

2003 Executive Committee Meetings Minutes

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING**

January 16, 2003

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, January 16, 2003. Mr. Frank Gumper, Chair of the Committee, called the Committee to order at 2:04 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the CEO of USAC, called the roll.

Six 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 – <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:	
Rivera, Robert – USAC Board Member – <i>by telephone</i>	
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
Scott, Wayne	USAC
Trew, Anne Marie	USAC

Action Items

- 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, October 17, 2002, and Monday, November 25, 2002.
- a2. Approval of Proposed USAC Washington Office Space Plan and Authorization to Enter into a Lease – Confidential & Proprietary – Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash recommended that discussion of this item be conducted in *Executive Session* because discussion 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 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 the details of the USAC options for acquiring additional office space shall be conducted in *Executive Session*.

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

- a3. Approval of Annual 2003 and 2nd Quarter 2003 USAC Common and Consolidated Budgets.** Mr. Carmichael noted that the increase in the 2nd Quarter 2003 budget compared to the 2nd Quarter 2002 budget is due to several factors: the higher fixed price of the program services contract for the Schools and Libraries and Rural Health Care Support Mechanisms, which is due primarily to labor costs associated with systems development. Other factors driving the budget increase are higher contractor costs due to billing and collection systems changes necessary to implement the FCC's interim contribution base methodology order, and the transition of the disbursement function in-house. He explained that staff has not included contingencies in the budget to cover potential changes to the program as a result of pending FCC proceedings. Due to the many potential changes and the fact that it is uncertain as to when, if at all, certain changes may be made by the FCC, staff's view is that the Committee and Board are better served by addressing budget modifications as changes to the support mechanisms occur. This will enable staff to provide more meaningful cost estimates.

Ms. Parrino noted that agenda items #aEC02, aEC05, and aEC06 all contain resolutions that if approved, will affect the budget numbers further.

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 2003 USAC common budget of \$6,939,500; and

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

RESOLVED FURTHER, That the USAC Executive Committee recommends to the USAC Board of Directors to approve an annual 2003 USAC consolidated budget of \$52,973,300; and

RESOLVED FURTHER, That the USAC Executive Committee recommends to the USAC Board of Directors to approve a 2nd Quarter 2003 USAC consolidated budget of \$16,333,500.

- a4. Approval of 2nd Quarter 2003 Revenue Projections and Resolution for the February 28, 2003, FCC Filing.** Mr. Carmichael reported that staff would be incorporating the recent contribution base methodology changes ordered by the FCC. He said that the contribution factor was maintained at approximately 7.3 percent for the 1st Quarter 2003 and that approximately \$246 million in unused Schools and Libraries Support Mechanism funds were used to offset collections. However, Mr. Carmichael noted that 1st Quarter 2003 was the last quarter that unused funds would be used, which will result in a likely increase to the contribution base for 2nd Quarter 2003. He said that the distribution of FCC Form 499-Qs remains stable at approximately 4,900. He reported that interest income for 4th Quarter 2002 was a bit lower than projected due to lower interest rates and that he expects the interest rates to stay low for the next couple of quarters.

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

RESOLVED, That the USAC Executive Committee, having reviewed at its meeting on January 16, 2003, a summary of the current status of the February 28, 2003, FCC filing requirements, recommends to the USAC Board of Directors to authorize USAC staff to proceed with the required February 28, 2003, filing to the FCC on behalf of USAC using a preliminary estimate of \$18,774.078 million for the contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

- a5. Approval of Course of Action Regarding USAC's Contract for Billing, Collection, Disbursement, and Other Financial 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 recommended that discussion of this item be conducted in **Executive Session** because discussion of this matter, which relates to USAC's *procurement strategy and contract negotiations*, and public disclosure of the matters discussed in this paper would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund. Moreover, certain matters discussed in this document implicate the *attorney-client privilege* and, therefore, should not be discussed in open session.

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

RESOLVED, That the USAC Executive Committee determines that discussion of the proposed course of action regarding performance of billing, collection, disbursement, and financial services functions shall be conducted in **Executive Session**.

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

Committee member Mr. Jackson joined the meeting during the discussion of the next item.

a6. Authorization to Sign Memorandum of Understanding with FCC Inspector General and the Department of the Interior Inspector General Regarding Audits of Beneficiaries and Approval of Necessary Budget Increase.

Ms. Parrino explained that the FCC has directed USAC to sign a Memorandum of Understanding (MOU) in which USAC agrees that the Department of the Interior's Office of Inspector General would conduct audits of schools under its jurisdiction that have received Schools and Libraries Support Mechanism funds and that the costs of those audits would be borne by the Universal Service Fund. Staff reported that the scope and cost of the audits contemplated by the MOU had not been made clear to USAC. A discussion ensued among Committee members and several concerns were aired, including the perception that the proposed agreement could be viewed as targeting Native American beneficiaries in a way that might seem disproportionate and/or separate from how other schools and libraries across the country are being audited. The Committee expressed its concern regarding the perceived equity of this approach. Some Committee members also indicated that certain members of the American Indian community have great skepticism of the Bureau of Indian Affairs and giving audit responsibility to the DOI Inspector General may increase the level of concern. The Committee did not take action on this item, concluding that it was appropriate to get the sense of the Schools & Libraries and Audit Committees at their January 22, 2003, meeting, as well as the full Board of Directors at its January 23, 2003 meeting.

At this point, 2:51 p.m., the Committee voted to move into **Executive Session** in order to hear from the USAC CEO and staff of further confidential and proprietary conversations that had transpired between USAC and the FCC on this matter.

Board member Brian Talbott left the meeting at this point.

The Committee adjourned from **Executive Session** and reconvened in open session at 2:54 p.m. No action was taken on the resolution.

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

a7. Miscellaneous. None.

Information Items

i1. Assistant Treasurer's Report. Mr. Carmichael reported that the balance attributable to the support mechanisms remains consistent throughout the year at approximately \$2.6 billion. He said that the USAC Investment Committee met on November 14, 2002, at one of USAC's financial services vendor's office (Bank One) in Chicago. The

meeting was routine and there were no significant issues.

Committee member Mr. Eichler rejoined the meeting at this point.

i2. Report on Accounts Receivable Over 30 Days and on Collection Efforts.

