

2004 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 26, 2004	2
February 23, 2004	12
April 13, 2004	15
April 19, 2004	18
July 19, 2004	27
October 18, 2004	33
November 4, 2004	39

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

January 26, 2004

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 USAC office in Washington, DC, on Monday, January 26, 2004. Dr. Talbott, Chair of the Committee, called the meeting to order at 8:36 a.m. Eastern Time. Ms. Howard, Executive Assistant to the USAC CEO, called the roll. Six of the seven members were present, representing a quorum:

Baker, Dave

Bryant, Anne – Vice Chair – *by telephone*

Campbell, Anne – *by telephone*

Jackson, Jimmy

Parrino, Cheryl

Talbott, Dr. Brian – Chair

One member was absent:

Christensen, Doug

Other directors and officers of the Corporation present:

Askin, Jonathan – USAC Board Member

Buller, Karen – USAC Board Member

Duff, Bridget – USAC Board Member

Eichler, Ed – USAC Board Member

Gumper, Frank – USAC Board Member

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)

Scott, Wayne – VP, Internal Audit Division

Others present for the meeting:

NAME	COMPANY
Ayer, Catriona	USAC
Carroll, Kristy	USAC
Croctic, Joe – <i>by telephone</i>	KPMG
Delmar, Teleshia	USAC
Falkowitz, Ed	USAC
Faunce, Donna – <i>by telephone</i>	USAC
Fenstermaker, John – <i>by telephone</i>	KPMG
Fitzgerald, Sara	Funds for Learning
Kraft, Michael	USAC
Lenhardt, Chris	USAC
Lipscomb, Greg	FCC
Long, Deborah	NECA
Lowe, Carrie	ALA
McCrone, Christina	USAC
Miller, Linda	USAC
Noran, John	USAC
Okudaira, Nobuko	USAC
Parry, John	NECA
Schultz, Cynthia	USAC
Vierheller, Mike – <i>by telephone</i>	KPMG

ACTION ITEMS:

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Committee adopted the minutes as distributed of the Schools & Libraries Committee meetings of Wednesday, September 17, 2003; Tuesday, September 30, 2003; Monday, October 20, 2003; and Thursday, December 11, 2003. Mr. McDonald gave an update on actions taken regarding the resolution adopted in the

December 11 minutes authorizing 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. The FCC subsequently issued the Third Report and Order, which, among other things, directed USAC to roll over \$420 million in unused funds from prior years into Funding Year 2003. Given that influx of funds, FCC staff did not concur with denying these applications and no action has been taken. SLD staff is working to determine the impact of the Third Report and Order and other recent FCC decisions on the funding available for Funding Year 2003. When that review is finished, SLD management will ask the Committee to revisit the funding and denial thresholds for Funding Year 2003.

- a2. Annual Election of Committee Chair and Vice Chair.** Ms. Parrino introduced this item and reminded the Committee that the terms would begin at the conclusion of the Board meeting on January 27, 2004.

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 **Dr. 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 2004 quarterly Board meeting and that shall conclude at the close of the January 2005 quarterly Board meeting.

- a3. Action on Six Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Mr. Scott introduced this item and indicated that all six audit reports were rated as not compliant. He clarified that USAC management is no longer seeking the Federal Communications Commission's (FCC) clarification on one of the audits, as was indicated in the meeting materials, and that all the audit reports include a conclusion. A discussion then ensued on the question of from whom USAC should seek the recovery of funds in these cases. It was observed that even though the findings in several of these audits appear to be the applicants' errors, USAC is directed to seek recovery from the service providers. In response to a question on report number SL2003BE016, Mr. Scott confirmed that service providers usually do not allow the return of equipment that is already installed and configured.

Mr. Scott expressed his opinion that in the case of the audit report labeled SL2003BE016, both the applicant and the service provider could appropriately be held accountable for any necessary recovery of funds; and in the cases of audit reports labeled SL2003BE107, SL2003BE108, SL2003BE109, SL2003BE110, and SL2003BE011, the applicant appeared to be at fault. Mr. McDonald reported that the FCC is in the process of further rulemaking on this question and that the FCC is waiting for comments. Mr. Barash noted that once the FCC clarifies this issue, USAC would develop a process for determining the appropriate party from which to seek recovery of funds where necessary.

The Committee concurred to recommend to the USAC Audit Committee to deem these audits final with the caveat that USAC staff continues working with the FCC to determine from whom to seek the recovery of funds in each case. The Committee **DIRECTED** SLD management to make no assumption at this time as to the party from whom SLD staff should seek recovery of funds, and to keep the Committee informed on any guidance from the FCC on this matter.

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 SL2003BE016, SL2003BE107, SL2003BE108, SL2003BE109, SL2003BE110, and SL2003BE011 together with management's response thereto, and recommends to the USAC Audit Committee that each such audit report be deemed final.

- a4. **Action on One Schools and Libraries Support Mechanism Investigative Audit Report and Three Schools and Libraries Support Mechanism Beneficiary Audit Reports – Confidential & Proprietary – *Executive Session Recommended*.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash recommended that the audit reports 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 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 audit reports of Schools and Libraries Universal Service Support Mechanism beneficiaries labeled SL2003IV102, SL2003BE020, SL2003BE021, and SL2003BE101 shall be conducted in *Executive Session*.

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

- a5. **Action on One Schools and Libraries Support Mechanism Beneficiary Audit Performed by the Department of Interior, Office of Inspector General.** Mr. Scott introduced this item. He verified that this audit covered several years of funding. Ms. Parrino confirmed that since this was the first audit performed by the Department of Interior (DOI) Office of Inspector General (OIG), they wanted to audit several program years. Mr. Gumper indicated that if DOI OIG uncovers any problems that seem to be recurring from year to year, they would likely audit more beneficiaries for the affected funding years.

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

RESOLVED, That the USAC Schools & Libraries Committee has reviewed the Audit Report labeled SL2003BE112 together with management's response thereto, and recommends to the USAC Audit Committee that the audit report be deemed final.

- a6. **Action on 24 Schools and Libraries Support Mechanism KPMG LLP Agreed-Upon Procedures Beneficiary Audit Reports.** Mr. Scott introduced this item. He noted that the issues related to technology plans for audit reports #25 and #26 as listed on Attachment A have now been resolved. It was observed that many of the beneficiaries deemed non-compliant involved small dollar amounts and that most of the errors seemed to be a result of insufficient staff resources at the schools to attend to the rules of the program rather than any intentional violations. Mr. Crostic of KPMG agreed with this observation.

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

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.

- a7. **Action on One Schools and Libraries Support Mechanism Operational Audit Report.** Mr. Scott introduced this item, which he said relates to the adequacy of the Schools and Libraries disbursement process, and noted that there were no exceptions. There was no further discussion.

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

RESOLVED, That the USAC Schools & Libraries Committee has reviewed Audit Report labeled SL2003OP106 together with management's response thereto, and recommends to the USAC Audit Committee that the audit report be deemed final.

- a8. **Approval of the Proposed Plan for Beneficiary, Operational, and Financial Audits of the Schools and Libraries Support Mechanisms for Inclusion in the 2004 USAC Internal Audit Plan – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of specific audit plans, internal controls, and/or confidential company data would constitute a “[d]iscussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session would result in disclosure of confidential techniques and procedures that would compromise program integrity.”

