

2002 Schools and Libraries Committee Meetings Minutes

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

January 23, 2002

MINUTES

The quarterly meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) was held at The Jefferson Hotel, 1200 16th Street, NW, Washington, D.C., on Wednesday, January 23, 2002. Mr. Kevin Hess, Vice Chair of the Committee, called the meeting to order at 9:05 a.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the USAC CEO, called the roll on behalf of Mr. Ed Eichler, Secretary. Six of the seven members were present, representing a quorum:

Bryant, Anne
Coltharp, James
Davis, Fr. William

Hess, Kevin
Parrino, Cheryl
Talbot, Brian

One member was absent:

Campbell, Anne

Other Board members and officers of the Corporation present:

Buller, Karen – Board member
Gregg, Billy Jack – Board member
Gumper, Frank – Board member
Jackson, Jimmy – Board member
Rivera, Robert – Board member
Swanson-Hull, Camie – Board Member
Barash, D. Scott – Assistant Secretary
Haga, Robert – Assistant Treasurer

Others present for the meeting:

NAME	COMPANY
Barrett, Andrew	The Barrett Group, Inc.
Blackwell, Mel	USAC
Carroll, Kristy	USAC
Faunce, Donna	USAC
Fitzgerald, Sara	Funds for Learning
Flannery, Irene	USAC
Gieseler, Phil	USAC
Heend, Orin	Funds for Learning
Howard, Cathy	USAC
McDonald, George	USAC
Miller, Linda	USAC
Ortman, Roxane	USAC
Schatz, Linda	USAC
Scott, Wayne	USAC
Weisiger, Greg	VA Dept. of Education
Wolfhagen, Ellen	USAC
Yodaiken, Ruth	FCC

Due to the number of new Board members and USAC staff at the meeting, Mr. Hess conducted a round of introductions of all meeting participants.

ACTION ITEMS:

- a1. **Approval of the Minutes.** On a motion duly made and seconded, the Committee approved the minutes as distributed of the Schools & Libraries Committee meetings of Monday, October 22, 2001, and Wednesday, December 19, 2001.
- a2. **Annual Election of Committee Chairs and Vice Chairs.** Ms. Parrino recalled for the Committee that the USAC Board of Directors elects the Committee Chair and Vice Chair, but that the Committee can recommend nominations.

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

RESOLVED, That the USAC Schools & Libraries Committee recommends that the USAC Board of Directors elect **Mr. Brian Talbott** as Chair and **Mr. Kevin Hess** as Vice Chair of the USAC Schools & Libraries Committee for the term of one year that shall begin at the conclusion of the January 2002 Board meeting and that shall conclude at the close of the January 2003 Board meeting.

- a3. **Approval of 2002 Annual and 2nd Quarter 2002 Schools and Libraries Programmatic Budget.** Ms. Faunce reviewed the annual and 2nd quarter 2002 programmatic budgets as presented in the issue paper and reviewed some of the reasons for the increases in both budgets over last year's budgets. She noted that the annual 2002 budget estimate is higher than last year's budget due mainly to the increase in fixed contractual costs, the increasing number of audits, and the additional USAC staff who will be hired this year. Ms. Parrino referenced the charts in Attachment D, which graphically compare the schools and libraries administrative costs to total program dollars.

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

RESOLVED, That the USAC Schools & Libraries Committee approves an annual 2002 programmatic budget for the Schools and Libraries Support Mechanism of \$29,405,600; and

RESOLVED, That the USAC Schools & Libraries Committee approves a 2nd Quarter 2002 programmatic budget for the Schools and Libraries Support Mechanism of \$6,892,500.

- a4. **Approval of 2nd Quarter 2002 Schools and Libraries Projections and Resolution on the January 31, 2002, FCC Filing.** Mr. McDonald reviewed the projections as outlined in the issue paper. He stated that the current estimate is that collections for the schools and libraries support mechanism for the 2nd Quarter 2002 will need to be \$552.8 million, including \$1.7 million for Year 1 in order to cover additional disbursements that had not been anticipated earlier.

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

RESOLVED, That the USAC Schools & Libraries Committee, having reviewed at its meeting on January 23, 2002, a summary of the 2nd Quarter 2002 support mechanism estimates, including administrative costs provided in Attachment A, hereby directs USAC staff to proceed with the required January 31, 2002, filing to the FCC on behalf of the Committee. Staff may make adjustments if the variance is equal to or less than \$10.0 million or may seek approval from the Schools & Libraries Committee Chair to make adjustments if the variance is greater than \$10.0 million but no more than \$15.0 million.

a5. **Miscellaneous.**

- **Approval for Reimbursing a Board Member to Attend an Event Other Than a USAC Board or Committee Meeting or Event.** Ms. Parrino explained that new Committee member, Anne Campbell, is requesting reimbursement for expenses to attend a USAC/American Libraries Association (ALA)/FCC retreat on February 12 and 13, 2002, in Virginia. Ms. Parrino recommended that the Committee approve Ms. Campbell's request. As the library representative, Ms. Campbell can help the retreat achieve its objective of improving USAC's relationship with the ALA in the short term and improving participation by libraries in the Schools and Libraries Support Mechanism over the long term.

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

RESOLVED, That in accordance with the procedures approved by the USAC Board of Directors, the USAC Schools & Libraries Committee authorizes USAC to reimburse USAC Board

member, Ms. Anne Campbell, for expenses incurred during her attendance at the February 12-13, 2002, USAC/American Libraries Association/FCC retreat in Culpepper, Virginia.

INFORMATION ITEMS:

- i1. **Schools and Libraries Support Mechanism Update.** Mr. McDonald distributed a chart with the current numbers as to applications and appeals processed for the Schools and Libraries Support Mechanism for Funding Years 1, 2, 3, and 4. He then updated the Committee on the activities of the Schools and Libraries Support Mechanism. He further reported that the Year 5 window had closed the previous Thursday night at midnight without significant disruption, and that over 32,000 applications were filed online, and over 6,000 of those were certified electronically. The demand estimate will not be available for some weeks though, because paper applications have to be processed. Mr. McDonald stated that the Schools and Libraries Division staff has set a goal of getting the bulk of the Year 5 funding commitments out before the start of the next funding year in July 2002.
- i2. **Status of Schools and Libraries Support Mechanism Appeals.** Ms. Carroll reported on the status of appeals of USAC decisions that are pending before the FCC for all funding years as outlined in the issue paper.
- i3. **Report on Schools and Libraries Division Outreach Activities.** Ms. Schatz reported on applicant outreach staff activities, and Ms. Wolfhagen reported on service provider outreach activities.

At 10:46 a.m., the Committee voted to recess. At the call of the Vice Chair, the Committee reconvened in Open Session at 11:06 a.m.

- i4. **USAC Internal Audit Plan and Approach and Status Report on USAC Audits.** In accordance with the guidelines regarding *Executive Session* approved by the USAC Board of Directors, Mr. Barash recommended that because there is an ongoing investigation regarding a beneficiary review, and because of the sensitivity of the potential allegations and the potential for enforcement action, discussion of the matter concerning one beneficiary should be held in *Executive Session*.

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

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

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

Ms. Parrino introduced to the Committee USAC's new Director of Internal Audit, Wayne Scott. Mr. Scott reported on USAC's work with the FCC's Office of Inspector General on an expanded audit of Schools and Libraries Support Mechanism beneficiaries.

- i5. **Report on Legislative and Media Activity.** Mr. Blackwell updated the Committee on legislative and media activity as outlined in the issue paper.