Mr. Carmichael reported that USAC's average Days Sales Outstanding (DSO) continues to be below the national average of 56 days. However, since the numbers in the issue paper were issued, \$20 million of the "delinquent outstanding" amount had been cleared up. That, along with other factors, results in a true DSO of approximately 36.7 days for USAC and that number continues to improve.

i3. Status Report on USAC Audits. Mr. Scott reported that the independent auditors retained by the FCC have completed fieldwork on the FCC audit of the Universal Service Fund for the fiscal year ended September 30, 2002, and that he expects a draft report soon. He noted that this year's FCC audit went much more smoothly than last year. Mr. Scott informed the Committee that the independent audits of USAC's financial statements and USAC's internal procedures are well underway and going well. Ms. Parrino informed the Committee that USAC's financial and operational audits would continue to be brought before the Committee, but that programmatic audits would not as a general rule due to the creation of the new USAC Audit Committee.

i4. Report on Pending Litigation and Bankruptcy Matters. Mr. Barash commented on one case: the United States Bankruptcy Court for the Central District of California granted summary judgment in USAC's favor in the Incomnet case. He reported that the appeal period has not yet expired.

i5. Miscellaneous. None.

At 3:08 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

a5. Approval of Course of Action Regarding USAC's Contract for Billing, Collection, Disbursement, and Other Financial Services – Confidential & Proprietary – Executive Session. Mr. Carmichael reviewed the history of USAC's contract with IBM Consulting for the billing, collection, disbursement, and other financial functions of USAC as well as the options and recommended course of action for USAC to take regarding this matter.

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

RESOLVED, That the USAC Executive Committee approves the course of action proposed by staff regarding the performance of billing, collection, and other financial services associated with the administration of the Universal Service Fund.

Committee member Mr. Eichler left the meeting again at this point.

a2. Approval of Proposed USAC Washington Office Space Plan and Authorization to Enter into a Lease – Confidential & Proprietary – *Executive Session*.

Mr. Haga reviewed the options and recommended course of action for office space for USAC in Washington, DC.

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

RESOLVED, That the USAC Executive Committee recommends that the USAC Board of Directors approve the course of action proposed by USAC management regarding the office space needs for the USAC Washington office.

The Committee adjourned from ***Executive Session*** and reconvened in open session at 3:33 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 3:34 p.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING**

February 26, 2003

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 Wednesday, February 26, 2003. Mr. Frank Gumper, Chair of the Committee, called the meeting to order at 2:04 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the CEO, called the roll.

Six of the seven members were present, representing a quorum.	
Gumper, Frank – Chair - <i>by telephone</i>	Lubin, Joel – Vice Chair - <i>by telephone</i>
Jackson, Jimmy – <i>by telephone</i>	Parrino, Cheryl
Jortner, Wayne – Treasurer - <i>by telephone</i>	Talbott, Brian – <i>by telephone</i>
One member joined the meeting in progress:	
Hess, Kevin – <i>by telephone</i>	
Two members were absent:	
Eichler, Ed	Sanders, Dr. Jay
Other Board members and Officers of the Corporation present:	
Rivera, Robert – USAC Board Member – <i>by telephone</i>	
Barash, D. Scott – Vice President & General Counsel	
Blackwell, Mel – VP, External Communications & Rural Health Care Division	
Flannery, Irene – VP, High Cost & Low Income Division	
Others present for the meeting:	
NAME	COMPANY
Howard, Cathy – <i>by telephone</i>	USAC
Jose, Stephanie	USAC
Scott, Wayne	USAC

Action Items

Committee member Kevin Hess joined the meeting during the discussion of the next item.

a3. Approval of 2nd Quarter 2003 Revenue Projections and Resolution for the February 28, 2003, FCC Filing. Ms. Parrino reported that USAC staff's revenue projections as of this date remain very close to the preliminary number approved by the USAC Board of Directors at its January 2003 quarterly meeting and staff do not anticipate any significant variance between this meeting date and the filing date of February 28, 2003; therefore, no action is required on this issue.

a1. Approval of USAC 2002 Annual Report to the FCC and Congress. Mr. Blackwell reported that comments and suggestions from the Board members, USAC staff, and FCC have been incorporated into the draft of the annual report before the Committee members. Mr. Gumper explained a change to the draft that he requested to revise information regarding the reimbursement of expenses for Board members other than for Board meetings from a chart format to a summary of the information in a textual format.

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

RESOLVED, That the USAC Executive Committee approves the USAC 2002 Annual Report to the FCC and Congress and directs USAC staff to provide a copy to the FCC and Congress by March 31, 2003, and further directs USAC staff to provide each Board member with a copy of the final 2002 Annual Report.

a2. 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.

The Committee voted to move into *Executive Session* at 2:13 p.m. to discuss the confidential and proprietary item as noted above. All USAC staff members other than Ms. Howard departed the meeting.

Executive Session

a2. Review and Approval of Changes to USAC CEO's Compensation – Confidential & Proprietary – Executive Session. Mr. Gumper explained that by FCC order, USAC is not allowed to pay any employee of USAC more than the Federal Executive Schedule

Level I salary cap. He said that in the past the Executive Committee has determined to keep the CEO's compensation equal to the Federal Executive Schedule Level I salary cap. That cap increased since last year, therefore, Mr. Gumper recommended that the CEO's 2003 salary be adjusted 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 2003 consistent with the Federal Executive Schedule Level I salary cap.

The Committee adjourned from *Executive Session* and reconvened in open session at 2:25 p.m. to report out the discussion by the Committee during *Executive Session*.

There being no further business, Mr. Gumper adjourned the meeting at 2:29 p.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

EXECUTIVE COMMITTEE MEETING

April 1, 2003

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 Tuesday, April 1, 2003. Mr. Frank Gumper, Chair of the Committee, called the meeting to order at 11:01 a.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the CEO, called the roll.

Six of the nine members were present, representing a quorum.	
Gumper, Frank - Chair – <i>by telephone</i>	Lubin, Joel – <i>by telephone</i>
Jackson, Jimmy – <i>by telephone</i>	Parrino, Cheryl – <i>by telephone</i>
Jortner, Wayne - Treasurer– <i>by telephone</i>	Sanders, Dr. Jay – <i>by telephone</i>
One member joined the meeting in progress:	
Talbot, Brian – <i>by telephone</i>	
Two members were absent:	
Eichler, Ed	Hess, Kevin
Officers of the Corporation present:	
Barash, D. Scott – Vice President & General Counsel	
Carmichael, Mark – Assistant Treasurer; VP-Finance	
Haga, Robert – Assistant Secretary; VP, Strategic Planning & USAC Operations	
Others present for the meeting:	
NAME	COMPANY
Howard, Cathy – <i>by telephone</i>	USAC

Action Items

- a1. Approval of Proposed Course of Action Regarding the Information Technology Requirements for the Online Form 498 – 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 discussion of this matter in open session, which relates to USAC's *procurement strategy*, and public disclosure of the matters discussed in this paper would compromise USAC's competitive bidding 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 the details of the proposed course of action regarding the hosting environment options for the online Form 498 shall be conducted in **Executive Session**.