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

RESOLVED, That the USAC Schools & Libraries Committee determines that discussion of the proposed plan for beneficiary audits of the Schools and Libraries Support Mechanism for inclusion in the 2004 USAC Internal Audit Plan shall be conducted in **Executive Session**.

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

- a9. **Approval of Schools and Libraries Support Mechanism Changes to Address Audit Findings – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of specific internal controls and/or audit procedures would constitute a “[d]iscussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session would result in disclosure of confidential techniques and procedures that would compromise program integrity.”

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

RESOLVED, That the USAC Schools & Libraries Committee determines that the discussion of proposed program changes to address audit findings be conducted in **Executive Session**.

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

- a10. Approval of Invoicing Review Proposals To Improve Processing Time While Maintaining Disbursement Integrity.** Mr. McDonald introduced this item. He explained that in December 2000, the United States General Accounting Office (GAO) released a report that identified areas for improvement in the Schools and Libraries Support Mechanism application and invoicing process by USAC. Mr. McDonald said that, even prior to that report, USAC had contracted with PricewaterhouseCoopers (PwC) to perform an independent review of the invoice review procedures used by SLD for the Schools and Libraries Support Mechanism. He said that many of the recommendations from PwC have been implemented, but that some of the changes increased the number of invoice line items that need to be reviewed, thus slowing down payment of some legitimate invoices. He said that SLD management analyzed six options for improving the efficiency and timeliness of payments while retaining the integrity of invoice reviews and is recommending the addition of 12 positions on NECA Services, Inc. (NSI) staff to meet this goal – six permanent positions and six temporary positions to specifically address the backlog.

A Committee member then asked specific questions about the details of the invoicing review process, and Mr. Barash suggested that in accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, discussion of the details of USAC's invoicing review process be conducted in *Executive Session* because discussion of specific internal controls and/or audit procedures would constitute a "[d]iscussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session would result in disclosure of confidential techniques and procedures that would compromise program integrity." The Committee concurred.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that the discussion of USAC's invoice review process shall be conducted in *Executive Session*.

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

- a11. Approval of 2004 Annual and 2nd Quarter Schools and Libraries Programmatic Budgets.** Ms. Faunce, USAC's Budget & Finance Analyst introduced this item. Mr. McDonald pointed out that the 2004 annual budget includes funds to address agenda items #aSL09 and #aSL10 from today's meeting as well as a general contingency of 5 percent of the fixed price contract to cover unanticipated contract change orders. He also noted that \$7,000 has been earmarked in the 2nd Quarter 2004 budget for the possible travel of Schools & Libraries Committee members to NECA following the April 2004 quarterly meetings to review the Schools and Libraries Support Mechanism operations being performed there for USAC. Ms. Bryant stated that even though the annual budget represents a substantial increase, administrative costs are still below 3 percent. Mr. Gumper cautioned that the budget is likely to increase even more going forward due to the likely increase in audits of Schools and Libraries Support Mechanism beneficiaries.

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

RESOLVED, That the USAC Schools & Libraries Committee approves a 2nd Quarter 2004 budget for the Schools and Libraries Support Mechanism of \$10,699,000, and

RESOLVED FURTHER, That the USAC Schools & Libraries Committee approves a 2004 annual programmatic budget for the Schools and Libraries Support Mechanism of \$43,019,900.

a12. Approval of 2nd Quarter 2004 Schools and Libraries Support Mechanism Projections and Resolution on the January 30, 2004, FCC Filing. Mr. McDonald introduced this item. He explained to the Committee the process used by USAC to collect the annual \$2.25 billion cap each funding year and then briefly reviewed the status of each funding year. He noted that this process might be modified in the future.

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 26, 2004, a summary of the 2nd Quarter 2004 support mechanism demand estimates, including administrative costs, hereby directs USAC management to proceed with the required January 30, 2004, 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.

a13. Solicit Ideas for April Committee Agenda. Dr. Talbott reminded Committee members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him or Mr. McDonald between quarterly meetings.

INFORMATION ITEMS:

- i1. Schools and Libraries Support Mechanism Update.** Mr. McDonald reviewed the status of each funding year and reported that Funding Year 1998 has the highest ratio of disbursements to commitments of any funding year. He said that for Funding Year 2004, over 95 percent of the applicants filing Forms 471 filed online. He noted that as a result of changes for Funding Year 2004, there would be many new rules that applicants and service providers need to understand. SLD staff posts all support mechanism rule changes on the SLD section of the USAC website. SLD staff also issued a new "blast email" to service providers and to the applicant email address in the 2003 Form 471 database and the 2004 Form 470 database to inform them of the recent process/rule changes. The blast email included links to the SLD section of the USAC website. Mr. McDonald said that feedback on the blast email has been positive. SLD staff also recently began using WebEx training as an outreach tool, and Mr. McDonald informed the Committee that Ms. Schultz, SLD Director of Service Provider Support, would be presenting a demonstration of WebEx at the end of the meeting. Regarding appeals, Mr. McDonald reported that the appeals team has been restructured and staff added, and they are working hard on processing the appeals.
- i2. Report on Legislative and Media Activity.** Mr. Blackwell reported that USAC staff continues to work with GAO and the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight on the continuing investigation into potential waste, fraud, and abuse in the Schools and Libraries Support Mechanism, and said that no date has

been set for hearings yet but that he anticipates that hearings would occur before the end of the year. He noted that as part of its investigation, the Committee staff is visiting beneficiaries in Chicago and Puerto Rico.

- i3. **Status Report of USAC Schools and Libraries Support Mechanism Audits.** Mr. Scott reviewed the cumulative dollar effect of the KPMG audit reports and the randomly selected audits performed by USAC Internal Audit Division (IAD). The Committee **DIRECTED** USAC staff to separate out the audit findings between telecommunications, Internet, and internal connections. Mr. Scott reported that the DOI OIG continues to perform audits and one audit report from them would likely be ready for review at the April 2004 quarterly meeting.
- i4. **Status Report on Actions Taken on Final Audits Concerning the Schools and Libraries Support Mechanism.** Mr. Scott indicated to the Committee that given the additional number of audits currently being tracked by the IAD, it would be less cumbersome to only report on the audits in which all final actions have been taken, as opposed to the current layout. There was no objection from the Committee.
- i5. **Schools and Libraries Support Mechanism Timeline and Key Dates.** For information only. No discussion held.

At 10:31 a.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** for the purpose of discussing the confidential and proprietary items as noted above. The Chair then recessed the meeting. At the call of the Chair, the Committee reconvened in **Executive Session** at 10:42 a.m. Ms. Howard called the roll at the request of the Chair. Six of the seven members were present, representing a quorum:

Baker, Dave
Bryant, Anne – Vice Chair – *by telephone*
Campbell, Anne – *by telephone*
Jackson, Jimmy
Parrino, Cheryl
Talbott, Dr. Brian – Chair

One member was absent:

Christensen, Doug

EXECUTIVE SESSION:

- a1. **Approval of Schools and Libraries Support Mechanism Changes to Address Audit Findings – Confidential & Proprietary.** Mr. McDonald introduced this item and reported that these proposed changes are to address the issues that were raised in the audit findings from the 65 completed Schools and Libraries Support Mechanism beneficiary audits from Funding Year 2000. The Committee discussed different ways to better communicate the rules to the applicants through more standardization of forms and additional outreach efforts.

