

2002 Executive Committee Meetings Minutes

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING**

January 17, 2002

MINUTES

The quarterly meeting of the Executive Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at USAC, 2120 L Street, N.W., Suite 600, Washington, DC, on Thursday, January 17, 2002. Mr. Frank Gumper, Chair of the Committee, called the meeting to order at 2:03 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the CEO of USAC, called the roll on behalf of Mr. Edwin Eichler, USAC Secretary.

Five of the nine members (there are four vacancies) were present, representing a quorum.	
Bryant, Anne - <i>by telephone</i>	Parrino, Cheryl - <i>by telephone</i>
Eichler, Ed - <i>by telephone</i>	Sanders, Dr. Jay - <i>by telephone</i>
Gumper, Frank - <i>by telephone</i>	
Other Board members and officers of the Corporation present:	
Gonzalez, Dan - Board member - <i>by telephone</i>	Barash, D. Scott - Assistant Secretary
Lubin, Joel - Board member - <i>by telephone</i>	Haga, Robert - Assistant Treasurer
Rivera, Robert - Board member - <i>by telephone</i>	
Others present for the meeting:	
Blackwell, Mel -USAC	McDonald, George -USAC
Flannery, Irene -USAC	Scott, Wayne -USAC
Howard, Cathy -USAC- <i>by telephone</i>	

Action Items

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Committee approved the minutes as distributed of the Executive Committee meetings of Thursday, October 18, 2001, and Tuesday, November 20, 2001.
- a2. Approval of Annual 2002 and 2nd Quarter 2002 USAC Common and Consolidated Budgets.** Ms. Parrino reviewed the 2nd Quarter 2002 budget and estimated 2002 annual budget. She noted that the annual 2002 budget estimate is

higher than last year's budget due mainly to the anticipated implementation of additional components of the High Cost Support Mechanism, a continued increase in audit activity, and the proposed addition of several new USAC staff members to be hired this year. Ms. Parrino clarified that the rent line item will increase considerably in 2002 in anticipation of either expanding the USAC Washington, DC office or moving to a new site due to over-crowding conditions. Staff is investigating options to address USAC's office space needs.

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

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

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

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

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

- a3. Approval of 2nd Quarter 2002 Revenue Projections and Resolutions for the March 2, 2002, FCC Filing.** Mr. Haga reported that final numbers are not yet available. Therefore, in accordance with the procedure approved by the Board of Directors, the figures presented to the Committee were taken from last quarter's revenue data filing with the FCC and will be revised before the March 2002 filing date. If the final numbers are outside the variance threshold of \$1.25 billion established by the Board, Mr. Gumper stated that a meeting of the Executive Committee would be held before the filing due date in order to approve the filing. However, Mr. Haga said that staff does not expect the final numbers to exceed the variance threshold.

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

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

- a4. Miscellaneous.** None.

Information Items

- i1. Assistant Treasurer's Report.** Mr. Haga reported that cash continues to accumulate in the Universal Service Fund. Interest earned in fourth quarter 2001 was less than projected. Mr. Haga noted that the fourth quarter 2001 projections were made in July

2001, before the impact of the September terrorist events, which in turn negatively affected the overall investment market and interest rates.

- i2. Status of Transition to PricewaterhouseCoopers and LaSalle Bank for Financial Support Services for USAC.** Mr. Haga informed the Committee that most aspects of the transition have gone smoothly. The banking functions are being performed well by LaSalle. However, some significant issues that have been identified will likely require modifications to the contract between USAC and PricewaterhouseCoopers. Staff expects the transition to be completed during the second quarter of 2002. Ms. Parrino explained that the expected costs associated with contract changes that may be necessary are included in the budget.
- i3. USAC Internal Audit Plan and Approach and Status Report on USAC Audits; Status Report on the FCC's Fiscal Year 2001 Financial Audit of the Universal Service Fund - Confidential & Proprietary - Executive Session.** Mr. Gumper explained that staff has information concerning two audits that staff recommends should be discussed in Executive Session in accordance with guidelines previously approved by the Board. The Schools and Libraries Support Mechanism matter involves a pending investigation that should remain confidential. Discussion concerning the FCC financial audit relates to pre-decisional matters that, in addition, may implicate the attorney-client privilege.

On a motion duly made and seconded, the Committee adopted the following resolution.

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

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

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

Ms. Parrino introduced to the Committee USAC's new Director of Internal Audit, Wayne Scott. Mr. Scott reviewed the Internal Audit Development Plan. He assured the Committee that measures and benchmarks would be established so that staff will be able to determine whether USAC is saving money by following this plan.

- i4. Report on Pending Litigation.** Mr. Barash reported that USAC staff has implemented two of the three settlements approved by the USAC Board of Directors at its October 2001 meeting.
- i5. Review of Revised Contracting and Bidding Timetable for the High Cost & Low Income Support Mechanisms Support Services - Confidential & Proprietary - Executive Session.** In accordance with the guidelines regarding Executive Session approved by the USAC Board of Directors, Mr. Barash recommended that discussion of modifications to USAC's contracting and bidding timetable should be conducted in Executive Session because public disclosure at this time of the matters discussed in this paper, which relate to USAC's procurement strategy and contract negotiations, would compromise USAC's negotiation strategy to the detriment of the Corporation and the Universal Service Support Mechanisms.

On a motion duly made and seconded, the Committee adopted the following resolution.

RESOLVED, That the USAC Executive Committee determines that discussion of modifications to USAC's contracting and bidding timetable shall be conducted in Executive Session.

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

i6. Miscellaneous. None.

At 2:48 p.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above.

Executive Session

i3. USAC Internal Audit Plan and Approach and Status Report on USAC Audits; Status Report on the FCC's Fiscal Year 2001 Financial Audit of the Universal Service Fund - Confidential & Proprietary - Executive Session. Mr. Scott briefed the Committee on the status of the FCC's fiscal year 2001 financial audit of the Universal Service Fund. Mr. McDonald and Mr. Barash briefed the Committee on the status of an investigation of a Schools and Libraries Support Mechanism beneficiary.

i5. Review of Revised Contracting and Bidding Timetable for the High Cost & Low Income Support Mechanisms Support Services - Confidential & Proprietary - Executive Session. Ms. Flannery briefed the Committee on modifications to USAC's contracting and bidding timetable that are being proposed.

The Committee adjourned from Executive Session and reconvened in open session at 3:15 p.m. to report the discussions of the Committee during Executive Session.

There being no further business to attend to, Mr. Gumper adjourned the meeting at 3:16 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

EXECUTIVE COMMITTEE MEETING

February 26, 2002

MINUTES

The Executive Committee of the Universal Service Administrative Company (USAC) Board of Directors took action on Tuesday, February 26, 2002, on a resolution to approve the settlement of pending litigation involving the Universal Service Support Mechanisms. The Committee approved the following resolution by facsimile ballot sent by Ms. Cathy Howard, Executive Assistant to the CEO, on behalf of Mr. Jimmy Jackson, USAC Secretary. The signed ballots are included as an attachment to these minutes.

Six of the eight members submitted signed ballots (there is one vacancy), representing a quorum.	
Eichler, Ed	Parrino, Cheryl
Jackson, Jimmy	Sanders, Dr. Jay
Lubin, Joel	Talbott, Dr. Brian
One member did not submit a ballot:	
Gumper, Frank	

Action Items

a1. Settlement of Pending Litigation Involving the Universal Service Support Mechanisms - Confidential & Proprietary. USAC has been in litigation with VoCall Communications, Inc. in bankruptcy court since November 2001. The litigation relates to the amount of USAC's claim against VoCall for unpaid universal service funds. On February 25, 2002, counsel for VoCall offered USAC a settlement for less than the amount due. After reviewing the settlement proposal and the burdens associated with pursuing this case further, USAC staff advises the Committee that it would be in USAC's best interest to accept VoCall's offer and avoid the bankruptcy court trial on USAC's claim scheduled for February 27, 2002. FCC's Office of the General Counsel and Common Carrier Bureau staff concurred with USAC staff's conclusion. The USAC Executive Committee approved the following resolution through means of signed ballots:

RESOLVED, That the USAC Executive Committee authorizes staff to proceed with the settlement of USAC's claim in the bankruptcy proceeding involving VoCall Communications, Inc., in accordance with the terms and conditions set forth in the analysis as presented by staff in the issue paper of this same date.

Six of the eight members of the Executive Committee voted, representing a quorum, with the following results: YES = 6 NO = 0.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING**

February 27, 2002

MINUTES

A meeting of the Executive Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at USAC, 2120 L Street, NW, Suite 600, Washington, DC, on Wednesday, February 27, 2002. Mr. Frank Gumper, Chair of the Committee, called the meeting to order at 10:02 a.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the CEO of USAC, called the roll on behalf of Mr. Jimmy Jackson, USAC Secretary.

