

2003 Schools and Libraries Committee Meetings Minutes

Click on a date below to see the minutes. To see the entire year's minutes, click on the first date. Once open, search within the document for a particular word or phrase, using the 'Find' feature or Ctrl+f.

Meeting Dates

January 22, 2003	2
March 28, 2003	9
April 14, 2003	12
April 23, 2003	14
June 12, 2003	21
June 20, 2003	24
July 11, 2003	26
July 21, 2003	28
July 22, 2003	34
August 13, 2003	36
September 17, 2003.....	38
September 30, 2003.....	41
October 20, 2003	45
December 11, 2003.....	50

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

January 22, 2003

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 Wednesday, January 22, 2003. Mr. Brian Talbott, Chair of the Committee, called the meeting to order at 9:05 a.m. Eastern Time. Ms. Ann Simmons, Office & Facility Manager for USAC, called the roll. Six of the seven members were present, representing a quorum:

Bryant, Anne	Jackson, Jimmy
Campbell, Anne	Parrino, Cheryl
Davis, Fr. Bill	Talbott, Brian

One member joined meeting in progress:

Coltharp, James

Other Board members and officers of the Corporation present:

Buller, Karen – Board member – *by telephone*
Eichler, Ed – Board member
Gumper, Frank – Board member
Hess, Kevin – 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
Blackwell, Mel	USAC
Carroll, Kristy	USAC
Eisley, Andrew	USAC
Falkowitz, Ed	USAC
Fitzgerald, Sara	Funds for Learning
French, Laura	USAC
Heend, Orin	Funds for Learning
Jose, Stephanie	USAC
Kaplan, Peter	Funds for Learning
Lenhardt, Chris	USAC
Merli, John	Funds for Learning
Miller, Linda	USAC
Navarro, Dan	USAC
Noran, John	USAC
Parry, John	NECA
Robertson, Joan	USAC
Scott, Wayne	USAC
Simmons, Ann	USAC
Walter, Charles	USAC
Woods, Vilma	USAC.

ACTION ITEMS:

- a1. Approval of the Minutes.** Mr. McDonald distributed a revised version of the minutes of Wednesday, November 27, 2002. On a motion duly made and seconded, the Committee adopted the minutes as distributed of the Schools & Libraries Committee meetings of Monday, October 21, 2002 and Wednesday, November 27, 2002, as revised.
- a2. Annual Election of Committee Chairs and Vice Chairs.** Ms. Parrino briefed the new members of the Committee on the responsibilities of the Chair and Vice Chair of the Committee and on the election process.

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 **Ms. Anne Bryant** as Vice Chair of the USAC Schools & Libraries Committee for the term of one year that shall begin at the conclusion of the

January 2003 quarterly Board meeting and that shall conclude at the close of the January 2004 quarterly Board meeting.

- a3. **Acceptance of Six Schools and Libraries Support Mechanism Beneficiary Audit Report.** Mr. Scott, USAC Director of Internal Audit, discussed the audit findings of six Schools and Libraries Support Mechanism beneficiaries identified as SL001BE2002 through SL006BE2002. The “high risk” beneficiaries in this group were selected based on specific risk factors identified throughout the Program Integrity Assurance process and through other correspondence communicated to the Internal Audit Division. Mr. Scott reported that the beneficiaries were selected because of known problems and that the audits resulted in several findings. He noted that management’s response indicated that, as appropriate, it would cancel commitments and seek recovery of any funds that may have been improperly disbursed.

Committee members inquired about what kind of action is being taken to be even more proactive in preventing program rule violations. Mr. McDonald noted that there are detailed reminders regarding program rules on the Schools and Libraries web site. Particularly important in the view of those pursuing investigations is that applicants pay the non-discount portion of the cost so that they have a financial stake in the products or services to be delivered. Mr. McDonald also stated that language has been added to the certification page of the Form 470 warning applicants of the consequences of allowing service providers to take part in the competitive bidding process.

Mr. Rivera informed the Committee that as a service provider within the mechanism, he was proposing some revisions to the FCC for the Form 471 and distributed a summary of the proposal to the Committee members.

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

RESOLVED, That the USAC Schools & Libraries Committee accepts the reports of Audit Nos. SL001BE2002, SL002BE2002, SL003BE2002, SL004BE2002, SL005BE2002, and SL006BE2002 as presented by the USAC Internal Audit Division.

- a4. **Acceptance of Two Schools and Libraries Support Mechanism Investigative Reports – Confidential & Proprietary – Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that this matter be discussed in **Executive Session** because this investigation is not final and because of the sensitivity of the potential allegations and the potential for enforcement action.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that discussion of two investigative reports of Schools and Libraries Universal Service Support Mechanism beneficiaries shall be conducted in **Executive Session**.

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

- a5. **Approval of Annual 2003 and 2nd Quarter 2003 Schools and Libraries Programmatic Budget.** Mr. Carmichael presented the 2nd Quarter 2003 Schools and Libraries Division (SLD) programmatic

budget and 2003 annual budget. He reported that the 2003 programmatic budget is higher than the 2002 annual budget. The 2003 annual budget reflects higher beneficiary audit costs than in 2002. In addition, Mr. Carmichael noted that the fixed price of the NECA contract for programmatic support services will be higher in 2003 due to labor costs for development of new Schools and Libraries Support Mechanism systems and estimated costs for hardware and software. These costs will be amortized over the initial term of the contract extension. However, under the new contract, SLD anticipates that fewer change orders will be needed; therefore, SLD reduced the contingency in the budget for changes from 17 to 5 percent.

The proposed 2nd Quarter 2003 Schools and Libraries Support Mechanism budget is higher than 2nd Quarter 2002 actual expenditures primarily due to the increase in the fixed price contract and higher costs for beneficiary audits in the 2nd Quarter 2003 budget.

Mr. Talbott noted that the Committee would be considering a request to expand staffing for the Selective Review and Special Investigations functions under agenda item #aSL07_02. On a motion duly made and seconded, the Committee voted to defer consideration of this agenda item until after it had considered agenda item #aSL07_02.

- a6. Approval of 2nd Quarter 2003 Schools and Libraries Support Mechanism Projections and Resolution on the January 31, 2003, FCC Filing.** Mr. McDonald reviewed the funding requirements projection for 2nd 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:

RESOLVED, That the USAC Schools & Libraries Committee, having reviewed at its meeting on January 22, 2003, a summary of the 2nd Quarter 2003 support mechanism demand estimates, including administrative costs provided in Attachment A, hereby directs USAC staff to proceed with the required January 31, 2003, 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.

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

a1. Miscellaneous.

- _01. Authorization to Sign Memorandum of Understanding with FCC Inspector General and the Department of the Interior Inspector General Regarding Audits of Beneficiaries and Approval of Necessary Budget Increase. Confidential & Proprietary – Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash recommended that discussion of the item be conducted in *Executive Session* because discussion of this matter, which relates to USAC's *procurement strategy and contract negotiations*, and public disclosure of the matters discussed in this paper would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund. Moreover, this matter concerns an issue that remains *predecisional* at the FCC, and certain matters to be discussed regarding matters in this document implicate the *attorney-client privilege*; therefore, USAC staff recommends

that it be discussed 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 signing of a Memorandum of Understanding with the FCC Inspector General and the Department of the Interior Inspector General regarding audits of beneficiaries and approval of necessary budget increase shall be conducted in **Executive Session**.

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

_02. Approval of Budget Increase to Expand Selective Review and Special Investigations Staff.

Mr. McDonald explained to the Committee the need to increase the Schools and Libraries Support Mechanism 2003 programmatic budget to expand staffing for the Selective Review and Special Investigations functions. The proposed staffing increase will increase program integrity, address a bottleneck in application processing, and permit more timely notice of funding decisions for Funding Year 2003. Committee members inquired about the status of applications affected by these functions and discussed the need for additional resources.

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

RESOLVED, That the USAC Schools & Libraries Committee approves an increase of \$1,737,012 in the annual 2003 programmatic budget for the Schools and Libraries Support Mechanism to cover the costs of an increase in staffing at NECA for Selective Review, Special Investigations, and Quality Assurance; and,

RESOLVED FURTHER, That the USAC Schools & Libraries Committee approves an increase of \$717,466 in the 2nd Quarter 2003 programmatic budget for the Schools and Libraries Support Mechanism to cover the 2nd Quarter 2003 share of the costs of an increase in staffing at NECA for Selective Review, Special Investigations, and Quality Assurance.

_03. Approval of Annual 2003 and 2nd Quarter 2003 Schools and Libraries Programmatic Budget. Mr. Talbott returned to this issue pursuant to the direction of the Committee. Mr. Carmichael distributed a revised summary of the 2nd Quarter 2003 Schools and Libraries programmatic budget and 2003 annual budget incorporating the increases approved in agenda item #aSL07_02.

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

RESOLVED, That the USAC Schools & Libraries Committee approves an annual 2003 programmatic budget for the Schools and Libraries Support Mechanism of *\$34,616,912*.