- i6. **Update on Universal Service Support Mechanisms Enforcement Trends.** Ms. Carroll gave the Committee an overview of the enforcement trends and staff's responses to those trends.
- i7. **Schools and Libraries Support Mechanism Timeline and Key Dates.** Mr. McDonald clarified that the February dates in the timeline are contingent on when data entry can be completed; entry will begin the end of the week.
- i8. **Miscellaneous.** None.

At 11:20 a.m., on a motion duly made and seconded, the Committee voted to go into ***Executive Session*** for purposes of discussing the confidential and proprietary item as listed above. On a motion duly made and seconded, the Committee voted at 12:10 p.m. to return to Open Session for the purposes of reporting matters discussed in ***Executive Session***.

EXECUTIVE SESSION:

- i1. **USAC Internal Audit Plan and Approach and Status Report on USAC Audits.** Mr. McDonald and Mr. Barash briefed the Committee on the status of an investigation of a Schools and Libraries Support Mechanism beneficiary and of conversations with a beneficiary relating to findings in the Arthur Andersen review of Year 1 beneficiaries.

There being no further business, Mr. Hess adjourned the meeting at 12:11 p.m.

D. Scott Barash

Assistant Secretary

Date

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

January 30, 2002

MINUTES

A meeting of the Schools & Libraries Committee of the Board of Directors of the Universal Service Administrative Company (USAC) was held at USAC, 2120 L Street, N.W., Suite 600, Washington, D.C., on Wednesday, January 30, 2002. Mr. Brian Talbott, Chair of the Committee, called the meeting to order at 12:05 p.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll on behalf of Mr. Jimmy Jackson, Secretary. Four of the seven members were present, representing a quorum:

Bryant Anne – *by telephone*

Hess, Kevin – *by telephone*

Parrino, Cheryl – *by telephone*

Talbott, Brian – *by telephone*

Three members were absent: Campbell, Anne

Coltharp, James

Davis, Fr. Bill

Other Board members and officers of the Corporation present:

Buller, Karen – Board member – *by telephone*

Gregg, Billy Jack – Board member – *by telephone*

Rivera, Robert – Board member – *by telephone*

Barash, D. Scott – Assistant Secretary

Haga, Robert – Assistant Treasurer – *by telephone*

Others present for the meeting:

NAME

COMPANY

McDonald, George

USAC

Simmons, Ann

USAC

ACTION ITEMS:

- a1. **Approval of Reduction in Contingency Funding Reserve, Lowering of Funding Parameter for Internal Connections for Year 4, and Authority to Make Commitments on Meritorious Year 4 Post-Commitment Appeals.** Mr. McDonald informed the Committee that before reducing the contingency funding reserve and lowering the funding parameter for internal connections, Schools and Libraries Division (SLD) staff must bring these issues before the Schools & Libraries Committee for approval. Mr. McDonald also explained that SLD staff needs Committee authorization to make commitments on meritorious post-commitment appeals, because such commitments must be made outside the normal commitment wave process. He then discussed in more detail the basis for staff’s recommendation that the Committee approve lowering the Contingency Funding Reserve to \$69 million, fully funding all eligible internal connections with a discount percentage of 87 percent or more, and making funding commitments on meritorious Year 4 post-commitment appeals up to \$15 million. Mr. McDonald also discussed the parameter analysis in Attachment A of the issue paper.

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

RESOLVED, That the USAC Schools & Libraries Committee approves reduction of the Contingency Funding Reserve from \$79 million to \$69 million and the funding of all approved internal connections requests at the 87 percent discount level and above. Further, that the Schools & Libraries Committee authorizes SLD staff to make funding commitments on meritorious Year 4 post-commitment appeals up to \$15 million.

Board member Anne Bryant left the meeting at this point.

INFORMATION ITEMS:

- i1. **Update on Options for Making Priority 1 Commitments without Review of Priority 2 Commitments.** Mr. McDonald updated the Committee regarding USAC’s administrative options for making and issuing funding commitment decisions on Priority 1 requests (requests for telecommunications services and Internet access) without reviewing Priority 2 requests (requests for internal connections) on the same application. After discussion, the consensus of the Committee and Board members on the call was that no change should be made for Year 5, but consideration should be given to requiring that Priority 1 requests not be mixed with Priority 2 requests on Forms 471 for Year 6.

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

D. Scott Barash

Assistant Secretary

Date

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

March 8, 2002

MINUTES

A meeting of the Schools & Libraries Committee of the Board of Directors of the Universal Service Administrative Company (USAC) was held at USAC, 2120 L Street, N.W., Suite 600, Washington, D.C., on Friday, March 8, 2002. Mr. Brian Talbott, Chair of the Committee, called the meeting to order at 4:15 p.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll on behalf of Mr. Jimmy Jackson, Secretary. Four of the seven members were present, representing a quorum:

Bryant Anne – *by telephone*

Davis, Fr. Bill – *by telephone*

Hess, Kevin – *by telephone*

Talbott, Brian – *by telephone*

Three members were absent:

Campbell, Anne

Coltharp, James

Parrino, Cheryl

Other Board members and officers of the Corporation present:

Buller, Karen – Board member – *by telephone*

Rivera, Robert – Board member – *by telephone*

Barash, D. Scott – Assistant Secretary

Haga, Robert – Assistant Treasurer

Others present for the meeting:

NAME	COMPANY
McDonald, George	USAC
Simmons, Ann	USAC

ACTION ITEMS:

- a1. Approval of Lowering of Funding Parameter for Internal Connections for Year 4 and Raising Denial Threshold.** Mr. McDonald reviewed for the Committee the history to date on funding for internal connections for Funding Year 4. Mr. McDonald then discussed in detail the parameter analysis in Attachment A and the denial analysis in Attachment B of the issue paper. This proposed action is intended to permit the Schools and Libraries Division (SLD) staff to set the final funding threshold for Year 4 and declare Wave 15 the last regular wave for Funding Year 4. As always, there will still be applications in process on that date and decisions on those will be issued as SLD staff is able to make them. Notification to those remaining applicants that their applications are still pending will be provided at the conclusion of Wave 15. The Committee asked about the projections contained in the denial analysis and was informed that the denial analysis contained aggressive assumptions to allow funding but showed that funds still would not be sufficient to fund internal connections at 85 percent.

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

RESOLVED, That the USAC Schools & Libraries Committee approves the funding of all approved internal connections requests at the 86 percent discount level and denial of all internal connections requests at discount percentages of 85 percent and below for Funding Year 4.

There being no further business, Mr. Talbott adjourned the meeting at 4:36 p.m.

D. Scott Barash

Assistant Secretary

Date

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

April 4, 2002

MINUTES

A meeting of the Schools & Libraries Committee of the Board of Directors of the Universal Service Administrative Company (USAC) was held at USAC, 2120 L Street, N.W., Suite 600, Washington, D.C., on Thursday, April 4, 2002. Mr. Brian Talbott, Chair of the Committee, called the meeting to order at 1:05 p.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll on behalf of Mr. Jimmy Jackson, Secretary. Four of the seven members were present, representing a quorum:

Campbell, Anne – *by telephone*
Hess, Kevin – *by telephone*

Parrino, Cheryl
Talbott, Brian – *by telephone*
Three members were absent:

Bryant, Anne
Coltharp, James

Davis, Fr. Bill

Other Board members and officers of the Corporation present:

Gumper, Frank – Board member – *by telephone*
Rivera, Robert – Board member – *by telephone*
Barash, D. Scott – Assistant Secretary
Haga, Robert – Assistant Treasurer

Others present for the meeting:

NAME	COMPANY
Carroll, Kristy – <i>by telephone</i>	USAC
McDonald, George	USAC
Simmons, Ann	USAC

ACTION ITEMS:

- a1. Approval of USAC Comments in Response to the FCC’s Notice of Proposed Rulemaking Concerning Modifications to the Schools and Libraries Support Mechanism.** Mr. McDonald discussed with the Committee comments that are being sought from the Federal Communications Commission (FCC) on the Notice of Proposed Rulemaking (NPRM) concerning potential modifications to the Schools and Libraries Universal Service Support Mechanism. USAC staff proposes to submit comments solely to address the administrative issues raised by the Commission in the FCC’s NPRM. Mr. McDonald reviewed the proposed USAC comments with the Committee, which the Committee is required to review and approve before they are submitted to the Commission.