Seven of the eight members were present (there is one vacancy), representing a quorum:	
Eichler, Ed - <i>by telephone</i>	Parrino, Cheryl
Gumper, Frank	Sanders, Dr. Jay - <i>by telephone</i>
Jackson, Jimmy - <i>by telephone</i>	Talbott, Dr. Brian
Lubin, Joel - <i>by telephone</i>	
Other Board members and Officers of the Corporation present:	
Gregg, Billy Jack - Board member - <i>by telephone</i>	Barash, Scott D. - Assistant Secretary
Haga, Robert - Assistant Treasurer	

Others present for the meeting:	
Name	Company
Blackwell, Mel	USAC
Kaplan, Dan	Andersen LLP
Duffy, Tom	Andersen LLP
Flannery, Irene	USAC
Guiltinan, Barbara	Andersen LLP
Howard, Cathy - <i>by telephone</i>	USAC
McDonald, George	USAC
Scott, Wayne	USAC

Action Items:

a1. Approval of USAC 2001 Annual Report to the FCC and Congress. Mr. Blackwell stated that he has received and incorporated changes from our auditors at Andersen, as well as from Board members and USAC staff. He said that there is still time to incorporate other changes but that he needs changes as soon as possible in order to make the March 31, 2002, deadline. He said that approximately 2,000 copies of the report would be printed and distributed to the FCC, Congress, USAC Board members, vendors, customers, and other interested parties.

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

RESOLVED, That the USAC Executive Committee approves the USAC 2001 Annual Report to the FCC and Congress and directs USAC staff to provide a copy to the FCC and Congress by March 31, 2002, and further directs USAC staff to provide each Board member with a copy of the final 2001 Annual Report.

a2. Miscellaneous.

- **Review and Approval of Changes to USAC CEO's Compensation - Confidential & Proprietary - Executive Session.** In accordance with the *Executive Session* guidelines approved by the USAC Board of Directors, Mr. Gumper recommended that discussion of changes to the USAC CEO's compensation be conducted in *Executive Session* because it is an internal personnel matter concerning a specific individual.

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

RESOLVED, That the USAC Executive Committee determines that review and approval of changes to the USAC CEO's compensation shall be conducted in *Executive Session*.

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

- **Approval of 2nd Quarter 2002 Revenue Projections and Resolution for the March 1, 2002, FCC Filing.** Mr. Haga reported that preliminary figures indicate that the interstate and international revenue reported for the fourth quarter of 2001 would be approximately \$19,113.694 million, which is \$1,336.598 million less than the preliminary number approved by the USAC Board of Directors on January 24, 2002. At that time, the Board authorized staff to make additional adjustments within a \$1.25 billion variance threshold, with the stipulation that if the adjustment falls outside the variance, staff must request approval from the USAC Executive Committee before submitting the filing to the FCC. Since the updated number falls outside the approved variance threshold, Executive Committee action is required before staff may make the quarterly contribution base filing. Mr. Haga stated that final numbers are due on February 28 but that in the three previous times USAC has undertaken this process there was not much of a change between the preliminary and final figures. Therefore, staff is only requesting a \$100 million variance from the preliminary figure approved today.

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

RESOLVED, That the USAC Executive Committee, having reviewed a summary of the current status of the March 1, 2002, FCC filing requirements, authorizes staff to proceed with the required March 1, 2002, filing to the FCC on behalf of USAC. Staff may make additional adjustments within a \$100 million variance threshold.

Information Items:

i1. Andersen Update - Confidential & Proprietary - Executive Session. In accordance with the **Executive Session** guidelines approved by the USAC Board of Directors, Ms. Parrino stated that USAC management recommends that a briefing for the Committee by Andersen LLP, USAC's external auditors, on Andersen's auditing relationship with Enron and on the steps Andersen is taking to address the Enron matter; and that a briefing by Ms. Parrino on Andersen personnel issues in connection with the USAC audits, be discussed in **Executive Session**. Ms. Parrino indicated that although this proposed briefing by Andersen does not fit squarely within the specific guidelines approved by the Board, conducting the briefing in **Executive Session** is in the overall best interests of USAC under the unique circumstances presented here. She informed the Committee of her belief that the information Andersen will share with the Committee will assist Committee members in fulfilling their fiduciary obligations to USAC. One of the matters that will be put before the Committee in this discussion is whether to retain certain Andersen personnel on our engagement. Discussion of *internal personnel matters concerning a specific individual* can be conducted in **Executive Session** under USAC's guidelines. The proposed discussion does not relate to an "internal" personnel matter, but it does relate to specific individuals working on USAC's engagement with Andersen. Because of the sensitivity of discussing specific individuals, **Executive Session** is appropriate on that basis as well.

Several Committee members expressed concern regarding conducting Andersen's briefing in **Executive Session**. Based on Committee sentiment, Mr. Gumper suggested that the Committee be briefed by Andersen in open session, but that the Committee go into **Executive Session** for the briefing by Ms. Parrino on the Andersen personnel issues in connection with USAC audits being performed by Andersen. The Committee agreed with this approach.

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

RESOLVED, That the USAC Executive Committee determines that discussion of Andersen personnel issues in connection with the USAC audits being performed by Andersen shall be conducted in *Executive Session*.

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

i2. Miscellaneous.

- **Update on the USAC Executive Committee Ballot Vote on February 26, 2002, concerning the Settlement with VoCall Communications Inc.** In accordance with the **Executive Session** guidelines approved by the USAC Board of Directors, Mr. Barash stated that USAC management recommends that an update on the settlement made with VoCall Inc. be discussed in *Executive Session* because this item involves discussion of USAC's legal strategy in

litigation to which USAC is a party. Discussion of these matters is subject to the *attorney-client privilege* upon which USAC has sought the advice of counsel, and discussion of these matters in open session would compromise the continued applicability of the attorney-client privilege and would compromise the ability of USAC to conduct litigation effectively.

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

RESOLVED, That the USAC Executive Committee determines that discussion of the settlement with VoCall Communications Inc. shall be conducted in *Executive Session*.

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

At 10:33 a.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above. The Committee adjourned from **Executive Session** and reconvened in open session at 10:50 p.m. to report the discussions and actions of the Committee during **Executive Session**.

Executive Session:

i2. Miscellaneous.

- **Update on the USAC Executive Committee Ballot Vote on February 26, 2002, concerning the Settlement with VoCall Communications Inc.** Mr. Barash reported that six of the seven current members of the Executive Committee submitted signed ballots on February 26, 2002, and that the vote was unanimous to accept the settlement offer of VoCall. He reviewed the terms of the settlement and the reasons for accepting it. Mr. Barash further stated if the bankruptcy court approves the settlement, the settlement should be executed by the close of business as the date of this meeting.

Before discussion and action on the next item, Mr. Gumper requested all persons other than Committee members and the minute-taker to leave the meeting.

a2. Miscellaneous.

- **Review and Approval of Changes to USAC CEO's Compensation - Confidential & Proprietary - Executive Session.** Mr. Gumper explained that in the past the Executive Committee determined to keep the CEO's compensation equal to the Federal Executive Level I salary cap. That cap increased since last year, therefore, Mr. Gumper recommended that the CEO's salary increase to match the cap.

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

RESOLVED, That the USAC Executive Committee will take the necessary steps to revise the USAC CEO's compensation payments for 2002 consistent with the Federal Executive Level I salary cap.

The Committee members extended their appreciation to the CEO for the excellent job she is doing.

At this point in the meeting, Mr. Gumper invited the USAC staff members to rejoin the meeting.

- i1. Andersen Update - Confidential & Proprietary - Executive Session.** Ms. Parrino briefed the Committee on the history of Andersen personnel who have worked on USAC audits as part of the Andersen audit team as well as on the personnel of the current team and the capabilities of the team to successfully perform the USAC financial audits.

Open Session:

- i1. Andersen Update.** Three staff members from Andersen joined the meeting at this point: Mr. Dan Kaplan, Ms. Barbara Guiltinan, and Mr. Tom Duffy. Mr. Kaplan and Ms. Guiltinan are members of the Andersen USAC audit team. Mr. Duffy is not a member of the team nor is he directly involved in the audits; he is involved in the technical operations of Andersen. Mr. Duffy gave a presentation to the Committee focusing on two objectives: (1) Specific actions taken and changes made by Andersen in response to the Enron audit; and (2) Andersen's document retention policy. Mr. Kaplan further stated that Andersen has been meeting with each of their clients as they are doing today with the Committee in an effort to address any concerns the clients may have and to share with them the changes that Andersen is making to improve its service.

There being no further business, Mr. Gumper adjourned the meeting at 11:46 a.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

EXECUTIVE COMMITTEE MEETING

February 28, 2002

MINUTES

The Executive Committee of the Universal Service Administrative Company (USAC) Board of Directors took action on Thursday, February 28, 2002, on a resolution to approve the 2nd Quarter 2002 revenue projections and resolution for the March 1, 2002, FCC Filing. The Committee approved the following resolution by facsimile ballot sent by Ms. Cathy Howard, Executive Assistant to the CEO, on behalf of Mr. Jimmy Jackson, USAC Secretary. The signed ballots are included as an attachment to these minutes.