RESOLVED FURTHER, That the USAC Schools & Libraries Committee approves a 2nd Quarter 2003 programmatic budget for the Schools and Libraries Support Mechanism of *\$10,435,366*.

INFORMATION ITEMS:

- i1. **Schools and Libraries Support Mechanism Update.** Mr. McDonald updated the Committee on the following matters: Funding Year 2003 (Year 6); general Schools and Libraries Support Mechanism information; technology improvements; and outreach. Mr. McDonald announced that USAC and its contractor, NECA, had signed the performance agreement called for in the contract with target dates for decisions on appeals and decisions on Forms 471 for Funding Years 2002 and 2003 as well as prior years. There was discussion of the reasons for prior delays and the importance of timely decisions.
- i2. **Status of Schools and Libraries Support Mechanism Appeals.** Mr. McDonald distributed an updated chart on the status of schools and libraries applications and appeals as of December 31, 2002, and reported on the status of appeals for all funding years.
- i3. **USAC Internal Audit Status Report on USAC Audits.** Mr. Scott updated the Committee on the status of the new beneficiary audits that are being performed by KPMG and on the status of several internal audits of USAC and the Universal Service Support Mechanisms.
- i4. **Status Report of Management's Response to the Schools and Libraries Support Mechanism Beneficiary Reviews.** Mr. McDonald updated the Committee on the status of management's responses to the Schools and Libraries Support Mechanism Beneficiary Agreed-Upon-Procedures reviews. Management responses on three reviews previously accepted by the Committee were provided.
- i5. **Report on Legislative and Media Activity.** Mr. Blackwell updated the Committee on legislative and media activity concerning the Schools and Libraries Support Mechanism. Mr. Blackwell reported that the 107th Congress had adjourned resulting in all pending legislation dying. To date, there were no bills introduced affecting the Universal Service Fund from the 108th Congress.

He then discussed media activity and reviewed several recent articles that make assertions about the Universal Service Fund (USF). The Committee discussed the articles and Ms. Parrino asked to revisit the issues raised in the media articles during *Executive Session*, as further discussion of this matter would result in public disclosure of confidential techniques and procedures that would compromise the integrity of the administration of the universal service support mechanisms.

- i6. **Schools and Libraries Support Mechanism Timeline and Key Dates.** For information only. No discussion held.
- i7. **Miscellaneous.**
 - **Honoring Former Vice Chair of the Schools & Libraries Committee.** Mr. Talbott thanked Mr. Hess for all his hard work as Vice Chair of the Schools & Libraries Committee.

At 11:15 a.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above. The Committee then voted to recess. At the call of the Chair, the Committee reconvened in **Executive Session** at 11:30 a.m. Ms. Simmons called the roll at the request of the Chair. All seven members were present, representing a quorum.

EXECUTIVE SESSION:

a7. Miscellaneous.

_01. Authorization to Sign Memorandum of Understanding with FCC Inspector General and the Department of the Interior Inspector General Regarding Audits of Beneficiaries and Approval of Necessary Budget Increase. Confidential & Proprietary – Executive Session.
The Committee directed staff to get further clarification of the provisions of the proposed Memorandum of Understanding with the FCC. No action taken.

a4. Acceptance of Two Schools and Libraries Support Mechanism Investigative Reports – Confidential & Proprietary – Executive Session. Mr. Scott explained that the Internal Audit Division (IAD) performed investigative audits on two Schools and Libraries Support Mechanism beneficiaries and service providers that were referred to IAD by SLD. There were several findings in both reports. IAD staff discussed specific findings of the audit reports with the Committee. Mr. Scott also noted that management’s response indicated that it would continue to work closely with law enforcement and the FCC Office of Inspector General on these matters, and as appropriate, would cancel commitments and seek recovery of any improperly disbursed funds.

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

RESOLVED, That the USAC Schools & Libraries Committee accepts the reports of Audit No. SL0071V2002 and Audit No. SL0081V2002 for Funding Year 2000 as presented by the USAC Internal Audit Division.

The Committee adjourned from **Executive Session** and reconvened in open session at 12:30 p.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Mr. Talbott adjourned the meeting at 12:32 p.m.

Robert W. Haga

Assistant Secretary

Date

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

March 28, 2003

MINUTES

A meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC, on Friday, March 28, 2003. Mr. Brian Talbott, Chair of the Committee, called the meeting to order at 11:08 a.m. Eastern Time. Mr. Robert Haga, Assistant Secretary, called the roll. Four of the seven members were present, representing a quorum.

Talbott, Brian – Chair – *by telephone*

Bryant, Anne – Vice Chair - *by telephone*

Davis, Fr. Bill – *by telephone*

Parrino, Cheryl – *by telephone*

One member joined the meeting in progress:

Jackson, Jimmy – *by telephone*

Two members were absent:

Campbell, Anne

Coltharp, James

Other Board members and Officers of the Corporation present:

Gumper, Frank – Board Member – *by telephone*

Rivera, Robert – Board Member – *by telephone*

Barash, D. Scott – Vice President & General Counsel

Haga, Robert – Assistant Secretary; VP, Strategic Planning & USAC Operations

McDonald, George – VP, Schools and Libraries Division

Others present for the meeting:

NAME
Walter, Charles

COMPANY
USAC

ACTION ITEMS:

- a1. Approval of Authority for Internal Connections Commitments at 81 Percent for Funding Year 2002.** Mr. McDonald reviewed for the Committee the history to date on funding for internal connections for Funding Year 2002. Based on that experience, a parameter analysis was prepared to assess the ability to further fund internal connections. The analysis shows that the Schools and Libraries Division (SLD) can make commitments on approved internal connections funding requests at a discount percentage of 81 percent and above, and at 20 percent for Priority 1 services. This proposed action is intended to permit SLD staff to make commitments at these parameters for the next and future waves without further Committee action. Committee approval will be sought before the funding parameter for internal connections is lowered below 81 percent or before the denial parameter is raised to 80 percent, or before reducing the appeals reserve except through new appeals commitments.

In response to a comment from Mr. Rivera expressing concern about the implications of this decision on funding for remaining unfunded internal connections requests at a discount percentage of 90 percent, Mr. McDonald explained that the FCC priority rules require full funding of all approved internal connections requests at 90 percent if funds are sufficient, and that the parameter analysis showed that we could not only fully fund all approved internal connections at 90 percent, but that we could also fund approved internal connection requests down to the 81 percent discount level. He also reviewed how the appeals reserve was established and historic appeal rates that showed the appeals reserve along with other contingencies and processes proposed by the FCC would result in adequate funds being available. The Committee was satisfied that the decision to fund internal connections requests down to 81 percent would not adversely affect applicants with internal connections requests at 90 percent.

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 percent for Priority 1 services and at 81 percent for internal connections.

INFORMATION ITEMS:

i1. Miscellaneous.

- **Status of USAC Response to U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight, Inquiry Concerning the Schools and Libraries Support Mechanism.** Mr. Barash gave the Committee an update on the status of USAC's response to this Congressional inquiry to USAC dated March 13, 2003, regarding the Schools and Libraries Support Mechanism. The Committee **DIRECTED** staff to keep track of the expenses involved in this process.

There being no further business, Mr. Talbott adjourned the meeting at 11:39 a.m.

Robert W. Haga

Assistant Secretary

Date

032803SLmin

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

April 14, 2003

MINUTES

A meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC, on Monday, April 14, 2003. Mr. Brian Talbott, Chair of the Committee, called the meeting to order at 4:02 p.m. Eastern Time. Charles Walter, Schools and Libraries Division Assistant, called the roll. Five of the seven members were present, representing a quorum.

Bryant, Anne – *by telephone*
Campbell, Anne – *by telephone*
Jackson, Jimmy – *by telephone*
Parrino, Cheryl
Talbott, Brian – *by telephone*
Two members were absent:

Davis, Fr. Bill
Coltharp, James
Officers of the Corporation present: Barash, D. Scott – VP & General Counsel
Haga, Robert – Assistant Secretary; VP, Strategic Planning & USAC Operations
McDonald George – VP, Schools and Libraries Division

Others present for the meeting:

NAME	COMPANY
Charles Walter	USAC

ACTION ITEM:

- a1. Approval of Authority for Priority 1 Commitments for Funding Year 2003.** Mr. McDonald stated that on April 3, 2003, Schools and Libraries Division (SLD) staff reported to the Federal Communications Commission that \$4.718 billion in requested funding has been estimated for schools and libraries seeking Schools and Libraries Support Mechanism discounts for Funding Year 2003 (July 1, 2003, through June 30, 2004). This estimate was based on the dollars requested in 41,146 applications received or postmarked by February 6, 2003, the close of the Form 471 application filing window. The estimated demand for Priority 1 services totals \$1.745 billion – below the annual cap of \$2.25 billion for disbursements for the Schools and Libraries Support Mechanism.