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

The Committee voted to move into **Executive Session** at 11:03 a.m. to discuss the confidential and proprietary item as noted above.

Executive Session

a1. Approval of Proposed Course of Action Regarding the Information Technology Requirements for the Online Form 498 – Confidential & Proprietary – Executive Session. Mr. Haga reviewed the options and staff recommendation regarding the hosting environment options for the online Form 498.

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

RESOLVED, That the USAC Executive Committee accepts USAC staff's recommendation to outsource the information technology hosting environment for the online Form 498; and

RESOLVED FURTHER, that the USAC Executive Committee authorizes USAC staff to enter into a contract with ServerVault for the provision of the information technology hosting environment for the online Form 498.

The Committee adjourned from **Executive Session** and reconvened in open session at 11:15 a.m. to report out the discussion by the Committee during **Executive Session**.

Committee member Brian Talbott joined the meeting at this point.

Information Items

i1. Miscellaneous.

- **Status of USAC Response to U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight, Inquiry Concerning the Schools and Libraries Support Mechanism.** Mr. Barash gave the Committee an update on the status of USAC's response to this Congressional inquiry to USAC dated March 13, 2003, regarding the Schools and Libraries Support Mechanism. He stated that USAC staff was on track to meet the April 4, 2003 deadline. Mr. Gumper reassured the Committee that USAC staff has sought Board input on this inquiry from the beginning and that he and Mr. Talbott have been involved in preparation of USAC's response. Mr. Barash said that responding to this inquiry would be costly not only because of the large amount of information requested, but also

due to the short period of time in which to respond to the request.

There being no further business, Mr. Gumper adjourned the meeting at 11:26 a.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING**

April 17, 2003

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, April 17, 2003. Mr. Frank Gumper, Chair of the Committee, called the Committee to order at 2:02 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the CEO of USAC, called the roll.

Six of the nine members were present, representing a quorum.	
Hess, Kevin – <i>by telephone</i>	Parrino, Cheryl
Gumper, Frank – <i>Chair</i>	Sanders, Jay – <i>by telephone</i>
Jackson, Jimmy – <i>Secretary – by telephone</i>	Talbott, Brian – <i>by telephone</i>
Two members joined the meeting in progress:	
Jortner, Wayne – <i>Treasurer – by telephone</i>	Lubin, Joel – <i>Vice Chair – by telephone</i>
One member was absent:	
Eichler, Ed	
Other Board members and Officers of the Corporation present:	
Sanford, Jo Anne – <i>USAC Board Member – by telephone</i>	
Barash, D. Scott – <i>Vice President & General Counsel</i>	
Blackwell, Mel – <i>VP, External Communications and Rural Health Care Division</i>	
Carmichael, Mark – <i>Assistant Treasurer; VP-Finance</i>	
Flannery, Irene – <i>VP, High Cost & Low Income Division</i>	
Haga, Robert – <i>Assistant Secretary; VP, Strategic Planning & USAC Operations</i>	
Others present for the meeting:	
NAME	COMPANY
Howard, Cathy – <i>by telephone</i>	USAC
Scott, Wayne	USAC

Action Items

- 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, January 16, 2003; Wednesday, February 26, 2003; and Tuesday, April 1, 2003.

- Approval of Universal Service Contributor Revenue Data Collection Contract – Confidential & Proprietary – Executive Session.** In accordance with the approved
- a2. criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of this matter in open session and public disclosure 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 regarding its agreement with NECA to perform the universal service contributor revenue data collection shall be conducted in **Executive Session**.

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

- a3. **Approval of the 3rd Quarter 2003 and Revised 2003 Annual USAC Common and Consolidated Budgets.** Mr. Carmichael noted that USAC staff is proposing an increase of \$350,000 to the 2003 annual consolidated budget that was approved by the Board in January due to an increase for additional outside counsel and professional fees to respond to a congressional inquiry and litigation. He said that the 3Q2003 consolidated budget is higher than 3Q2002 actual expenditures primarily due to the transition of billing, collection, and disbursement functions in-house and the higher fixed price of the Schools and Libraries Support Mechanism contract extension for labor associated with system enhancements.

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

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

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

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

- a4. **Approval of 3rd Quarter 2003 Revenue Projections and Resolutions for the May 30, 2003, FCC Filing.** Mr. Carmichael reported that the contribution factor for the 3rd Quarter 2003 is projected to increase from 9.1 percent and that since the start of the second quarter 2003, unused Schools and Libraries Support Mechanism funds are no longer being used to offset collections.

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

RESOLVED, That the USAC Executive Committee, having reviewed at its meeting on April 17, 2003, a summary of the current status of the May 30, 2003, FCC filing requirements, recommends to the USAC Board of Directors to authorize USAC staff to proceed with the required May 30, 2003, filing to the FCC on behalf of USAC using a preliminary estimate of \$18,655.081 million for the contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

a5. Miscellaneous

- Proposed Change in Process for Conducting USAC Board and Committee Meetings. Ms. Parrino reported that in an effort to streamline the Board and Committee meetings so that the meetings are kept within the time length established for each meeting, she and Mr. Gumper reviewed the process that the Board and Committee Chairs currently use for conducting business in Board and Committee meetings and subsequently are proposing a change. She said that they suggest that for action items the Chairs ask the lead person of each item to first read the issue and refer the Board or Committee to the resolution(s), followed by the Chair reading the motion and requesting a first and second on the motion, and finally opening the floor for discussion and a vote. If there is no discussion, a vote on the matter would be taken. In addition to helping to keep the meetings on schedule, Ms. Parrino said that this practice would conform to Roberts Rules of Orders for conducting formal business meetings. The Chairs of the Committees were amiable to the suggested change and agreed to use the new process for their respective committee meetings.
- Solicit Ideas for July Committee Agenda. Mr. Gumper reported that Ms. Parrino and he also discussed the process for preparing the agendas for the quarterly meetings and decided to include this miscellaneous item on each quarterly agenda. Mr. Gumper said that Board members may offer suggestions for agenda items at each quarterly meeting or by contacting him or Ms. Parrino between quarterly meetings with suggestions.

