

2004 High Cost & Low Income Committee Meetings Minutes

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**HIGH COST & LOW INCOME COMMITTEE MEETING**

January 26, 2004

MINUTES

The quarterly meeting of the High Cost & Low Income (HCLI) Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC offices, 2000 L Street, NW, Washington, DC, on Monday, January 26, 2004. Mr. Hess, Chair of the Committee, called the meeting to order at 2:35 p.m. Eastern Time. Ms. Howard, Executive Assistant to the USAC CEO, called the roll.

All nine members were present representing a quorum:	
Askin, Jonathan	Jortner, Wayne
Buller, Karen	Lubin, Joel - Vice Chair
Cornell, Diane	Parrino, Cheryl
Gumper, Frank	Sanford, Jo Anne - <i>by telephone</i>
Hess, Kevin - Chair	
Other Board Members and Officers of the Corporation present:	
Baker, Dave – USAC Board member	
Campbell, Anne - USAC Board member – <i>by telephone</i>	
Duff, Bridget – USAC Board member	
Eichler, Ed - USAC Board member	
Hughes, Alison - USAC Board member	
Jackson, Jimmy - USAC Board member	
Barash, D. Scott - Vice President and General Counsel	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
Scott, Wayne – Vice President, Internal Audit Division	
Others present for the meeting:	
NAME	COMPANY
Cullen, Kathy	Telcordia
Davis, Ta'Nea	USAC
Delmar, Teleshia	USAC

Others present for the meeting:	
NAME	COMPANY
Divak, Helen	Telcordia
Dunn, Amanda	USAC
Faunce, Donna - <i>by telephone</i>	USAC
Gallant, Pam	USAC
Howard, Cathy	USAC
Jones, Cheryl	USAC
Khan, Sammy	USAC
Long, Deborah	NECA
Majcher, Karen	USAC
Miller, Linda	USAC
Murphy, Kristin	USAC
Nadel, Mark	FCC
Okudaira, Nobuko	USAC
Parry, John	NSI
Pertsevoi, Elizabeth	USAC
Spead, Michael	USAC
Waugaman, Seth	USAC

Action Items

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Committee approved the minutes of the USAC High Cost & Low Income Committee meetings of Monday, October 20, 2003, and Wednesday, December 3, 2003, as distributed.
- a2. Annual Election of Committee Chair and Vice Chair.** Ms. Parrino, introduced this item. There were no questions or discussion.

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

RESOLVED, That the USAC High Cost & Low Income Committee recommends that the USAC Board of Directors elect **Mr. Kevin Hess** as Chair and **Mr. Joel Lubin** as Vice Chair of the USAC High Cost & Low Income Committee for the term of one year that shall begin at the conclusion of the January 2004 quarterly Board meeting and that shall conclude at the close of the January 2005 quarterly Board meeting.

- a3. Action on One High Cost Support Mechanism Operational Audit Report – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that this item be discussed in **Executive Session** because discussion of the reports relates to specific internal controls, and/or confidential company data that would constitute a “[d]iscussion of internal rules and procedures concerning the administration of the universal service

support mechanisms where discussion of the matter in open session would result in disclosure of confidential techniques and procedures that would compromise program integrity." Mr. Hess disclosed to the Committee that three of the companies reviewed in this report are subsidiaries of TDS Telecom, the company for which he works. He noted that there were no negative findings concerning those companies; however, he said he would recuse himself from voting on this item if anyone deemed it a conflict of interest. Upon consultation with the General Counsel, the Committee determined that it was acceptable for Mr. Hess to vote on this matter.

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

RESOLVED, That the USAC High Cost & Low Income Committee determines that discussion of the audit report of High Cost and Low Income Universal Service Support Mechanism beneficiaries labeled HC2003OP002 shall be conducted in **Executive Session**.

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

- a4. Action on Five Low Income Support Mechanism Beneficiary Audit Reports.** Ms. Delmar, USAC Manager of the Internal Audit Division (IAD), introduced this item. Some Committee members expressed concern that we are using limited resources to audit carriers that have received small amounts of funding rather than concentrating on high risk and high impact issues. Ms. Delmar said that going forward IAD is considering determining a dollar amount threshold for most Low Income Support Mechanism beneficiary audits. Committee members suggested that for carriers that receive small amounts, USAC might want to conduct a limited review to determine whether the carrier are complying with the advertising requirements. Mr. Scott pointed out that these were random audits and among the first Low Income audits performed by IAD. He said that he would review the audit plan going forward in consideration of the Committee's suggestions, including identifying certain carriers for limited scope audits that would focus primarily on the advertising performed by those carriers. Mr. Gumper reminded the Committee that USAC used to perform many more Low Income audits through an outside auditor and that they determined that most companies were compliant with FCC rules, with the exception of the advertising requirement, with which companies of different sizes tended to have issues.

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

RESOLVED, That the USAC High Cost & Low Income Committee has reviewed Audit Reports labeled LI2003BE001, LI2003BE007, LI2003BE008, LI2003BE009, and LI2003BE010 together with management's response thereto, and recommends to the USAC Audit Committee that each audit report be deemed final.