For Funding Year 2003, the demand for internal connections funding at 90 percent (the highest discount percentage) is \$2.116 billion. Based on experience from the funding commitment process in Funding Year 2002, USAC may be able to fund those requests, but it is too early to be sure. Therefore, USAC staff is seeking commitment authority only for commitments on Priority 1 requests at this time.

Given the possibility of roll-over of funding from previous years, USAC cannot say how high the disbursements cap might be for Funding Year 2003; therefore, USAC staff proposes not to establish a denial threshold at this time.

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

RESOLVED, That the USAC Schools & Libraries Committee authorizes SLD staff to commit, upon FCC approval, waves for Funding Year 2003 with the parameters set at 20 percent for Priority 1 Services and further set so that no commitments are made for internal connections.

INFORMATION ITEMS:

i1. Miscellaneous.

- **Wave Twenty-Seven Funding Year 2002 E-rate Funding Commitment Letter.** Mr. McDonald informed the Committee that in the twenty-seventh wave of letters to applicants and service providers, they would be informed for the first time of the status of some of their FRNs as “Under Review.” This status advises applicants and service providers that issues have been raised during PIA review that require further investigation. This status notice will appear only on those letters with affected FRNs.
- **Status of USAC Response to U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight, Inquiry Concerning the Schools and Libraries Support Mechanism.** Mr. Talbott commended staff for its efforts in responding this inquiry.

There being no further business, Mr. Talbott adjourned the meeting at 4:12 p.m.

Robert Haga

Assistant Secretary

Date

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

April 23, 2003

MINUTES

The quarterly meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) was held at The Westin Grand Hotel, 2350 M Street, NW, Washington, D.C., on Wednesday, April 23, 2003. Mr. Brian Talbott, Chair of the Committee, called the meeting to order at 8:05 a.m. Eastern Time. Mr. Charles Walter, Administrative Assistant to the School and Libraries Division, called the roll. Five of the seven members were present, representing a quorum:

Bryant, Anne

Parrino, Cheryl

Campbell, Anne

Talbott, Brian

Jackson, Jimmy

One member joined the meeting in progress:

Coltharp, James

One member was absent:

Davis, Fr. Bill

Other Board members and officers of the Corporation present:

Buller, Karen – Board member

Gumper, Frank – Board member

Hess, Kevin – Board member

Hughes, Alison – Board member

Rivera, Robert – Board member

Barash, Scott – Vice President and General Counsel

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

Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations

McDonald, George – VP, Schools and Libraries Division (SLD)

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
Adair, Claude	Thomas Comm. Tech.
Carroll, Kristy	USAC
Chemotti, Michelle	USAC
Delmar, Teleshia	USAC
Eisley, Andrew	USAC
Falkowitz, Ed	USAC
Faunce, Donna	USAC
Fenstermaker, John	KPMG
Fitzgerald, Sara	Funds for Learning
French, Laurie	USAC
Heend, Orin	Funds for Learning
Henzey, Terrence	KPMG

<u>NAME</u>	<u>COMPANY</u>
Kaplan, Peter	Funds for Learning
Lawhead, Merry	USAC
Lenhardt, Christopher	USAC
Lipscomb, Greg	FCC
Mendiola, Ray	NECA
Miller, Linda	USAC
Niebauer, Amanda	USAC
Noran, John	USAC
Okudaira, Nobuko	USAC
Panton, Marcia	USAC
Parry, John	NECA
Scott, Wayne	USAC
Vierheller, Michael	KPMG
Walter, Charles	USAC

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 Wednesday, January 22, 2003, and Friday, March 28, 2003.
- a2. **Action on Seven Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Mr. Scott, Director of USAC Internal Audit, discussed the audit findings and updated the dollar amount at issue regarding the Stokes Community Freedom Public Charter School located in Washington, DC. The corrected total amount committed is \$57,638 and the amount disbursed is \$50,566.

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

RESOLVED, That the USAC Schools & Libraries Committee has reviewed Audit Reports labeled SL2002BE011, SL2003BE001, SL2003BE002, SL2003BE003, SL2003BE005, SL2003BE006, and SL2003BE010 together with management's response thereto, and recommends to the Audit Committee that each such audit report be deemed final.

- a3. **Action on the Schools and Libraries Support Mechanism Andersen Agreed Upon Procedures Beneficiary Report – Confidential & Proprietary – *Executive Session*.** Mr. McDonald summarized the Arthur Andersen Agreed Upon Procedures Beneficiary Report and explained to the Committee that Mr. Falkowitz, SLD Manager of Audit Response, continued the work with applicants and service providers to resolve issues where possible. Andersen staff moved to other firms as the initial report was provided to USAC and did not complete that component of the audit work. USAC’s Internal Audit Division (IAD) audited Mr. Falkowitz’s work and reported no exceptions.

A number of the remaining issues will require FCC guidance. One attachment to the report in the Committee’s materials was a paper analyzing those issues and setting out various options for the FCC to consider. The Committee wished to consider those issues more carefully, and concluded that further dialogue, and likely a Committee meeting, would be required before the paper is finalized.

Committee members requested detailed discussion regarding certain audits, at which point, in accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash recommended that discussion of specific details of the audit findings concerning these beneficiaries be conducted in *Executive Session* because a discussion of specific audit plans, internal controls, and/or confidential company data would result in disclosure of confidential techniques and procedures that would compromise program integrity.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that discussion of specific reports of Schools and Libraries Universal Service Support Mechanism beneficiaries audits shall be conducted in *Executive Session*.

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

- a4. **Approval of the Revised 2nd Quarter 2003 and 2003 Annual Schools and Libraries Support Mechanism Programmatic Budgets and Approval of the 3rd Quarter 2003 Schools and Libraries Support Mechanism Programmatic Budget.** Ms. Faunce, USAC Budget and Finance Analyst, reviewed the Schools and Libraries Support Mechanism programmatic budgets.

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

RESOLVED, That the USAC Schools & Libraries Committee approves a revised annual 2003 programmatic budget for the Schools and Libraries Support Mechanism of \$35,117,000; and

RESOLVED FURTHER, That the USAC Schools & Libraries Committee approves a revised 2nd Quarter 2003 programmatic budget for the Schools and Libraries Support Mechanism of \$10,603,400; and

RESOLVED FURTHER, That the USAC Schools & Libraries Committee approves a 3rd Quarter 2003 programmatic budget for the Schools and Libraries Support Mechanism of \$7,895,000.

- a5. **Approval of 3rd Quarter 2003 Schools and Libraries Support Mechanism Projections and Resolution on the May 2, 2003, FCC Filing.** Mr. McDonald reviewed the Schools and Libraries Support Mechanism projections. He informed the Committee that the FCC would issue further guidance on how to report and apply the rolled-over funds.

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 23, 2003, a summary of the 3rd Quarter 2003 support mechanism demand estimates, including administrative costs, hereby directs USAC staff to proceed with the required May 2, 2003, 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. **Action on Two Schools and Libraries Support Mechanism Beneficiary Audit Reports – 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 the audits be discussed in **Executive Session** because discussion of the reports relates to investigatory matters or pending or contemplated enforcement action and public disclosure of the matters discussed therein could compromise program integrity and law enforcement efforts.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that discussion of two audit reports of Schools and Libraries Universal Service Support Mechanism beneficiaries labeled SL2002BE009 and SL2002BE010 shall be conducted in **Executive Session**.

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

- a7. **Miscellaneous.**

_01. Solicit ideas for July Committee Agenda. Mr. Talbott reported that Ms. Parrino and Mr. Gumper discussed the process for preparing the agendas for the quarterly meetings and decided to include this miscellaneous item on each quarterly Committee agenda. Mr. Talbott said that Committee members may offer suggestions for agenda items at each quarterly meeting or by contacting him or Ms. Parrino between quarterly meetings with suggestions.

At 8:33 a.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above, as well as a potential litigation matter against USAC.

Committee member Mr. Coltharp joined the meeting during **Executive Session**.

EXECUTIVE SESSION:

- a3. **Action on the Schools and Libraries Support Mechanism Andersen Agreed Upon Procedures Beneficiary Report – Confidential & Proprietary – Executive Session.** Mr. Scott reviewed the process for tracking details of follow-up actions being taken on final audits. The Committee discussed the reports and expressed concern regarding how schools and libraries will handle ongoing administrative issues surrounding technology in light of current constraints on state and local budgets. The Committee encouraged staff to continue efforts to make administration of the program as transparent as possible.

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

RESOLVED, That the USAC Schools & Libraries Committee has reviewed the Andersen agreed upon procedures beneficiary report together with management's response thereto, and recommends to the Audit Committee that each such audit report be deemed final.

- a6. **Action on Two Schools and Libraries Support Mechanism Beneficiary Audit Reports – Confidential & Proprietary – Executive Session.** The Committee discussed two beneficiary audits.

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

RESOLVED, That the USAC Schools & Libraries Committee has reviewed Audit Reports labeled SL2002BE009 and SL2002BE010 together with management's response thereto and recommends to the USAC Audit Committee that each such audit report be deemed final.