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

RESOLVED, That the USAC Schools & Libraries Committee approves USAC’s comments in response to the FCC’s Notice of Proposed Rulemaking Concerning Modifications to the Schools and Libraries Support Mechanism and authorizes USAC staff to file those comments with the FCC, using editorial privilege to make appropriate final format and editing changes.

- a2. Approval of Additional Commitments on Year 2 Applications and Appeals.** Mr. McDonald stated that in order to make additional Year 2 commitments, USAC staff seeks Committee approval of \$27 million in additional net commitment authority to be used for original applications that have never been through funding commitment and for meritorious appeals (whether granted by USAC or the FCC). Mr. McDonald stated that the table in Attachment A of the issue paper shows funds available for Year 2 and additional likely commitments. This additional commitment authority could bring total Year 2 commitments to \$2.173 billion.

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

RESOLVED, That the USAC Schools & Libraries Committee approves additional net commitments for original applications filed on or before March 31, 2000, and meritorious post-commitment appeals on approved requests for all service types at any discount percentage for Funding Year 2 up to a total committed amount of \$2.173 billion.

- a3. Approval of Additional Commitments on Year 4 Applications and Appeals.** Mr. McDonald stated that on March 8, 2002, the Committee adopted a resolution approving commitments on approved internal connections requests at the 86% discount level and denial of internal connections requests at discount percentages of 85% and below for Funding Year 4. With that decision, Wave 15 became the last “regular” wave of commitments for Funding Year 4. Mr. McDonald reported that the parameter analysis in Attachment A of the issue paper has been updated since Wave 15, and that the analysis continues to show that staff can fully fund internal connections at 86% and above. Staff recommends that the Committee approve additional net commitments of \$235 million up to a total committed amount for Funding Year 4 of \$2.49 billion.

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

RESOLVED, That the USAC Schools & Libraries Committee approves additional

commitments for original in-window applications and meritorious post-commitment appeals on approved requests for Priority 1 services at any discount level, and approved internal connections requests at the 86% discount level or above for Funding Year 4 up to a total committed amount of \$2.49 billion.

- a4. Approval of Authority for Priority 1 Commitments for Year 5.** Mr. McDonald stated that on February 28, 2002, USAC reported to the Federal Communications Commission that \$5.736 billion in requested funding has been estimated for schools and libraries seeking E-rate discounts for Funding Year 5. This estimate was based on the dollars requested in 36,043 applications received or postmarked by January 17, 2002, the close of the Form 471 application filing window. The estimate provided to the FCC is provided in Attachment A of the issue paper.

Traditionally, USAC staff presents a parameter analysis to the Committee to demonstrate how far down the discount percentage range it is possible to go in funding internal connections. For Funding Year 5, however, the demand for internal connections funding at 90% (the highest discount percentage) is \$2.619 billion. Based on assumptions from the recent funding commitment process in Funding Year 4, USAC staff would commit only approximately 79 cents for each dollar of approved requests for internal connections at 90%. In light of the uncertainty in relying upon those assumptions and because of the open question regarding the roll over of funding from previous years, USAC cannot begin commitments on internal connections requests. Therefore, USAC staff is seeking commitment authority only for commitments on Priority 1 requests at this time.

Because USAC staff proposes to make commitments only on Priority 1 requests until more is known about the internal connections requests and funds available for Funding Year 5, staff proposes that the Committee authorize commitments for Priority 1 services in successive waves without further Committee approval.

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

RESOLVED, That the USAC Schools & Libraries Committee authorizes staff to commit, upon FCC approval, waves for Funding Year 5 with the parameters set at 20% for Priority 1 Services and further set so that no commitments are made for internal connections.

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

D. Scott Barash

Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

April 22, 2002

MINUTES

The quarterly meeting of the Schools & Libraries Committee of the Board of Directors of the Universal Service Administrative Company (USAC) was held at The Westin Grand, 2350 M Street, NW, Washington, D.C., on Monday, April 22, 2002. Mr. Brian Talbott, Chair of the Committee, called the meeting to order at 9:00 a.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll on behalf of Mr. Jimmy Jackson, Secretary. Six of the seven members were present, representing a quorum:

Bryant, Anne

Campbell, Anne

Davis, Fr. Bill

Hess, Kevin – *by telephone*

Parrino, Cheryl

Talbott, Brian

One member was absent:

Coltharp, James

Other Board members and officers of the Corporation present: Gumper, Frank – Board member

Jackson, Jimmy – Board member

Rivera, Robert – Board member

Swanson-Hull, Camie – Board member

Barash, D. Scott – Assistant Secretary – *by telephone*

Haga, Robert – Assistant Treasurer

Others present for the meeting:

NAME	COMPANY
Ayer, Catriona	USAC
Blackler, Ellen	FCC
Blackwell, Mel	USAC
Carroll, Kristy	USAC
Delmar, Teleshia	USAC
Falkowitz, Ed	USAC
Faunce, Donna	USAC
Flannery, Irene	USAC
Gieseler, Phil	USAC
Kraft, Mick	USAC
McDonald, George	USAC
Miller, Linda	USAC
Navarro, Dan	USAC
Noran, John	USAC
Okudaira, Nobuko	USAC
Rodda, Jim	USAC
Schatz, Linda	USAC
Scott, Wayne	USAC
Seifert, Mark	USAC
Simmons, Ann	USAC
Wolfhagen, Ellen	USAC

ACTION ITEMS:

- a1. **Approval of the Minutes.** On a motion duly made and seconded, the Committee adopted the minutes as distributed of the Schools & Libraries Committee meetings of Wednesday, January 23, 2002; Wednesday, January 30, 2002; Friday, March 8, 2002; and Thursday, April 4, 2002 (distributed at the meeting).
- a2. **Approval of 3rd Quarter 2002 Schools and Libraries Programmatic Budget.** Ms. Faunce reviewed the 3rd Quarter 2002 programmatic budget noting that the annual programmatic budget has not changed.

Mr. McDonald reviewed the responsibilities of applicants to certify that they have complied with the requirements of the Children’s Internet Protection Act (CIPA) and the steps that USAC staff is taking to ensure the validity of those CIPA certifications. Mr. McDonald said that if this becomes a significant workload for staff, the 2002 programmatic budget might have to be revisited by the Committee.

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

RESOLVED, That the USAC Schools & Libraries Committee approves a 3rd Quarter 2002 programmatic budget for the Schools and Libraries Support Mechanism of \$5,375,400.

- a3. **Approval of 3rd Quarter 2002 Schools and Libraries Projections and Resolution on the May 2, 2002, FCC Filing.** Mr. McDonald reviewed the projections for 3rd Quarter 2002 including the details of the individual components of the funding requirement for the quarter as referenced in Attachment A.