Six of the eight members submitted signed ballots (there is one vacancy), representing a quorum.	
Eichler, Ed	Parrino, Cheryl
Gumper, Frank	Sanders, Dr. Jay
Lubin, Joel	Talbott, Dr. Brian
One member did not submit a ballot:	
Jackson, Jimmy	

Action Items:

- 1. Final Approval of 2nd Quarter 2002 Revenue Projections and Resolution for the March 1, 2002, FCC Filing.** On February 27, 2002, the USAC Executive Committee authorized staff to proceed with the filing of quarterly contribution base information for the 2nd Quarter 2002 submission to the FCC that is due on March 1, 2002. At that time, the Committee authorized staff to make additional adjustments within a \$100 million variance threshold. Because the final contribution base exceeds the \$100 million threshold by approximately \$5.32 million, Executive Committee review and approval is again required. Because of the time needed to compile the final figures, the Committee could not convene for a meeting. Therefore, staff circulated written ballots to Committee members to indicate their approval of the resolution set forth below. The USAC Executive Committee approved the following resolution through means of signed ballots:

RESOLVED, That the USAC Executive Committee, having reviewed a summary of the March 1, 2002, FCC contribution base filing requirements as of February 28, 2002, authorizes staff to proceed with the required March 1, 2002, filing to the FCC on behalf of USAC.

Six of the eight members of the Executive Committee voted, representing a quorum, with the following results: YES = 6 NO = 0.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

EXECUTIVE COMMITTEE MEETING

March 28, 2002

MINUTES

A meeting of the Executive Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at USAC, 2120 L Street, NW, Suite 600, Washington, DC, on Thursday, March 28, 2002. Mr. Frank Gumper, Chair of the Committee, called the meeting to order at 3:31 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the CEO of USAC, called the roll on behalf of Mr. Jimmy Jackson, USAC Secretary.

Six of the eight members were present (there is one vacancy), representing a quorum:	
Eichler, Ed - <i>by telephone</i>	Lubin, Joel - <i>by telephone</i>
Gumper, Frank - <i>by telephone</i>	Parrino, Cheryl - <i>by telephone</i>
Jackson, Jimmy - <i>by telephone</i>	Sanders, Dr. Jay - <i>by telephone</i>
One Board member was unable to connect to the conference call due to technical difficulties:	
Talbott, Dr. Brian	
Other Board members and Officers of the Corporation present:	
Rivera, Robert - Board member - <i>by telephone</i>	Barash, D. Scott - Assistant Secretary
Others present for the meeting:	
Name	Company
Howard, Cathy - <i>by telephone</i>	USAC
Scott, Wayne	USAC

Action Items

- a1. Retention of Andersen LLP.** In response to an inquiry from the Chair, Mr. Barash stated that discussion and action on this matter concerning continued retention of Andersen LLP (Andersen) does not fall under the guidelines as approved by the USAC Board for going into **Executive Session** and that staff is not recommending an **Executive Session**. The Committee agreed.

Ms. Parrino explained that in light of both the indictment against Andersen in the Enron case and a directive from the General Services Administration (GSA) to federal agencies not to engage Andersen for any audits in the immediate future, USAC staff

felt it important to review USAC's current engagements with Andersen and determine a course of action for each engagement. USAC has four engagements with Andersen for audit work, all of which are 50 percent or more complete: (1) December 31, 2001 financial audit; (2) December 31, 2001, agreed upon procedures review; (3) Year 2 beneficiaries audit for the Schools and Libraries Support Mechanism; and (4) one beneficiary review requested by the FCC. USAC staff deems it advisable for Andersen to complete these audits as it would be very costly to USAC to hire and train a new audit firm and a new firm would not likely be able to complete the financial and agreed upon procedures review by the April 15 deadline. In addition, Ms. Parrino informed the Committee that the Andersen partners have assured USAC that they will complete the work.

Ms. Parrino further explained that as reported to the Committee at its January 17, 2002, quarterly meeting, USAC had been prepared to engage Andersen to perform an audit of USAC's 2000 universal service contributor revenue reports. USAC staff has been working with Andersen on an audit plan and the scope of work, but USAC staff now advises against continuing the work with Andersen. In response to a question from a Committee member, Mr. Barash indicated that because USAC has not entered into an engagement agreement with Andersen for this work, and because staff has already consulted with Andersen regarding this matter, a breach of contract claim by Andersen is not anticipated.

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

RESOLVED, That the USAC Executive Committee authorizes USAC to continue to engage Andersen LLP to complete the following in-progress audits: December 31, 2001, financial audit; December 31, 2001, agreed upon procedures review; Year 2 beneficiaries audit for the Schools and Libraries Support Mechanism; and one beneficiary review requested by the FCC; and

RESOLVED FURTHER, That the USAC Executive Committee directs USAC to engage a firm other than Andersen LLP to conduct an audit of USAC's 2000 contributor revenue reports; and

RESOLVED FURTHER, That the USAC Executive Committee directs that USAC not engage Andersen LLP on other audits in the immediate future.

There being no further business, Mr. Gumper adjourned the meeting at 3:43 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING**

April 18, 2002

MINUTES

The quarterly meeting of the Executive Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at USAC, 2120 L Street, NW, Suite 600, Washington, DC, on Thursday, April 18, 2002. Mr. Frank Gumper, Chair of the Committee, called the meeting to order at 2:03 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the CEO of USAC, called the roll on behalf of Mr. Jimmy Jackson, USAC Secretary.

Six of the seven members were present, representing a quorum.	
Gumper, Frank - <i>by telephone</i>	Parrino, Cheryl - <i>by telephone</i>
Jackson, Jimmy - <i>by telephone</i>	Sanders, Dr. Jay - <i>by telephone</i>
Lubin, Joel - <i>by telephone</i>	Talbott, Brian - <i>by telephone</i>
One member joined the meeting in progress:	
Eichler, Ed - <i>by telephone</i>	
Other Board members and officers of the Corporation present:	
Barash, D. Scott - Assistant Secretary	Haga, Robert - Assistant Treasurer
Others present for the meeting:	
Name	Company
Beaver, Tracey	USAC
Blackwell, Mel	USAC
Flannery, Irene	USAC
Gallant, Pam	USAC
Howard, Cathy - <i>by telephone</i>	USAC
McDonald, George	USAC
Miller, Linda - <i>by telephone</i>	USAC
Scott, Wayne - <i>by telephone</i>	USAC

Action Items

a1. Approval of the Minutes. On a motion duly made and seconded, the Committee approved the minutes as distributed of the Executive Committee meetings of Thursday, January 17, 2002; Tuesday, February 26, 2002; Wednesday, February 27, 2002; Thursday, February 28, 2002; and Thursday, March 28, 2002.

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

a2. Election of Officers. Ms. Parrino stated that there are five resolutions before the Board for approval: one housekeeping resolution and four resolutions regarding establishing the USAC Vice President positions as officers of the corporation. She explained the reasons for her recommendations regarding designating the Vice President positions as officers of the corporation.

Mr. Gumper explained that the title of President was a term used before the merger and, as those positions became vacant, USAC left them so. In response to an inquiry, Ms. Parrino said that the current Vice Presidents were informed of the proposed changes to their positions and are all in agreement with the recommendations. Mr. Jackson proposed a slight modification to the language of the fourth resolution to more accurately reflect the intent of the resolution. The Committee concurred with the amendment.

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

RESOLVED, That the USAC Executive Committee recommends that the USAC Board of Directors approve the elimination of the following three senior officer positions: (1) President of the High Cost and Low Income Division; (2) President of the Rural Health Care Division; and (3) President of the Schools and Libraries Division; and

RESOLVED FURTHER, That the USAC Executive Committee recommends that the USAC Board of Directors establish the following six senior officer positions of the Corporation: (1) Vice President, Finance; (2) Vice President and General Counsel; (3) Vice President, High Cost and Low Income Division; (4) Vice President, External Communications and Rural Health Care Division; (5) Vice President, Schools and Libraries Division; and (6) Vice President, Strategic Planning and USAC Operations; and

RESOLVED FURTHER, That the USAC Executive Committee recommends that the USAC Board of Directors determine that each Vice President shall report to the Chief Executive Officer and shall have such powers and duties as may from time to time be assigned to him or her by the Chief Executive Officer; and

RESOLVED FURTHER, That the USAC Executive Committee recommends that the USAC Board of Directors determine that each USAC Vice President may sign and execute, in the name of the Corporation, contracts, deeds, mortgages, bonds, and other instruments as and when authorized to do so by the Chief Executive Officer or by the Board of Directors, except where the signing and execution thereof shall be expressly designated by the Board of Directors or By-laws to some other officer or agent of the Corporation or shall be required by law otherwise to be signed or executed. Furthermore, none of the Vice Presidents shall, without the specific prior

approval of the Chief Executive Officer or the entire Board of Directors, have the authority to (i) retain outside counsel, (ii) make or deliver reports on the operation of the Corporation or any Committee thereof to Congress or the FCC, or (iii) expend any sum, or commit the Corporation or any Committee thereof to expend any sum, in excess of \$50,000.

RESOLVED FURTHER, That the USAC Executive Committee recommends that the USAC Board of Directors determine that each Vice President shall be designated an officer of the corporation immediately upon his or her assumption of the duties of the position and shall serve as such until his or her employment in such position with USAC terminates for any reason.