- a7. **Miscellaneous.**

_02. Report on Pending Litigation and Bankruptcy Matters. Mr. Parrino reported on a potential litigation matter regarding USAC. Mr. Barash responded to questions by Committee members about the potential litigation.

The Committee adjourned from **Executive Session** and reconvened in open session at 9:40 a.m. to report the discussion and action of the Committee during **Executive Session** and to continue with the Information Items.

INFORMATION ITEMS:

- i1. **Schools and Libraries Support Mechanism Update.** Mr. McDonald discussed a USAC/NECA performance agreement report containing the current numbers as to applications awaiting Funding Commitment Decision Letters (FCDLs) and appeals in process. He reported that some 2,437 Funding Year 2002 applications are being actively reviewed. Most of these applications raise very challenging issues that are beyond current procedures and require senior SLD management involvement and consultation with the FCC.

- i2. **Report on Legislative and Media Activity.** Mr. Blackwell updated the Committee on legislative and media activity. He reported that the Senate Commerce Committee Subcommittee on Communications held a hearing on April 2, 2003, on the current state of the Universal Service Fund.
- i3. **Status Report on Schools and Libraries Support Mechanism Audits.** Mr. Scott updated the Committee on the status of the new beneficiary audits that are being performed by KPMG and yielded the floor to KPMG representatives – Mr. Henzey, Engagement Partner; Mr. Vierheller, Engagement Director; and Mr. Fenstermaker, Engagement Manager – who provided a more detailed report on the audits.
- i4. **Status Report on Actions Taken on Final Audits.** Mr. Scott reported to the Committee the status of actions taken on final audits. He explained that this will be a new issue paper that will provide details of follow-up actions being taken on final audits and that once all follow-up action has been reported on an audit, the audit will be dropped from this listing.
- i5. **Update on Universal Service Support Mechanisms Enforcement Activity.** Mr. Barash gave the Committee an overview of the enforcement trends and USAC staff's responses to those trends.
- i6. **Information Regarding the FCC May 8, 2003, Public Forum on Improving Administration of the Schools and Libraries Support.** Mrs. Parrino reported to the Committee that the forum would focus mainly on waste, fraud, and abuse issues and possible changes the FCC can make to address the issues.
- i7. **Miscellaneous.** None.

There being no further business, Mr. Talbott adjourned the meeting at 11:10 a.m.

Robert Haga

Assistant Secretary

Date

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

June 12, 2003

MINUTES

A meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC, on Thursday, June 12, 2003. Mr. Brian Talbott, Chair of the Committee, called the meeting to order at 3:07 p.m. Eastern Time. Charles Walter, Schools and Libraries Division Assistant, called the roll. Five of the seven members were present, representing a quorum.

Bryant, Anne – *by telephone*

Davis, Fr. Bill – *by telephone*

Jackson, Jimmy – *by telephone*

Parrino, Cheryl – *by telephone*

Talbott, Brian – *by telephone*

Two members were absent:

Campbell, Anne

Coltharp, James

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

Barash, D. Scott – VP & General Counsel

McDonald George – VP, Schools and Libraries Division

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
Walter, Charles	USAC

ACTION ITEM:

a1. Approval to Deny Internal Connections Requests at 80% for Funding Year 2002. Mr. McDonald stated that the denial analysis provided to the Committee, which is based on review to date of Funding Year 2002 applications, indicates that funds would be insufficient to fully fund all remaining requests likely to be approved if internal connections requests at 80 percent were funded. On a motion duly made and seconded, the Committee adopted the following resolution:

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

a2. Approval to Deny Internal Connections below 70% for Funding Year 2003. Mr. McDonald stated that on April 14, 2003, the Committee authorized Schools and Libraries Division (SLD) management to make commitments on Priority 1 services (Telecommunications Services and Internet Access) with discount percentages at 20 percent and above and not on requests for discounts on internal connections for Funding Year 2003. A denial threshold was not proposed at that time. The analysis provided to the Committee, which is based on review to date of Funding Year 2003 applications, indicates that funds will not be sufficient to fully fund all approved requests for Priority 1 services and for internal connections with discount percentages of 70 percent or higher. Mr. McDonald said that by setting a denial threshold at this time, the Committee would enable commitments to be issued on Priority 1 requests for applications that also include internal connections requests with discount percentages of less than 70 percent.

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

RESOLVED, That the USAC Schools & Libraries Committee authorizes Schools and Libraries Division staff to deny, upon FCC approval, all FRNs for internal connections at discount percentages of less than 70 percent for Funding Year 2003 for lack of funding.

INFORMATION ITEMS:

i1. Miscellaneous.

- **Schools and Libraries Division (SLD) Web Site Update.** Mr. McDonald informed the Committee that he has received positive comments about the new and improved SLD web site.
- **Task Force on The Prevention of Waste, Fraud, and Abuse.** Mr. McDonald informed the Committee that the Task Force's second meeting was a success. A report of the meeting has been posted to the SLD web site. A third meeting is scheduled for June 26 – 27, 2003.
- **Funding Year 2004 FCC Form 470.** Mr. McDonald shared with the Committee that the PDF version of the FCC Form 470 is now posted on the web site. This format is easy to scan for automated data entry of paper forms.
- **Status of USAC Response to U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight, Inquiry Concerning the Schools**

and Libraries Support Mechanism. Ms. Parrino and Mr. Barash provided an update on the continuing discussions between Committee staff and USAC staff.

There being no further business, Mr. Talbott adjourned the meeting at 3:23 p.m.

Robert Haga

Assistant Secretary

Date

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

June 20, 2003

MINUTES

A meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC, on Friday, June 20, 2003. Mr. Brian Talbott, Chair of the Committee, called the meeting to order at 3:04 p.m. Eastern Time. Charles Walter, Schools and Libraries Division Assistant, called the roll. 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

Jackson, Jimmy

Other Board members and Officers of the Corporation present:

McDonald George – VP, Schools and Libraries Division – *by telephone*

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

Others present for the meeting:

NAME	COMPANY
Walter, Charles	USAC
Kaplan, Peter	Funds for Learning

ACTION ITEM:

a1. Approval of Authority for Internal Connections Commitments at 90 Percent for Funding Year

2003. Mr. McDonald stated that on April 14, 2003, the Committee authorized Schools and Libraries Division (SLD) management to make commitments on Priority 1 services (Telecommunications Services and Internet Access) with discount percentages at 20 percent and above and not on requests for discounts on internal connections for Funding Year 2003. On June 12, 2003, the Committee approved a resolution authorizing staff to deny, upon FCC approval, all FRNs for internal connections at discount percentages of less than 70 percent for lack of funding for Funding Year 2003. Mr. McDonald informed the Committee that SLD management has now completed the review and commitment of 26,107 Funding Year 2003 Forms 471, 67.5 percent of all those for which we expect to issue Funding Commitment Decision Letters. An analysis based on SLD management's experience reviewing these applications was provided to the Committee. This analysis indicates that SLD management can safely make commitments on approved internal connections funding requests at discount percentages of 90 percent.

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

RESOLVED, That the USAC Schools & Libraries Committee authorizes Schools and Libraries Division staff to commit, upon FCC approval, waves for Funding Year 2003 with the parameters set at 20 percent for Priority 1 Services and at 90 percent for internal connections.

There being no further business, Mr. Talbott adjourned the meeting at 3:07 p.m.

Robert Haga

Assistant Secretary

Date

062003SLmin

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

July 11, 2003

MINUTES

A meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC, on Friday, July 11, 2003. Mr. Talbott, Chair of the Committee, called the meeting to order at 3:04 p.m. Eastern Time. Mr. Walter, Schools and Libraries Division Administrative Assistant, called the roll. Five of the seven members were present, representing a quorum.

Campbell, Anne – *by telephone*

Parrino, Cheryl – *by telephone*

Coltharp, James – *by telephone*

Talbott, Brian – *by telephone*

Davis, Fr. Bill – *by telephone*

One member joined the meeting in progress:

Jackson, Jimmy

One member was absent:

Bryant, Anne

Other Board members and Officers of the Corporation present:

Gumper, Frank – Board member

Barash, Scott – VP and General Counsel – *by telephone*

McDonald, George – VP, Schools and Libraries Division – *by telephone*

Others present for the meeting:

NAME	COMPANY
Walter, Charles	USAC
Kaplan, Peter	Funds for Learning

ACTION ITEM:

- a1. Approval of Authority for Internal Connections Commitments at 85 Percent for Funding Year 2003.** Mr. McDonald stated that on June 20, 2003, the Committee authorized Schools and Libraries Division (SLD) management to make commitments, upon FCC approval, on internal connections requests with discount percentages at 90 percent for Funding Year 2003. Further analysis based on SLD management’s experience reviewing these applications was provided to the Committee and this analysis indicated that SLD management can now make commitments on approved internal connections funding requests at discount percentages of 85 percent.