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

RESOLVED, That the USAC Schools & Libraries Committee, having reviewed at its meeting on April 22, 2002, a summary of the 3rd Quarter 2002 support mechanism estimates, including administrative costs provided in Attachment A, hereby directs USAC staff to proceed with the required May 2, 2002, filing to the FCC on behalf of the Committee. Staff may make adjustments if the variance is equal to or less than \$10.0 million or may seek approval from the Schools & Libraries Committee Chair to make adjustments if the variance is greater than \$10.0 million but no more than \$15.0 million.

- a4. **Miscellaneous.** None.

INFORMATION ITEMS:

- i1. **Schools and Libraries Support Mechanism Update.** Mr. McDonald reviewed the commitments versus disbursements for all Funding Years. He also reported on meritorious appeals and FCC remands for the program.

Mr. McDonald introduced a new USAC Schools and Libraries Division (SLD) employee, Dan Navarro, Manager, Systems Operations. Mr. Navarro reported to the Committee on the technology infrastructure that supports the Schools and Libraries Universal Support Mechanism and proposed enhancements.

Mr. McDonald introduced two other new USAC SLD employees: Mick Kraft, Manager Invoice Operations, and Ed Falkowitz, Audit Response Manager.

- i2. **Status of Schools and Libraries Support Mechanism Appeals.** Ms. Ayer distributed a chart on the Schools and Libraries Support Mechanism appeals and reported on the status of the appeals for all funding years. She also discussed two noteworthy appeal decisions by the FCC.
- i3. **Report on Schools and Libraries Division Outreach Activities.** Mr. Noran reported on applicant outreach staff activities, and Ms. Wolfhagen reported on service provider outreach activities.
- i4. **Report on Site Visits to Schools and Libraries Support Mechanism Beneficiaries.** This item was deferred until the end of the meeting to prepare for a slide presentation.
- i5. **Verbal report on ALA retreat.** Ms. Campbell reported on the retreat that she attended on February 12 and 13, 2002, in Warrenton, Virginia that was hosted by the American Library Association (ALA) with attendance by staff from USAC and the FCC. Ms. Campbell attended the retreat on behalf of the USAC Board of Directors representing city librarians. The focus of the

retreat was to seek input from ALA members on ways to improve the current working relationship with USAC. Ms. Campbell reported that the ALA retreat was a success.

- i6. **Report on Legislative and Media Activity.** Mr. Blackwell updated the Committee on the legislative and media activity for the past quarter.
- i7. **Update on Universal Service Support Mechanisms Enforcement Trends.** Ms. Carroll gave the Committee an overview of the enforcement trends and USAC staff's responses to those trends.
- i8. **Schools and Libraries Support Mechanism Timeline and Key Dates.** For information only. No discussion held.
- i9. **Miscellaneous.**
 - **Federal Communication Commission (FCC) Support.** Mr. McDonald thanked Mr. Mark Seifert and Ms. Ellen Blackler of the FCC for all of their support over the years.

At 10:30 a.m., the Committee voted to recess. At the call of the Chair, the Committee reconvened in open session at 10:50 a.m.

- i4. **Report on Site Visits to Schools and Libraries Support Mechanism Beneficiaries.** Mr. Gieseler gave a slide presentation of his site visits to schools and libraries over the past three months. The purpose of these visits was to learn first-hand the new technologies in place as a result of receiving discounts through the Schools and Libraries Support Mechanism, and how the technologies are being used. These locations were in four geographic areas: eastern Pennsylvania, New York City, Colorado, and Navajo Nation sites in New Mexico and Arizona.

There being no further business, Mr. Talbott adjourned the meeting at 11:30 a.m.

D. Scott Barash

Assistant Secretary

Date

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

April 26, 2002

MINUTES

A meeting of the Schools & Libraries Committee of the Board of Directors of the Universal Service Administrative Company (USAC) was held at USAC, 2120 L Street, N.W., Suite 600, Washington, D.C., on Friday, April 26, 2002. Mr. Brian Talbott, Chair of the Committee, called the meeting to order at 4:00 p.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll on behalf of Mr. Jimmy Jackson, Secretary. Four of the seven members were present, representing a quorum:

Bryant, Anne – *by telephone*

Campbell, Anne – *by telephone*

Parrino, Cheryl – *by telephone*

Talbott, Brian – *by telephone*

Three members were absent:

Coltharp, James

Davis, Fr. Bill

Hess, Kevin

Other Board members and officers of the Corporation present: Rivera, Robert – Board member – *by telephone*

Barash, D. Scott – Assistant Secretary – *by telephone*

Haga, Robert – Assistant Treasurer

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
McDonald, George	USAC
Simmons, Ann	USAC

ACTION ITEMS:

- a1. Denial Analysis for Wave 2, Funding Year 2002.** Mr. McDonald stated that based on analysis of Funding Year 2002 applications reviewed to date, the recommendation is that USAC deny internal connection funding requests with discount percentages of less than 80 percent for Wave 2, Funding Year 2002. He reviewed the analysis USAC staff used to arrive at this conclusion. On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, That the USAC Schools & Libraries Committee authorizes USAC staff to deny, upon FCC approval, all FRNs for internal connections at discount percentages of less than 80 percent for lack of funding for Wave 2, Funding Year 2002.

INFORMATION ITEMS:

i1. Miscellaneous.

- **Funding Year 2003 Form 470.** Mr. McDonald reported that the FCC approved the Form 470 for Year 2003. An information box has been added at the bottom of the certification page cautioning applicants that service provider involvement with preparation or certification of a Form 470 can taint the competitive bidding process and result in the denial of funding requests. Mr. McDonald noted that the new Form 470 would be posted to the USAC web site no later than May 1, 2002.

There being no further business, Mr. Talbott adjourned the meeting at 4:15 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

July 22, 2002

MINUTES

The quarterly meeting of the Schools & Libraries Committee of the Board of Directors of the Universal Service Administrative Company (USAC) was held at The Westin Grand, 2350 M Street, NW, Washington, D.C., on Monday, July 22, 2002. Mr. Brian Talbott, Chair of the Committee, called the meeting to order at 9:05 a.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll. Six of the seven members were present, representing a quorum:

Bryant, Anne

Campbell, Anne

Davis, Fr. Bill

Hess, Kevin, Vice Chair - *by telephone*

Parrino, Cheryl

Talbott, Brian, Chair

One member joined the meeting in progress:

Coltharp, James

Other Board members and officers of the Corporation present: Buller, Karen – Board member

Gumper, Frank – Board member

Rivera, Robert – Board member

Barash, D. Scott – Assistant Secretary, Vice President & General Counsel

Blackwell, Mel – VP, External Communications & Rural Health Care Division

Carmichael, Mark – Assistant Treasurer; VP, Finance & Financial Operations

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
Ayer, Catriona	USAC
Carroll, Kristy	USAC
Faunce, Donna	USAC
Fitzgerald, Sara	Funds for Learning
French, Laurie	USAC
Heend, Orin	Funds for Learning
Kaplan, Peter	Funds for Learning
Lenhardt, Chris	USAC
Miller, Linda	USAC
Navarro, Dan	USAC
Newman, Jeff	State of California
Niebauer, Amanda	USAC
Noran, John	USAC
Rodda, Jim	USAC
Scott, Wayne	USAC
Simmons, Ann	USAC
Wolfhagen, Ellen	USAC
Yodaiken, Ruth	FCC

Ms. Parrino introduced Mr. Mark Carmichael, the new Assistant Treasurer as well as the Vice President, Finance and Financial Operations, and two new Staff Auditors, Mr. Chris Lenhardt and Ms. Amanda Niebauer.