Board member Mr. Eichler left the meeting during the discussion and before the vote on the resolutions of the next agenda item.

a3. Approval of 2002 USAC Internal Audit Plan and Status Report on USAC

Audits. Mr. Scott reported that he has completed the assessment of USAC's audit processes and has developed an internal audit plan. He reviewed the five categories of internal auditing responsibilities that he developed and the amount of time that would be initially allocated to each category. He said that he would be monitoring the allocations and adjusting as necessary.

Mr. Scott informed the Committee that there are seven ongoing or planned audits, and reviewed the status of the audits, with the exception of three that he advised should be discussed in Executive Session.

In accordance with the guidelines regarding Executive Session approved by the USAC Board of Directors, Mr. Gumper explained that USAC management recommends that any discussion of the details of the ongoing FCC fiscal year 2001 financial audit, the independent financial audit of USAC required by FCC regulation, and the independent agreed upon procedures review be held in Executive Session. Because the audit reports are not final and are before the FCC for review and comment, detailed discussion of the draft audit findings would reveal pre-decisional matters before a governmental agency to which USAC is privy. Under USAC's guidelines, Executive Session is appropriate where 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. Moreover, discussion of this matter in open session could compromise the continued applicability of the attorney-client privilege.

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

RESOLVED, That the USAC Executive Committee determines that a detailed report on the draft findings and status of the FCC's fiscal year 2001 financial audit, of the 2001 independent auditor's financial audit of USAC, and of the 2001 independent agreed upon procedures review be conducted in Executive Session.

See Executive Session for a report of these discussions.

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

RESOLVED, That the USAC Executive Committee approves the 2002 USAC Internal Audit Plan.

Board member Mr. Eichler rejoined the meeting during the discussion and before the vote on the resolution of the next agenda item.

a4. Acceptance of the 2001 Low Income Beneficiary Audit Report and Status Report on the 2002 Low Income Beneficiary Audit. Ms. Flannery reviewed the 2001 Low Income Beneficiary Audit Report of carriers audited on behalf of USAC. In general, she said only minor exceptions were found as a result of the audit and that these exceptions were due mainly to clerical errors or misunderstandings of the rules and were of minimal dollar amounts.

In that light, she reported that the proposed audit plan for 2002 allows for the review of fewer companies than in 2001. This is because history of these audits shows that the dollar amounts of the exceptions has been low and there is no evidence of any intentional waste, fraud, or abuse. Because the risk of major exceptions appears low, staff has concluded that it is reasonable to reduce the number of companies reviewed. Ms. Flannery reported that USAC has again engaged the National Exchange Carrier Association, Inc. (NECA) to perform the 2002 Low Income Support Mechanism beneficiary audit and anticipates a completion date of July 31, 2002, for the whole process.

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

RESOLVED, That the USAC Executive Committee accepts the 2001 Low Income Support Mechanism Beneficiary Audit Report.

a5. Approval of 2002 Beneficiary Audit Strategy for the Rural Health Care Support Mechanism. Mr. Scott reported that a list of providers to be audited has been determined by the USAC internal audit staff, Rural Health Care Division staff, and the CEO. The listing is more diverse than in previous years. In addition to the large, higher-risk entities that were purposely chosen, some providers were picked at random in an effort to increase USAC's auditing profile in the community of providers and applicants.

Ms. Parrino clarified for the Committee that this should have been an Information Item; the Committee already approved this audit strategy under agenda item #a3.

a6. Approval of 3rd Quarter 2002 USAC Common and Consolidated Budgets and Revised Annual 2002 Consolidated Budget. On behalf of the Committee Mr. Gumper DIRECTED that in the future when there is a change in the approved annual budget, USAC staff should highlight the changes to the budget rather than a detailed description of items already approved.

Ms. Parrino reviewed the 3rd Quarter 2002 budget and revised annual 2002 consolidated budget. She noted that there are four changes to the annual budget, thus creating the need to approve the revised annual budget amount. Ms. Parrino further noted that as indicated in Attachment C, the Variance Reports, USAC came in

under budget for 2001 by 7 percent.

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

RESOLVED, That the USAC Executive Committee recommends to the USAC Board of Directors to approve a 3rd Quarter 2002 USAC common budget of \$1,520,100; and

RESOLVED FURTHER, That the USAC Executive Committee recommends to the USAC Board of Directors to approve a 3rd Quarter 2002 USAC consolidated budget of \$10,953,700; and

RESOLVED FURTHER, That the USAC Executive Committee recommends to the USAC Board of Directors to approve a revised annual 2002 consolidated budget of \$48,259,600.

- a7. Approval of 3rd Quarter 2002 Revenue Projections and Resolutions for the June 1, 2002, FCC Filing.** Mr. Haga reported that final numbers are not yet available and based on the limited experience to date it is not possible to determine if the fluctuations USAC has seen in the contribution base is due to seasonal or other factors. He told the Committee that the methodology that USAC staff has been using for estimating the contribution base did not work well last quarter, as the Committee was called upon to approve the contribution base twice following the last quarterly Board meeting. At the last quarterly Board meeting, former Board member Mr. Gregg suggested looking at an average of the previous four quarters and using that for the estimate. Mr. Haga did so and found that that the fluctuation between quarters appears to stabilize over time.

The Committee **DIRECTED** USAC staff to include an explanation of how the contribution factor is calculated in future materials. Mr. Haga informed the Committee that the FCC Circulatory Order has no bearing on the contribution base, as the order affects the calculation of the contribution factor, which is done by the FCC.

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

RESOLVED, That the USAC Executive Committee, having reviewed a summary of the current status of the June 1, 2002, FCC filing requirements, recommends to the USAC Board of Directors to authorize staff to proceed with the required June 1, 2002, filing to the FCC on behalf of USAC. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

Board member Mr. Eichler left the meeting at this point.

a8. Miscellaneous. None.

Information Items

- i1. Assistant Treasurer's Report.** Mr. Haga noted that as indicated on Attachment B, 2001 support disbursed compared to 2000 support disbursed, High Cost support has noticeably increased due to the implementation of the two new components of the High Cost Support Mechanism: a full year of Interstate Access Support and a half-year

of the support resulting from the Rural Task Force decision.

i2. Status of Transition to PricewaterhouseCoopers and LaSalle Bank for Financial Support Services for USAC. For information only. No discussion.

i3. Report on Pending Litigation - Confidential & Proprietary - Executive Session. Mr. Gumper reminded Committee members that a confidential and proprietary supplemental issue paper to this agenda item was sent to each member electronically on April 17. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in Executive Session, Mr. Barash said that USAC management recommends that this matter be discussed in Executive Session because this item concerns pending litigation matters that are subject to the attorney-client privilege. Discussion of these matters in open session would compromise the continued applicability of the attorney-client privilege. Moreover, these matters involve discussion of pre-decisional matters before the FCC. Executive Session is appropriate because discussion of these matters in open session would result in the disclosure of conclusions or rationales before the Commission has formally acted upon these matters.

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

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

See Executive Session for a report of this discussion.

i4. Bankruptcy Report. Mr. Barash directed the Committee's attention to this issue, stating that bankruptcies increased significantly last year and are keeping the General Counsel team very busy. Some of the bankruptcies have resulted in litigation.

i5. Miscellaneous. None.

At 3:09 p.m., on a motion duly made and seconded, the Committee voted to move into Executive Session for purposes of discussing the confidential and proprietary items as noted above.

Board member Mr. Eichler rejoined the meeting during the discussion of the next agenda item.

Executive Session

a3. Approval of 2002 USAC Internal Audit Plan and Status Report on USAC Audits - Confidential & Proprietary - Executive Session. Mr. Scott briefed the Committee on the status of the ongoing FCC fiscal year 2001 financial audit, the independent financial audit of USAC required by FCC regulation, and the independent agreed upon procedures review.

i3. Report on Pending Litigation - Confidential & Proprietary - Executive Session. Mr. Barash discussed with the Committee the status of pending litigation and continuing discussions with the FCC about the scope of USAC's authority concerning litigation matters.

The Committee adjourned from Executive Session and reconvened in open session at 4:00 p.m. to report the discussions of the Committee during Executive Session.

There being no further business to attend to, Mr. Gumper adjourned the meeting at 4:02 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING**

May 13, 2002

MINUTES

A meeting of the Executive Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at USAC, 2120 L Street, NW, Suite 600, Washington, DC, on Monday, May 13, 2002. Mr. Frank Gumper, Chair of the Committee, called the meeting to order at 11:12 a.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the CEO of USAC, called the roll on behalf of Mr. Jimmy Jackson, USAC Secretary.

Three of the seven members were present.	
Gumper, Frank - <i>by telephone</i>	Talbott, Brian - <i>by telephone</i>
Jackson, Jimmy - <i>by telephone</i>	
One Committee member joined the meeting during discussion of the agenda item thereby creating a quorum:	
Eichler, Ed - <i>by telephone</i>	
Three Committee members were absent:	
Lubin, Joel	Sanders, Dr. Jay
Parrino, Cheryl	
Officers of the Corporation present:	
Barash, D. Scott - Assistant Secretary	Haga, Robert - Assistant Treasurer
Others present for the meeting:	
Name	Company
Aylward, Jillian	USAC
Beaver, Tracey	USAC
Howard, Cathy - <i>by telephone</i>	USAC

Action Items:

- a1. Settlement of Bankruptcy Claim - Confidential & Proprietary** - Executive Session. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in Executive Session, USAC management recommends that this matter be discussed in Executive Session because this item is about a settlement offer of an administrative claim pending in bankruptcy court and involves matters that are subject to the attorney-client privilege. Discussion of these matters

in open session would compromise the continued applicability of the attorney-client privilege.