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

amended (in italics and strikeout):

RESOLVED, That the USAC Schools & Libraries Committee accepts the recommendations of USAC management regarding proposed changes to the Schools and Libraries Support Mechanism in order to address audit findings, as presented to the Committee at its meeting of this date and directs USAC management to investigate the proposals for additional actions identified in the proposed changes and report back to the Committee ~~no later than~~ *at* the *April and July 2004* quarterly meetings on the status of implementation of program changes.

- a2. Action on One Schools and Libraries Support Mechanism Investigative Audit Report and Three Schools and Libraries Support Mechanism Beneficiary Audit Reports – Confidential & Proprietary.** Mr. Scott introduced this item and responded to questions about the audit findings in these reports.

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 SL2003IV102, SL2003BE020, SL2003BE021, and SL2003BE101 together with management's response thereto, and recommends to the USAC Audit Committee that each such audit report be deemed final.

- a3. Approval of the Proposed Plan for Beneficiary, Operational, and Financial Audits of the Schools and Libraries Support Mechanisms for Inclusion in the 2004 USAC Internal Audit Plan – Confidential & Proprietary.** Mr. Scott introduced this item. He clarified that the percentage of the IAD budget allocated to conduct support mechanism beneficiary audits covers all the support mechanisms, not just Schools and Libraries.

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

RESOLVED, That the USAC Schools & Libraries Committee approves the proposed plan for beneficiary, operational, and financial audits of the Schools and Libraries Support Mechanism for 2004 as presented by the USAC Internal Audit Division and recommends that the USAC Audit Committee include the proposed audits in the 2004 USAC Internal Audit Plan.

- a4. Approval of Invoicing Review Proposals To Improve Processing Time While Maintaining Disbursement Integrity.** Mr. McDonald continued the discussion started in open session on this matter, explaining what occurs during the invoice review process to service providers that are put on watch.

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

RESOLVED, That the USAC Schools & Libraries Committee authorizes expenditure of \$1.687 million in 2004 associated with contract costs for additional NECA Services, Inc. staff to perform invoice review activities.

The Committee adjourned from ***Executive Session*** and reconvened in open session at 11:26 a.m. to report the discussions of the Committee during ***Executive Session***.

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

i6. Miscellaneous.

- Ms. Schultz gave a WebEx presentation to the Committee.
- Dr. Talbott announced that this would be Ms. Parrino's last Schools & Libraries Committee meeting, as she would be stepping down as the CEO of USAC effective January 31, 2004. Dr. Talbott thanked Ms. Parrino on behalf of the Committee for her dedication, commitment, and leadership, and the Committee gave her a round of applause.

There being no further business, Mr. Talbott adjourned the meeting at 12:03 p.m.

Robert W. Haga

Assistant Secretary

Date

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

February 23, 2004

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, February 23, 2004. Dr. Talbott, Chair of the Committee, called the meeting to order at 11:36 a.m. Eastern Time. Ms. Howard, Executive Assistant to the CEO called the roll. Four of the six members were present, representing a quorum (there is one vacancy).

Baker, Dave – *by telephone*

Bryant, Anne – Vice Chair – *by telephone*

Christensen, Doug – *by telephone*

Talbott, Brian – Chair – *by telephone*

Two members were absent:

Campbell, Anne

Jackson, Jimmy

Other Board members and Officers of the Corporation present: Barash, Scott – Vice President and General Counsel

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

Haga, Robert – VP, Strategic Planning and USAC Operations

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

Others present for the meeting:

NAME	COMPANY
Howard, Cathy – <i>by telephone</i>	USAC
Kaplan, Peter	Funds for Learning

ACTION ITEM:

- a1. Approval of Authority for Internal Connections Commitments at 70 Percent for Funding Year 2003.** Mr. McDonald introduced this item. For the new Committee members, he explained how internal connections are funded in accordance with FCC rules for the Schools and Libraries Support Mechanism. He stated that experience has shown that commitments are always less than funding requests due to denials, modifications, or cancellations. Also, disbursements are significantly less than commitments every year. Assumptions based on historical data are used in the analysis to reflect those variances. He further explained that funds are held in an appeals reserve, and that this reserve is calculated based on denials and modifications for the funding year and analysis of the relationship between meritorious appeals and denials and modifications in prior years. This analysis for the first time reflects rollover of unused funds from prior years as required in the FCC's Third Report and Order, which added \$420 million in funds from prior years to the annual \$2.25 billion disbursement cap.

In response to an inquiry about the possibility of funding internal connections below the 70 percent level for Funding Year 2003, Mr. McDonald explained that the Third Report and Order directed that previous decisions in which internal connections below a certain level were denied not be revisited. The decision to deny internal connections requests below 70 percent was reached in June 2003 for Funding Year 2003. Mr. McDonald noted that he, Mr. Haga, and Mr. Frank Gumper, USAC Board of Directors Chair, reviewed the analysis and agree that the analysis supports lowering the threshold for internal connections funding to 70 percent for Funding Year 2003.

Given the large size of the rollover (\$420 million) from prior years, Mr. McDonald said that there might be a similarly large amount of unused funds at the end of Funding Year 2003 that would rollover into Funding Year 2005. He explained that due to timing, any unused funds from Funding Year 2003 would rollover into Funding Year 2005 and not into Funding Year 2004. The Committee discussed the process and timing for establishing a denial threshold in future funding years so that there would potentially be greater ability to fund more internal connections. Mr. McDonald described the process for reviewing applications and explained that the Program Integrity Assurance (PIA) group does not review requests that are below the denial threshold. As rollover into Funding Year 2003 was not contemplated in the FCC's Notice of Proposed Rulemaking, it was not a consideration when setting the denial threshold last June. Mr. McDonald further explained the trade-off USAC staff makes when setting the denial level, and how balancing the overall workload against the ability to fund more applicants potentially could favor a lower and/or later denial threshold in Funding Year 2004.

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

RESOLVED, That the USAC Schools & Libraries Committee authorizes SLD management to commit, upon FCC approval, waves for Funding Year 2003 with the parameters set at 20 percent for Priority 1 Services and at 70 percent for internal connections.

Dr. Talbott stated that USAC management has two confidential and proprietary information items to present to the Committee. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that these two items be discussed in **Executive Session** because they are subject to attorney-client privilege and involve pre-decisional matters, the discussion of which in open session could compromise program integrity.

At 11:55 a.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above.

EXECUTIVE SESSION:

- i1. **Report on Legislative Activity – Confidential & Proprietary.** Mr. Blackwell reported on the continuing investigation into the administration of the Schools and Libraries Support Mechanism being conducted by the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight.
- i2. **Program Integrity Assurance – Confidential & Proprietary.** Mr. McDonald described program integrity improvements that USAC staff is considering implementing.

The Committee adjourned from **Executive Session** and reconvened in open session at 12:17 p.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Dr. Talbott adjourned the meeting at 12:18 p.m.

Robert W. Haga

Assistant Secretary

Date

022304SLmin

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**Schools and Libraries Committee Meeting**

April 13, 2004

MINUTES

A meeting of the Schools & Libraries Committee of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the USAC office in Washington, DC, on Tuesday April 13, 2004. Dr. Talbott, Chair of the Committee, called the meeting to order at 2:10 p.m. Eastern Time. Ms. Panton, USAC Administrative Assistant, called the roll.