ACTION ITEMS:

- a1. **Approval of the Minutes.** On a motion duly made and seconded, the Committee approved the minutes as distributed of the Schools & Libraries Committee meetings of Monday, April 22, 2002, and Friday, April 26, 2002.
- a2. **Approval of the Course of Action for Entering into a New Contract for the Rural Health Care and the Schools and Libraries Support Mechanisms Programmatic Support Services – Confidential & Proprietary – Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash explained that USAC management recommends that this matter be discussed in *Executive Session* because discussion and public disclosure at this time of the matters discussed in this paper, which relate to USAC's *procurement strategy*, would compromise USAC's business negotiation strategy to the detriment of the Corporation and the Universal Service Support Mechanisms. Moreover, he said that to the extent that these matters relate to the interpretation of contractual terms and conditions, discussion of these issues in open session would compromise USAC's *attorney-client privilege*.

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

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

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

- a3. Approval of 4th Quarter 2002 Schools and Libraries Programmatic Budget.** Ms. Faunce reviewed the 4th Quarter 2002 programmatic budget noting that the annual programmatic budget has not changed. The 4th Quarter 2002 programmatic budget reflects that there will be full staffing within the Schools and Libraries Division (SLD). The beneficiary audits are budgeted at approximately \$3.3 million in 2002, of which \$825,000 is included in the 4th Quarter 2002 budget.

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

RESOLVED, That the USAC Schools & Libraries Committee approves a 4th Quarter 2002 programmatic budget for the Schools and Libraries Support Mechanism of \$8,268,700.

- a4. Approval of 4th Quarter 2002 Schools and Libraries Projections and Resolution on the August 2, 2002, FCC Filing.** Mr. McDonald reviewed the projections for 4th Quarter 2002, including the details of the individual components of the funding requirement for the quarter.

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

RESOLVED, That the USAC Schools & Libraries Committee, having reviewed at its meeting on July 22, 2002, a summary of the 4th Quarter 2002 support mechanism estimates, including administrative costs provided in Attachment A, hereby directs USAC staff to proceed with the required August 2, 2002, filing to the FCC on behalf of the Committee. Staff may make adjustments if the variance is equal to or less than \$10.0 million or may seek approval from the Schools & Libraries Committee Chair to make adjustments if the variance is greater than \$10.0 million but no more than \$15.0 million.

- a5. Miscellaneous.**

- **Retroactive Correction of Schools and Libraries Support Mechanism Administrator Errors.** Dr. Talbott and Mr. McDonald discussed a letter from Mr. Greg Weisiger of the Virginia Department of Education questioning the manner in which USAC treats situations where a mistake is discovered after commitment that disadvantages an applicant. Mr. Weisiger asked if USAC staff internally reviews other applications in order to determine whether other parties were affected by a similar mistake, and whether USAC initiates contact with potentially affected applicants to recommend that they appeal.

Mr. McDonald explained that, in the instance of potentially systemic errors, USAC staff does aggressively investigate and, in consultation with the Federal Communications Commission (FCC), takes corrective action when mistakes are found in the systems or processes that affect a significant number of applicants. USAC works closely with FCC staff to address and correct such issues without requiring appeals by the applicants.

Mr. McDonald stated that currently there is no process to notify applicants of non-systemic errors affecting a small number of funding requests. He clarified that the FCC rules require aggrieved parties to appeal decisions that they believe are incorrect, and that, if USAC were to assume some of that responsibility, equity might require that it re-review all potentially affected applications when an individual mistake is discovered and that would create a duplicative and costly layer of administrative process.

Mr. Talbott and Mr. McDonald agreed to reach out to applicants to solicit input and to see how this issue might be addressed in a way that would be fair to all applicants, conformed to FCC rules, and did not significantly increase administrative costs and workload. **INFORMATION ITEMS:**

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

- i1. **Schools and Libraries Support Mechanism Update.** Mr. McDonald reviewed the commitments versus disbursements for all funding years. He also updated the Committee on administrative issues concerning the requirements of the Children's Internet Protection Act (CIPA). USAC staff has been working on revising FCC Form 486 and FCC Form 479 to enable separate certifications by schools and libraries as a result of the judicial ruling concerning the applicability of CIPA to libraries. The Schools and Libraries section of the USAC website features guidance on CIPA and has been revised periodically as new information becomes available.

Mr. McDonald updated the Committee on applicant outreach, stating that USAC staff presented information to stakeholder groups at the Mid-Atlantic Regional Technology in Education Consortium (MARTEC) regional conference in Philadelphia on May 16, a Council of Great City Schools conference in Louisville on June 12, and the annual meeting of the American Library Association in Atlanta on June 15.

Mr. McDonald noted that requests for service substitution have grown to a rate of 65 per month over the past six months. USAC staff is working to streamline this process. The Committee **DIRECTED** that USAC staff analyze the service substitution process, with particular focus on whether such substitutions are initiated for like products or whether there appear to be significant changes in products or services that could, in effect, negate the competitive bidding process.

Mr. McDonald noted that USAC staff met with staff of the General Accounting Office (GAO) and FCC on June 27, 2002, to discuss USAC plans and progress relative to a quality assurance recommendation contained in GAO's December 2002 report. GAO staff has recommended closing the recommendation, which is the last open issue USAC has with GAO.

Ms. Wolfhagen provided the Committee with an update on service provider outreach and training. The first of three scheduled workshops for service providers was held in Chicago on June 10 and 11, 2002. The 103 registrants represented 64 companies, 29 states, and Puerto Rico. The workshop focused primarily on providers that are new to the Schools and Libraries Support Mechanism. The additional 2002 workshops for service providers will be held on August 19 and 20 in San Diego and October 17 and 18 in Washington, DC.

At 10:15 a.m., the Committee voted to recess. At the call of the Chair, the Committee reconvened in open session at 10:32 a.m.

- i1. **USAC Internal Audit Status Report on USAC Audits.** Mr. Scott reported that the internal audit staff has performed a number of reviews of Schools and Libraries Support Mechanism beneficiaries. The auditees were selected based on whistleblower hotline calls and beneficiaries with anticipated problems. A final report will be provided at the January 2003 quarterly committee meeting. USAC internal audit staff also performed several random audits on the Schools and Libraries beneficiaries in rural areas. Staff selected schools located in Alaska, Michigan, Maryland, and Nebraska. The fieldwork for these audits has been completed and draft reports have been circulated for comment. Two of the audits will likely result in findings. Final reports will be presented at the October 2002 Committee meeting. USAC has been working closely with the FCC Office of the Inspector General (OIG) to develop an RFP to audit a significant number of applicants for Funding Year 2002. The audit will be conducted by an external audit firm, with the FCC and USAC providing support and likely conducting additional audits of beneficiaries. The RFP will be issued soon.

Mr. Barash said that USAC staff has a confidential update on an ongoing beneficiary audit investigation. In accordance with the guidelines regarding **Executive Session** approved by the USAC Board of Directors, Mr. Barash recommended that because there is an ongoing investigation regarding a beneficiary review, and because of the sensitivity of the potential allegations and the potential for enforcement action, discussion of the matter concerning one beneficiary should be held in **Executive Session**.

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

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

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

- i2. **Status of Schools and Libraries Support Mechanism Appeals.** Ms. Ayer distributed an updated chart on the status of applications and appeals as of July 19, 2002, for the Schools and Libraries Support Mechanism and reported on the status of appeals for all funding years. She also discussed four noteworthy appeal decisions by the FCC issued during the previous quarter.
- i3. **Report on Legislative and Media Activity.** Mr. Blackwell updated the Committee on the legislative and media activity for the past quarter.
- i4. **Schools and Libraries Support Mechanism Timeline and Key Dates.** Mr. McDonald noted two date changes: October 28 for the invoice deadline for most FRNs with recurring services with a June 30 deadline date, and January 29 for the invoice deadline for most FRNs with non-recurring services with a September 30, 2002, date delivery.