- a5. Approval of the Proposed Plan for Beneficiary and Follow-Up Audits of the High Cost and Low Income Support Mechanisms for Inclusion in the 2004 USAC Internal Audit Plan – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that this item be discussed in Executive Session because discussion of specific audit plans, internal controls, and/or confidential company data would constitute a "[d]iscussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session 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 High Cost & Low Income Committee determines that discussion of the proposed plan for beneficiary and follow-up audits of the High Cost and Low Income Support Mechanisms for inclusion in the 2004 USAC Internal Audit Plan shall be conducted in **Executive Session**.

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

- a6. Approval of 2004 Annual and 2nd Quarter High Cost and Low Income Support Mechanisms Programmatic Budgets.** Ms. Faunce, USAC Budget and Finance Analyst, introduced this item. In response to a question concerning the extension of the contract with Rhoads & Sinon, Ms. Flannery explained that it is uncertain at this time how long it will take Rhoads & Sinon to complete the tasks for which USAC has contracted.

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

RESOLVED, That the USAC High Cost & Low Income Committee approves a 2nd Quarter 2004 programmatic budget for the High Cost Support Mechanism of \$1,239,500; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves a 2004 annual programmatic budget for the High Cost Support Mechanism of \$4,507,400; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves a 2nd Quarter 2004 programmatic budget for the Low Income Support Mechanism of \$505,400; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves a 2004 annual programmatic budget for the Low Income Support Mechanism of \$2,019,700.

- a7. Approval of 2nd Quarter 2004 High Cost and Low Income Support Mechanisms Projections and Resolution on the January 30, 2004, FCC Filing.** Ms. Flannery introduced this item and directed the Committee’s attention to the updated issue paper and attachments that were distributed. In response to a question, Ms. Flannery explained that the second quarter projections are higher than the first quarter primarily due to adjustments resulting from prior period true-ups. In addition, Ms. Flannery said that, in accordance with FCC direction, funds must be projected for competitive carriers that are not yet designated as eligible to receive support, but that have already filed line counts with USAC. She stated that this practice is intended to ensure that funds are available for competitive carriers that are designated within a given quarter. Ms. Flannery pointed out the information regarding competitive eligible telecommunications carriers shown in agenda item #iHCLI01.

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

RESOLVED, That the USAC High Cost & Low Income Committee, having reviewed at its meeting on January 26, 2004, a summary of the 2nd Quarter 2004 support mechanism estimates, including administrative costs for High Cost Loop Support, Long Term Support, Local Switching Support, Interstate Common Line Support, Interstate Access Support, the non-rural forward-looking High Cost Model support, Lifeline, Link Up, and Toll Limitation Service, hereby directs USAC management to proceed with the required January 30, 2004, filing to the FCC on behalf of the Committee. Staff may make adjustments if the total variance for both support mechanisms is equal to or less than \$10 million and, with approval of the Committee Chair, may make adjustments if the total variance for both support mechanisms is equal to or less than \$15 million.

- a8. Approval of High Cost Support Services Contract Extension.** Ms. Flannery introduced this item. Mr. Barash stated that this item need not be discussed in **Executive Session** as staff recommended because the Committee had already discussed the substance of this matter in open session under agenda item #aHCLI06. Mr. Hess explained that, on December 29, 2003, as Chair of the Committee, he approved a one-month extension of the Rhoads & Sinon contract at the request of USAC management because the contract was due to expire on December 31, 2003, there was substantial High Cost audit and ramp-up work taking place, and payment for the one-month extension was well within the overall contract amount authorized by the Committee in January 2003. He said that the Committee is now being asked to approve further extensions to that contract.

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

RESOLVED, That the USAC High Cost & Low Income Committee authorizes the USAC CEO to enter into an extension of the consulting agreement with Mr. David Rolka and the Rhoads & Sinon Group, LLC through March 31, 2004, with one-month options to renew through December 31, 2004, and with appropriate modifications, to perform administrative support services associated with High Cost support for rural and non-rural companies.

a9. Miscellaneous.

- **Solicit Ideas for April 2004 Committee Agenda.** Mr. Hess reminded Committee members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him or Ms. Flannery between quarterly meetings.

Information Items

- i1. High Cost and Low Income Support Mechanisms Update.** Ms. Flannery reported on several High Cost support mechanism issues. She informed the Committee that the FCC adopted an order that sets some parameters for future ETC designations. Specifically, she noted that the FCC determined that competition alone is no longer enough to be awarded ETC designation, redefined two incumbent carrier study areas, and imposed a new October 1 compliance filing date on Virginia Cellular. She also said that certain questions might need to be clarified with the FCC. Ms. Parrino stated that the 30 ETC applications pending before the FCC would likely now be determined using these new standards.

Ms. Flannery also reported that two new states (Nebraska and South Dakota) are now

receiving High Cost Model support. She then informed the Committee that one High Cost appeal has been resolved and another appeal was recently filed. Ms. Flannery also reported that the Office of Management and Budget approved the revised FCC Form 498—the service provider identification number form—and that USAC is in the process of implementing the form for carriers receiving High Cost and Low Income support.