Five of the seven members were present, representing a quorum:	
Baker, Dave- <i>by telephone</i>	Talbott, Dr. Brian - Chair - <i>by telephone</i>
Bryant, Anne - Vice Chair - <i>by telephone</i>	Zaina, Lisa
Campbell, Anne - <i>by telephone</i>	
One member joined the meeting in progress:	
Christensen, Doug - <i>by telephone</i>	
One member was absent:	
Jackson, Jimmy	
Other directors and officers of the Corporation present:	
Buller, Karen - USAC Board Member	
Duff, Bridgett - USAC Board Member	
Eichler, Ed - USAC Board Member	
Gumper, Frank - USAC Board Member	
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 - Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George - VP, Schools and Libraries Division (SLD)	
Scott, Wayne - VP, Internal Audit Division	
Others present for the meeting:	
Name	Company
Howard, Cathy - <i>by telephone</i>	USAC
Hughes, Jeff - <i>by telephone</i>	USAC
Panton, Marci	USAC

Action Items

- a1. Approval of Schools and Libraries Support Mechanism Outreach and Program Integrity Field Work - Confidential & Proprietary - *Executive Session Recommended*.** Mr. McDonald introduced this item. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in ***Executive Session***, Mr. Barash recommended that discussion of this item be conducted in ***Executive Session*** because discussion of specific internal controls and/or audit procedures would constitute a "[d]iscussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session would result in disclosure of confidential techniques and procedures that would compromise program integrity." Moreover, he said that discussion of this matter relates to USAC's procurement strategy and contract negotiations, and public disclosure of the matters discussed in this paper would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that the discussion of proposed program changes to address the site visit initiative be conducted in ***Executive Session***.

The Committee voted to move immediately into ***Executive Session***.

Mr. McDonald reviewed the recommended plan for site visits and answered questions.

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

RESOLVED, That the USAC Schools & Libraries Committee accepts the recommendations of USAC management as presented to the Committee at its meeting of this date and directs USAC management to establish a physical site review process to gather information on the deployment and use of technology related to the Schools

and Libraries Support Mechanism to augment the program integrity processes already in place; and

RESOLVED FURTHER, That the USAC Schools & Libraries Committee authorizes an increase in the Schools and Libraries Support Mechanism 2004 annual budget of \$1.25 million for the physical site review process as presented by USAC management.

The Committee adjourned from **Executive Session** and reconvened in open session at 2:35 p.m. to report the discussion and action of the Committee during **Executive Session** and to continue with the rest of the agenda items in open session.

Committee member Mr. Christensen arrived during the discussion of the next item.

a2. Approval of Authority for Priority One Commitments for Funding Year 2004.

Mr. McDonald introduced this item and reviewed the demand estimate for Funding Year 2004. He said that demand for Priority One services is less than funds available for Funding Year 2004 so Priority One commitments can safely be made down to 20 percent. He indicated that he believed it is too early in the process to begin funding internal connections since the sum of demand for Priority One services and internal connections at 90 percent exceeds funds available. He concluded that as more reviews of 2004 applications are completed, SLD staff would be better able to estimate the portion of total demand that is likely to be funded and begin internal connections commitments.

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

RESOLVED, That the USAC Schools & Libraries Committee authorizes USAC management to commit, upon FCC approval, waves for Funding Year 2004 with the parameters set at 20 percent for Priority One Services and set so that no commitments are made for internal connections.

There being no further business, Dr. Talbott adjourned the meeting at 2:42 p.m

Robert Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**Schools and Libraries Committee Meeting****April 19, 2004****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 USAC office in Washington, DC, on Monday, April 19, 2004. Dr. Talbott, Chair of the Committee, called the meeting to order at 9:05 a.m. Eastern Time. Ms. Panton, Administrative Assistant for USAC, called the roll.

All seven members were present, representing a quorum:	
Baker, Dave	Jackson, Jimmy
Bryant, Anne – Vice Chair	Talbott, Dr. Brian – Chair
Campbell, Anne	Zaina, Lisa
Christensen, Doug	
Other Directors and Officers of the Corporation present:	
Buller, Karen – USAC Board Member	
Duff, Bridget – USAC Board Member	
Eichler, Ed – USAC Board Member	
Gumper, Frank – USAC Board Member	
Hughes, Alison – USAC Board Member	
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 – Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George – VP, Schools and Libraries Division (SLD)	
Scott, Wayne – VP, Internal Audit Division	
Others present for the meeting:	

Name	Company
Ayer, Catriona	USAC
Banker, Catherine	Vector
Barrett, Andrew C.	The Barrett Group
Carroll, Kristy	USAC
Delmar, Teleshia	USAC
Falkowitz, Ed	USAC
Faunce, Donna – <i>by telephone</i>	KPMG
Fitzgerald, Sara	Funds for Learning
Goff, Elizabeth	USAC
Heend, Orin	Funds For Learning
Helbing, Jeremy	USAC
Hill, William A.	FCC
Howard, Cathy	ALA
James, Alther	Los Angeles Unified School Dist.
Kaplan, Peter	Funds For Learning
Klee, Megan	Los Angeles Unified School Dist.
Kraft, Michael	USAC
Lamoureux, Renee	USAC
Lawhead, Merry	USAC
Lenhardt, Chris	USAC
Long, Deborah	NECA
McCrone, Christina	USAC
Miller, Linda	USAC
Noran, John	USAC
Parry, John	NECA
Riordan, Dan	On-Tech
Schultz, Cynthia	USAC
Schultz, Daniel – <i>by telephone</i>	U.S. Department of Education

Executive Session

- a1. Approval of Course of Action Regarding United States Department of Education, Office of Inspector General, Memorandum of Understanding – Confidential and Proprietary - *Executive Session Recommended*.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in ***Executive Session***, Mr. Barash recommended that discussion of this item be conducted in ***Executive Session*** because 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, he said that 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.

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 US Department of Education Inspector General regarding a Schools and Libraries Support Mechanism beneficiary audit shall be conducted in ***Executive Session***.

The Committee voted to immediately move into ***Executive Session*** to address this item. Mr. Gumper recused himself from the discussion and action on this item and left the meeting at this point.

Mr. Scott introduced this item. Mr. Schultz, Regional Director for the United States Department of Education Office of Inspector General explained the background for this request. The Committee discussed the proposed course of action. Based on her meeting with Mr. Schultz, Ms. Zaina advised the Committee that Mr. Scott would be closely involved with this project, and would among other things be participating in planning meetings and in designing the audit program.

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

RESOLVED, that the USAC Schools & Libraries Committee authorizes USAC management to enter into a proposed Memorandum of Understanding between USAC, the Department of Education Inspector General, and the FCC Inspector General to conduct an audit regarding the use of Schools and Libraries Support Mechanism funds at the New York City Department of Education.

- i6. Update on Schools and Libraries Support Mechanism Enforcement Activity – Confidential and Proprietary.** Mr. Barash updated the Committee on an ongoing Schools and Libraries Support Mechanism enforcement issue.

The Committee adjourned from ***Executive Session*** and reconvened in open session at 9:45 a.m. to report the discussion and action of the Committee during ***Executive Session*** and to continue with the rest of the agenda items in open session.

Action Items

- a1. **Approval of the Minutes.** On a motion duly made and seconded, the Committee adopted the minutes as distributed of the Schools & Libraries Committee meetings of Monday, January 26, 2004, and Monday, February 23, 2004.
- a2. **Action on One Department of Interior, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit.** Mr. Scott introduced this item. In response to an inquiry, Mr. McDonald stated that the Schools and Libraries Division (SLD) has come up with an approach on how to address multiple findings in an audit of a Schools and Libraries Support Mechanism recipient and what happens to funding for such an entity in subsequent years, but because the approach is still in the pre-decisional stage, in accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, he and Mr. Barash recommended that such discussion be held in **Executive Session**.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that discussion of the SLD approach on how to address multiple findings in audits of Schools and Libraries Support Mechanism recipients and what happens to funding for such entities in subsequent years shall be conducted in **Executive Session**.