At 10:52 a.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** for the purposes of discussing the confidential and proprietary items as noted above. The

Committee adjourned from **Executive Session** and reconvened in open session at 11:38 a.m. to report the discussions of the Committee during **Executive Session**.

EXECUTIVE SESSION:

- a2. **Approval of the Course of Action for Entering into a New Contract for the Rural Health Care and Schools and Libraries Support Mechanisms Program Services – Confidential & Proprietary – Executive Session.** Mr. McDonald reviewed the details and strategy of a new contract for programmatic support services for the Schools and Libraries Universal Service Support Mechanism.

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

RESOLVED, That the USAC Schools & Libraries Committee recommends that the USAC Board of Directors authorize USAC staff to enter into negotiations concerning a proposed extension of the current contract for programmatic support services for the Schools and Libraries Universal Service Support Mechanism.

- i2. **USAC Internal Audit Status Report on USAC Audits.** Mr. Barash briefed the Committee on the status of an ongoing investigation of a Schools and Libraries Support Mechanism beneficiary.

There being no further business, Mr. Talbott adjourned the meeting at 11:40 a.m.

D. Scott Barash

Assistant Secretary

Date

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

September 25, 2002

MINUTES

A meeting of the Schools & Libraries Committee of the Board of Directors of the Universal Service Administrative Company (USAC) was held at USAC, 2120 L Street, N.W., Suite 600, Washington, D.C., on Wednesday, September 25, 2002. Mr. Brian Talbott, Chair of the Committee, called the meeting to order at 1:32 p.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll. Four of the seven members were present, representing a quorum:

Bryant, Anne – *by telephone*

Hess, Kevin – *by telephone*

Parrino, Cheryl

Talbott, Brian – *by telephone*

Three members were absent:

Campbell, Anne

Coltharp, James

Davis, Fr. Bill

Other Board members and officers of the Corporation present: Haga, Robert – VP, Strategic Planning & USAC Operations

McDonald, George – VP, Schools and Libraries Division

Others present for the meeting:

NAME	COMPANY
Carroll, Kristy – <i>by telephone</i>	USAC
Simmons, Ann	USAC

ACTION ITEMS:

- a1. Approval of Authority for Internal Connections Commitments at 90% for Funding Year 2002.** Mr. McDonald reported that SLD has completed review of 28,552 Year 2002 Forms 471, 81.4 percent of all those for which SLD expects to issue Funding Commitment Decision Letters. Based on that experience, an analysis was prepared to assess the ability to fund internal connections. The analysis relies on some key assumptions. It proposes an eventual commitment total of as much as \$2.7 billion, with confidence based on prior-year experience that that will result in disbursements of no more than \$2.25 billion. The analysis assumes the reduction rate for the remaining Priority 1 requests will be 27 percent, slightly below the rate to date. It assumes the reduction rate for the remaining Priority 2 requests will be 36 percent, slightly above the rate to date based on likely results of work under way by the Selective Review team.

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

RESOLVED, That the USAC Schools & Libraries Committee authorizes staff to commit, upon FCC approval, waves for Funding Year 2002 with the parameters set at 20% for Priority 1 Services and at 90% for internal connections.

- a2. Approval of Funding Year 2003 Application Window.** Mr. McDonald reported that the Form 471 filing period for the last two funding years has been well received. USAC management recommends that SLD staff follow the Year 2001/2002 model in setting the Funding Year 2003 filing window. SLD proposes that the window open at noon ET on Monday, November 4, 2002, and close at 11:59 p.m. ET on Thursday, January 16, 2003, again providing for a 74-day filing period.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that the Funding Year 2003 Form 471 filing window for the Schools and Libraries Universal Service Support Mechanism shall be a period of 74 days, and that the window will open on November 4, 2002, and close on January 16, 2003.

INFORMATION ITEMS:

- i1. Update on the Modifications to FCC Form 471.** Mr. McDonald gave the Committee an update on the generally non-substantive changes planned for the FCC Form 471 for Funding Year 2003. Applicants will be urged to split their Priority 1 requests from their Priority 2 requests and file them on separate Forms 471 in order to assist USAC in giving more timely

notice of decisions on Priority 1 requests. The form, however, will not require that the requests be separated.

- i2. Report from National Center For Education Statistics.** Mr. McDonald stated that the National Center for Education Statistics had recently released its latest annual report on Internet access in U.S. public schools and classrooms (NCES 2002-018). He stated that the report contains very encouraging data on increasing connectivity in public schools. The Committee **DIRECTED** staff to provide a reference for the report to Committee Members.

There being no further business, Mr. Talbott adjourned the meeting at 1:48 p.m.

D. Scott Barash

Assistant Secretary

Date

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

October 3, 2002

MINUTES

A meeting of the Schools & Libraries Committee of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the USAC office in Washington, DC on Thursday, October 3, 2002. Mr. Brian Talbott, Chair of the Committee, called the Committee to order at 9:00 a.m. Eastern Time. Ms. Howard, Executive Assistant for the CEO, called the roll. Five of the seven members were present, representing a quorum: Bryant, Anne – *by telephone*

Davis, Fr. Bill – *by telephone*

Hess, Kevin – Vice Chair – *by telephone*

Parrino, Cheryl – *by telephone*

Talbott, Brian – Chair – *by telephone*

Two members were absent:

Campbell, Anne

Coltharp, James

Other Board members and officers of the Corporation present: Gumper, Frank – Board Chair – *by telephone*

Rivera, Robert – Board member – *by telephone*

Barash, D. Scott – Assistant Secretary; Vice President & General Counsel

Blackwell, Mel – VP, External Communications & Rural Health Care Division

Carmichael, Mark – Assistant Treasurer; VP, Finance & Financial Operations

Haga, Robert – VP, Strategic Planning & USAC Operations

McDonald, George – VP, Schools & Libraries Division

Others present for the meeting:

NAME	COMPANY
Faunce, Donna	USAC
Howard, Cathy – <i>by telephone</i>	USAC
Navarro, Dan	USAC

ACTION ITEMS:

- a1. **Approval of Course of Action Regarding the Proposal by the National Exchange Carrier Association to Provide Continued Programmatic Support Services for the Rural Health Care and Schools and Libraries Universal Service Support Mechanisms – Confidential & Proprietary – *Executive Session*.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in ***Executive Session***, Mr. Barash recommended that this matter should be discussed in ***Executive Session*** because public 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 Schools & Libraries Committee determines that discussion of the course of action regarding the proposal by the National Exchange Carrier Association to provide continued programmatic support services for the Rural Health Care and Schools and Libraries Universal Service Support Mechanisms shall be conducted in ***Executive Session***.

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

- a2. The Committee voted to move immediately into ***Executive Session*** for purposes of discussing the confidential and proprietary item as noted above.