Finally, Ms. Flannery reported that USAC staff prepared charts showing the percentage of funds disbursed to competitive eligible telecommunications carriers (CETCs) per the Committee's request at the October 2003 meeting.

Regarding the Low Income Support Mechanism, Ms. Flannery reported that the Office of Management and Budget approved the revised FCC Form 497, which ETCs submit to claim Lifeline, Link Up, and Toll Limitation support. USAC staff is working on an implementation plan for the form.

- i2. Status of HCLI Contract Transition.** Ms. Flannery reviewed the status of the transition of program support services related to the High Cost and Low Income Support Mechanisms from NECA and Rhoads & Sinon to Telcordia Technologies, Inc. (Telcordia). She began by informing the Committee that the transition was successfully completed on time and that Telcordia provided USAC with process flows for each of the support mechanisms. She noted that these process flows provide the most complete documentation that USAC has ever had of these processes and provide a strong foundation from which to develop more detailed methods and procedures. Ms. Flannery presented the High Cost Model process flow as an example and explained how each individual process flows into each other. She explained that Telcordia produced the process flows through observation of and interviews with NECA and Rhoads & Sinon personnel, and that both Rhoads & Sinon and NECA validated the process flows.
- i3. Status Report on High Cost and Low Income Support Mechanisms Audits.** Mr. Scott briefly reviewed the status of ongoing and planned audits for these support mechanisms.
- i4. Status Report on Actions Taken on Final Audits.** Mr. Scott informed the Committee that in an effort to streamline this report, which is growing to an unwieldy size due to the increasing number of audits to report, going forward IAD staff would provide the Committee with an overall summary of actions taken as a result of findings in audits, noting any areas of concern, rather than the detailed list that includes reports where action is still pending as is done now.
- i5. High Cost and Low Income Support Mechanisms Timeline and key Dates.** For information only. No discussion held.

At this point, the meeting was beginning to run past its allotted time and since the Audit Committee would be considering one of the same issues as the High Cost & Low Income Committee in **Executive Session** and all members of the Audit Committee were present at this point, the Audit Committee came to order and voted to go into **Executive Session** along with the High Cost & Low Income Committee to consider and take action on item #aHCLI03. (See the minutes of the Audit Committee from Monday, January 26, 2004.)

At 3:36 p.m., on a motion duly made and seconded, the High Cost & Low Income Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above.

Executive Session

a3. Action on One High Cost Support Mechanism Operational Audit Report – Confidential & Proprietary. Mr. Scott introduced this item. Ms. Flannery reviewed how the audit developed and the basis for performing the audit; steps USAC management has taken in response to the audit findings; and the plan going forward to address issues of concern.

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

RESOLVED, That the USAC High Cost & Low Income Committee has reviewed Audit Report labeled HC2003OP002 together with management's response thereto, and recommends to the USAC Audit Committee that the audit report be deemed final.

The Audit Committee recessed at 4:05 p.m. to allow the High Cost & Low Income Committee to continue with its agenda items.

a5. Approval of the Proposed Plan for Beneficiary and Follow-Up Audits of the High Cost and Low Income Support Mechanisms for Inclusion in the 2004 USAC Internal Audit Plan – Confidential & Proprietary. Mr. Scott introduced this item. He clarified that the percentage of the IAD budget allocated to conduct support mechanism beneficiary audits covers all the support mechanisms, not just High Cost and Low Income.

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

RESOLVED, That the USAC High Cost & Low Income Committee approves the proposed plan for beneficiary and follow-up audits of the High Cost and Low Income Support Mechanisms for 2004 as presented by the USAC Internal Audit Division and recommends that the USAC Audit Committee include the proposed audits in the 2004 USAC Internal Audit Plan.

The High Cost & Low Income Committee adjourned from **Executive Session** and reconvened in open session at 4:07 p.m. to report the discussions and actions of the Committee during **Executive Session**.

i6. Miscellaneous.

- Mr. Hess announced that this would be Ms. Parrino's last High Cost & Low Income Committee meeting, as she would be stepping down as the CEO of USAC effective January 31, 2004. Mr. Hess thanked Ms. Parrino on behalf of the Committee for her dedication, commitment, and leadership, and the Committee gave her a round of applause.

There being no further business, Mr. Hess adjourned the meeting at 4:09 p.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**HIGH COST & LOW INCOME COMMITTEE MEETING**

April 19, 2004

MINUTES

The quarterly meeting of the High Cost & Low Income (HCLI) Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC offices, 2000 L Street, NW, Washington, DC, on Monday, April 19, 2004. Mr. Hess, Chair of the Committee, called the meeting to order at 2:15 p.m. Eastern Time. Ms. Pertsevoi, Administrative Assistant to the Vice President of the High Cost & Low Income Division, called the roll.