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

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

RESOLVED, That the USAC Schools & Libraries Committee, having reviewed the Department of Interior, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit Report labeled SL2003BE123 together with management's response thereto, recommends to the USAC Audit Committee that the audit report be deemed final.

- a3. **Action on Four Federal Communications Commission, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Mr. Scott introduced this item.

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

RESOLVED, That the USAC Schools & Libraries Committee, having reviewed the Federal Communications Commission, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit Reports labeled SL2003BE125 – SL2003BE128 together with management's response thereto, recommends to the USAC Audit Committee that each such audit report be deemed final.

- a4. **Action on 12 KPMG LLP Schools and Libraries Support Mechanism Agreed-Upon Procedures Beneficiary Audit Reports.** Mr. Scott introduced this item. He noted the following corrections to the following reports: (1) SL2003BE27 – the finding of no budget in the technology plan was only a finding and not a rule violation; and

(2) SL2003BE43 – the final finding on discount calculation has been cleared. He also corrected one item, stating that SLD staff has reviewed each audit report and prepared responses to each finding and is pursuing recovery of \$83,945.47 from five beneficiaries instead of two as originally written.

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

RESOLVED, That the USAC Schools & Libraries Committee, having reviewed the 12 KPMG LLP Schools and Libraries Support Mechanism agreed-upon procedures beneficiary audit reports labeled SL2003BE27, SL2003BE37, SL2003BE40, SL2003BE43, SL2003BE47, SL2003BE52, SL2003BE60, SL2003BE69, SL2003BE75, SL2003BE77, SL2003BE83, and SL2003BE86 together with management's response thereto, recommends to the USAC Audit Committee that each such audit report be deemed final.

- a5. Action on 14 USAC Internal Audit Division Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Ms. McCrone, USAC Senior Auditor and Fraud Specialist, introduced this item. She corrected some items in the issue paper, stating that of the 14 reports, eight were compliant, one was generally compliant, and five were non-compliant. She further reported that of the five non-compliant applicants, two lacked supporting documentation for the amounts claimed for reimbursement on the Billed Entity Applicant Reimbursement (BEAR) Form 474 and three applicants over-invoiced SLD. Ms. McCrone said that in her judgment the latter finding seems to be a result of lack of quality control on the applicants' parts.

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

RESOLVED, That the USAC Schools & Libraries Committee, having reviewed the 14 USAC Internal Audit Division Schools and Libraries Support Mechanism Beneficiary Audit Reports labeled SL2003BE103, SL2003BE104, SL2003BE105, SL2003BE111, SL2003BE113, SL2003BE114, SL2003BE115, SL2003BE116, SL2003BE117, SL2003BE118, SL2003BE119, SL2003BE120, SL2003BE121 and SL2003BE122 together with management's response thereto, recommends to the USAC Audit Committee that each such audit report be deemed final.

- a6. Approval of Course of Action Regarding United States Department of Education, Office of Inspector General, Memorandum of Understanding – Confidential and Proprietary.** See *Executive Session* above.
- a7. Approval of 3rd Quarter 2004 and Revised Annual 2004 Schools and Libraries Support Mechanism Programmatic Budgets.** Ms. Faunce, USAC's Budget & Finance Analyst, introduced this item. Ms. Bryant noted that even though the budget is increasing, the administrative costs for the program are approximately 2.3 percent of the annual funding cap, which is below the national average for similar not-for-profit organizations. In response to inquiries regarding the new "ombudsman" position being

recommended, Mr. McDonald explained that the position would be part of outreach on the SLD organizational chart and would be responsible for tracking and responding to inquiries from applicants about their applications and the program, which SLD staff receive on a regular basis, as well as to look for other issues and address potential problem areas.

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

RESOLVED, That the USAC Schools & Libraries Committee approves a 3rd Quarter 2004 budget for the Schools and Libraries Support Mechanism of \$11,377,000; and

RESOLVED FURTHER, That the USAC Schools & Libraries Committee approves a revised 2004 annual programmatic budget for the Schools and Libraries Support Mechanism of \$44,371,100.

- a8. Approval of 3rd Quarter 2004 Schools and Libraries Support Mechanism Projections for the April 30, 2004, FCC Filing.** Mr. McDonald introduced this item. He reviewed the FCC's ruling on unused Schools and Libraries Support Mechanism funds and how they are required to be carried over to subsequent years. He also explained the supplemental filing USAC submitted for 2Q2004 showing that a portion of the Fund's cash balance could be used by the Commission to reduce the USF collection requirement for 2Q2004 without any adverse consequences to the Fund or to the Universal Service Support Mechanisms. Specifically, USAC's analysis showed that it could prudently apply \$200 million of the Fund's cash balance toward meeting the funding requirements of the Schools and Libraries Support Mechanism for 2Q2004. The FCC approved USAC's proposal implementing that approach.

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 19, 2004, a summary of the 3rd Quarter 2004 support mechanism demand estimates, including administrative costs, hereby directs USAC management to proceed with the required April 30, 2004, 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.

a9. Miscellaneous.

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

Six of the seven members were present, representing a quorum:	
Baker, Dave	Jackson, Jimmy
Bryant, Anne - Vice Chair	Talbott, Dr. Brian – Chair
Campbell, Anne	Zaina, Lisa
One member was absent:	
Christensen, Doug	

Information Items

i1. Schools and Libraries Support Mechanism Update. Mr. McDonald reviewed several items: the status of hiring additional staff members for the NECA Services, Inc. (NSI) invoice review team to facilitate timely processing of incoming invoices and reduce the backlog; revisions to Forms 470, 471, 472, 473, and 474; the status of implementation of recommendations of the Task Force on the Prevention of Waste, Fraud, and Abuse; and the progress being made in training being offered by USAC through Web Ex. He informed the Committee that, for funding year 2004, applications requesting large dollar amounts will be processed early along with smaller applications, so SLD will not be processing as many applications in the beginning compared with previous years, but will be processing higher dollar amounts. Finally, Mr. McDonald reported that SLD staff is resolving more appeals within 90 days of receipt.

The Committee **DIRECTED** USAC staff to add to its invoice processing status report the dollar value of invoices processed (in addition to the number of invoice line items).

i2. Update on Status of Schools and Libraries Support Mechanism Audit Initiatives – Confidential & Proprietary – Executive Session Recommended. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session**. He said that the basis for discussing this matter in Executive Session is that a discussion of specific internal controls and/or audit procedures would constitute a discussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session would result in disclosure of confidential techniques and procedures that would compromise program integrity.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that the discussion of proposed Schools and Libraries Support Mechanism changes to address audit findings be conducted in **Executive Session**.