EXECUTIVE SESSION:

- a1. **Approval of Course of Action Regarding the Proposal by the National Exchange Carrier Association to Provide Continued Programmatic Support Services for the Rural Health Care and Schools and Libraries Universal Service Support Mechanisms – Confidential & Proprietary – *Executive Session*.** Mr. McDonald discussed the performance of the National Exchange Carrier Association (NECA) during the first two years of the contract for programmatic support services. Mr. McDonald reviewed the details of the proposed contract extension for programmatic support services for the Schools and Libraries Support Mechanism. He discussed the term, cost, options, performance benchmarks, proposed software systems, and staffing needs of the extension. He reviewed how the enhancements proposed in the contract extension would mean significant improvements in efficiency, processing times, and customer satisfaction, and how the proposed extension represented the best overall value to the corporation at this time. Mr. McDonald responded to questions from Committee members concerning, among other things, the technological improvements and proposed cost of the contract extension. Other USAC staff members responded to questions concerning other provisions of the proposed contract extension. The Committee discussed the proposed extension in detail.

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

RESOLVED, That the USAC Schools & Libraries Committee recommends that the USAC Board of Directors approve the proposed contract extension with the National Exchange Carrier Association, Inc., to provide programmatic support services for the Rural Health Care and Schools and Libraries Universal Service Support Mechanisms, subject to completion of satisfactory terms and conditions to be finalized by staff consistent with the authority granted by the Board of Directors.

The Committee adjourned from *Executive Session* and reconvened in open session at 9:48 a.m. to report the discussion and action taken by the Committee during *Executive Session* and to continue with the other agenda item.

ACTION ITEMS:

- a2. **Approval of a Revised 2002 Annual Programmatic Budget for the Schools and Libraries Support Mechanism.** Ms. Faunce, USAC's Budget & Finance Analyst, informed the Committee that the contract extension approved as noted in action item #aSL01 will require an increase of \$4,860,200 in the 2002 annual programmatic budget for the Schools and Libraries Support Mechanism. This budget increase will cover the increased costs of the contract, primarily systems development and software and hardware costs in the first year of the extended contract. However, she explained that staff is able to offset this increase somewhat by adjustments in other areas of the budget so that the Committee will only need to approve an overall increase of \$3,000,000 in the 2002 annual programmatic budget.

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

RESOLVED, That the Schools & Libraries Committee approves an increase of \$3,000,000 in the 2002 annual Schools and Libraries Support Mechanism programmatic budget.

There being no further business, Mr. Talbott adjourned the meeting at 9:52 a.m.

D. Scott Barash

Assistant Secretary

Date

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

October 21, 2002

MINUTES

The quarterly meeting of the Schools & Libraries Committee of the Board of Directors of the Universal Service Administrative Company (USAC) was held at The Westin Grand, 2350 M Street, NW, Washington, D.C., on Monday, October 21, 2002. Mr. Brian Talbott, Chair of the Committee, called the meeting to order at 9:05 a.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll. Four of the seven members were present, representing a quorum:

Campbell, Anne

Parrino, Cheryl

Hess, Kevin

Talbott, Brian

One member joined meeting in progress:

Bryant, Anne – *by telephone*

Two members were absent:

Coltharp, James

Davis, Fr. Bill

Other Board members and officers of the Corporation present:

Buller, Karen – Board member
 Gumper, Frank – Board member
 Jackson, Jimmy – Board member
 Rivera, Robert – Board member
 Barash, D. Scott – Assistant Secretary, Vice President & General Counsel
 Blackwell, Mel – VP, External Communications & Rural Health Care Division
 Carmichael, Mark – Assistant Treasurer; VP, Finance & Financial Operations
 Haga, Robert – VP, Strategic Planning & USAC Operations
 McDonald, George – VP, Schools and Libraries Division (SLD)
 Others present for the meeting:

NAME	COMPANY
Ayer, Catriona	USAC
Carroll, Kristy	USAC
Falkowitz, Ed	USAC
Faunce, Donna	USAC
Fitzgerald, Sara	Funds for Learning
Heend, Orin	Funds for Learning
Kaplan, Peter	Funds for Learning
Lipscomb, Greg	FCC
Miller, Linda	USAC
Navarro, Dan	USAC
Niebauer, Amanda	USAC
Noran, John	USAC
Parry, John	NECA
Scott, Wayne	USAC
Simmons, Ann	USAC
Wolfhagen, Ellen	USAC

ACTION ITEMS:

- a1. **Approval of the Minutes.** On a motion duly made and seconded, the Committee adopted the minutes as distributed of the Schools & Libraries Committee meetings of Monday, July 22, 2002; Wednesday, September 25, 2002; and Thursday, October 3, 2002.
- a2. **Acceptance of the Schools and Libraries Support Mechanism Funding Year 1999 Beneficiary Agreed Upon Procedures Report.** Mr. Scott, USAC’s Director of Internal Audit, discussed the audit findings of five schools audited in conjunction with beneficiary audits of the Rural Health Care Support Mechanism for Funding Year 1999. Four of the audits resulted in findings, two involving significant findings. USAC staff is working on recovering all erroneously or improperly disbursed funds.

Mr. McDonald noted that Mr. Falkowitz, SLD’s Audit Response Manager, would be reviewing the audit findings and reporting back to the Internal Audit Division. The Committee **DIRECTED** staff to provide the Committee with copies of the audit responses.

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

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

- a3. **Selection of the Audit Firm to Conduct a Large Scale Audit of Schools and Libraries Support Mechanism Beneficiaries and Authorization to Engage the Firm for the Audit – Confidential & Proprietary – Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that this matter be discussed in **Executive Session** because discussion and public disclosure at this time of this matter, which relates to USAC's *procurement strategy and contract negotiations*, and public disclosure of this matter would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund.

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

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

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

- a4. **Approval of 1st Quarter 2003 Schools and Libraries Programmatic Budget and Information on Estimated 2003 Annual Budget.** Ms. Faunce, USAC's Budget & Finance Analyst, presented the 1st Quarter 2003 Schools and Libraries programmatic budget and estimated 2003 annual budget. She reported that the estimated 2003 programmatic budget is approximately 4 percent higher than the 2002 annual budget. The estimated 2003 annual budget reflects, among other things, an increase in the fixed price of the previously approved NECA contract for programmatic support services including costs for a new customer relationship management system that will provide staff with a complete picture of an applicant and increase the quality of interaction between the customer service representative and the applicant; and costs for a new business process management system to better integrate the various work processes and help speed decisions. The 2003 budget also includes an amount equal to 5 percent of the fixed price contract for unanticipated contract change orders. USAC staff anticipates fewer change orders and form volume variances under the new contract; therefore, the recommended contingency has been reduced from 17 to 5 percent. The budget also includes one new position to support required management reviews of contractor decisions along with provision for a 20 percent increase in employee health insurance premiums.

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

RESOLVED, That the USAC Schools & Libraries Committee approves a 1st Quarter 2003 budget for the Schools and Libraries Support Mechanism of \$8,840,900.

- a5. **Approval of 1st Quarter 2003 Schools and Libraries Support Mechanism Projections and Resolution on the November 1, 2002, FCC Filing.** Mr. McDonald reviewed the funding requirement projection for 1st Quarter 2003, including the details of the individual components of the funding requirements for the quarter.

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

RESOLVED, That the USAC Schools & Libraries Committee, having reviewed at its meeting on October 21, 2002, a summary of the 1st Quarter 2003 support mechanism estimates, including administrative costs provided in *revised* Attachment A, hereby directs USAC staff to proceed with the required November 2, 2002 filing to the FCC on behalf of the Committee. Staff may make adjustments if the variance is equal to or less than \$10.0 million or may seek approval from the Schools & Libraries Committee Chair to make adjustments if the variance is greater than \$10.0 million but no more than \$15.0 million.

- a6. **Miscellaneous.** None.

INFORMATION ITEMS:

- i1. **Schools and Libraries Support Mechanism Update.** Mr. McDonald updated the Committee on the following matters: SLD outreach to applicants to urge them to appeal E-rate decisions; technology improvements; applicant training; service provider training; the data retrieval tool; service substitution; agreed-upon procedures reviews concerning beneficiaries; and the Children's Internet Protection Act (CIPA).