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

RESOLVED, That the USAC Schools & Libraries Committee authorizes Schools and Libraries Division staff to commit, upon FCC approval, waves for Funding Year 2003 with the parameters set at 20 percent for Priority 1 Services and at 85 percent for internal connections.

There being no further business, Mr. Talbott adjourned the meeting at 3:15 p.m.

Robert Haga

Assistant Secretary

Date

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

July 21, 2003

MINUTES

The quarterly meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) was held at The Westin Grand Hotel, 2350 M Street, NW, Washington, D.C., on Monday, July 21, 2003. Mr. Talbott, Chair of the Committee, called the meeting to order at 9:02 a.m. Eastern Time. Mr. Walter, Schools and Libraries Division Administrative Assistant, called the roll. Six of the seven members were present, representing a quorum:

Bryant, Anne – Vice Chair

Campbell, Anne

Davis, Fr. Bill

Jackson, Jimmy

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

Cornell, Diane – Board member

Eichler, Edwin – Board member

Gumper, Frank – Board member

Hess, Kevin – Board member

Barash, Scott – Vice President and General Counsel

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

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

Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations

McDonald, George – VP, Schools and Libraries Division (SLD)

Others present for the meeting:

NAME	COMPANY
Ayer, Catriona	USAC
Carroll, Kristy	USAC
Croctic, Joseph	KPMG
Delmar, Teleshia	USAC
Dunn, Amanda	USAC
Falkowitz, Ed	USAC
Fant, Neil	NECA
Faunce, Donna	USAC
Fitzgerald, Sara	Funds For Learning
Heend, Orin	Funds For Learning
Kaplan, Peter	Funds For Learning
Lipscomb, Greg	FCC
Marshall, Debra	USAC
Mesli, John	Funds For Learning
Miller, Linda	USAC
Murphy, Kristin	USAC
Noran, John	USAC
Okudaira, Nobuko	USAC
Parry, John	NECA
Scott, Wayne	USAC
Stevenson, Mark	SEND Technologies, LLC
Vierheller, Michael	KPMG
Walter, Charles	USAC

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 14, 2003, Wednesday, April 23, 2003, Thursday, June 12, 2003, and Friday, June 20, 2003.
- a2. Action on Eight Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Mr. Scott, USAC Director of Internal Audit, introduced this item and discussed the audit findings, reporting that three of the applicants were found to be compliant, one generally compliant, and four were not compliant. The non-compliance consisted of two applicants not paying their non-discounted share, one applicant failing to produce an approved technology plan, and one applicant not maintaining auditable records. In response to a question about the proportion of applicants that

were found to be not compliant in this group, Mr. Scott said that earlier groups of beneficiary audits presented to the Committee had higher proportions of compliant applicants. The reports on non-compliant applicants took longer to process and so were over-represented in this group before the Committee at this time.

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

RESOLVED, That the USAC Schools & Libraries Committee has reviewed Audit Reports labeled SL2003BE004, SL2003BE007, SL2003BE009, SL2003BE012, SL2003BE013, SL2003BE014, SL2003BE017 and SL2003BE019 together with management's response thereto, and recommends to the USAC Audit Committee that each such audit report be deemed final.

- a3. Action on a Schools and Libraries Follow Up Audit Report.** Mr. Scott introduced this item and summarized the results of the Quality Assurance follow up of the Schools and Libraries Support Mechanism appeals and commitment adjustment processes, stating that the audit did not disclose any findings.

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

RESOLVED, That the USAC Schools & Libraries Committee has reviewed Audit Report No. SL2002FL012 and recommends to the USAC Audit Committee that the follow up report be deemed final.

- a4. Assignment of the Rural Health Care and Schools and Libraries Support Mechanisms Services Agreement - Confidential & Proprietary – Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *procurement strategy and contract negotiations*, and public disclosure of this matter would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund. Moreover, certain of these matters 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 resolutions:

RESOLVED, That the USAC Schools & Libraries Committee determines that discussion of the assignment of the Rural Health Care and Schools and Libraries Program Services Agreement with the National Exchange Carrier Association, Inc. to NECA Services, Inc. shall be conducted in *Executive Session*.

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

- a5. **Approval of Budget Increase to Convert Program Integrity Assurance (PIA) Temporary Employees to Permanent, Consolidate 471 Review Steps, and Add Staff to Issue 90 Percent of Funding Year 2004 Funding Commitment Decision Letters (FCDLs) by June 30, 2004.** Mr. McDonald introduced this item and summarized for the Committee the details of the budget increase. He then invited Mr. John Parry, NECA's Executive Director of Universal Service Fund Operations, and Mr. Neil Fant, NECA's Director of Schools and Libraries PIA Operations, to answer questions. Mr. Parry indicated that the cost would be reduced after the first year due to nonrecurring costs and as NECA absorbed the cost of one of the new proposed positions. Mr. Parry agreed to review PIA operations after a year and if the goals of this change can be achieved at a lower cost, to pass any savings along to USAC.

RESOLVED, That the USAC Schools & Libraries Committee approves an increase of \$1,000,000 in the 4th Quarter 2003 programmatic budget for the Schools and Libraries Support Mechanism to cover the costs of an increase in permanent staffing at NECA for the Program Integrity Assurance review team.

- a6. **Approval of 4th Quarter 2003 and Revised 2003 Annual Schools and Libraries Support Mechanism Programmatic Budget.** Ms. Faunce, USAC Budget and Finance Analyst, introduced the 4th Quarter 2003 programmatic budget for the Schools and Libraries Support Mechanism. She explained that USAC staff is also providing a revised 2003 annual Schools and Libraries Support Mechanism programmatic budget for the Committee's consideration due to increases to cover additional outreach travel and the items approved in agenda item #a5 above.

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

RESOLVED, That the USAC Schools & Libraries Committee, approves a revised annual 2003 programmatic budget for the Schools and Libraries Support Mechanism of \$36,142,000; and

RESOLVED FURTHER, That the USAC Schools & Libraries Committee approves a 4th Quarter 2003 programmatic budget for the Schools and Libraries Support Mechanism of \$8,802,700.

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

- a7. **Approval of 4th Quarter 2003 Schools and Libraries Support Mechanism Projections and Resolution on the August 1, 2003, FCC Filing.** Mr. McDonald introduced this item and summarized the Schools and Libraries Support Mechanism funding projections for the 4th Quarter 2003.

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 21, 2003, a summary of the 4th Quarter 2003 support mechanism demand estimates, including administrative costs, hereby directs USAC staff to proceed with the required August 1, 2003, 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.

a8. Miscellaneous.

- **Review of USAC Policy Regarding Schools and Libraries Support Mechanism Applications Under Review.** Mr. Talbott recommended that the Committee be provided with a status report regarding requests for funding currently under review. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash recommended that discussion of this item be conducted in *Executive Session* because this item involves discussion of a *program integrity* matter of *investigatory records or pending or contemplated enforcement action* against participants of the universal service support mechanisms, the disclosure of which could compromise law enforcement efforts.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that discussions of Schools and Libraries Support Mechanism applications under review shall be conducted in *Executive Session*.

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

INFORMATION ITEMS:

- i1. Schools and Libraries Support Mechanism Update.** Mr. McDonald discussed the USAC/NECA performance report for the contract year ended June 30, 2003, and invited Mr. Parry and Mr. Fant to answer any questions. Mr. McDonald also reported on the Supreme Court ruling on the Children's Internet Protection Act (CIPA) and said that USAC is waiting for the FCC to issue guidance on how to proceed administratively. On the matter of the Task Force on Prevention of Waste, Fraud, and Abuse, Mr. McDonald reported that he was pleased with the outcome of the first three meetings of the Task Force and that a final meeting is scheduled for August 14 and 15.
- i2. Report on Legislative and Media Activity.** Mr. Blackwell updated the Committee on legislative and media activity.
- i3. Status Report on Schools and Libraries Support Mechanism Audits.** Mr. Scott updated the Committee on the status of the new beneficiary audits that are being performed by KPMG and informed the Committee that KPMG representatives were present to answer any questions.
- i4. Status Report on Actions Taken on Final Audits Concerning the Schools and Libraries Support Mechanism.** Mr. Scott reported to the Committee the status of actions taken on final audits.
- i5. Schools and Libraries Support Mechanism Timeline and Key Dates.** For information only. No discussion held.
- i6. Miscellaneous.** None.

At 9:31 a.m., on a motion duly made and seconded, the Committee voted to move into *Executive Session* for purposes of discussing the confidential and proprietary items as noted above. Mr. Parry and Mr. Fant were asked to stay for the first item of the *Executive Session*.

EXECUTIVE SESSION:

a7. Miscellaneous.

- **Review of USAC Policy Regarding Schools and Libraries Support Mechanism Applications Under Review.** Dr. Talbott and Mr. McDonald reported on and led a discussion on the status of certain Schools and Libraries Support Mechanism applications that are under review. After discussion, the Committee **DIRECTED** USAC staff to request guidance from the FCC on this matter and if need be, schedule a meeting with the FCC, USAC staff, and Committee and Board members to discuss this matter.