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

RESOLVED, That the USAC Executive Committee determines that discussion of a proposed settlement of the administrative proof of claim in the pending bankruptcy proceeding involving Teligent Services, Inc. shall be conducted in Executive Session.

The Committee voted to move immediately into Executive Session for purposes of discussing the confidential and proprietary item as noted above.

Ms. Aylward and Mr. Barash discussed with the Committee the details of the proposed settlement of pending litigation of the administrative proof of claim in the pending bankruptcy proceeding involving Teligent Services, Inc.

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

RESOLVED, That the USAC Executive Committee authorizes USAC staff to accept the proposed settlement of the administrative proof of claim in the pending bankruptcy proceeding involving Teligent Services, Inc as presented at the May 13, 2002, Committee meeting.

The Committee adjourned from Executive Session and reconvened in open session at 11:18 a.m. to report the discussion and action taken by the Committee during Executive Session.

Mr. Gumper reminded the Committee of the meeting between Marsha MacBride of the FCC and members of the USAC Executive Committee that is scheduled for May 22.

There being no further business, Mr. Gumper adjourned the meeting at 11:21 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING**

May 29, 2002

MINUTES

A meeting of the Executive Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at USAC, 2120 L Street, NW, Suite 600, Washington, DC, on Wednesday, May 29, 2002. Mr. Frank Gumper, Chair of the Committee, called the meeting to order at 12:02 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the CEO of USAC, called the roll on behalf of Mr. Jimmy Jackson, USAC Secretary.

Six of the seven members were present, representing a quorum.	
Eichler, Ed - <i>by telephone</i>	Parrino, Cheryl
Gumper, Frank	Sanders, Dr. Jay - <i>by telephone</i>
Lubin, Joel - <i>by telephone</i>	Talbott, Brian - <i>by telephone</i>
One member joined the meeting in progress:	
Jackson, Jimmy - <i>by telephone</i>	
Other Board members and officers of the Corporation present:	
Coltharp, James - <i>by telephone</i>	Barash, D. Scott - Assistant Secretary
Rivera, Robert - <i>by telephone</i>	Haga, Robert - Assistant Treasurer
Others present for the meeting:	
Name	Company
Howard, Cathy - <i>by telephone</i>	USAC

Action Item:

- a1. Approval of the Extension of the USAC CEO's Employment Contract - Confidential & Proprietary** - Executive Session. In accordance with the Executive Session guidelines approved by the USAC Board of Directors, Mr. Barash recommended that discussion of the renewal and approval of the USAC CEO's employment contract be conducted in Executive Session because it is an internal personnel matter concerning a specific individual.

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

RESOLVED, That the USAC Executive Committee determines that discussion of the renewal and approval of the USAC CEO's employment contract shall be conducted in Executive Session.

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

Information Item:

i1. Report of the Meeting between Members of the USAC Executive Committee, USAC Officers, and Senior FCC Staff - Confidential & Proprietary - Executive Session. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in Executive Session, Mr. Barash recommended that this matter be discussed in Executive Session because this item involves discussion of pre-decisional matters before a governmental agency, namely the FCC, to which USAC is privy. Discussion of such matters in open session would undermine the FCC's deliberative process or would result in the disclosure of the FCC's conclusions or rationales before the Commission has formally decided the matter. In addition, the matters discussed relate to pending litigation and to issues upon which USAC has sought the advice of counsel such that discussion of these issues in open session could compromise the continued applicability of the attorney-client privilege.

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

RESOLVED, That the USAC Executive Committee determines that discussion of the meeting between members of the USAC Executive Committee, USAC Officers, and senior FCC staff shall be conducted in Executive Session.

See Executive Session for a report of this discussion.

The Committee voted to move immediately into Executive Session for purposes of discussing the confidential and proprietary items as noted above. Board member Mr. Jackson joined the meeting at this point.

Executive Session:

i1. Report of the Meeting between Members of the USAC Executive Committee, USAC Officers, and Senior FCC Staff - Confidential & Proprietary - Executive Session. Mr. Gumper gave a report to the Committee on the matters discussed at a meeting on May 22, 2002, between members of the USAC Executive Committee, USAC Officers, and senior FCC staff.

Mr. Gumper requested that Mr. Haga and Mr. Barash leave the meeting before discussion of the next item.

a1. Approval of the Extension of the USAC CEO's Employment Contract - Confidential & Proprietary - Executive Session. Mr. Gumper explained that the USAC CEO's employment contract expires on May 31, 2002, and needs to be renewed.

He reviewed the proposed contract extension, which he recommends be approved by the Committee.

On a motion duly made and seconded, the Committee adopted the following resolution. Ms. Parrino abstained.

RESOLVED, That the USAC Executive Committee approves the extension of the USAC CEO's contract as outlined by the USAC Board of Directors' Chair.

The Committee adjourned from Executive Session and reconvened in open session at 12:42 p.m. to report the discussion and action taken by the Committee during Executive Session.

There being no further business, Mr. Gumper adjourned the meeting at 12:44 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING**

July 18, 2002

MINUTES

The quarterly meeting of the Executive Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at USAC, 2120 L Street, NW, Suite 600, Washington, DC, on Thursday, July 18, 2002. Mr. Frank Gumper, Chair of the Committee, called the meeting to order at 2:05 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the CEO of USAC, called the roll.

Four of the seven members were present, representing a quorum.	
Gumper, Frank - <i>by telephone</i>	Parrino, Cheryl
Jackson, Jimmy - <i>by telephone</i>	Sanders, Dr. Jay - <i>by telephone</i>
One member joined the meeting in progress:	
Talbott, Brian	
Two members were absent:	
Eichler, Ed	Lubin, Joel
Other Board members and officers of the Corporation present:	
Rivera, Robert - Board Member	Barash, D. Scott - Assistant Secretary; Vice President & General Counsel
Blackwell, Mel - VP, External Communications & Rural Health Care Division	Carmichael, Mark - Assistant Treasurer; VP-Finance
Flannery, Irene - VP, High Cost & Low Income Division	Haga, Robert - VP, Strategic Planning & USAC Operations
McDonald, George - VP, Schools & Libraries Division	
Others present for the meeting:	
Name	Company
Howard, Cathy - <i>by telephone</i>	USAC
Miller, Linda	USAC
Scott, Wayne	USAC

Action Item:

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Committee approved the minutes as distributed and amended of the USAC Executive Committee meetings of Thursday, April 18, 2002; Monday, May 13, 2002; and Wednesday, May 29, 2002.
- a2. Approval of the Course of Action for Entering into a New Contract for the Rural Health Care and the Schools and Libraries Support Mechanisms Programmatic Support Services - Confidential & Proprietary - Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash explained that USAC management recommends that this matter be discussed in **Executive Session** because discussion and public disclosure at this time of the matters discussed in this paper, which relate to USAC's procurement strategy, would compromise USAC's procurement strategy to the detriment of the Corporation and the Universal Service Support Mechanisms. Moreover, he said that to the extent that these matters relate to the interpretation of contractual terms and conditions, discussion of these issues in open session would compromise USAC's attorney-client privilege.

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

RESOLVED, That the USAC Executive Committee determines that discussion of a strategy for contracting for programmatic support services for the Rural Health Care and the Schools and Libraries Support Mechanisms for years after June 30, 2003, shall be conducted in **Executive Session**.

See Executive Session for a report of this discussion.

- a3. 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. Gumper explained that USAC management recommends that this matter be discussed in **Executive Session** because discussion of this matter, which relates to USAC's procurement strategy and contract negotiations, and public disclosure of the matters discussed in this paper would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund. Moreover, he said that certain matters discussed in this document implicate the attorney-client privilege and, therefore, should not be discussed in open session.

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

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

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

Board member Mr. Talbott joined the meeting during the discussion and before the vote on the resolution of the next agenda item.

a4. Authorization to File the Draft USAC 2002 Financial Audit and Agreed Upon Procedures Review Plan with the FCC. Mr. Scott reminded the Committee that the FCC requires USAC to obtain and pay for an independent auditor to perform a financial and agreed upon procedures review of USAC. However, the FCC also requires USAC to submit an audit plan before engaging an auditor. Mr. Scott said that the 2002 draft audit plan is basically the same as the one USAC submitted last year except that it has been updated to reflect the modifications the FCC made after reviewing it last year as well as minor modifications by USAC staff based on last year's audit experience and the addition of new responsibilities.