Information Items

i1. Assistant Treasurer's Report. Mr. Carmichael reported that Universal Service Fund disbursements for the support mechanisms have remained consistent at approximately \$410-\$420 million per month. He said that the fund balance also remains consistent at approximately \$2.5 billion, but that he anticipates that the upcoming implementation of the Debt Collection Improvement Act (DCIA) on July 1, 2003, could positively affect the Fund balance. He explained that under the DCIA, USAC would transfer uncollectible accounts over 90 days to the FCC for collection and then on to the Treasury Department after another 30 days if still outstanding, and ultimately to the Department of Justice for final collection efforts. Mr. Carmichael said that delinquent carriers will be notified of the new collection process before implementation and he anticipates that the letters alone will result in a reduction in the number of delinquent accounts. He further stated that in over 99 percent of delinquent cases, USAC has been able to collect the outstanding funds within 180 days.

Committee members Mr. Jortner and Mr. Lubin joined the meeting at this point.

- i2. Status of IBM Billing, Collection, and Disbursement Contract.** Mr. Carmichael reported that the transition of the billing, collection, and disbursements functions in-house is on schedule and within budget. He stated that Phase I was completed on April 14 as scheduled.
- i3. Report of the Financial Audit of the FCC for the Year Ending September 30, 2002.** Ms. Parrino stated that there are two issues that have recurred in these reports since the FCC began including the Universal Service Fund in the FCC financial statements: (1) To what extent is the Fund considered public monies and for what purpose; and (2) What accounting rules should be followed by the Fund? Ms. Parrino noted that the FCC has received a clean audit opinion from its independent auditors.
- i4. Status Report on USAC Financial Audits.** Mr. Scott, USAC Director of Internal Audit, reported that the audit report of USAC's financial statements and agreed upon procedures as performed by Deloitte & Touche LLP (D&T) was timely filed with the FCC. He further reported that the audit of 2000/2001 Universal Service Fund contributor revenue, which is also being conducted by D&T, is going well, noting that the selected carriers were each sent an engagement package and their responses to date have been sufficient. Ms. Parrino informed the Committee that in response to information that D&T recently determined that it will not separate its auditing practice from its consulting practice, the USAC Audit Committee earlier on this same date approved sending a letter to the firm reminding them that it is USAC's policy not to engage its independent audit firm to provide accounting or consulting services of any kind, including bookkeeping, designing of accounting systems or operating procedures, or any other similar or related services.
- i5. Status Report on Actions Taken on Final Audits.** Mr. Scott explained that this will be a new issue paper that will provide details of follow-up actions being taken on final audits and that once all follow-up action has been reported on an audit, the audit will be dropped from this listing. He pointed out that staff included an audit report naming convention table in the issue paper to assist the Committee in understanding how the audit reports are numbered.
- i6. Report on Pending Litigation and Bankruptcy Matters.** Mr. Barash reported on a new matter as of this date in which USAC received a copy of a subpoena addressed to Arthur Andersen LLP that seeks certain information regarding audits of USAC performed by Andersen in 1999 and 2000. Mr. Barash said that the underlying litigation appeared to be a class action lawsuit against certain telecommunications providers concerning the Universal Service Fund charges assessed against their customers. He said he would keep the Committee informed as circumstances warrant.

See **Executive Session** for a confidential and privileged discussion of a potential litigation matter.

- i7. Update on Universal Service Support Mechanisms Enforcement Activity.** For information only. No discussion held.
- i8. Miscellaneous.** None.

At 2:53 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 item as noted above, as well as a potential litigation matter against USAC.

Executive Session

- i6. Report on Pending Litigation and Bankruptcy Matters.** Mr. Parrino reported on a potential litigation matter against USAC. Mr. Barash responded to questions by Committee members about the potential litigation.
- a2. Approval of Universal Service Contributor Revenue Data Collection Contract – Confidential & Proprietary – Executive Session.** Mr. Carmichael reviewed the recommendation of USAC staff regarding the current Universal Service Contributor Revenue Data Collection Contract with NECA.

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

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**.

There being no further business, Mr. Gumper adjourned the meeting at 3:39 p.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING**

July 17, 2003

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, July 17, 2003. Mr. Gumper, Chair of the Committee, called the meeting to order at 11:02 a.m. Eastern Time. Ms. Howard, Executive Assistant to the USAC CEO, called the roll.

Eight of the nine members were present, representing a quorum	
Eichler, Ed - <i>by telephone</i>	Jortner, Wayne - Treasurer - <i>by telephone</i>
Hess, Kevin - <i>by telephone</i>	Parrino, Cheryl
Gumper, Frank - Chair	Sanders, Jay - <i>by telephone</i>
Jackson, Jimmy - Secretary - <i>by telephone</i>	Talbott, Brian - <i>by telephone</i>
One member was absent:	
Lubin, Joel - Vice Chair	
Other Board members and Officers of the Corporation present:	
Barash, D. Scott - Vice President and General Counsel	
Blackwell, Mel - VP, External Communications and Rural Health Care Division	
Carmichael, Mark - Assistant Treasurer; VP, Finance	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
Others present for the meeting:	
Name	Company

Howard, Cathy - <i>by telephone</i>	USAC
Scott, Wayne	USAC

Action Items

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Committee approved the minutes as distributed of the USAC Executive Committee meeting of Thursday, April 17, 2003.
- a2. Approval of Revised *USAC Funds Guidelines for Investments*.** Mr. Jortner introduced this item and explained that the USAC Investment Committee had reviewed and revised the *Guidelines* at its May 13, 2003, quarterly meeting. Mr. Gumper clarified that the revisions will streamline the *Guidelines* to reflect USAC's investment strategy and policy in place for the last two years, which is to invest in U.S. Government-backed securities only. The revisions also eliminate reference to short-term maturities throughout the *Guidelines* thereby opening up USAC's options to invest in maturities greater than one year but less than two.

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

RESOLVED, That the USAC Executive Committee accepts the recommendation of the USAC Investment Committee to recommend to the USAC Board of Directors to adopt the revised *USAC Funds Guidelines for Investments* as presented by USAC staff.