- a4. Assignment of the Rural Health Care and Schools and Libraries Support Mechanisms Services Agreement - Confidential & Proprietary – Executive Session.** Ms. Parrino introduced this item and presented an overview of NECA Services, Inc. (NSI), and the proposed agreement as well as the benefits for USAC in assigning the contract. The Committee discussed the agreement and the benefits of this agreement to USAC. After discussion, the Committee determined to amend the resolution to include a stipulation that at least some of the management employees responsible for performing under the contract would be NSI employees.

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

RESOLVED, That the USAC Schools & Libraries Committee recommends that the USAC Board of Directors authorize the USAC CEO to assign the Rural Health Care and Schools and Libraries Program Services Agreement between USAC and the National Exchange Carrier Association, Inc. (NECA), to NECA Services, Inc. (NSI), subject to mutual agreement on modifications to the current Agreement reflecting the terms and conditions of the assignment, *and provided that some of the management employees assigned to this agreement be NSI employees.*

There being no further business, Mr. Talbott adjourned the meeting at 11:50 a.m.

Robert Haga

Assistant Secretary

Date

072103SLmin

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

July 22, 2003

MINUTES

A meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at The Westin Grand Hotel, 2350 M Street, NW, Washington, D.C., on Tuesday, July 22, 2003. Mr. Talbott, Chair of the Committee, called the meeting to order at 11:57 a.m. Eastern Time. Mr. Walter, Schools and Libraries Division Administrative Assistant, called the roll. Six of the seven members were present, representing a quorum.

Bryant, Anne – Vice Chair

Campbell, Anne

Davis, Fr. Bill

Jackson, Jimmy

Parrino, Cheryl

Talbott, Brian – Chair One member was absent:

Coltharp, James

Other Board members and Officers of the Corporation present:

Gumper, Frank – Board member

Barash, Scott – Vice President and General Counsel

Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations

McDonald, George – VP, Schools and Libraries Division (SLD)

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
Stevenson, Mark	SEND Technologies, LLC
Walter, Charles	USAC

ACTION ITEM:

- a1. Restoring the Funding Threshold for Internal Connections Commitments for Funding Year 2003 to 90 Percent.** Mr. McDonald stated that on July 11, 2003, the Committee authorized Schools and Libraries Division (SLD) management to make commitments upon FCC approval on internal connections requests with discount percentages at 85 percent and above for Funding Year 2003. During the Committee’s discussion of the issue, the USAC Board Chair raised questions about why the reduction rates were still so high in the sixth year of the program. In researching the response to that question, staff realized that the reduction figures used in the analysis were too high. After revising the analysis to reflect lower projected reduction rates going forward, the analysis no longer supports lowering the threshold for internal connections funding below 90 percent at this time, although it does continue to support funding internal connections at 90 percent.

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

RESOLVED, That the USAC Schools & Libraries Committee directs USAC staff to maintain the funding threshold at 90 percent for internal connections for Funding Year 2003 until such time as staff provides the Committee with a new analysis and the Committee authorizes a lowering of that threshold.

There being no further business, Mr. Talbott adjourned the meeting at 12:05 p.m.

Robert Haga

Assistant Secretary

Date

072203SLmin

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

August 13, 2003

MINUTES

A meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC, on Wednesday, August 13, 2003. Mr. Talbott, Chair of the Committee, called the meeting to order at 4:18 p.m. Eastern Time. Mr. Walter, Schools and Libraries Division Administrative Assistant, called the roll. 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

Jackson, Jimmy

Other Board members and Officers of the Corporation present:

Barash, Scott – VP and General Counsel – *by telephone*

McDonald, George – VP, Schools and Libraries Division

Others present for the meeting:

NAME	COMPANY
Walter, Charles	USAC

ACTION ITEM:

- a1. Approval of Authority for Internal Connections Commitments at 85 Percent for Funding Year 2003.** Mr. McDonald stated that on July 22, 2003, the Committee directed USAC staff to maintain the funding threshold at 90 percent for internal connections for Funding Year 2003 until staff provides the Committee with a new analysis and the Committee authorizes a lowering of that threshold. After staff conducted a careful reassessment of the underlying data used to construct the parameter analysis, an updated parameter analysis was developed to reflect lower projected reduction rates going forward. The analysis supports lowering the threshold for internal connections funding to 85 percent.

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

RESOLVED, That the USAC Schools & Libraries Committee authorizes Schools and Libraries Division staff to commit, upon FCC approval, waves for Funding Year 2003 with the parameters set at 20 percent for Priority 1 Services and at 85 percent for internal connections.

INFORMATION ITEMS

- a. **Revised FCC Forms 479 and 486.** Mr. McDonald informed the Committee that revised versions of these forms are currently with the federal Office of Management and Budget (OMB) for approval. As a result of the FCC order implementing the Supreme Court’s decision in the Children’s Internet Protection Act (CIPA) case, all previously filed Forms 486 with internal connections and/or Internet access FRNs for libraries will be cancelled, and new Forms 486 will need to be filed. However, if a new Form 486 is not filed, then a library may still receive reimbursement for the whole month of July and part of the month of August.

There being no further business, Mr. Talbott adjourned the meeting at 4:24 p.m.

Robert Haga

Assistant Secretary

Date

081303SLmin

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

September 17, 2003

MINUTES

A meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC, on Wednesday, September 17, 2003. Mr. Talbott, Chair of the Committee, called the meeting to order at 2:18 p.m. Eastern Time. Mr. Walter, Schools and Libraries Division Administrative Assistant, called the roll. Five of the seven members were present, representing a quorum.

Campbell, Anne – *by telephone*

Davis, Fr. Bill – *by telephone*

Jackson, Jimmy – *by telephone*

Parrino, Cheryl – *by telephone*

Talbott, Brian – *by telephone*

Two members were absent: Bryant, Anne

Coltharp, James

Other Board members and Officers of the Corporation present:

Eichler, Ed – Board member – *by telephone*

Gumper, Frank – Board member – *by telephone*

Rivera, Robert – Board member – *by telephone*

Barash, Scott – VP and General Counsel – *by telephone*

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

McDonald, George – VP, Schools and Libraries Division

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
Falkowitz, Ed	USAC
Heend, Orin	Funds for Learning
Walter, Charles	USAC

ACTION ITEM:

- a1. **Approval of Funding Year 2004 Application Window.** Mr. McDonald stated that the Train-the-Trainer workshop would be held September 24 - 26, 2003; therefore, the Funding Year 2004 application window should be set before that event. USAC management recommends that the Funding Year 2004 window open at noon eastern time on Wednesday, November 5, 2003, and close at 11:59 p.m. on Wednesday, February 4, 2004, which would provide a 92-day filing period. For Funding Year 2003, the window close date was originally set for January 16, but due to technical difficulties with the new online Form 471, was extended to February 6. That extension was well received by program participants and did not interfere with meeting our goal of issuing 80 percent of Funding Commitment Decision Letters (FCDLs) before the beginning of the funding year. After discussions with USAC’s contractor, staff believes that a February 4 window close date for 2004 will similarly not interfere with the goal of sending 90 percent of FCDLs out by the beginning of Funding Year 2004.

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 2004 Form 471 filing window for the Schools and Libraries Universal Service Support Mechanism shall be a period of 92 days, and that the window will open on November 5, 2003, and close on February 4, 2004.

INFORMATION ITEMS

- a. **Open Issues from Arthur Andersen Round 2 Schools and Libraries Beneficiary Audits – FCC Guidance Needed.** Mr. McDonald recalled for the Committee that at its April 2003 quarterly meeting, the Committee reviewed the beneficiary audit reports prepared by Arthur Andersen LLP (Andersen) and determined to recommend to the USAC Audit Committee that the reports be deemed final, which the Audit Committee subsequently did. However, part of the audit report package that was presented to the Committee at that meeting was a paper on unresolved issues raised by the audit reports. These findings were not express program rule violations. The

Committee decided not to discuss the issues at the April 2003 quarterly meeting, but to seek feedback from program stakeholders instead. The feedback that the Committee received was provided to USAC staff.

The Committee reviewed each issue and provided comments to USAC staff about additional information or considerations to add to the final paper. The Committee **DIRECTED** USAC staff to route the final document to the Committee for final review prior to submission to the FCC.

There being no further business, Mr. Talbott adjourned the meeting at 4:12 p.m.

Robert Haga

Assistant Secretary

Date

091703SLmin

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

September 30, 2003

MINUTES

A joint meeting of the Board of Directors of the Universal Service Administrative Company (USAC) and its Audit and Schools & Libraries Committees was held at the USAC office in Washington, DC on Tuesday, September 30, 2003. Mr. Gumper, Chair of the Board, on behalf of Dr. Talbott, Chair of the Schools & Libraries Committee, called the meeting to order at 3:10 p.m. Eastern Time. Ms. Howard, Executive Assistant to the USAC CEO, called the roll. Three of the seven directors of the Schools & Libraries Committee were present. Dr. Talbott joined the meeting after roll call but shortly before moving into **Executive Session** thereby establishing a quorum for the Schools & Libraries Committee.