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

- i3. Report on Legislative and Media Activity.** Mr. Blackwell reported that USAC staff continues to work with GAO and the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight on the continuing investigation into potential waste, fraud, and abuse in the Schools and Libraries Support Mechanism. He said that hearings by the Subcommittee on potential waste, fraud, and abuse in the program may be held soon.
- i4. Status Report on Ongoing USAC Schools and Libraries Support Mechanism Audits.** Mr. Scott reviewed the cumulative dollar effect of the KPMG audit reports versus the randomly selected audits performed by the USAC Internal Audit Division (IAD). He pointed out that KPMG follows a list of agreed-upon procedures as set by the FCC and audits nothing more even if findings indicate the need for further investigation. Members of the Committee expressed concern that if we are unable to direct KPMG to provide us a total audit picture then IAD needs to do one of three things: (1) be more precise in what they expect KPMG to do, (2) bring the audits in-house and do a more thorough audit, or (3) find a new audit vendor.
- i5. Status Report on Actions Taken on Final Audits of the Schools and Libraries Support Mechanism.** Mr. Scott reported that given the large number of audits currently being tracked by IAD, staff is now only providing a report on the audits in which all final actions have been taken.
- i6. Update on Schools and Libraries Support Mechanism Enforcement Activity.** Mr. Barash recalled for the Committee that this is a semi-annual report to the Committee on enforcement issues. In addition, he said that he had no further information to give the Committee on a breaking matter that he had sent to the Committee prior to this meeting.
- i7. Miscellaneous.** None.

At 11:10 a.m., on a motion duly made and seconded, the Committee voted to move back into **Executive Session** for purposes of discussing the additional confidential and proprietary items as noted above.

Executive Session

- a2. Action on One Department of Interior, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit – Confidential and Proprietary.** Mr. McDonald explained the approach SLD is exploring how to address multiple findings in Commitment Adjustment or recovery letters resulting from an audit of a Schools and Libraries Support Mechanism recipient and the recommendation it has made to the FCC about beneficiaries found in non-compliance with FCC rules and E-rate funding they may have received in subsequent years.
- i2. Update on Status of Schools and Libraries Support Mechanism Audit Initiatives – Confidential & Proprietary.** Mr. McDonald reviewed the details of the site visit

initiative plan for beneficiaries of the Schools and Libraries Support Mechanism.

- i3. Report on Legislative and Media Activity.** Mr. Blackwell reported further on the continuing investigation of the Schools and Libraries Support Mechanism being conducted by the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Investigations and Oversight.

The Committee adjourned from **Executive Session** and reconvened in open session at 11:51 a.m. to report the discussions and actions of the Committee during **Executive Session**.

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

Robert Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

July 19, 2004

MINUTES

A meeting of the Schools & Libraries Committee of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the USAC office in Washington, DC on Monday, July 19, 2004. Mr. Brian Talbott, Chair of the Schools & Libraries Committee, called the meeting to order at 9:02 a.m. Eastern Daylight Time. Ms. Renee Lamoureux, Executive Assistant to the CEO, called the roll. Five of the seven members were present, representing a quorum:

Baker, Dave– *by telephone*

Bryant, Anne-Vice Chair

Campbell, Anne

Talbott, Brian –Chair

Zaina, Lisa – CEO

Other Board Members and Officers of the Corporation present:

Eichler, Edwin, USAC Board Member

Gumper, Frank, USAC Board Chair

Barash, D. Scott – Vice President and General Counsel

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

Scott, Wayne – VP, Internal Audit Division

Others present for the meeting:

NAME

COMPANY

NAME	COMPANY
Ayer, Catriona	USAC
Barrett, Andrew	The Barrett Group
Bayona, Janet	USAC
Beach, Cyndi	USAC
Beasley, Marc	Baldwin Park USD
Carroll, Kristy	USAC
Das, Soma	USAC
Delmar, Teleshia	USAC
Falkowitz, Ed	USAC
Fenstermaker, John	KPMG
Fitzgerald, Sara	Funds for Learning
Goff, Elisabeth	USAC
Goodin, Larissa	USAC
Kaplan, Peter	Funds for Learning
Lamoureux, Renee	USAC
Lawhead, Merry	USAC
Lenhardt, Chris	USAC
McCrone, Tina	USAC
Noran, John	USAC
Ortman, Roxane	USAC
Panton, Marci	USAC
Parry, John	NSI
Riordan, Dan	On-Tech
Short, Don	USAC
Smith, Eddie	Baldwin Park USD

ACTION ITEMS:

- a1. **Approval of Schools & Libraries Committee Meeting Minutes of Tuesday, April 13, 2004 and Monday, April 19, 2004.** On a motion duly made and seconded, the Committee approved, with minor revisions, the minutes of Tuesday, April 13, 2004 and Monday, April 19, 2004.

- a2. **Action on One USAC Internal Audit Division Schools and Libraries Support Mechanism Investigative Audit Report and Six USAC Internal Audit Division Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Mr. Barash introduced this item to the Committee. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, USAC management recommends that the draft audit reports 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 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 Schools and Libraries Support Mechanism audit reports labeled SL2003BE124, SL2004BE002, SL2004IV003, SL2004BE004, SL2004BE005, SL2004BE006, and SL2004BE007 shall be conducted in *Executive Session*.

- a3. Action on Two Internal Audit Division Follow Up Audits done on Audits Performed by KPMG – Executive Session Option.** Ms. Tina McCrone, USAC Senior Auditor and Fraud Specialist, introduced this item. Ms. McCrone indicated that the two audits were performed by the USAC Internal Audit Division as follow-up audits to complete reviews previously conducted by KPMG. USAC is recommending that these audits be deemed final.

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

RESOLVED, That the USAC Schools & Libraries Committee, having reviewed the two USAC Internal Audit Division Schools and Libraries Support Mechanism Follow Up Audit Reports labeled SL2004FL008 and SL2004FL009, together with management's response thereto, recommends to the USAC Audit Committee that each such audit report be deemed final.

- a4. Approval of the 4th Quarter 2004 Schools & Libraries Support Mechanism Programmatic Budget.** Ms. Faunce, USAC Senior Budget & Reporting Analyst, introduced this item indicating that no changes to the annual budget were being proposed at this time.

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

RESOLVED, That the USAC Schools & Libraries Committee approves a 4th Quarter 2004 budget for the Schools and Libraries Support Mechanism of \$11,602,800.

- a5. Approval of 4th Quarter 2004 Schools and Libraries Support Mechanism Projections for the August 2, 2004 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 19, 2004, a summary of the 4th Quarter 2004 support mechanism demand estimates, including administrative costs, hereby directs USAC management to proceed with the required August 2, 2004, 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.

- a6. Action on 5 KPMG LLP Schools and Libraries Support Mechanism Agreed-Upon Procedures Beneficiary Audit Reports.** Mr. Scott reported that, on December 19, 2002, USAC retained KPMG to perform an agreed-upon procedures review Schools and Libraries Support Mechanism beneficiaries. Seventy-nine (79) reviews were ultimately performed by KPMG. The five reports presented represent the final five audits under this agreement.

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

RESOLVED, That the USAC Schools & Libraries Committee, having reviewed the 5 KPMG LLP Schools and Libraries Support Mechanism agreed-upon procedures beneficiary audit reports labeled SL2003BE24, SL2003BE97, SL2003BE98, SL2003BE99 and SL2003BE100 together with management's response thereto, recommends to the USAC Audit Committee that each such audit report be deemed final.

- a7. Approval to Revise the Audit Methodology Used By External Auditors to Perform Schools and Libraries Support Mechanism Beneficiary Audits.** Mr. Scott introduced this item. He informed the Committee that by using a performance audit approach for future beneficiary audits, it would provide the Committee and USAC management with a more conclusive report as well as offer the auditor's opinion on the beneficiary's compliance with program rules and regulations.