- a3. Authorization to Negotiate Payment Agreements with Contributors.** Mr. Carmichael introduced this item. He pointed out that USAC staff failed to include the resolutions for the Executive Committee in the issue paper; therefore, he referred to the resolutions as listed for the full Board and made slight modifications. Mr. Carmichael indicated that the FCC has directed USAC to perform certain services regarding payment plans for delinquent universal service contributors, and proposed an estimated administrative budget to perform these new tasks. After discussion of the costs for an estimated initial 20 contributor payment plans over the next 12 months, Committee member consensus was that the estimated cost of \$25,000 per contributor to set up the plans was more than they were willing to authorize. Mr. Carmichael explained that the FCC will likely require audits and other investigative efforts into a delinquent contributor's ability to fulfill the terms of any payment plan should one be approved. USAC will insure that the administrative costs associated with this effort will be borne by the contributors to the fullest extent possible. Committee members urged USAC staff to weigh the administrative costs against the amount USAC can anticipate collecting if the delinquent contributor is allowed to enter a payment plan. The Committee **DIRECTED** staff to report on the status of the process and negotiated plans and to provide information regarding the cost of negotiating each individual payment plan to the Committee at the October 2003 quarterly meeting. The Committee also reduced the budgeted estimated costs of the payment plan effort to \$250,000.

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

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

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

- a4. Approval of the 4th Quarter 2003 USAC Common and Consolidated Budgets and the Revised 2003 Annual Consolidated Budget.** Mr. Carmichael introduced this item. He pointed out that the numbers in the resolutions were blank but could be filled in with the current numbers, noting that those numbers may change when presented to the USAC Board of Directors at its July 22, 2003, quarterly meeting due to a proposed increase in the Schools and Libraries Support Mechanism budget that would be presented to the USAC Schools & Libraries Committee on July 21, 2003. The Committee **DIRECTED** USAC staff to change the wording in future resolutions like this to reflect that the consolidated budget presented to the Board of Directors may differ from the consolidated budget approved by the Executive Committee as a result of recommendations and resolutions yet to be addressed by the programmatic committees at the quarterly Committee meetings, which meet following the quarterly Executive Committee meeting.

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 revised annual 2003 USAC consolidated budget of \$63,970,600; and

RESOLVED FURTHER, That the USAC Executive Committee recommends to the USAC Board of Directors to approve a 4th Quarter 2003 USAC consolidated budget of \$15,991,600; and

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

- a5. Approval of 4th Quarter 2003 Revenue Projections and Resolutions for the August 29, 2003, FCC Filing.** Mr. Carmichael introduced this item. Mr. Jortner noted that the contribution factor might decrease in the fourth quarter 2003 compared with the second quarter.

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

RESOLVED, That the USAC Executive Committee, having reviewed at its meeting on July 22, 2003, a summary of the current status of the August 29, 2003, FCC filing requirements, recommends to the USAC Board of Directors to authorize staff to proceed with the required August 29, 2003, filing to the FCC on behalf of USAC using a preliminary estimate of \$18,695.147 million for the contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance

threshold.

- a6. Board of Directors Governance Matters - Confidential & Proprietary - Executive Session.** Mr. Barash explained that the USAC Board of Directors previously directed USAC staff to seek legal advice from outside counsel concerning certain corporate governance issues and that that legal advice was now before the Committee for review. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, he recommended that discussion of this matter be discussed in **Executive Session** in order to ensure the continued applicability of the *attorney-client privilege*.

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

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

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

a7. Miscellaneous.

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

Information Items

- i1. Review of Assignment of the Rural Health Care and Schools and Libraries Support Mechanisms Services Agreement - Confidential & Proprietary - Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because this matter relates to USAC's *procurement strategy and contract negotiations*, and public disclosure of the this matter would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund (USF). Moreover, certain matters that could be discussed under this item 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 the assignment of the Rural Health Care and Schools and Libraries Program Services Agreement with the National Exchange Carrier Association, Inc. to NECA Services, Inc. shall be conducted in **Executive Session**.

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

- i2. Assistant Treasurer's Report.** Mr. Carmichael reported that the balance of the USF continues to be approximately \$2.4 billion. He noted that the estimated collection requirement for the USF was less than the actual amount billed to carriers primarily due to the FCC rounding the contribution factor up to the nearest tenth of a percent.

As a result, USAC bills and collects more than what USAC staff estimates is required. The over-collection will be included in the prior period true up for each of the support mechanisms in the 4th Quarter 2003 USAC filing with the FCC. Mr. Jortner mentioned again that under the revisions to the *USAC Funds Guidelines for Investments* as noted in **item a2** above, USAC will be investigating longer-term investments, which should realize better returns. Mr. Carmichael informed the Committee that USAC expects to be directed to convert the USF's accounting system from the current Generally Accepted Accounting Practices (GAAP) to Government Accounting and Auditing Standards perhaps as early as next year.

i3. Report on Accounts Receivable Delinquent Over 30 Days and on Collection Efforts.

Mr. Carmichael reported that the Days Sales Outstanding (DSO) on delinquent accounts was slightly reduced during third quarter 2003. He ascribes part of this reduction to the fact that USAC has begun to inform contributors of the threat of being turned over to the FCC and ultimately the U.S. Treasury for collection under the Debt Collection Improvement Act (DCIA) implemented on July 1, 2003. He said that several delinquent carriers have responded to the initial round of letters.

i4. Status of Financial Operations Transition to USAC.

Mr. Carmichael reported that the transition of the billing, collection, and disbursements functions in-house is going well, with Phase 1 complete and Phases 2-7 either on or ahead of schedule. He said that all but a couple of the planned staff has been hired.

i5. Report on Pending Litigation and Bankruptcy Matters.

Mr. Barash reported that litigation matters remain active and some have been positively resolved. Specifically, he said that for the first time a federal court of appeals has addressed the nature of Schools and Libraries Support Mechanism payments by affirming the bankruptcy court's decision in the LAN Tamers holding that Schools and Libraries Support Mechanism's Billed Entity Applicant Reimbursement (BEAR) funds are the property of the applicant, not the service provider, despite the fact that the program rules require the funds to be paid through the service provider. This decision again validates the "BEAR Agreement" process, whereby USAC refuses to remit any BEAR payments to a bankrupt service provider unless the service provider signs an agreement recognizing that it must immediately turn the funds over to the applicant.

i6. Status Report on USAC Financial Audits.

Mr. Scott, USAC Director of Internal Audit, noted that several audits of 2000/2001 USF contributor revenue, which are being conducted by Deloitte & Touche LLP, have been completed and USAC staff is reviewing the findings and expect to have draft reports to the USAC Vice President of Finance by August 2003.

i7. Status Report on Actions Taken on Final Audits.

Mr. Scott noted that all follow up action has been taken on final USAC financial and operational audit reports.

i8. Review of Strategic Planning Framework.