Bryant, Anne – Vice Chair – *by telephone*

Jackson, Jimmy – *by telephone*

Parrino, Cheryl – *by telephone*

Two directors joined the meeting in progress:

Coltharp, Jim – *by telephone*

Talbott, Dr. Brian – Chair – *by telephone*

Two directors were absent:

Campbell, Anne

Davis, Bill

Other Directors and Officers of the Corporation present:

Buller, Karen – *by telephone*

Cornell, Diane – *by telephone*

Eichler, Ed – *by telephone*

Gumper, Frank – *by telephone*

Hughes, Alison – *by telephone*

Jortner, Wayne – *by telephone*

Rivera, Robert – *by telephone*

Sanders, Dr. Jay – *by telephone*

Sanford, Jo Anne – *by telephone*

Barash, D. Scott – Vice President and General Counsel

Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations

McDonald, George – VP, Schools and Libraries Division

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
Howard, Cathy – <i>by telephone</i>	USAC
Scott, Wayne	USAC

Committee member Dr. Talbott joined the meeting during the vote to move into ***Executive Session*** for the following item. Committee member Mr. Coltharp joined the meeting during the discussion of the following item but left before the vote on the resolution of the item.

EXECUTIVE SESSION:

ACTION ITEM:

- a1. **Authorization to Extend the Memorandum of Understanding with FCC Inspector General and the Department of the Interior Inspector General Regarding Audits of Schools and Libraries Support Mechanism Beneficiaries for Federal Fiscal Year 2004 and to Establish the Necessary Budget – 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 explained that USAC management recommends that discussion of this matter be conducted in *Executive Session* because this matter relates to a *pre-decisional matter* before the FCC to which USAC is privy, and discussion of such matters in open session would undermine the agency’s deliberative process or would result in the disclosure of an agency’s conclusions or

rationales before the agency had formally decided the matter. In addition, this matter concerns a *USAC procurement issue*, and discussion of this matter in open session could compromise USAC's negotiating strategy to the detriment of the corporation. Finally, this matter relates to the detail of USAC's audit program, the disclosure of which 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 of the Memorandum of Understanding between USAC, the FCC Inspector General, and the Department of the Interior Inspector General Regarding Schools and Libraries Support Mechanism Beneficiaries Audits shall be conducted in *Executive Session*.

The Board and the Audit and Schools & Libraries Committees each voted to move into *Executive Session*. (See the respective meeting minutes of the Audit Committee and the Board.)

Ms. Parrino reviewed the progress of the audits being performed by the Department of the Interior's Office of Inspector General of schools under its jurisdiction that have received Schools and Libraries Support Mechanism funds. She said that by September 30, 2003, at which time the Memorandum of Understanding is scheduled to expire, the budgeted funds would be exhausted. Ms. Parrino reported that the FCC Office of Inspector General has requested a one-year extension of the Memorandum of Understanding. The directors expressed their strong support for taking aggressive steps to deter, detect, and disclose waste, fraud, and abuse in the Schools and Libraries Support Mechanism and reiterated that audits are critical to the overall ability to protect against waste, fraud, and abuse as evidenced by the large budgetary commitment USAC continues to make to auditing beneficiaries. Certain Board members, however, again raised several concerns about this arrangement, including the perception that the proposed agreement could be viewed as disproportionately targeting Native American beneficiaries.

The Chair of the Schools & Libraries Committee called for a roll call vote of the Committee and on a motion duly made and seconded, the Committee approved the resolution as set forth in these minutes. Directors in support of the resolution reiterated the concern that the audits appear to be targeted to certain beneficiaries but expressed the view that cooperation with the FCC in this matter was in the overall best interest of the corporation. The director who opposed the resolution stated that even though he supported systematic auditing and cooperation with the FCC, he could not support a plan that targets a single ethnic group for intensive auditing.

The vote count was as follows: YES = 3 (Ms. Bryant, Ms. Parrino, and Dr. Talbott); NO = 1 (Mr. Jackson).

RESOLVED, that the USAC Schools & Libraries recommends to the USAC Board of Directors to authorize USAC management to continue the Memorandum of Understanding between USAC, the Department of Interior Inspector General, and the FCC Inspector General to conduct reviews of certain Schools and Libraries Support Mechanism beneficiaries for federal fiscal year 2004.

Committee member Ms. Bryant left the meeting at this point.

The Board and the Audit and Schools & Libraries Committees adjourned from **Executive Session** and reconvened in open session at 4:16 p.m. to report the discussion and action of the Board and Committees during **Executive Session**.

INFORMATION ITEMS:

- i1. **Miscellaneous.** Ms. Parrino reported that the FCC would be issuing an order soon directing USAC to prepare financial statements for the Universal Service Fund consistent with generally accepted accounting principles for federal agencies (Federal GAAP) and to keep the Funds in accordance with the United States Government Standard General Ledger (USGSGL). She said that the order would also require USAC to conduct audits of the Fund pursuant to generally accepted government auditing standards (GAGAS).

There being no further business to attend to, Mr. Gumper adjourned the joint meeting of the Board and the Audit and Schools & Libraries Committees at 4:20 p.m.

Robert W. Haga

Assistant Secretary

Date

093003SLmin

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

October 20, 2003

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 20, 2003. Mr. Talbott, Chair of the Committee, called the meeting to order at 9:00 a.m. Eastern Time. Mr. Walter, Administrative Assistant for SLD, called the roll. Six of the seven members were present, representing a quorum:

Bryant, Anne – *by telephone*

Campbell, Anne

Davis, Fr. Bill

Jackson, Jimmy

Parrino, Cheryl

Talbott, Brian

One member joined meeting in progress:

Coltharp, James – *by telephone*

Other directors and officers of the Corporation present: Buller, Karen – Director

Gumper, Frank – Director

Rivera, Robert – Director

Hughes, Alison – Director

Sanford, Jo Anne – Director

Barash, D. Scott – Vice President and General Counsel

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

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

Haga, Robert – VP, Strategic Planning and USAC Operations

McDonald, George – VP, Schools and Libraries Division (SLD)

Others present for the meeting:

NAME	COMPANY
Campbell, Tia	USAC
Carroll, Kristy	USAC
Cullen, Kathy	Telcordia
Delmar, Teleshia	USAC
Divak, Helen	Telcordia
Eisley, Andrew	USAC
Falkowitz, Ed	USAC
Faunce, Donna	USAC
Fenstermaker, John	KPMG
Fitzgerald, Sara	Funds for Learning
Foskett, Ken	Atlanta Journal-Constitution
Gieseler, Phil	USAC
Lenhardt, Chris	USAC
McCrove, Christina	USAC
McLaren, Kirk	USAC
Merli, John	USAC
Miller, Linda	USAC
Noran, John	USAC
Parry, John	NECA
Schneider, Jennifer	FCC
Scott, Wayne	USAC
Vierheller, Mike	KPMG
Walter, Charles	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 Friday, July 11, 2003; Monday, July 21, 2003; Tuesday, July 22, 2003, and Wednesday, August 13, 2003.
- a2. **Action on Three Schools and Libraries Support Mechanism Beneficiary Audit Report - Executive Session.** Mr. Scott, USAC's Director of Internal Audit, discussed in a general manner the draft audit reports of the three schools audited.

Committee members requested detailed discussion regarding certain draft audit reports, at which point, in accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash recommended that discussion of specific details of the draft audit findings concerning these beneficiaries be conducted in *Executive Session* because a discussion of specific audit plans, internal controls, and/or confidential company data would result in disclosure of confidential techniques and procedures that would compromise program integrity.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that discussion of specific reports of Schools and Libraries Universal Service Support Mechanism beneficiaries audits shall be conducted in *Executive Session*.

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

- a3. **Approval of 1st Quarter 2004 Schools and Libraries Programmatic Budget and Information on Estimated 2004 Annual Budget.** Ms. Faunce, USAC's Budget & Finance Analyst, presented the 1st Quarter 2004 Schools and Libraries programmatic budget and estimated 2004 annual budget. She reported that the estimated 2004 programmatic budget is approximately 8 percent higher than the 2003 annual budget. The estimated 2004 annual budget reflects, among other things, an amount equal to 5 percent of the fixed price contract for unanticipated contract change orders, full staffing of 16.5 full time employees, and an increase in telephone and computer support expenses due to WebEx training, but travel and meeting costs will be slightly lower since there will be no need to conduct additional service provider training workshops.

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

RESOLVED, That the USAC Schools & Libraries Committee approves a 1st Quarter 2004 budget for the Schools and Libraries Support Mechanism of \$10,692,300.

