The meeting was called to order at 2:37 p.m. CST by Cheryl Parrino, CEO of USAC. Cathy Howard, Cheryl Parrino's executive assistant, was asked to call the roll.

Two committee members were present:	
Lynch, Don	Gumper, Frank
Martha Hogerty joined the call after it had adjourned; however, she agreed with the motion. Tom Wheeler was absent.	
Ed English was also on the call.	

1. The Committee discussed the lease for the building located at 2120 L Street, Washington, D.C., that is being proposed to house the staff of USAC, Schools and Libraries Corporation, and Rural Health Care Corporation. After a brief discussion, Frank Gumper made the following motion which Don Lynch seconded:

RESOLVED, that the Budget and Finance Committee recommends that the USAC board authorize USAC's CEO to enter into a five-year lease with the Gelman Building Limited Partnership at 2120 L Street, N.W., Washington, D.C., beginning on January 1, 1999.

The Committee voted unanimously to adopt the resolution.

The meeting was adjourned at 2:49 p.m. CST.

Robert W. Haga
Acting Secretary/Treasurer

Date

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING****Budget and Finance****October 19, 1998****MINUTES**

A meeting of the Budget and Finance (B&F) Committee of the Universal Service Administrative Company (USAC) was held at the Ronald Reagan Building/The International Trade Center, 1300 Pennsylvania Avenue, N.W., Washington, D.C., on Monday, October 19, 1998. The meeting was called to order at 2:34 p.m. EDT by Donald Lynch, Chair. Ms. Cathy Howard, executive assistant to Cheryl Parrino (CEO of USAC), acting as Secretary to the Committee, called the roll.

Four members were present, representing a quorum, as follows:	
Gumper, Frank	Lynch, Donald
Hogerty, Martha	Wheeler, Tom
Officers of the Corporation present:	
English, Ed – Secretary/Treasurer	Parrino, Cheryl - CEO
Others present for the meeting:	
Name	Company
Becker, Howard	Deloitte & Touche
Garman, Matthew	Arthur Andersen LLP
Haga, Robert	USAC
Harrison, Gina	NECA
Hughes, Fred	NECA
Jones, David	Deloitte & Touche
Kennedy, Harold	KPMG
Kiser, Cherie	Mintz, Levin, Cohn, et al.
Levy, Ken	NECA
Magruder, Lora	NECA
Mai, Louis	KPMG
Mayer, Robert	KPMG
Patel, Darshen	Deloitte & Touche

Perrone, Joseph	Arthur Andersen LLP
Ricker, John	NECA
Rodda, Jim	MCI WorldCom
Smith, Richard P.	FCC
Webber, Sharon	FCC

1. **Approval of minutes of Monday, July 20, 1998, and Friday, August 21, 1998 -**
On a motion duly made and seconded, the Committee unanimously approved the minutes, as distributed, of the July 20, 1998, and August 21, 1998, Committee meetings.
2. **Selection of Public Accounting Firm for Performance of the 1998 USAC Audit -** This item was laid over to Executive Session.
3. **Contingency for Administration of the Benchmark Proxy Model -** Ms. Parrino referred the Committee to the resolution included in this agenda item memo that recommends that the 1999 budget include a contingency for the 1st Quarter estimated costs of running the Benchmark Proxy Model should the FCC determine that USAC should run the model.
4. On a motion duly made and seconded, the B&F Committee unanimously adopted the following resolution:

RESOLVED, That the USAC Budget and Finance Committee recommends that the 1999 Budget include an estimate of \$500,000 in the first quarter for the cost of running the Benchmark Proxy Model.

5. **1999 Budget and Resolution on 1st Quarterly Budget -** Ms. Parrino presented the 1999 1st Quarter budget. She provided a revised Attachment A noting that the percentage amount under the Total line should be 21 percent, NOT .21 percent as originally noted. The 21 percent increase in spending is due to the addition of staff, support help, increased insurance, and auditing costs offset by a reduction in systems development. She noted that it is a stand-alone budget and does not reflect the proposed merger of the USAC, SLC, and RHCC. If the merger is approved, a combined budget will be presented at the January board meeting.

On a motion duly made and seconded, the B&F Committee unanimously adopted the following resolution:

RESOLVED, That the USAC Budget and Finance Committee, having received the budget assumptions and projections, recommends that the USAC Board of Directors adopt a 1st Quarter Budget for USAC of \$1,583,700. This amount will increase if the USAC Board of Directors approves the inclusion of an estimate for running the Benchmark Proxy Model.

6. **1st Quarter 1999 Revenue Projection and Resolution on November 2, 1998, Filing with the FCC for the 1st Quarter of 1999 -** Mr. Ricker gave up-to-date revised figures for Attachment A. (See Attachment A - revised fields are shaded.) Ms. Parrino told the Committee that USAC has shared with Mr. Lee Bailey, president of the Rural Health Care Corporation (RHCC), the amount of money collected to date

for RHCC and that significantly more than is projected to be committed has been collected.

On a motion duly made and seconded, the B&F Committee unanimously adopted the following resolution:

RESOLVED, That the USAC Budget and Finance Committee, having reviewed a summary of the current status of telecommunications service provider revenues for January through June 1998 at its meeting on October 19, 1998, recommends to the USAC Board of Directors that the staff be authorized to proceed with the required November 2, 1998, filing on behalf of USAC.