Seven of the nine members were present representing a quorum:	
Askin, Jonathan	Jortner, Wayne
Buller, Karen	Lubin, Joel - Vice Chair
Gumper, Frank	Sanford, Jo Anne
Hess, Kevin - Chair	
Two members joined the meeting in progress:	
Cornell, Diane	Zaina, Lisa
Other Board Members and Officers of the Corporation present:	
Baker, Dave – USAC Board member	
Campbell, Anne - USAC Board member	
Duff, Bridget – USAC Board member	
Eichler, Ed - USAC Board member	
Hughes, Alison - USAC Board member	
Jackson, Jimmy - USAC Board member	
Barash, D. Scott - Vice President and General Counsel	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
Scott, Wayne – Vice President, Internal Audit Division	
Others present for the meeting:	
NAME	COMPANY
Buckley, Thom	FCC
Cullen, Kathy	Telcordia
Davis, Craig	USAC
Davis, Ta'Nea	USAC
Delmar, Teleshia	USAC
Divak, Helen	Telcordia
Dunn, Amanda	USAC

Others present for the meeting:	
NAME	COMPANY
Everett, Luke	USAC
Faunce, Donna	USAC
Gallant, Pam	USAC
Helbing, Jeremy	USAC
Howard, Cathy	USAC
Jones, Cheryl	USAC
Khan, Sammy	USAC
Long, Deborah	NECA
Majcher, Karen	USAC
Master, Maveck	Telcordia
Miller, Linda	USAC
Murphy, Kristin	USAC
Navarro, Dan	USAC
Okudaira, Nobuko	USAC
Pertsevoi, Elizabeth	USAC
Spead, Michael	USAC
Waugaman, Seth	USAC

Action Items

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Committee approved the minutes of the USAC High Cost & Low Income Committee meeting of Monday, January 26, 2004, as distributed.
- a2. Action on One USAC Internal Audit Division High Cost Support Mechanism Operational Audit Report – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in Executive Session, Mr. Barash recommended that the audit report be discussed in Executive Session because discussion of the report relates to specific internal controls, and/or confidential company data that would constitute a discussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session 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 High Cost & Low Income Committee determines that discussion of the USAC Internal Audit Division High Cost Support Mechanism operational audit report labeled HC2003OP003 shall be conducted in Executive Session.

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

- a3. Action on Two USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports – Executive Session Option.** Ms. Delmar introduced this item. There was no further discussion.

On a motion duly made and seconded, the Committee adopted the following resolution. Mr. Gumper abstained because his employer is affiliated with one of the companies audited.

RESOLVED, That the USAC High Cost & Low Income Committee, having reviewed the two USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports labeled LI2003BE011 and LI2003BE012 together with management's response thereto, recommends to the USAC Audit Committee that each audit report be deemed final.

Committee member Ms. Cornell joined the meeting during discussion of the next agenda item.

a4. Approval of the 3rd Quarter and Revised 2004 Annual High Cost and Low Income Support Mechanisms Programmatic Budgets. Ms. Faunce, USAC Senior Budget & Reporting Analyst, introduced this item. Ms. Flannery stated that part of the High Cost contract contingency would be used, among other things, to accommodate the first change order to the Telcordia contract, which covers exploring the challenges inherent in the payment system inherited from NECA, USAC's previous vendor. The remainder of the contingency would be earmarked for the High Cost share of the proposed consolidated payment calculation system. Ms. Flannery then detailed the shortfalls found with the existing payment systems, including its manual structure of linked spreadsheets. Ms. Flannery said that many of the payment system problems would be resolved with the new consolidated system, which will be an automated web-based system resulting in much greater efficiency. In response to a question regarding ways to design the new payment system in anticipation of industry software changes over time, Ms. Flannery assured the committee of Telcordia's expertise in this area, citing its sophisticated systems development work for certain federal government agencies.

Ms. Flannery stated that the majority of the Low Income contract contingency amount would be devoted to the expedited development of the Low Income portion of the consolidated payment calculation system. Ms. Flannery explained that more detail about this project is included in agenda item #aHCLI06.

Regarding outreach efforts, Ms. Faunce stated that she would obtain for the Committee information on the percentage of the High Cost versus the Low Income budgets projected to be spent on outreach. Ms. Flannery noted that a portion of the amount projected for travel is for conferences and thus would be considered outreach. She continued saying that, at the present time, most High Cost and Low Income outreach efforts consist of attending conferences and sending out mailings, though an order from the FCC containing further guidance on Low Income outreach and USAC's role in that process is expected soon.

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

RESOLVED, That the USAC High Cost & Low Income Committee approves a 3rd Quarter 2004 programmatic budget for the High Cost Support Mechanism of

\$1,363,000; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves a 2004 annual programmatic budget for the High Cost Support Mechanism of \$5,055,600; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves a 3rd Quarter 2004 programmatic budget for the Low Income Support Mechanism of \$1,050,600; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves a 2004 annual programmatic budget for the Low Income Support Mechanism of \$3,112,700.

- a5. Approval of 3rd Quarter 2004 High Cost and Low Income Support Mechanisms Projections for the April 30, 2004, FCC Filing.** Ms. Flannery introduced this item. She called the Committee's attention to the fact that there are no numbers for Long Term Support (LTS) going forward since it is being merged with Interstate Common Line Support (ICLS), effective July 1, 2004. Ms. Flannery explained that the 3Q2004 ICLS projection includes a 2002 true-up that results in a net negative number, which means that money will be recovered from the affected carriers.