Mr. Haga reviewed USAC's Strategic Planning Framework that was created using the input given by the Board members, USAC staff, and stakeholders. He pointed out that the framework includes a vision statement, a set of values, and a set of goals with outcomes to be achieved in the next 3-4 years. Mr. Haga said he welcomes any further input.

i9. Miscellaneous. None.

At 11:52 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.

Executive Session

a6. Board of Directors Governance Matters - Confidential & Proprietary - Executive Session. Mr. Barash reviewed with the Committee a document from outside counsel offering advice on matters of Board of Directors governance. The Committee determined to recommend to the USAC Board of Directors to establish procedures on how to handle requests by Board members for confidential company information whose use or knowledge of may result in a serious conflict of interest for the Board member, or if the Board or USAC staff feels that the Board member may not have a proper purpose for making the request.

The Committee **DIRECTED** USAC staff to develop a process for responding to Board member requests for additional information.

i1. Review of Assignment of the Rural Health Care and Schools and Libraries Support Mechanisms Services Agreement - Confidential & Proprietary - Executive Session. Mr. Hess disclosed that his company, TDS Telecom, has stock in the company under discussion in this information item. Mr. Hess, Mr. Barash, and the other members of the Committee concluded that Mr. Hess could remain for the discussion, but should abstain from the vote when it comes before the full Board on July 22, 2003. Ms. Parrino explained the history of this matter and the recommendation being put before the Rural Health Care and Schools & Libraries Committees, as well as the Board, at each of their upcoming July quarterly meetings.

The Committee adjourned from **Executive Session** and reconvened in open session at 12:54 p.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Mr. Gumper adjourned the meeting at 12:55 p.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING****August 29, 2003****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 Friday, August 29, 2003. Mr. Gumper, Chair of the Committee, called the Committee to order at 11:03 a.m. Eastern Time. Ms. Howard, Executive Assistant to the CEO of USAC, called the roll.

Seven of the nine members were present, representing a quorum.	
Hess, Kevin - <i>by telephone</i>	Parrino, Cheryl - <i>by telephone</i>
Gumper, Frank - Chair - <i>by telephone</i>	Sanders, Jay - <i>by telephone</i>
Jortner, Wayne - Treasurer - <i>by telephone</i>	Talbott, Brian - <i>by telephone</i>
Lubin, Joel - Vice Chair - <i>by telephone</i>	
Two members were absent:	
Eichler, Ed	Jackson, Jimmy - Secretary
Other Board members and Officers of the Corporation present:	
Rivera, Robert - USAC Board Member - <i>by telephone</i>	
Carmichael, Mark - Assistant Treasurer; VP, Finance	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
Others present for the meeting:	
Name	Company
Howard, Cathy - <i>by telephone</i>	USAC
Miller, Linda	USAC

In accordance with the approved criteria and procedures for conducting USAC Board and Committee business in **Executive Session**, and at the direction of Mr. Gumper, Ms. Miller explained that USAC staff recommends that discussion of confidential and proprietary agenda items #a1, #a2, and #i1 be conducted in **Executive Session** for the following reasons:

- a1. Approval of Proposed Course of Action Regarding the Information Technology Requirements for the Finance Systems – Confidential & Proprietary – Executive Session Recommended.** Discussion of this matter in open session and public disclosure of this matter, which relates to USAC's *procurement strategy and contract negotiations*, would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Support Mechanisms.
- a2. Authorization to Purchase Furniture for USAC's Washington, D.C. Office – Confidential & Proprietary – Executive Session Recommended.** Discussion of this matter in open session and public disclosure of this matter, which relates to USAC's *procurement strategy and contract negotiations*, would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Support Mechanisms.
- i1. Board of Directors Governance Matters – Confidential & Proprietary – Executive Session Recommended.** Discussion of this matter in open session and public disclosure of this matter, which relates to, among other things, issues regarding the fiduciary obligations of Board of Directors members upon which the Board has consulted with and sought the advice of counsel, 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 agenda items #a1, #a2, and #i1 shall be conducted in **Executive Session**.

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

At 11:05 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.

Executive Session

Action Items

- a1. Approval of Proposed Course of Action Regarding the Information Technology Requirements for the Finance Systems – Confidential & Proprietary.** Mr. Haga introduced this item and answered questions clarifying various aspects of the proposal.

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

RESOLVED, That the USAC Executive Committee accepts USAC staff's recommendation to outsource the information technology hosting environment for finance systems; and

RESOLVED FURTHER, that the USAC Executive Committee authorizes USAC management to enter into a contract with ServerVault for the provision of the information technology hosting environment for the finance systems.

- a2. Authorization to Purchase Furniture for USAC's Washington, D.C. Office – Confidential & Proprietary.** Mr. Haga introduced this item and gave an overview of the proposal. Ms. Parrino explained that when the Board authorized the annual budget, the costs associated with this purchase were included; therefore, she is only seeking approval to enter a contract with a furniture vendor at this time.

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

RESOLVED, That the USAC Executive Committee authorizes the USAC CEO to enter into an agreement with SKB Architects for the purchase of office furniture for USAC's new Washington, D.C. location.

Information Items

- i1. Board of Directors Governance Matters – Confidential & Proprietary.** Ms. Parrino reported that an email had been received by USAC from a Board member renewing a request for access to certain confidential corporate information. She stated that the USAC By-laws do not specify whether the USAC Executive Committee or the full Board should address such requests. The consensus of the Committee was that since the full Board is aware of and has had discussions regarding this request in the past, it should resolve this issue.

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

RESOLVED, That the USAC Executive Committee directs USAC staff to schedule a meeting of the USAC Board of Directors prior to the October 2003 quarterly meetings to address the request presented by a USAC Board member for access to certain confidential corporate information.

i2. Miscellaneous.

- **Update on Memorandum of Understanding with FCC Inspector General and the Department of the Interior Inspector General Regarding Audits of Beneficiaries and Approval of Necessary Budget Increase.** Ms. Parrino reported that the 2003 audits are almost complete and that a request has been received by USAC from the FCC for a one-year extension as well as more money to perform the audits. She said that by the end of September 2003, at which time the Memorandum of Understanding is scheduled to expire, the money budgeted for this expense will have been depleted. Ms. Parrino explained that USAC staff would bring this matter to the USAC Board of Directors prior to the October 2003 quarterly meeting.
- **Update on the Schools and Libraries Support Mechanism Task Force on the Prevention of Waste, Fraud, and Abuse.** Mr. Gumper reported that on Thursday, August 28, 2003, USAC staff briefed members of the USAC Schools & Libraries Committee on the contents of the Task Force report being prepared for submission to the FCC.
- **Update on Construction of New Office Space in Washington, DC.** Mr. Haga reported that the

construction on the interior of the new office space at 2000 L Street, NW is going well and on schedule, with a move date planned for in November. In response to a request from a Committee member, Mr. Haga said that if feasible, he would arrange a tour of the new office space for the Board members sometime during the October 2003 quarterly meetings.