Mr. McDonald announced that Ms. Wolfhagen, SLD's Director of Service Provider Support, will be leaving USAC at the end of October to return to her home state of Washington and assume the job of Program Manager for the statewide K-12 Educational Network. Mr. McDonald stated that Ms. Wolfhagen has done a marvelous job with the service provider constituents and will be sorely missed. Mr. Talbott thanked Ms. Wolfhagen for her devoted service and contributions to the Schools and Libraries Support Mechanism and thanked her family for allowing her to spend the past 3-1/2 years here in Washington, DC. On behalf of service providers, Mr. Gumper also thanked Ms. Wolfhagen for doing a great job.

- i2. **USAC Internal Audit Status Report on USAC Audits.** Mr. Scott updated the Committee on the status of several ongoing audits of USAC and the Universal Service Support Mechanisms.
- i3. **Update on Universal Service Support Mechanisms Enforcement Activity.** Ms. Carroll, USAC's Associate General Counsel, reported that USAC continues to work with federal, state, and local law enforcement agencies on enforcement matters regarding Universal Service Fund program rules. She also reported that as a result of reviews conducted by USAC's Internal Audit Division, it might be appropriate to refer some beneficiaries and/or service providers to law enforcement authorities because findings of those reviews indicate intentional program rule violations and possible criminal activity.

Board member Ms. Bryant joined the meeting during the discussion of the next item.

- i4. **Status of Schools and Libraries Support Mechanism Appeals.** Ms. Ayer, SLD’s Director of Program Integrity Operations, distributed an updated chart on the status of schools and libraries applications and appeals as of October 20, 2002, and reported on the status of appeals for all funding years. She also discussed two noteworthy appeal decisions issued by the FCC during the previous quarter.

Mr. McDonald stated that Ms. Ayer, along with her team and contractor staff, have made great improvements in reducing the backlog of appeals and prior-year applications. Their goal is to be up to date on appeals by the end of the year. He also stated that an additional position has been approved in the budget to help Ms. Ayer with appeals processing. Mr. McDonald thanked Ms. Ayer and NECA’s Mr. Parry for all their hard work.

Ms. Parrino stated that the FCC is also developing a process to improve their response on appeals.

The Committee **DIRECTED** staff to provide a list of numbers of appeals by length of time they have been pending before SLD.

- i5. **Report on Legislative and Media Activity.** Mr. Blackwell updated the Committee on legislative and media activity concerning the Schools and Libraries Support Mechanism.

- i6. **Schools and Libraries Support Mechanism Timeline and Key Dates.** For information only. No discussion held.

- i7. **Miscellaneous.**

- **Internal Procedures – 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 certain issues concerning USAC’s internal procedures be discussed in **Executive Session**. Pursuant to USAC’s guidelines, discussion of such matters in **Executive Session** is appropriate when public discussion could compromise program integrity.

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

RESOLVED, That the USAC Schools & Libraries Committee, determines that discussion on issues of internal procedures shall be conducted in **Executive Session**.

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

At 10:21 a.m., the Committee voted to recess. At the call of the Chair, the Committee reconvened in Open Session at 10:50 a.m.

At 10:53 a.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** for the purposes of discussing the confidential and proprietary items as noted above.

EXECUTIVE SESSION:

- a3. **Selection of the Audit Firm to Conduct a Large Scale Audit of Schools and Libraries Support Mechanism Beneficiaries and Authorization to Engage the Firm for the Audit – Confidential & Proprietary – Executive Session.** Mr. Scott provided an overview of the selection process for an independent accounting firm to perform this audit, and explained how the evaluation team rated the proposals and arrived at the recommendation of KPMG LLP. He clarified that the evaluation team scored the technical piece of each proposal before reviewing the pricing component.

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

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

i7. **Miscellaneous.**

- **Internal Procedures – Confidential & Proprietary - Executive Session.** The Committee had a general discussion on the internal procedures of the Schools and Libraries Support Mechanism.

The Committee adjourned from **Executive Session** and reconvened in open session at 11:50 a.m. to report the discussions of the Committee during **Executive Session**.

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

D. Scott Barash

Assistant Secretary

Date

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

November 27, 2002

MINUTES

A meeting of the Schools & Libraries Committee of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the USAC office in Washington, D.C., on Wednesday, November 27, 2002. Mr. Brian Talbott, Chair of the Committee, called the meeting to order at 1:02 p.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll. Four of the seven members were present, representing a quorum:

Campbell, Anne – *by telephone*

Davis, Fr. Bill – *by telephone*

Parrino, Cheryl – *by telephone*

Talbott, Brian - *by telephone*

Three members were absent: Bryant, Anne

Coltharp, James

Hess, Kevin

Other Board members and officers of the Corporation present: Gumper, Frank – Board member

Rivera, Robert – Board member – *by telephone*

Barash, D. Scott – Assistant Secretary, Vice President & General Counsel

McDonald, George – VP, Schools and Libraries Division

Others present for the meeting:

NAME	COMPANY
Simmons, Ann	USAC

ACTION ITEMS:

- a1. Approval of Extension of Funding Year 2003 Application Window.** Mr. McDonald reported that the Schools and Libraries Division (SLD) attempted to implement a new-technology online Form 471 on the window opening date of November 4, 2002. However, despite long hours by technical staff, it was not ready to go into production on that day. SLD brought the new form online on Wednesday, November 6, but applicants experienced numerous technical problems. Technical staff continued to work to address the problems that applicants were experiencing, but by November 13 SLD concluded that the problems were too serious and likely would not be fixed for some period. Therefore, on November 14 SLD converted to the old-technology Form 471 and this form is working well. However, because of the difficulties with the new online form, applicants who planned to file online Forms 471 lost a significant portion of the filing window period; therefore, SLD staff in consultation with FCC staff is recommending that the Committee extend the filing window close date from January 16, 2003, to February 6, 2003.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that the Funding Year 2003 Form 471 filing window for the Schools and Libraries Universal Service Support Mechanism shall be extended and that the window will close on February 6, 2003.

- a2. Approval of Authority for Commitments for Meritorious Post-Commitment Appeals for Funding Year 2002.** Mr. McDonald stated that USAC staff is seeking confirmation that SLD may make commitments on meritorious post-commitment appeals using the parameters the Committee has approved for regular waves. Funds committed on such appeals will be drawn from the appeals reserve. Staff also requests that the Committee confirm that Committee approval will not be required for reductions in the appeals reserve arising from commitments on meritorious post-commitment appeals. Mr. McDonald also sought clarification of whether separate Committee approval will be required for adjustments to the funding threshold for internal connections for appeals commitments, and reminded the Committee that it will review the status of the appeals reserve as it considers the parameter analysis provided to support an adjustment in the funding threshold for regular commitment waves.

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

RESOLVED, That the USAC Schools & Libraries Committee authorizes staff, upon FCC approval, to commit funds not to exceed the total approved by the Committee as a reserve for successful appeals, on meritorious post-commitment appeals on Priority 1 requests and on requests for internal connections consistent with the funding thresholds the Committee sets for regular commitment waves; and

RESOLVED FURTHER, That the USAC Schools & Libraries Committee authorizes staff to reduce the reserve for successful appeals by the amount of new commitments for meritorious post-commitment appeals without Committee approval.

There being no further business, Mr. Talbott adjourned the meeting at 1:14 p.m.

D. Scott Barash

Assistant Secretary

Date

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