- a4. **Approval of 1st Quarter 2004 Schools and Libraries Support Mechanism Projections and Resolution on the October 31, 2003, 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:

RESOLVED, That the USAC Schools & Libraries Committee, having reviewed at its meeting on October 20, 2003, a summary of the 1st Quarter 2004 support mechanism demand estimates, including administrative costs, hereby directs USAC management to proceed with the required October 31, 2003, filing to the FCC on behalf of the Committee. Management 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. **Solicit Ideas for January Committee Agenda.** Mr. Talbott reminded Committee members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him, Mr. McDonald, or Ms. Parrino between quarterly meetings.

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 noted that there have been changes in the eligible services list. Mr. Gieseler, SLD Operations Manager – Technology, briefed the Committee on the new changes. Mr. McDonald reported that the SLD applicants Train-The-Trainer workshop was held from September 24-26, 2003, in Arlington, Virginia. Ms. Schultz, SLD Director – Service Provider Support, explained to the Committee about the use of WebEx as an option for service providers training. Finally, Mr. McDonald reported on the implementation of the Children’s Internet Protection Act (CIPA) for libraries.
- i2. **Report on Legislative and Media Activity.** Mr. Blackwell updated the Committee on legislative and media activity concerning the Schools and Libraries Support Mechanism.
- i3. **Status Report of USAC Schools and Libraries Support Mechanism Audits.** Mr. Scott updated the Committee on the status of ongoing and planned audits of the Schools and Libraries Universal Service Support Mechanism.
- i4. **Status Report on Actions Taken on Final Audits Concerning the Schools and Libraries Support Mechanism.** Mr. Scott updated the Committee regarding the follow-up status of completed audits of the Schools and Libraries Universal Service Support Mechanisms.
- i5. **Miscellaneous.**
- **Report on Board Member Request for the RHC/SL Statement of Work – Executive Session.** Ms. Parrino explained that at an August 29, 2003, meeting, the USAC Executive Committee directed USAC staff to schedule a meeting of the USAC Board of Directors to address the request presented by Mr. Rivera for access to certain confidential information regarding support mechanism operations. Ms. Parrino reported that after further discussions between herself, Mr. Gumper, Dr. Talbott, and Mr. Rivera following that meeting, and after Mr. Gumper consulted with the Board through an email message dated September 3, 2003, it was determined that sending a redacted version of the Statement of Work (SOW), in which the parts that include specific details about the triggers for application review that would provide either a service provider or a school/library applicant with information that could advantage them in the review process were redacted, should satisfy Mr. Rivera’s request. Mr. Rivera stated that the redacted version met his needs. Therefore, Ms. Parrino said that a meeting of the full Board to address this issue was no longer necessary. She said Mr. Rivera has since submitted some questions regarding the SOW and USAC staff are preparing a response and anticipate sending it to Mr. Rivera shortly.
 - **Report on the Status of Certain Schools and Libraries Support Mechanism Applications that are Under Review.** Mr. McDonald updated the Committee on this issue.

At 10:58 a.m., the Committee voted to recess. At the call of the Chair, the Committee reconvened in Open Session at 11:10 a.m.

At 11:13 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 item as noted above.

EXECUTIVE SESSION:

a2. Action on Three Schools and Libraries Support Mechanism Beneficiary Audit Reports – Executive Session. Mr. Scott reviewed the draft audit reports and explained how the auditing team arrived at the recommendations.

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

RESOLVED, That the USAC Schools & Libraries Committee has reviewed Audit Reports labeled SL2003BE008, SL2003BE015, and SL2003BE018 together with management’s response thereto, and recommends to the USAC Audit Committee that each such audit report be deemed final.

The Committee adjourned from **Executive Session** and reconvened in open session at 11:40 a.m. to report the discussions of the Committee during **Executive Session**.

There being no further business, Mr. Talbott adjourned the meeting at 11:50 a.m.

Robert Haga

Assistant Secretary

Date

102003SLmin

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

December 11, 2003

MINUTES

A joint meeting of the members of the Audit and Schools & Libraries Committees of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the USAC office in Washington, DC on Thursday, December 11, 2003. Dr. Talbott, Chair of the Schools & Libraries Committee, called the meeting to order at 11:05 a.m. Eastern Time. Ms. Howard, Executive Assistant to the USAC CEO, called the roll. Six of the seven directors of the Schools & Libraries Committee were present.

Bryant, Anne – Vice Chair – *by telephone*

Jackson, Jimmy – *by telephone*

Campbell, Anne – *by telephone*

Parrino, Cheryl – *by telephone*

Coltharp, Jim – *by telephone*

Talbott, Dr. Brian – Chair – *by telephone*

One director was absent:

Davis, Fr. Bill

Other Directors of the Corporation present:

Buller, Karen – *by telephone*

Eichler, Ed – *by telephone*

Gumper, Frank

Hess, Kevin – *by telephone*

Hughes, Alison – *by telephone*

Jortner, Wayne – *by telephone*

Sanford, Jo Anne – *by telephone*

Officers of the Corporation present:

Barash, D. Scott – Vice President and General Counsel

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

Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations

McDonald, George – VP, Schools and Libraries Division – *by telephone*

Scott, Wayne – VP, Internal Audit Division

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
Croctic, Joe – <i>by telephone</i>	KPMG
Falkowitz, Ed	USAC
Fenstermaker, John	KPMG
Hill, Bill	FCC
Howard, Cathy – <i>by telephone</i>	USAC
Stephens, Mark	FCC
Vierheller, Mike	KPMG

ACTION ITEM:

- a1. **Action on 40 Schools and Libraries Support Mechanism KPMG LLP Agreed-Upon Procedures Beneficiary Reports.** Mr. Scott introduced this item. He requested the Committee to refer to the numbers of each audit report when referencing any of the reports during discussion. He informed the Committee of corrections to three audit reports as follows: (1) #SL2003BE49 – should be “generally compliant”; (2) #SL2003BE51 – should be “not compliant”; and (3) #SL2003BE68 – should be “compliant.” He explained that the ratings for these three reports changed as a result of clarifying certain criteria that were used in the ratings rather than due to any additional audit findings. A committee member noted that some of the findings of “not compliant” are due to the applicant using a technology plan that does not meet program requirements even though the plan was approved by its state agency. It was further noted that the applicant is then penalized rather than the entity that approved the plan, which may not be fair to the applicant. Mr. Scott said that this was the case in two of the reports numbered SL2003BE25 and SL2003BE46. The Committee determined to revise the resolution so that audit reports that fall under this scenario are not deemed final. The Committee then **DIRECTED** USAC management to seek further guidance from the FCC with respect to this finding and report the Committee’s concerns, including the view that to penalize the applicant for another entity’s mistake could be detrimental to the success of the program and applicant participation.

In response to a question, Mr. Scott explained that once the Audit Committee deems the audit reports final, they would be available for public review, with the exception of the audit reports mentioned above, and audit report number SL2003BE78 will remain confidential due to pending law enforcement issues with the entity that were known by USAC before the audit began. Mr. McDonald said that Schools and Libraries Division (SLD) staff would post on the SLD web site a summary of the recurring issues found in this round of audits as well as steps applicants can take to avoid such problems in the future. Ms. Parrino noted that posting the problems on the web site is the minimum that USAC would do in response to the findings in these audit reports. She explained that USAC management is analyzing the audit findings to see what USAC should do differently in terms of outreach and operations to help avoid these issues in the future.

Dr. Talbott called for a roll call vote of the Schools & Libraries Committee and on a motion duly made and seconded, the Committee approved the following resolution as *amended (in italics)*. The vote count was as follows: YES = 6 (Ms. Bryant, Ms. Campbell, Mr. Coltharp, Mr. Jackson, Ms. Parrino, and Dr. Talbott).

RESOLVED, That the USAC Schools & Libraries Committee has reviewed the KPMG LLP agreed-upon procedures beneficiary reports listed on **Attachment A** together with management's response thereto, and recommends to the USAC Audit Committee that each such audit report be deemed final, *with the exception of those audit reports numbered SL2003BE25 and SL2003BE46, which recommend seeking recovery of funds from applicants whose approved technology plans, upon audit, were found not to have met the FCC's program rules and requirements for Universal Service support.*

a2. Approval to Deny Internal Connections below 80 Percent for Funding Year 2003.

Mr. McDonald introduced this item. He explained that even though the Committee previously authorized SLD management to make commitments on internal connections requests with discount percentages down to 85 percent for Funding Year 2003 (see Committee minutes of August 13, 2003), further analysis shows that, under fairly liberal assumptions about the funds that will be available for internal connections, funds will not be sufficient to fully fund all such requests with discount percentages below 80 percent.

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

RESOLVED, That the USAC Schools & Libraries Committee authorizes staff to deny, upon FCC approval, all FRNs for internal connections at discount percentages of less than 80 percent for Funding Year 2003 for lack of funding.

There being no further business to attend to, Dr. Talbott adjourned the meeting at 12:10 p.m.

Robert W. Haga

Assistant Secretary