At this point, a "point of order" was called for and it was determined that the last three items reported on under agenda item #i2 should not have been held in **Executive Session** as the Committee had not determined whether the items were confidential and proprietary in nature and had not resolved to discuss those items under **Executive Session**. The Committee immediately adjourned from **Executive Session** and reconvened in open session at 11:50 a.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Mr. Gumper adjourned the meeting at 11:51 a.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING**

October 16, 2003

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 16, 2003. Mr. Gumper, Chair of the Committee, called the meeting to order at 11:01 a.m. Eastern Time. Ms. Howard, Executive Assistant to the USAC CEO, called the roll.

Seven of the nine members were present, representing a quorum..	
Eichler, Ed – by telephone	Lubin, Joel – Vice Chair – by telephone
Hess, Kevin – by telephone	Parrino, Cheryl – by telephone
Gumper, Frank – Chair – by telephone	Sanders, Jay – by telephone
Jortner, Wayne – Treasurer – by telephone	
Two members were absent:	
Jackson, Jimmy – Secretary	Talbott, Brian
Other Board members and Officers of the Corporation present:	
Rivera, Robert – USAC Board Member – by telephone	
Barash, D. Scott – Vice President and General Counsel	
Carmichael, Mark – Assistant Treasurer; VP, Finance	
Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations	
Others present for the meeting:	
Name	Company
Byrd, Vickie	FCC
Howard, Cathy - <i>by telephone</i>	USAC

Miller, Linda	USAC
Scott, Wayne	USAC

Action Items

- 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 17, 2003, and Friday, August 29, 2003.
- a2. Approval of 1st Quarter 2004 USAC Consolidated and Common Budgets and Information on Estimated 2004 Annual Budget.** Mr. Carmichael introduced this item. There was no discussion.

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

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

- a3. Approval of 1st Quarter 2004 Revenue Projections and Resolutions for the December 2, 2003, FCC Filing.** Mr. Carmichael introduced this item. In response to a question, he explained that the drop in projected demand from 4th Quarter 2003 to 1st Quarter 2004 for the High Cost, Low Income, and Schools and Libraries Support Mechanisms was primarily due to the annual FCC Form 499A/Q true-ups by carriers and carriers revising their past FCC Form 499 revenue reports to more accurately reflect their applicable revenues, as well as to the combined effects of the contributor audits and increased enforcement efforts in cooperation with the FCC. He reported that the effects of enforcement action due to the implementation of the Debt Collection Improvement Act (DCIA) have been extremely positive.

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

RESOLVED, That the USAC Executive Committee, having reviewed at its meeting on October 16, 2003, a summary of the current status of the December 2, 2003, FCC filing requirements, recommends to the USAC Board of Directors to authorize USAC staff to proceed with the required December 2, 2003, filing to the FCC on behalf of USAC using a preliminary estimate of \$18,724.968 million for the contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

- a4. Elevation of the Position of Director of Internal Audit to Vice President – Internal Audit Division and Designation of the Position as an Officer of the Corporation.** Ms. Parrino introduced this item. Mr. Gumper said that he had asked Ms. Parrino to list the responsibilities of each vice president of the corporation and

compare them to the responsibilities of the Director of Internal Audit. After reviewing the comparison, he concluded that the Director of Internal Audit's responsibilities are now at the same level as a vice president, thus, the position should appropriately be a vice president of the corporation. The Committee concurred.

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

RESOLVED, That the USAC Executive Committee recommends that the USAC Board of Directors establish the position of Vice President – Internal Audit Division; and

RESOLVED FURTHER, That the USAC Executive Committee, consistent with resolutions adopted by the USAC Board of Directors at its April 23, 2002, meeting, recommends that the USAC Board of Directors designate the Vice President – Internal Audit Division as an officer of the corporation; and

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

a5. Miscellaneous

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

Information Items

i1. Assistant Treasurer's Report. In response to a question, Mr. Carmichael explained that a LIRE adjustment, as reported in the issue paper, is a Limited International Revenue Exemption and that the adjustment to one carrier was a result of the carrier under-reporting its international revenue. Mr. Carmichael then explained how the uncollectability factor affects the contribution base and factor. He stated that the FCC adjusts end-user telecommunications revenues down 1 percent to account for possible uncollectables. USAC does not adjust demand projections for uncollectables. Any overcollection as a result of the FCC reduction of 1 percent for uncollectables is included in the following quarter's contribution factor as a prior period adjustment. Ms. Parrino explained that when USAC first began to estimate the demand for support, the Board determined not to include an uncollectability factor in its calculations for two reasons: (1) at that point, there was not an established pattern of demand versus billing, thus nothing on which to base an estimate of uncollectability, and (2) the Board felt that by establishing an uncollectability factor, USAC might send an incorrect signal to contributors regarding USAC's expectations for collections. USAC notified the FCC of this fact in March of 1998, resulting in the FCC's establishment of an uncollectability factor beginning in July 1998. The Committee **DIRECTED** USAC management to present a recommendation regarding an uncollectability factor to the USAC Board of Directors at its January 2004 quarterly meeting.

Mr. Carmichael informed the Committee that the FCC released an order earlier this month directing USAC to prepare financial statements for the Universal Service Fund

consistent with generally accepted accounting principles for federal agencies (Federal GAAP) and to keep the Funds in accordance with the United States Government Standard General Ledger (USGSGL) by October 1, 2004. Mr. Carmichael said that this would require changes in the current accounting system including revising the chart of accounts as well as training staff, but that USAC would be able to retain its current accounting system overall.