- 7. Form 457 Late Filing Penalty** - Mr. Ricker informed the Committee that companies are not submitting the FCC Form 457 on time or are submitting inaccurate data. This has been a continual problem. Less than half of the companies filed on time for the last filing period. The FCC has granted USAC the authority to impose late filing penalties. Ms. Parrino presented information that she gathered regarding other federal/state agencies that charge penalties: Internal Revenue Service; Department of Labor; Department of Interior; and some states. The Committee was also informed that the wireless industry has very strict deadlines and based on those, the proposed penalties as outlined in the agenda item memo seem feasible and reasonable. It was suggested that the penalties should increase by the number of days the filing is late. The Committee committed to evaluate and review the effectiveness of the penalties once instituted and determine if revisions are necessary.

On a motion duly made and seconded, the B&F Committee unanimously adopted the following resolution:

RESOLVED, That the USAC Budget and Finance Committee recommends that the USAC Board of Directors adopt the Form 457 Late Filing Penalty Schedule as stated below and direct staff to notify the carriers of the penalties:

Form 457 Late Filing Penalty:

(Applicable to March 1, 1999, data collection and all future periods)

Grace Period of 5 business days

Rate = .00005 applied to total end-user billed revenue

Minimum Late Filing Penalty = \$100 Maximum Late Filing Penalty = \$5,000 Director-Level (staff) approval needed to waive penalty - extenuating circumstances

- 8. Follow-up to FCC Letter on Treatment of De Minimis Status** - Mr. Lynch informed the Committee that the High Cost and Low Income (HC/LI) Committee felt that refunds should be given back as soon as possible and suggested that since the FCC allows USAC to transfer monies between funds, this should be done in order to cover the refunds. Mr. Lynch suggested that the B&F Committee change the wording of the resolution to incorporate the need to refund the money as soon as possible and to include recovery of the refunds in the 1st Quarter.

On a motion duly made and seconded, the B&F Committee unanimously adopted the following resolution:

RESOLVED, That the Budget and Finance Committee, having reviewed at its meeting on October 19, 1998, a summary of the current status of the de minimis issues which have been brought to the attention of the FCC, recommends that the USAC Board of Directors direct the staff to proceed with the inclusion of the funding requirements for refunds due to changes in the de minimis status of carriers in the November 2, 1998, filing. The Budget and Finance Committee further recommends that the staff be directed to process the required refunds as soon as possible. The Budget and Finance Committee recognizes that inter-fund transfers will be necessary to allow these refunds to be issued.

9. **Report on Accounts Receivable** - Mr. Ricker reviewed the outstanding USAC accounts receivable balances. The total outstanding balance of \$27,915,137.19 is at approximately the same level it was in July when amounts were last reported to the Committee. He provided an analysis of accounts receivable which indicated that 50 percent of the outstanding balance is owed by switchless toll resellers.
10. **Report on Collection Efforts of USAC and the FCC** - Ms. Parrino reported on the collection efforts of USAC and the FCC thus far to pursue those carriers that have not paid their Universal Service bills promptly. She said that a number of approaches have been tried and several more suggestions made since the last report in July. Ms. Parrino reviewed these approaches as outlined in the agenda item memo. The Committee directed staff to determine if USAC can place a lien on a nonpaying carrier. The staff will bring a recommendation to the next quarterly B&F Committee meeting in January 1999.
11. **Report on the Status of Mandatory Netting for Nonpayers** - Ms. Parrino gave a report of her meetings with the FCC to clarify USAC's authority to withhold payment of support amounts from carriers that have failed to make their required monthly contribution to the Universal Service Fund, the action that has been taken since the last board meeting, and the status of the Request for Clarification, as outlined in the agenda item memo.
12. **Miscellaneous** - Mr. Robert Haga provided information to the Committee regarding two items on the FCC's agenda for its October 22, 1998, Commission meeting.

Executive Session Issues:

Agenda Item #2 - Selection of Public Accounting Firm for Performance of the 1998 USAC Audit - Three companies were present at the B&F Committee meeting to present their proposals for the performance of the 1998 USAC audit. The three companies were Deloitte Touche, Arthur Andersen, and KPMG Peat Marwick. Mr. Lynch allowed each company 10 minutes to make their presentation before the B&F Committee and 10 minutes for questions and answers.

On a motion duly made and seconded, the B&F Committee unanimously adopted the following resolution:

RESOLVED, That the Budget and Finance Committee, having requested proposals from six independent public accounting firms and having reviewed all three proposals submitted in response to that request, recommends that the USAC Board of Directors engage Arthur Andersen for the 1998 USAC Audit of its financial statements and an agreed-upon procedures audit of its internal control environment. The Committee recommends that USAC seek further direction from the FCC regarding the recommended scope of the review of the underlying carrier data reported in Form 457. USAC should request Arthur Andersen to

include that scope of review in its audit program. The Committee recommends that the Board engage NECA for the review of the Low Income Program information.

There being no further business to attend to, Mr. Lynch adjourned the meeting at 4:50 p.m. EDST.

Ed English
Secretary/Treasurer, USAC