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

RESOLVED, That USAC Schools & Libraries Committee authorizes USAC staff, under appropriate circumstances, to revise the methodology used on Schools and Libraries Support Mechanism audits from the agreed upon procedures (AUP) approach currently being used to a conclusion-based approach.

- a8. Action on Four Federal Communications Commission, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Mr. Scott introduced this item to the Committee.

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

RESOLVED, That the USAC Schools & Libraries Committee, having reviewed the Federal Communications Commission, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit Reports labeled SL2003BE135 – SL2003BE138 together with management's response thereto, recommends to the USAC Audit Committee that each such audit report be deemed final.

a9. **Miscellaneous.**

- **Solicit Ideas for October Committee Agenda.** Mr. Talbott reminded Committee members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him, or Mr. McDonald, between quarterly meetings.

INFORMATION ITEMS:

i1. Schools and Libraries Support Mechanism Update. Mr. McDonald updated the board on several issues related to SLD operations, including the invoice staffing initiative and invoice processing. The Committee also discussed the status of the Eligible Products Database pilot program as well as various outreach initiatives. John Parry, President and CEO, NSI was present and provided the Board with an update on SL programmatic support and performance under NSI's agreement with USAC.

Ms. Karen Buller joined the meeting during the discussion of this item.

i2. Report on Expanded Outreach Initiative and Plan. Ms. Zaina reviewed a summary of the discussion of outreach issues from April 2004, and discussed a number of overlapping efforts underway that will improve outreach for all of USAC.

i3. Review of Schools and Libraries Support Mechanism Changes to Address Audit Findings. Mr. Barash explained that, in accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, USAC management recommends that discussion of this item be conducted in *Executive Session*. The basis for discussing such matters in *Executive Session* is that a discussion of specific internal controls and/or audit procedures would constitute a discussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session would result in disclosure of confidential techniques and procedures that would compromise program integrity.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that the discussion of proposed Schools and Libraries Support Mechanism responses to address audit findings be conducted in *Executive Session*.

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

i4. Report on Legislative and Media Activity. Mr. Blackwell reported on recent and anticipated congressional hearings related to potential waste, fraud, and abuse in the Schools and Libraries Support Mechanism.

i5. Status Report on Ongoing Schools and Libraries Support Mechanism Audits. Mr. Scott reminded the Committee that all 79 KPMG audits were now complete. Field work related to the PRDOE audit has also been completed and an exit conference scheduled, though it is possible PRDOE will ask for additional work and an extension of time.

i6. Status Report on Actions Taken on Final Audits of the Schools and Libraries Support Mechanism Audits. Mr. Scott reported on this item. Mr. Gumper suggested that future

summaries include what funds have actually been collected when recovery of funds is required.

- i7. **Schools and Libraries Support Mechanism Timeline and Key Dates.** For information only. No discussion held.

At 11:15 a.m., on a motion duly made and seconded, the Board voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above. The Chair then recessed the meeting. At the call of the Chair, the Board reconvened in **Executive Session** at 11:25 a.m.

EXECUTIVE SESSION:

- a2. **Action on One USAC Internal Audit Division Schools and Libraries Support Mechanism Investigative Audit Report and Six USAC Internal Audit Division Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Ms. Tina McCrone, USAC Senior Auditor and Fraud Specialist, introduced this item. The Committee discussed the findings resulting from the audits.

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

RESOLVED, That the USAC Schools & Libraries Committee, having reviewed the Seven USAC Internal Audit Division Schools and Libraries Support Mechanism Audit Reports labeled SL2003BE124, SL2004BE002, SL2004IV003, SL2004BE004, SL2004BE005, SL2004BE006, and SL2004BE007, together with management's response thereto, recommends to the USAC Audit Committee that each such audit report be deemed final.

- i3. **Review of Schools and Libraries Support Mechanism Changes to Address Audit Findings.** The Committee discussed the importance of outreach to ensure applicants know what is required of them and discussed various outreach initiatives. The Committee requested that USAC management present a full outreach plan at the October 2004 Board meeting.

Mr. Dave Baker departed the meeting during the discussion of this item.

The Committee adjourned from **Executive Session** and reconvened in open session at 11:43 a.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Dr. Talbott adjourned the meeting at 11:45 a.m.

Robert W. Haga

Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**Schools and Libraries Committee Meeting**

October 18, 2004

MINUTES

A meeting of the Schools & Libraries Committee of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the USAC office in Washington, DC on Monday, October 18, 2004. Mr. Brian Talbott, Chair of the Schools & Libraries Committee, called the meeting to order at 9:30 AM Eastern Time. Ms. Renee Lamoureux, Executive Assistant to the CEO, called the roll.

Six of the seven members were present, representing a quorum:	
Baker, Dave	Jackson, Jimmy
Bryant, Anne	Talbott, Brian – Chair
Campbell, Anne	Zaina, Lisa – CEO
Other Board members and Officers of the Corporation present:	
Duff, Bridget, USAC Board Member	
Eichler, Edwin, USAC Board Member	
Gumper, Frank, USAC Board Chair	
Barash, D. Scott – Vice President and General Counsel	
Blackwell, Mel – VP, Rural Health Care and External Communications	
Carmichael, Mark – Assistant Treasurer, VP Finance	
Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George – VP, Schools & Libraries Division	
Others present for the meeting:	
Name:	Company:
Ayer, Catriona	USAC
Bancroft, Royce	USAC

Others present for the meeting:	
Name:	Company:
Chou, Elizabeth	USAC
Dale, Tony	FCC
Das, Soma	USAC
Delmar, Teleshia	USAC
Falkowitz, Ed	USAC
Goff, Elisabeth	USAC
Heend, Orin	Funds for Learning
Hill, Bill	FCC
Kaplan, Peter	Funds for Learning
Lamoureux, Renee	USAC
Lawhead, Merry	USAC
Lenhardt, Chris	USAC
Miller, Linda	USAC
Noran, John	USAC
Ortman, Roxanne	USAC
Parry, John	NSI
Rodriguez, J	FCC
Richter, Bob	IBM
Spiller, Bob	USAC
Stephens, Mark	FCC
Weming, Tony	IBM

Action Items

- a1. Approval of Minutes.** On a motion duly made and seconded, the Committee approved the minutes, as distributed, of the USAC Schools & Library Committee meetings of July 12, 2004 and July 19, 2004.
- a2. Approval of 1st Quarter Budget 2005 Schools & Libraries Support Mechanism.** Ms. Faunce, USAC Budget and Financial Analyst, introduced this item, presenting an overview of the 1st Quarter 2005 programmatic budgets for the Schools & Libraries Support Mechanism. The Board discussed the details of the site visit initiative. Mr. Barash recommended that further discussion of this matter 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.

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 site visit initiative be conducted in *Executive Session*; and

RESOLVED FURTHER, That the USAC Schools & Libraries Committee approves a 1st Quarter 2005 budget for the Schools and Libraries Support Mechanism of \$13,735,900.

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

- a3. Approval of 1Quarter 2005 Schools & Libraries Support Mechanism Projections for the December 2, 2004, FCC Filing.** *Executive Session Recommended.* In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in ***Executive Session***, Mr. Barash recommended that discussion of this item be conducted in ***Executive Session*** because discussion of this issue centers on matters of regulatory interpretation and other issues subject to the attorney-client privilege upon which USAC management and the USAC Board of Directors has sought the advice of counsel. Discussion of these matters in open session would compromise the continued applicability of the attorney-client privilege.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that consideration of the 1st Quarter 2005 Schools and Libraries Support Mechanism Projections and Resolution on the November 2, 2004, FCC Filing shall be conducted in ***Executive Session***.