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

- i2. Report on Collection Efforts.** Mr. Carmichael reported that the process of obtaining information from and negotiating payment plans with delinquent carriers has been extremely labor intensive. However, he said that this effort has dramatically contributed to an increase in delinquent collections and has reduced USAC's Days Sales Outstanding (DSO) for accounts receivable. Mr. Carmichael said that as of this date, USAC has transferred approximately \$40 million of delinquent debt representing 166 entities to the FCC under the Debt Collection Improvement Act. The threat of further transfers has led several delinquent carriers to now pay on time, clear up their delinquent balances, or seek payment plans. He said that USAC received many more requests for payment plans than anticipated (approximately 30 versus the fewer than 10 anticipated); however, carriers must meet strict standards before entering a payment plan, if at all, and Mr. Carmichael expects that most will not meet those standards. In response to that statement, Mr. Barash cautioned the Committee that rejection of payment plans likely would generate more appeals to USAC and the FCC, but that USAC staff is prepared to handle those potential appeals. Mr. Carmichael went on to clarify that although the professional fees and costs associated with the payment plan process have been lower than expected, the process is taking much more staff resource time than anticipated due to the rigorous steps each carrier must be taken through before a payment plan is negotiated, if at all.
- i3. Status of Financial Operations Transition to USAC.** Mr. Carmichael reported that the transition of the billing, collection, and disbursements functions in-house is going well, with Phases 1 through 6 complete. He said that the last phase, the IT systems phase, is the highest risk phase as it is the most complex, but that USAC staff continues to work diligently to monitor and minimize any risks.
- i4. Report on Pending Litigation and Bankruptcy Matters.** Mr. Barash reported that the number of new bankruptcy filings is declining but that the complexity of current bankruptcy-related litigation matters increases. He reported on the adverse decision by the Bankruptcy Appellate Panel for the Ninth Circuit in the Incomnet case, which Mr. Barash noted would be presented to the USAC Board of Directors at its October 21, 2003, quarterly meeting for consideration of further action. Mr. Barash also noted that the plaintiff in the LAN Tamers bankruptcy action, where the issue involved rights to Schools and Libraries Support Mechanism reimbursements, has sought review in the United States Supreme Court and that USAC, while not a party to the case, will be monitoring it closely.
- i5. Report on USAC Financial Reporting Issues and the Nature of the Universal Service Fund.** Ms. Parrino reported that nothing has changed with this issue since her last report to the Committee in January 2003, with the exception of the order from the FCC directing USAC to prepare financial statements for the Universal Service Fund consistent with generally accepted accounting principles for federal agencies (Federal GAAP). Mr. Carmichael reported on this matter in information item #i1 above. Ms.

Parrino reminded the Committee that in January 2003 USAC submitted a draft description of the nature of the Universal Service Fund to the FCC Chief of Staff. Because that Chief of Staff has left the FCC, Ms. Parrino suggested that Mr. Gumper and Dr. Talbott might want to address the draft once again but with the new Chief of Staff, Mr. Bryan Tramont, at their meeting scheduled for this week.

i6. Status Report on USAC Financial Audits. Mr. Scott, USAC Director of Internal Audit, reported that Clifton Gunderson LLP would begin fieldwork before the end of October on the FCC audit of the Universal Service Fund for the fiscal year ending September 30, 2003. He said that Deloitte & Touche LLP expects to begin the independent audit of USAC's financial statement for 2003 in mid-November. Mr. Scott noted that the audits of the 2000/2001 Universal Service contributor revenue is almost complete and he hopes to present the audit reports to the USAC Board of Directors in January 2004.

i7. Miscellaneous

- **Verbal Report on Board Member Request for the RHC/SL Contract Statement of Work.** Mr. Gumper reported that a redacted version of the Statement of Work of the Rural Health Care and Schools and Libraries Support Mechanisms Program Support Services Agreement with NECA was provided to Board member Mr. Rivera in response to his request. Ms. Parrino recalled for the Committee that at the August 29, 2003, meeting of the Committee, the Committee directed USAC staff to schedule a meeting of the USAC Board of Directors to address the request presented by Mr. Rivera for access to certain confidential information regarding support mechanism operations. Ms. Parrino reported that after further discussions between herself, Mr. Gumper, Dr. Talbott, and Mr. Rivera following that meeting, and after Mr. Gumper consulted with the Board through an email message dated September 3, 2003, it was determined that sending a redacted version of the Statement of Work, in which the parts that include specific details about the triggers for application review that would provide either a service provider or a school/library applicant with information that could advantage them in the review process were redacted, should satisfy Mr. Rivera's request. Mr. Rivera stated that the redacted version met his needs. Therefore, Ms. Parrino said that a meeting of the full Board to address this issue was no longer necessary since all parties consider this request resolved.

There being no further business, Mr. Gumper adjourned the meeting at 12:00 p.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**EXECUTIVE COMMITTEE MEETING**

November 19, 2003

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 Wednesday, November 19, 2003. Mr. Gumper, Chair of the Committee, called the Committee to order at 11:34 a.m. Eastern Time. Ms. Howard, Executive Assistant to the CEO of USAC, called the roll.

Seven of the nine members were present, representing a quorum.	
Hess, Kevin – <i>by telephone</i>	Parrino, Cheryl
Gumper, Frank – Chair – <i>by telephone</i>	Sanders, Jay – <i>by telephone</i>
Jortner, Wayne – Treasurer – <i>by telephone</i>	Talbott, Brian – <i>by telephone</i>
Jackson, Jimmy – Secretary – <i>by telephone</i>	
Two members were absent:	
Eichler, Ed	Lubin, Joel – Vice Chair
Other Directors of the Corporation present:	
Rivera, Robert – Director – <i>by telephone</i>	
Others present for the meeting:	
Name	Company
Howard, Cathy – <i>by telephone</i>	USAC

Executive Session:**Information Items**

- i1. Discussion of an Internal Personnel Matter regarding the Search for a New CEO – Confidential & Proprietary.** In accordance with the approved criteria and procedures for conducting USAC Board and Committee business in **Executive Session**, Mr. Gumper recommended that discussion of an internal personnel matter regarding the search for a new CEO be conducted in **Executive Session**.

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

RESOLVED, That the USAC Executive Committee determines that discussion of an *internal personnel matter* regarding the search for a new CEO be conducted in **Executive Session**.

On a motion duly made and seconded, the Committee immediately voted to move into **Executive Session**.

Mr. Gumper led a discussion with the Committee about the work location of the new USAC CEO. The consensus of the Committee was that they prefer that the new CEO work out of the Washington, D.C. office. The Committee **DIRECTED** that the CEO profile should be modified consistent with this decision and should indicate a preference for the candidate to reside in the Washington, D.C. area or be willing to relocate to the Washington, D.C. area. However, at this point in the process, they do not want to reject a superior candidate from outside the area. Ms. Parrino said that she would inform the recruiter of the Committee's position and request that the CEO profile be modified as directed.

The Committee adjourned from **Executive Session** and reconvened in open session at 12:01 p.m. to report the discussion of the Committee during **Executive Session**.

There being no further business, Mr. Gumper adjourned the meeting at 12:02 p.m.

Robert W. Haga
Assistant Secretary