The Committee **DIRECTED** USAC management going forward to always note the projected numbers in the projections resolutions.

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

RESOLVED, That the USAC High Cost & Low Income Committee, having reviewed at its meeting on April 19, 2004, a summary of the 3rd Quarter 2004 support mechanism estimates, including administrative costs for High Cost Loop Support, Local Switching Support, Interstate Common Line Support, Interstate Access Support, the non-rural forward-looking High Cost Model support, Lifeline, Link Up, and Toll Limitation Service, hereby directs USAC management to proceed with the required April 30, 2004, filing to the FCC on behalf of the Committee. Staff may make adjustments if the total variance for both support mechanisms is equal to or less than \$10 million and, with approval of the Committee Chair, may make adjustments if the total variance for both support mechanisms is equal to or less than \$15 million.

a6. Miscellaneous.

_01. Solicit Ideas for July 2004 Committee Agenda. Mr. Hess reminded Committee members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him or Ms. Flannery between quarterly meetings.

_02. Approval of a Contract Modification to Implement Technical Changes to the Low Income Support Mechanism System Necessary to Process the New FCC Form 497 – Confidential & Proprietary – Executive Session Recommended. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of this matter relates to 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 High Cost & Low Income Committee determines that discussion of the proposed modification to the HCLI Contract with Telcordia, Inc., to begin work on the Low Income portion of a new High Cost and Low Income payment calculation system shall be conducted in **Executive Session**.

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

Information Items

- i1. High Cost and Low Income Support Mechanisms Update.** Ms. Flannery reported that the new program support services contractor, Telcordia, Inc., continues to impress USAC staff with its level of performance.

Ms. Flannery reported on several High Cost support mechanism issues. She informed the Committee that as expected, the eligible telecommunications carrier (ETC) order recently granted Highland Cellular was determined using the new standards set out in the Virginia Cellular order discussed at the January 2004 meeting.

Ms. Flannery reported that the FCC concluded that merging Long Term Support (LTS) with Interstate Common Line Support (ICLS) would provide administrative simplicity by eliminating a duplicative and obsolete component of the High Cost Support Mechanism without affecting the total support received by rate-of-return carriers or negatively affecting carriers that choose to participate in the NECA pool. As a result, LTS will be eliminated effective July 1, 2004. In turn, ICLS will be increased to offset the reduction in LTS. Ms. Flannery also reported that there is one outstanding High Cost appeal for which she anticipated a decision very soon.

Ms. Flannery reported on the phased approach that USAC is taking to the implementation on the new Form 498. USAC has devised a plan under which a carrier files its revised FCC Form 498 based on the state in which it is located. For companies that operate in more than one state, the company decides in which phase to submit the new form.

Ms. Flannery reported that USAC will soon be posting carriers' High Cost Support Mechanism disbursement information directly to the USAC website. USAC staff hopes that this will alleviate some current carrier confusion resulting from conflicting information that carriers receive from other non-USAC sources.

Ms. Flannery reported that information for a Committee member request for the amount of High Cost support received by CETCs divided between the support received by wireless CETCs versus wireline CETCs was unavailable in time for the meeting; however, she said it would be distributed to Committee members prior to the July 2004 quarterly meetings.

- i2. Status Report on USAC High Cost Support Mechanism Process Audit – Executive Session Option.** Ms. Flannery reported that since the January 2004 meeting, High Cost and Low Income Division (HCLID) management has categorized and prioritized each finding and has assigned HCLID staff the task of researching and resolving each high priority finding. Ms. Flannery stated that the goal is to have all high priority items resolved by the July 2004 Committee meeting.
- i3. Status Report on Ongoing High Cost and Low Income Support Mechanisms Audits.** Mr. Scott reviewed the status of ongoing and planned audits for these support mechanisms.
- i4. Status Report on Actions Taken on Final Audits of the High Cost and Low Income Support Mechanisms.** Mr. Scott reviewed follow-up action that is being taken on previously finalized audits for these support mechanisms.

At 3:14 p.m., on a motion duly made and seconded, the High Cost & Low Income Committee voted to move into Executive Session for purposes of discussing the confidential and proprietary items as noted above. The Chair then recessed the meeting. At the call of the Chair, the Committee reconvened in Executive Session at 3:22 p.m. Ms. Pertsevoi called the roll at the request of the Chair.

Nine of the nine members were present representing a quorum:	
Askin, Jonathan	Jortner, Wayne
Buller, Karen	Lubin, Joel - Vice Chair
Cornell, Diane	Sanford, Jo Anne
Gumper, Frank	Zaina, Lisa
Hess, Kevin - Chair	

Executive Session

- a2. Action on One USAC Internal Audit Division High Cost Support Mechanism Operational Audit Report – Confidential & Proprietary.** Ms. Delmar introduced this item. Mr. Hess disclosed to the Committee that because one of the companies reviewed in this report is a subsidiary of TDS Telecom, the company for which he works, he would recuse himself from voting. Ms. Delmar and Ms. Flannery reviewed the findings and the actions being taken to address them.