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

RESOLVED, That the USAC Executive Committee authorizes USAC staff to file with the FCC the proposed USAC 2002 Financial Audit and Agreed Upon Procedures Review Plan.

a5. Approval of 4th Quarter 2002 USAC Common and Consolidated Budgets and Revised Annual 2002 Consolidated Budget. Mr. Carmichael reviewed the 4th Quarter 2002 budget and revised annual 2002 consolidated budget. He noted that staff is recommending a decrease in the annual budget of \$560,000 due to the elimination of the \$900,000 contingency to re-code the High Cost Model and the addition of \$340,000 to accommodate increased forms volume for the Rural Health Care support mechanism. Mr. Carmichael also mentioned that costs have increased for outside counsel, but that compensation and benefits expenses that were not incurred in the first and second quarters offset those costs. Committee members questioned the increase in the outside counsel budget. Ms. Parrino explained that the primary reason for the proposed budget increase is the fact that expenses for bankruptcy-related litigation were significantly higher than anticipated during the first and second quarters of 2002. Ms. Parrino further noted that due to the unique nature of each matter and the fact that bankruptcy matters arise across the country that usually require sporadic but continuous attention, USAC staff determined that retaining outside counsel in many of these situations is the most cost-efficient solution. She also pointed out that it is uncertain if the Department of Justice may become involved in the management of bankruptcy litigation involving USAC, which could then have an impact on any need for outside counsel. In addition, Mr. Barash noted that the outside counsel budget was established before a number of these cases arose against USAC.

The Committee **DIRECTED** the USAC General Counsel to prepare and have available for the full Board and the Executive Committee in the future, the outside counsel expenses to date and be prepared to discuss specific expenses.

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

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

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

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

- a6. Approval of 4th Quarter 2002 Revenue Projections and Resolutions for the September 1, 2002, FCC Filing.** Mr. Carmichael explained that since the due date for the contribution base is a Sunday this quarter (September 1, 2002), USAC staff would submit the filing on Friday, August 30, 2002. He further stated that he would be distributing historical trend reports to the full Board at its meeting on July 23, 2002. He confirmed that staff is using a rolling four-quarter average to determine the contribution base estimate. He also noted that per FCC order, unused Funding Year 1999 Schools and Libraries support mechanism funds will be used to stabilize the collection requirement for fourth quarter 2002 and first quarter 2003. Other unused funds from Funding Year 2000 are being held by USAC pending confirmation from the FCC that they are to be used in a similar manner. Committee members questioned if staff is interpreting the order correctly. Ms. Parrino said she would review the order again and clarify the FCC's direction to the full Board at its July 23, 2002, meeting.

On a motion duly made and seconded, the Committee adopted the following resolution as *amended*:

RESOLVED, That the USAC Executive Committee, having reviewed at its meeting on July 18, 2002, a summary of the current status of the September 1, 2002, FCC filing requirements, recommends to the USAC Board of Directors to authorize USAC staff to proceed with the required September 1, 2002, filing to the FCC on behalf of USAC *using a preliminary estimate of \$19,487,555,000 for the contribution base*. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

a7. Miscellaneous.

- **Election of Two Directors to the USAC Board of Directors and Appointments of the Directors to Committees of the Board.** Mr. Gumper announced that Mr. Barash had received a letter on July 17, 2002, from FCC Chairman Powell in which Chairman Powell appointed two new USAC Board members to fill the vacancies created by the resignations of Mr. Billy Jack Gregg and Mr. Daniel Gonzalez. Mr. Barash reviewed the appointees and their affiliations: Mr. Wayne R. Jortner, Senior Counsel in the Office of the Public Advocate for the State of Maine, as the nominee representing state consumer advocates for the balance of Mr. Gregg's term; and Mr. David R. Conn, Deputy General Counsel and Vice President, McLeodUSA, Inc., as the nominee representing competitive local exchange carriers for the balance of Mr. Gonzalez's term. Mr. Gumper explained that the Committee needs to recommend that the full Board elect the new members and appoint them to the appropriate USAC Committees as required by USAC's By-laws.

The Committee **DIRECTED** the USAC CEO to contact the new members and invite them to the rest of the July quarterly Committee meetings as well as the July quarterly Board meeting.

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

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

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

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

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

Information Item:

i1. Assistant Treasurer's Report. Mr. Carmichael noted that as of May 31, 2002, USAC has disbursed \$2.014 billion in universal service support. He further stated that unapplied cash is at zero and has been for a number of days, which is positive. He explained that unapplied cash is contributions that have been received but due to lack of detail provided by the contributor, staff is unable to immediately determine to which account the contribution should be applied, so it is kept in unapplied cash until its appropriate application is determined.

i2. Report on Pending Litigation and Bankruptcy Matters. A Committee member was concerned about the impact on the universal service fund should WorldCom seek federal bankruptcy protection as has been rumored in media reports. Mr. Carmichael reported that WorldCom made last month's payment in full and on time. Mr. Carmichael stated his belief that even if WorldCom were to file bankruptcy, the long-term impact on the fund was not likely to be devastating, as the company would likely still operate, or whoever took over its business would continue operations and thus submit similar contributions to the universal service fund. USAC staff will closely monitor the situation and keep the Committee apprised of any significant developments.

i3. USAC Internal Audit Status Report on USAC Audits. Mr. Scott reviewed the audits currently in progress and the plans for anticipated audits. He especially noted that a request for proposals has been issued for the 2002 independent financial audit and agreed upon procedures review for which the Committee earlier authorized the filing of the audit plan with the FCC, and that the Committee will be required to meet sometime in September to approve the engagement of an auditor.

Ms. Parrino said that USAC staff has confidential updates on an ongoing beneficiary audit investigation and on a pre-decisional audit matter under consideration by the FCC. In accordance with the guidelines regarding **Executive Session** approved by the USAC Board of Directors, Mr. Barash recommended that because there is an ongoing investigation regarding a beneficiary review, and because of the sensitivity of the potential allegations and the potential for enforcement action, discussion of the matter concerning one beneficiary should be held in **Executive Session**. Mr. Barash recommended that the audit matter under consideration by the FCC also be discussed in **Executive Session** because it relates to pre-decisional matters pending before the FCC to which USAC is privy.

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

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

See Executive Session for a report of this discussion.

i4. Status of Transition to PricewaterhouseCoopers and LaSalle Bank for Financial Support Services for USAC. For information only. No discussion.

i5. Miscellaneous. None.

At 3:06 p.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above. The Committee adjourned from **Executive Session** and reconvened in open session at 3:38 p.m. to report the discussions and actions of the Committee during **Executive Session**.

Executive Session:

a2. Approval of the Course of Action for Entering into a New Contract for the Rural Health Care and the Schools and Libraries Support Mechanisms Programmatic Support Services - Confidential & Proprietary - Executive Session. Mr. McDonald and Mr. Blackwell reviewed the details and strategy concerning the contract for programmatic support services for the Rural Health Care and the Schools and Libraries Universal Service Support Mechanisms. Ms. Parrino explained that USAC staff recommends that the Executive Committee not formally act at this time. She recommended that the Committee discuss the matter so that the Chairs of the programmatic committees will have a sense of the Executive Committee's view of the proposed course of action. This will then allow the Committee Chairs to take any issues identified to their respective Committees for discussion. No

action was taken.

a3. Approval of Universal Service Contributor Revenue Data Collection Contract - Confidential & Proprietary - Executive Session. Mr. Carmichael discussed the history of the current contract with NECA and the details of the proposed revised contracting and bidding schedule for support services for the universal service contributor revenue data collection.

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

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

i3. USAC Internal Audit Status Report on USAC Audits. Mr. Barash briefed the Committee on the status of an ongoing investigation of a Schools and Libraries Support Mechanism beneficiary. Ms. Parrino informed the Board of another potential audit concerning one of the support mechanisms that FCC staff is considering.

There being no further business, Mr. Gumper adjourned the meeting at 3.40 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING**

September 9, 2002

MINUTES

A meeting of the Executive Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at USAC, 2120 L Street, NW, Suite 600, Washington, DC, on Monday, September 9, 2002. Mr. Frank Gumper, Chair of the Committee, called the meeting to order at 12:06 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the CEO of USAC, called the roll.

Five of the seven members were present, representing a quorum.	
Gumper, Frank - <i>by telephone</i>	Parrino, Cheryl
Jackson, Jimmy - <i>by telephone</i>	Sanders, Dr. Jay - <i>by telephone</i>
Lubin, Joel - <i>by telephone</i>	
Two members joined the meeting in progress:	
Eichler, Ed - <i>by telephone</i>	Talbott, Brian - <i>by telephone</i>
Other Board members and officers of the Corporation present:	
Barash, D. Scott - Assistant Secretary; Vice President & General Counsel	Carmichael, Mark - Assistant Treasurer; VP-Finance
Haga, Robert - VP, Strategic Planning & USAC Operations	
Others present for the meeting:	
Name	Company
Howard, Cathy - <i>by telephone</i>	USAC
Krzos, Joe - <i>by telephone</i>	USAC
Miller, Linda	USAC
Scott, Wayne	USAC

Action Item:

- a1. Selection of an Independent Accounting Firm to Perform the Annual Financial Audit and Agreed-Upon Procedures Review of USAC - Confidential & Proprietary - *Executive Session*.** In accordance with the Executive Session

guidelines approved by the USAC Board of Directors, 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 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 Committee adopted the following resolution:

RESOLVED, That the USAC Executive Committee determines that discussion of the proposals to select an independent accounting firm to perform the annual financial audit and agreed-upon procedures review for USAC shall be conducted in **Executive Session**.

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

Information Item:

- i1. Update on USAC's FCC Financial Reporting Issue and Litigation 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 this matter be discussed in **Executive Session** because this item involves discussion of *pre-decisional matters* before the FCC. In addition, the matters to be discussed relate to pending litigation and to issues upon which USAC has sought the advice of counsel such that discussion of these issues in open session could compromise the continued applicability of the *attorney-client privilege*.

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

RESOLVED, That the USAC Executive Committee determines that discussion of a financial reporting issue with the FCC and USAC litigation matters shall be conducted in **Executive Session**.

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

The Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above. Board members Mr. Eichler and Mr. Talbott joined the meeting at this point. The Committee adjourned from **Executive Session** and reconvened in open session at 12:45 p.m. to report the discussions and action taken by the Committee during **Executive Session**.

Executive Session:

- a1. Selection of an Independent Accounting Firm to Perform the Annual Financial Audit and Agreed-Upon Procedures Review of USAC - Confidential & Proprietary - Executive Session.** Staff reviewed the proposals received from independent accounting firms to perform the annual financial audit and agreed-upon

procedures review of USAC and recommended that the Committee accept their recommendation of the firm of Deloitte & Touche LLP.

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

RESOLVED, That the USAC Executive Committee authorizes USAC to select the independent accounting firm of Deloitte & Touche LLP to conduct the December 31, 2002, financial audit and agreed-upon procedures review. USAC staff is authorized to engage Deloitte & Touche subject to USAC receiving approval of its 2002 audit plan from the Wireline Competition Bureau and on the pending agreement between USAC and Deloitte & Touche on final terms and conditions of the engagement.

i1. Update on USAC's FCC Financial Reporting Issue and Litigation Matters - Confidential & Proprietary - Executive Session. Mr. Barash gave an update on USAC's FCC financial reporting issue and reviewed pending and new litigation matters involving USAC. The Committee agreed to arrange a follow up meeting to the May 22, 2002, meeting between members of the USAC Executive Committee, USAC Officers, and senior FCC staff to again request clarification on the financial reporting issue and USAC's role in USAC litigation matters.

OPEN SESSION:

Information Items:

i2. Miscellaneous

- **Audit Responsibilities of the USAC Executive Committee.** Mr. Gumper raised the issue of the Executive Committee's responsibilities concerning audits. He informed the Committee that staff will be requesting the Committee to examine whether it should assume a more intensive role in the planning and review of USAC's audits. He said that one suggestion would be to have the Committee meet on both the Thursday before the quarterly programmatic Committee and Board meetings and again sometime during those quarterly meetings in order to further address audit issues. Another suggestion would be to consider whether USAC should form a separate Audit Committee. Ms. Parrino stated that this matter would be included on the agenda for the October 17, 2002, quarterly meeting of the Committee for further discussion.

There being no further business, Mr. Gumper adjourned the meeting at 12:49 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING**

October 17, 2002

MINUTES

The quarterly meeting of the Executive Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC on Thursday, October 17, 2002. Mr. Frank Gumper, Chair of the Committee, called the Committee to order at 2:01 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the CEO of USAC, called the roll.

Five of the seven members were present, representing a quorum.	
Eichler, Ed - <i>by telephone</i>	Parrino, Cheryl - <i>by telephone</i>
Gumper, Frank - <i>by telephone</i>	Sanders, Jay - <i>by telephone</i>
Lubin, Joel	
Two members were absent:	
Jackson, Jimmy	Talbott, Brian
Other Board members and Officers of the Corporation present:	
Barash, D. Scott - Assistant Secretary; Vice President & General Counsel	
Carmichael, Mark - Assistant Treasurer; VP-Finance	
Flannery, Irene - VP, High Cost & Low Income Division	
Haga, Robert - VP, Strategic Planning & USAC Operations	
McDonald, George - VP, Schools & Libraries Division	
Others present for the meeting:	
Name	Company
Falkowitz, Ed	USAC
Faunce, Donna	USAC
Howard, Cathy - <i>by telephone</i>	USAC
Miller, Linda	USAC
Rodda, Jim	USAC
Scott, Wayne	USAC

Action Item:

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Committee approved the minutes as distributed of the USAC Executive Committee meetings of Thursday, July 18, 2002, and Monday, September 9, 2002.
- a2. Acceptance of a High Cost Audit Report.** Mr. Scott, USAC's Director of Internal Audit, explained that the Internal Audit Division performed an audit of a competitive eligible telecommunications carrier in response to the request of the High Cost and Low Income Division. Mr. Scott reported noteworthy findings regarding the incumbent's and the competitor's wire center maps, the competitor's billing system, and the competitor's method of generating line count information. USAC staff requires further clarification on the wire center map issue from the FCC before final resolution of that finding but, in the meantime, the carrier will correct the billing system errors. At USAC's direction, the carrier will not submit revised line counts until the map issue is resolved.

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

RESOLVED, That the USAC Executive Committee accepts the audit of a participant in the High Cost Support Mechanism as presented by the USAC Internal Audit Division.

- a3. Acceptance of the Schools and Libraries Support Mechanism Funding Year 1999 Beneficiary Agreed Upon Procedures Report.** Mr. Scott explained that USAC internal audit staff performed several random audits of Schools and Libraries Support Mechanism beneficiaries in rural locations in conjunction with beneficiary audits of the Rural Health Care Support Mechanism for Funding Year 1999. Staff selected five schools located in Alaska, Michigan, Maryland, and Nebraska. Four of the audits resulted in findings, two involving significant findings. USAC staff is working on recovering all erroneously or improperly disbursed funds. Committee members expressed concern that four of the five audits resulted in findings. Mr. Scott pointed out to the Committee that these were audits for Funding Year 1999 when the program was relatively new and USAC was still refining the application process, that the findings appeared to be caused by confusion about the process, and that the errors did not appear intentional. Mr. Scott believes that the likelihood of such a high percentage of findings in future audits will be lower due to improvements in the process.

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

RESOLVED, That the USAC Executive Committee accepts the Schools and Libraries Support Mechanism Funding Year 1999 Beneficiary Agreed Upon Procedures Report as presented by the USAC Internal Audit Division.

- a4. Selection of the Audit Firm to Conduct a Large Scale Audit of Schools and Libraries Support Mechanism Beneficiaries and Authorization to Engage the Firm for the Audit - Confidential & Proprietary - Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash recommended that this matter be discussed in *Executive Session* because discussion and public disclosure at this time of this matter, which 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.

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

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

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

- a5. Acceptance of the Audit of the Universal Service Fund (USF) for Six Months Ending March 31, 2002 - 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 specific audit plans, internal controls, and/or confidential company data would result in disclosure of confidential techniques and procedures that would compromise program integrity.

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

RESOLVED, that the USAC Executive Committee determines that discussion of the specific audit findings shall be conducted in ***Executive Session***.

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

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

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

RESOLVED, That the USAC Executive Committee recommends to the USAC Board of Directors that the current "Statement of Ethical Conduct for Employees," "Definition of Gifts Prohibited," "Definition of Financial Interest," "Outside Employment," and "Acceptance of Payment from Outside Sources for USAC Employees' Travel Expenses" documents be modified as recommended by staff to clarify when it is

appropriate for USAC employees to accept reimbursement of travel expenses from an outside source and to make minor corrections and modifications as noted by USAC staff.

- a7. Approval to Enter into Negotiations for Office Space in Washington, D.C.- Confidential & Proprietary - Executive Session.** This item was withdrawn from the agenda.
- a8. Approval of the 1st Quarter 2003 USAC Consolidated and Common Budgets and Information on Estimated 2003 Annual Budget.** Ms. Parrino reported that the estimated 2003 annual budget is slightly less than one percent above the 2002 actual budget. She reported that this budget is the product of an effort to limit expenditures only to essential items. She explained that USAC staff is not recommending leasing new office space in Washington, DC at this time, as the necessary increase in budget would not be prudent in light of the state of the telecommunications industry, the questions surrounding the universal service contribution base, and USAC's overall mandate to minimize administrative expenses. She assured the Committee that even though space is crowded now in the Washington office, there is still enough workspace for all employees, and that additional temporary space may be procured during 2003 if necessary to better accommodate the addition of 5 new employees. Ms. Parrino also reported that staff is requesting only the minimum number of new positions in response to specific operational requirements, and that several proposed positions recommended by staff were not included in the budget.

Ms. Parrino noted that USAC is anticipating that the FCC may issue several decisions related to the operations of the fund that could dramatically affect the budget. She said that the proposed budget did not contain any contingencies to address those potential changes because a meaningful estimate of the costs cannot be provided at this time. She recommended that the Board of Directors address such items as they occur during the course of the year rather than trying to predict the administrative changes that may be required in 2003. She remarked that USAC staff has verbally informed the FCC of the potential financial impacts of each change.

Ms. Parrino and Mr. Carmichael explained and reviewed additional detailed information concerning the proposed budget for the Committee, focusing particularly on comparisons of historic annual administrative expenses with the proposed quarterly and annual budgets.