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

RESOLVED, That the USAC High Cost & Low Income Committee, having reviewed the USAC Internal Audit Division High Cost Support Mechanism Operational Audit Report labeled HC2003OP003 together with management’s response thereto, recommends to the USAC Audit Committee that the audit report be deemed final.

a6. Miscellaneous.

- _02.** Approval of a Contract Modification to Implement Technical Changes to the Low Income Support Mechanism System Necessary to Process the New FCC Form 497 – Confidential & Proprietary. Ms. Flannery introduced this item. Telcordia

employees were present for the first part of discussion in case Committee members required answers to any technical questions. They departed at 3:45 p.m. to allow the Committee to privately discuss the merits of the proposal. In response to a question, Ms. Flannery explained that the new system was needed immediately because the existing system could not support data fields that had been added to the recently approved FCC Form 497, including additional information from carriers serving tribal lands. Mr. Gumper advised that it was important to start outreach very soon to give carriers enough time to prepare for the more detailed information that would need to be provided on the revised form.

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

RESOLVED, that the USAC High Cost & Low Income Committee approves an increase of \$982,652.00 in the 3rd Quarter 2004 programmatic budget for the Low Income Support Mechanism to cover the estimated costs of a contract modification to begin implementing the Low Income Support Mechanism portion of a new consolidated High Cost and Low Income payment calculation system.

The Committee adjourned from **Executive Session** and reconvened in open session at 4:08 p.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Mr. Hess adjourned the meeting at 4:09 p.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**HIGH COST & LOW INCOME COMMITTEE MEETING**

July 19, 2004

MINUTES

The quarterly meeting of the High Cost & Low Income (HCLI) Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC offices, 2000 L Street, NW, Washington, DC, on Monday, July 19, 2004. Mr. Hess, Chair of the Committee, called the meeting to order at 2:15 p.m. Eastern Time. Ms. Lamoureux, Executive Assistant to the USAC CEO, called the roll.

All nine members were present, representing a quorum:	
Askin, Jonathan - <i>by telephone</i>	Jortner, Wayne
Buller, Karen	Lubin, Joel - Vice Chair- <i>by telephone</i>
Cornell, Diane	Sanford, Jo Anne
Gumper, Frank	Zaina, Lisa, CEO
Hess, Kevin - Chair	

Other Board Members and Officers of the Corporation present:
Campbell, Anne - USAC Board member
Duff, Bridget - USAC Board member
Eichler, Ed - USAC Board member
Barash, D. Scott - VP and General Counsel
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations
Flannery, Irene - VP, High Cost and Low Income Division
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations
Scott, Wayne - VP, Internal Audit Division

Others present for the meeting:	
Name	Company

Davis, Ta'Nea	USAC
Delmar, Teleshia	USAC
Divak, Helen	Telcordia
Dunn, Amanda	USAC
Faunce, Donna	USAC
Gallant, Pam	USAC
Jones, Cheryl	USAC
Majcher, Karen	USAC
Murphy, Kristin	USAC
Okudaira, Nobuko	USAC
Pertsevoi, Elizabeth	USAC
Waugaman, Seth	USAC

Action Items

- a1. **Approval of the Minutes.** On a motion duly made and seconded, the Committee approved the minutes of the USAC High Cost & Low Income Committee meeting of Monday, April 19, 2004, as distributed.
- a2. **Action on One USAC Internal Audit Division High Cost Support Mechanism Operational Audit Report - Confidential & Proprietary -.** Ms. Delmar presented the findings of one High Cost Beneficiary Audit.

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

RESOLVED, That the USAC High Cost & Low Income Committee, having reviewed the USAC Internal Audit Division High Cost Support Mechanism Beneficiary Audit Report labeled HC2004BE001, together with management's response thereto, recommends to the USAC Audit Committee that the audit report be deemed final.

- a3. **Action on Two Low Income Support Mechanism Beneficiary Audit Reports - Executive Session Option.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session, USAC management recommended that** such a discussion be conducted in **Executive Session**. The basis for discussing such matters in **Executive Session** is that a discussion of specific audit plans, targets and/or techniques would constitute a discussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session 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 High Cost & Low Income Committee determines that discussion of the action on two Low Income Support Mechanism beneficiary audit reports shall be conducted in **Executive Session**.

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

- a4. **Approval of the 4th Quarter 2004 High Cost and Low Income Support Mechanisms Programmatic Budgets.** Ms. Faunce, USAC Senior Budget &

Reporting Analyst, introduced this item indicating that no changes to the budgets are proposed at this time. The Committee discussed the need for more outreach. Ms. Flannery advised that under the new *Low Income Order* recently approved by the FCC, additional outreach efforts are mandated.

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

RESOLVED, That the USAC High Cost & Low Income Committee approves a 4th Quarter 2004 programmatic budget for the High Cost Support Mechanism of \$1,363,500; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves a 4th Quarter 2004 programmatic budget for the Low Income Support Mechanism of \$1,051,000.

- a5. Approval of 4th Quarter 2004 High Cost and Low Income Support Mechanisms Projections for the August 2, 2004, FCC Filing.** Ms. Flannery introduced this item. The Committee discussed several issues affecting the HCLI projections, including prior period adjustments.

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

RESOLVED, That the USAC High Cost & Low Income Committee, having reviewed at its meeting on July 19, 2004, a summary of the 4th Quarter 2004 support mechanism estimates, including administrative costs for High Cost Loop Support, Local Switching Support, Interstate Common Line Support, Interstate Access Support, the non-rural forward-looking High Cost Model support, Lifeline, Link Up, and Toll Limitation Service, hereby directs USAC management to proceed with the required August 2, 2004, filing to the FCC on behalf of the Committee. Staff may make adjustments if the total variance for both support mechanisms is equal to or less than \$10 million and, with approval of the Committee Chair, may make adjustments if the total variance for both support mechanisms is equal to or less than \$15 million.

a6. Miscellaneous.

- **Solicit Ideas for July 2004 Committee Agenda.** Mr. Hess reminded Committee members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him or Ms. Flannery between quarterly meetings.

Information Items

- i1. High Cost and Low Income Support Mechanisms Update.** Ms. Flannery reported on several High Cost support mechanism issues. She informed the Committee that USAC has been asked to provide comment on a Notice of Proposed Rulemaking related to the recommended decision by the Federal-State Joint Board on Universal Service regarding "primary line" issues. The Committee also discussed the High Cost Loop cap

and steps USAC and NECA are taking to ensure program integrity.

Ms. Flannery advised the Board that USAC's program support services contractor, Telcordia, submitted a proposal for a unified High Cost and Low Income payment calculation system. USAC staff is currently reviewing the proposal and anticipates providing recommendations to the Committee in August with the goal of work beginning September 2004.

- i2. Status Report on USAC High Cost Support Mechanism Process Audit - *Executive Session Option*.** Ms. Flannery reported that High Cost and Low Income Division (HCLID) management categorized and prioritized each of the twelve findings that resulted from the audit. Of the twelve, HCLID management has determined that one is complete, three require no further action, and the remaining eight require further research. HCLID management expects to have reviewed and resolved all high priority issued by the October.2004 Committee meeting.
- i3. Status Report on Ongoing High Cost and Low Income Support Mechanisms Audits.** Ms. Delmar reviewed the status of ongoing and planned audits for these support mechanisms indicating that the audit of four beneficiaries is currently in the fieldwork phase.
- i4. Status Report on Actions Taken on Final Audits of the High Cost and Low Income Support Mechanisms.** Mr. Delmar reviewed follow-up action that is being taken on previously finalized audits for these support mechanisms.
- i5. High Cost and Low Income Timeline and Key Dates.** For information purposes. No discussion held.
- i6. Status on One USAC Internal Audit Division High Cost Support Mechanism Beneficiary Audit Report.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, USAC management recommends that the audit status report be discussed in *Executive Session* because discussion of the report relates to specific internal controls, and/or confidential company data that would constitute a discussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session 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 High Cost & Low Income Committee determines that discussion of the audit status report on USAC Audit No. HC2004BE002 shall be conducted in *Executive Session*.

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

At 3:30 p.m., on a motion duly made and seconded, the High Cost & Low Income Committee voted to move into *Executive Session* for purposes of discussing the confidential and proprietary items as noted above.

[Executive Session](#)

a2. Action on Two Low Income Support Mechanism Beneficiary Audit Reports - Executive Session Option. - Confidential & Proprietary. Ms. Delmar introduced this item. Mr. Gumper informed the Committee that he would recuse himself from voting on one of the audits before the Committee because it relates to his employer. Ms. Delmar and Ms. Flannery reviewed the findings and the actions being taken to address them.

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

RESOLVED, That the USAC High Cost & Low Income Committee, having reviewed the two USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports labeled LI2003BE013 and LI2004BE001, together with management's response thereto, recommends to the USAC Audit Committee that the audit reports be deemed final.

Mr. Gumper abstained from voting on Audit Report labeled LI2003BE013.

a3. Status on One USAC Internal Audit Division High Cost Support Mechanism Beneficiary Audit Report - Confidential & Proprietary. Ms. Flannery introduced this item, providing a status report on USAC Audit No. HC2003OP003.

The Committee adjourned from **Executive Session** and reconvened in open session at 4:08 p.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Mr. Hess adjourned the meeting at 4:09 p.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**HIGH COST & LOW INCOME COMMITTEE MEETING**

October 18, 2004

MINUTES

The quarterly meeting of the High Cost & Low Income (HCLI) Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC offices, 2000 L Street, NW, Washington, DC, on Monday, October 18, 2004. Mr. Hess, Chair of the Committee, called the meeting to order at 2:12 p.m. Eastern Time. Ms. Renee Lamoureux, Executive Assistant to the USAC CEO, called the roll.