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

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

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

- a9. Approval of 1st Quarter 2003 Revenue Projections and Resolutions for the December 2, 2002, FCC Filing.** Mr. Carmichael reported that the recently completed annual true-up of contributor revenue information reported on FCC Form 499-A with information reported quarterly on FCC Form 499-Q produced a variance of approximately \$80 million that results in prior period adjustments to 1Q2003 in

the form of funding requirement decreases. He noted that there has been a dramatic decrease in the number of Form 499-Qs distributed that was due to companies choosing to file on a consolidated basis and closing accounts of non-respondents. Mr. Carmichael also noted that staff continues to use a rolling four-quarter average for determining the contribution base estimate.

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

RESOLVED, That the USAC Executive Committee, having reviewed at its meeting on October 17, 2002, a summary of the current status of the December 2, 2002, FCC filing requirements, recommends to the USAC Board of Directors to authorize USAC staff to proceed with the required December 2, 2002, filing to the FCC on behalf of USAC using a preliminary estimate of \$19,210.299 *million* for the contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

a10. Miscellaneous. None.

Information Item:

i1. Assistant Treasurer's Report. Mr. Carmichael reported that the balance attributable to the support mechanisms is approximately \$2.6 billion at the end of August 2002 and anticipates approximately the same level with a slight decrease over the next few quarters as the excess Schools and Libraries Support Mechanism funds are used to maintain the contribution factor at 7.2805 percent as required by FCC order.

i2. Report on Pending Litigation and Bankruptcy Matters. Mr. Barash reported that there has been significant activity in USAC's bankruptcy-related litigation in the third quarter and reviewed the details of several cases. He stated that USAC staff continues to work with the FCC on strategy and tactics in these litigation and bankruptcy matters.

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

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

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

See Executive Session for a report of this discussion.

i3. Update on Universal Service Support Mechanisms Enforcement Activity. For information only. No discussion held.

i4. Status of Support Services for USAC provided by PricewaterhouseCoopers, LaSalle Bank, and NECA. Mr. Carmichael reported that the financial services being provided by LaSalle Bank are stable, running smoothly, and technically controlled. Another USAC vendor, PricewaterhouseCoopers (PwC), was acquired by IBM Corporation effective September 30, 2002, and is now part of IBM Consulting. Mr. Carmichael reported that IBM receives a significant amount of Schools and Libraries Support Mechanism funding as a provider of internal connections services and USAC staff is taking steps to address any actual, potential, or perceived conflict of interest. USAC and IBM staff are working to further tighten controls and more explicitly document the checks being used so that any appearance or real conflict of interest can be appropriately addressed. Mr. Carmichael also reported that the financial accounting services being provided by IBM have stabilized after an initial period of significant quality control issues. USAC has devoted significant resources toward ensuring proper controls are in place and that the quality of the work fully meets USAC's needs. USAC staff continues to closely monitor the situation and will reevaluate IBM's performance again at the end of this year. At that time, USAC staff will determine whether it is more appropriate to bring the financial accounting service operations in-house.

i5. USAC Internal Audit Status Report on USAC Audits. For information only. No discussion.

i6. Consideration of Reforms to the Audit Oversight Function. Mr. Scott explained that since the Board of Directors authorized the Executive Committee to exercise oversight over audit functions in April 2001, there has been a significant increase in the number, scope, and complexity of USAC's audit affairs. USAC has undertaken more audits than at that point in time and now has a fully staffed Internal Audit Division. USAC staff believes that due to this increased audit activity, the Committee may wish to consider whether to recommend to the USAC Board of Directors to restructure the Committee or establish a separate audit committee to better address the audit issues. Mr. Gumper noted that common corporate practice is to have a separate audit committee of the Board. The Committee discussed various options and agreed to recommend to the full Board of Directors that a separate audit committee be formed. Committee members discussed the proposed composition of the new audit committee and concluded that it should consist of a representative from each programmatic committee (but not necessarily the chair or vice-chair of the committee) and two at-large Board members, preferably with financial and/or auditing backgrounds. The new audit committee would meet directly following the last programmatic committee meeting during the quarterly committee meetings and would schedule additional meetings on an as-needed basis. Ms. Parrino will present an issue paper and recommendation to the USAC Board of Directors at the special December 2002 meeting. She will route a draft of the issue paper to the Executive Committee first for Committee input.

i7. Miscellaneous. None.

At 3:28 p.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above.

Executive Session:

a4. Selection of the Audit Firm to Conduct a Large Scale Audit of Schools and Libraries Support Mechanism Beneficiaries and Authorization to Engage the Firm for the Audit - Confidential & Proprietary - Executive Session. . Mr. Scott provided an overview of the selection process for an independent accounting firm to perform this audit, and explained how the evaluation team rated the proposals and arrived at the recommendation of KPMG LLP. He clarified that the evaluation team scored the technical piece of each proposal before reviewing the pricing component.

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

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

a5. Acceptance of the Audit of the Universal Service Fund (USF) for Six Months Ending March 31, 2002 - Confidential & Proprietary - Executive Session. Mr. Scott explained that USAC's Internal Audit Division (IAD) performed an audit of the Universal Service Fund. The staff audit plan was based on the audit plan that was used by outside audit firms in previous audits. Staff met with the USAC CEO and VP of Finance to discuss the findings and to make changes as needed. Mr. Scott said IAD staff would perform another review before the end of the year to follow up on the findings and corrections as a result of this audit.

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

RESOLVED, That the USAC Executive Committee accepts the Audit of the Universal Service Fund (USF) for Six Months Ending March 31, 2002, Report as presented by the USAC Internal Audit Division.

i2. Report on Pending Litigation and Bankruptcy Matters. Mr. Barash reviewed pending litigation matters.

The Committee adjourned from **Executive Session** and reconvened in open session at 3:53 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 3:54 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING**

November 25, 2002

MINUTES

A meeting of the Executive Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC, on Monday, November 25, 2002. Mr. Frank Gumper, Chair of the Committee, called the meeting to order at 10:32 a.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll.

Six of the seven members were present representing a quorum.	
Gumper, Frank - Chair	Parrino, Cheryl - <i>by telephone</i>
Jackson, Jimmy - <i>by telephone</i>	Sanders, Dr. Jay - <i>by telephone</i>
Lubin, Joel - Vice Chair - <i>by telephone</i>	Talbott, Brian - <i>by telephone</i>
One member was absent:	
Eichler, Ed	
Other Board members and Officers of the Corporation present:	
Buller, Karen - Board Member - by telephone	
Coltharp, James - Board Member - by telephone	
Rivera, Robert - Board Member - by telephone	
Barash, D. Scott - Assistant Secretary, Vice President & General Counsel	
Carmichael, Mark - Assistant Treasurer, VP, Finance & Financial Operations	
Haga, Robert - VP, Strategic Planning & USAC Operations	
Others present for the meeting:	
Name	Company
Scott, Wayne	USAC
Simmons, Ann	USAC
Trew, Anne Marie	USAC

Information Item:

- i1. Discussion of Legal and Operational Issues Raised by the Recent Assignment of USAC's Contract for Billing, Collection, Disbursement, and Other Financial Services - Confidential & Proprietary - *Executive Session*.** In accordance with the ***Executive Session*** guidelines approved by the USAC Board of Directors, Mr. Barash recommended that discussion of this item be conducted in ***Executive Session*** because it concerns matters upon which the corporation has consulted with counsel, and discussion of these matters in open session would compromise the continued applicability of the *attorney-client privilege* to the detriment of the corporation and the Universal Service Fund.

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

RESOLVED, That the USAC Executive Committee determines that the discussion of legal and operational issues raised by the recent assignment of USAC's contract for billing, collection, disbursement and other financial services shall be conducted in ***Executive Session***.

See Executive Session for a report of this discussion.

The Committee voted to move into ***Executive Session*** for the purpose of discussing the confidential and proprietary item as noted above.

Executive Session:

- i1. Discussion of Legal and Operational Issues Raised by the Recent Assignment of USAC's Contract for Billing, Collection, Disbursement, and Other Financial Services - Confidential & Proprietary - *Executive Session*.** Ms. Parrino, Mr. Barash, and other USAC staff gave an update on, and Committee members discussed, issues regarding potential and/or apparent conflict of interest issues relating to USAC's contract for billing, collection, disbursement, and other financial services.

The Committee adjourned from ***Executive Session*** and reconvened in open session at 11:33 a.m. to report out the discussion by the Committee during Executive Session and to continue with the action item.

Action Item:

- a1. Approval of an Increase in the 1st Quarter 2003 USAC Consolidated and Common Budgets to Cover Cost of Transferring USF Disbursement Functions Currently Performed by IBM Consulting to USAC.** Mr. Gumper stated that USAC staff is recommending an increase in the 1st Quarter 2003 common and consolidated budget of \$180,000 to cover the transition costs of transferring the Universal Service Fund disbursement functions currently performed by USAC's contractor, IBM Consulting, to USAC.

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

RESOLVED, That the USAC Executive Committee approves an increase of \$180,000 in the 1st Quarter 2003 USAC consolidated and common budgets to cover the transition cost of transferring the disbursement functions currently performed by IBM Consulting to USAC and to cover the ongoing staffing and overhead cost associated with the disbursement functions.

There being no further business, Mr. Gumper adjourned the meeting at 11:36 a.m.

D. Scott Barash
Assistant Secretary