Eight of the nine members were present, representing a quorum:	
Buller, Karen	Jortner, Wayne
Cornell, Diane	Lubin, Joel - Vice Chair
Gumper, Frank	Sanford, Jo Anne - <i>by telephone</i>
Hess, Kevin - Chair	Zaina, Lisa, CEO

Other Board Members and Officers of the Corporation present:
Campbell, Anne - USAC Board member
Duff, Bridget - USAC Board member
Eichler, Ed - USAC Board member
Hughes, Alison - USAC Board member
Jackson, Jimmy - USAC Board member
Barash, D. Scott - Vice President and General Counsel
Carmichael, Mark - Assistant Treasurer; VP, Finance
Flannery, Irene - VP, High Cost and Low Income Division
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations
Scott, Wayne - VP, Internal Audit Division

Others present for the meeting:	
Name	Company
Bancroft, Royce	USAC

Dunn, Amanda	USAC
Faunce, Donna	Telcordia
Gallant, Pam	USAC
Jones, Cheryl	USAC
Lamoureux, Renee	USAC
Majcher, Karen	USAC
Miller, Linda	USAC
Murphy, Kristen	USAC
Pertsevoi, Elizabeth	USAC

Action Items

- a1. Approval of High Cost & Low Income Committee Meeting Minutes of Monday, July 19, 2004, Wednesday, August 4, 2004, and Friday, August 27, 2004.** On a motion duly made and seconded, the Committee approved the minutes, as distributed.
- a2. Approval of 1st Quarter 2005 High Cost and Low Income Support Mechanisms Programmatic Budgets.** Ms. Donna Faunce, Senior Budget and Reporting Analyst, introduced this item to the Committee. Ms. Flannery discussed the services being provided under the current Telcordia contracts, the systems development work contemplated for 2005, and the increased allocation of administrative costs. The committee also discussed the review of the application of the High Cost Loop cap in previous years.

On a motion duly made and seconded, the Committee adopted the following resolution (Ms. Diane Cornell abstained from voting):

RESOLVED, That the USAC High Cost & Low Income Committee approves a 1st Quarter 2005 programmatic budget for the High Cost Support Mechanism of \$6,780,600; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves a 1st Quarter 2005 programmatic budget for the Low Income Support Mechanism of \$1,448,700.

- a3. Approval of 1st Quarter 2005 High Cost and Low Income Support Mechanisms Projections for the November 2, 2004, FCC Filing.** Ms. Irene Flannery introduced this item to the Committee. After a discussion of the prior period adjustment and its fluctuation over time, Mr. Carmichael agreed to provide the Committee with a comparison of the last several years' prior period adjustments on a rolling average basis.

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

RESOLVED, That the USAC High Cost & Low Income Committee, having reviewed at its meeting on October 18, 2004, a summary of the 1st Quarter 2005 support mechanism estimates, including administrative costs for High Cost Loop Support, Local Switching Support, Interstate Common Line Support, Interstate Access Support, the non-rural forward-looking High Cost Model support, Lifeline, Link Up, and Toll Limitation Service, hereby directs USAC management to proceed with the required November 2, 2004, filing to the FCC on behalf of the Committee. Staff may make adjustments if the total variance for both support mechanisms is equal to or less than

\$10 million and, with approval of the Committee Chair, may make adjustments if the total variance for both support mechanisms is equal to or less than \$15 million.

- a4. Action on Two High Cost Support Mechanism Beneficiary Audit Reports – Confidential & Proprietary – Executive Session Recommended.** Ms. Nobuko Okudaira, Senior Internal Auditor, presented the USAC Internal Audit Division High Cost Support Mechanism Audit Reports labeled HC2004BE002 and HC2004BE003 to the Committee.

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

RESOLVED, That the USAC High Cost & Low Income Committee, having reviewed the USAC Internal Audit Division High Cost Support Mechanism Beneficiary Audit Reports labeled HC2004BE002 and HC2004BE003, together with management's response thereto, recommends to the USAC Audit Committee that the audit reports be deemed final.

- a5. Action on Three Low Income Support Mechanism Beneficiary Audit Reports – Confidential & Proprietary – Executive Session Option.** Ms. Kristen Murphy, Staff Internal Auditor, presented the audit reports to the Committee for approval, noting that the report labeled LI2003BE002 should be re-labeled LI2004BE002.

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

RESOLVED, That the USAC High Cost & Low Income Committee, having reviewed the three USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports labeled LI2004BE002, LI2004BE003, and LI2004BE004, together with management's response thereto, recommends to the USAC Audit Committee that each audit report be deemed final.

- a6. Miscellaneous.**

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

Information Items

- i1. High Cost and Low Income Support Mechanisms Update.** Ms. Flannery provided the Committee with an update on the steps USAC and NECA are taking to ensure program integrity with respect to the High Cost Loop cap including the recovery of funds. The Committee also discussed USAC's current contracts with Telcordia and the FCC's delayed rollout of Form 497.
- i2. Status Report on High Cost Process Audit.** Ms. Flannery indicated that, of the 12 outstanding audit findings, eight have been resolved and the remaining four are currently being researched.

There being no further business, Mr. Hess adjourned the meeting at 3:27 p.m.

Robert W. Haga
Assistant Secretary