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

- a4. Action on One Internal Audit Division Follow-Up Audits done on Audits Performed by KPMG.** Mr. Chris Lenhardt, presented the results of the follow-up audit to the Committee.

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

RESOLVED, That the USAC Schools & Libraries Committee, having reviewed the USAC Internal Audit Division Schools and Libraries Support Mechanism Follow Up Audit Report labeled SL2004FL028, recommends to the USAC Audit Committee that such audit report be deemed final.

a5. Miscellaneous.

01_Proposal for Issuing Funding Commitment Decision Letters *Executive Session Recommended.* In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of this issue centers on matters subject to the attorney-client privilege upon which USAC has sought the advice of counsel. Discussion of this matter in open session would compromise the continued applicability of the attorney-client privilege.

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

RESOLVED, That the discussion of this matter shall be conducted in Executive Session.

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

Information Items

- i1. Schools & Libraries Support Mechanism Update.** Mr. McDonald, along with his staff, provided the Committee with an update regarding recent program activities including the Train-the-Trainer workshops, the eligible products database, the new appeals system and service provider training.
- i2. Report on Legislative and Media Activity –** Mr. Blackwell provided the Committee with an update on recent legislative and media activity since the last Committee meeting.
- i3. Review of Schools & Libraries Support Mechanism Changes to Address Audit Findings –** *Executive Session Recommended.* In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of specific internal controls and/or audit procedures would constitute a discussion of internal rules and procedures concerning the administration of the universal service support mechanisms where discussion of the matter in open session would result in disclosure of confidential techniques and procedures that would compromise program integrity.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that the discussion of proposed Schools and Libraries Support Mechanism responses to address audit findings be conducted in **Executive Session**.

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

- i4. Report on Financial Matters and Corporate Operations Issues – Executive Session Recommended** - In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of this issue centers on matters subject to the attorney-client privilege upon which USAC has sought the advice of counsel. Discussion of this matter in open session would compromise the continued applicability of the attorney-client privilege.

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

RESOLVED, That the discussion of this matter shall be conducted in Executive Session.

- i5. Implementation of New FCC Order.** Mr. McDonald provided a summary of the measures adopted by the Federal Communications Commission in the recently released *Fourth Report and Order* and *Fifth Report and Order* in the Schools and Libraries Universal Service Support Mechanism proceeding.

At 10:55 a.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above.

Executive Session

a5. Miscellaneous.

01_Proposal for Issuing Funding Commitment Decision Letters . Mr. McDonald reviewed the proposed plan concerning the appropriate processing of Funding Commitment Decision Letters. Mr. John Parry, NSI provided the Committee with a report on application processing.

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

RESOLVED, That the USAC Schools & Libraries Committee approves the proposal for issuing Funding Commitment Decision Letters with the modified language regarding selection criteria.

- a2. Approval of 1st Quarter Budget 2005 Schools & Libraries Support Mechanism.** Mr. McDonald discussed the status of the vendor selection for the site visit initiative.
- a3. Approval of 1Quarter 2005 Schools & Libraries Support Mechanism Projections for the December 2, 2004, FCC Filing.** The Committee discussed the proposed funding requirements based on anticipated program demand and administrative expenses for the Schools and Libraries Support Mechanism for the 1st Quarter 2005.

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 18, 2004, a summary of the 1st Quarter 2005 support mechanism demand estimates, including administrative costs, hereby directs USAC management to proceed with Option 1 for the demand estimate for the required November 2, 2004, 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.

- i4. Report on Financial Matters and Corporate Operations Issues.** Mr. Gumper provided the Committee with a report on the recent hearing at which he testified before the Senate Committee on Commerce, Science & Transportation, as well as recent discussions with the FCC regarding USF financial matters. Committee members consulted with counsel with regard to certain related matters.

The Committee adjourned from **Executive Session** and reconvened in open session at 12:20 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 12:21 p.m.

Robert Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**Schools and Libraries Committee Meeting****November 4, 2004****MINUTES**

A meeting of the Schools & Libraries Committee of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the USAC office in Washington, DC on Thursday, November 4, 2004. Mr. Brian Talbott, Chair of the Schools & Libraries Committee, called the meeting to order at 2:36 PM Eastern Time. Ms. Renee Lamoureux, Executive Assistant to the CEO, called the roll.

Four of the seven members were present, representing a quorum:	
Baker, Dave – <i>by telephone</i>	Talbott, Brian – Chair
Jackson, Jimmy – <i>by telephone</i>	Zaina, Lisa – CEO - <i>by telephone</i>
Other Board members and Officers of the Corporation present:	
Buller, Karen, USAC Board Member	
Duff, Bridget, USAC Board Member	
Eichler, Edwin, USAC Board Member	
Barash, D. Scott – Vice President and General Counsel	
Carmichael, Mark – Assistant Treasurer; VP, Finance and Financial Operations	
Haga, Robert – Assistant Secretary; VP, Strategic Planning and Operations	
McDonald, George – VP, Schools and Libraries Division	
Others present for the meeting:	
Name:	Company:
Goff, Elisabeth	USAC
Lamoureux, Renee	USAC
Miller, Linda	USAC

Action Items

- a1. Approval of Funding Year 2005 Application Window.** Mr. McDonald introduced this item to the Committee detailing the proposed length and dates of the Funding Year 2005 application filing window. Mr. McDonald further explained that the timing of the opening of the filing window depended upon the Commission's release of the Eligible Services List (ESL) for Funding Year 2005 and could not occur prior to sixty days after the release of the ESL.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that the Funding Year 2005 Form 471 filing window for the Schools and Libraries Universal Service Support Mechanism shall be a period of 65 days, and that the window will open on December 14, 2004 and close on February 17, 2005.

- a2. Approval of Vendor for Expanded Outreach Initiative - 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 advised that this matter should be discussed in **Executive Session** because discussion of this matter in open session and public disclosure of this matter, which relates to USAC's procurement strategy and contract negotiations, would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Support Mechanisms.

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 award of a contract based on USAC's Request for Proposals for the Expanded Outreach Initiative related to the Schools & Libraries Universal Service Support Mechanism shall be conducted in **Executive Session**.

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

At 2:43 p.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above.

Executive Session

- a2. Approval of Vendor for Expanded Outreach Initiative - Confidential & Proprietary – Executive Session Recommended.** Mr. McDonald introduced this item to the Committee. Ms. Liz Goff, Manager of Outreach Site Visits, provided the Committee with a summary of the extensive procurement and selection process used to arrive at the staff's recommendation. Ms. Miller, Deputy General Counsel, advised on recent discussions with the FCC pertaining to the extensive steps USAC has taken to ensure the selected vendor will present no actual, potential or apparent conflicts of interest in its performance of the site visits.

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

resolution:

RESOLVED, That the USAC Schools and Libraries Committee approves USAC management's proposal to enter into a Services Agreement with the selected bidder, on or after November 4, 2004, to perform compliance site visits and expanded outreach associated with the Schools and Libraries Support Mechanism, for an initial one-year term, with three additional one-year options to renew, provided that USAC has obtained any necessary approvals from the Federal Communications Commission with respect to the conflict of interest provisions for the Services Agreement.

The Committee adjourned from **Executive Session** and reconvened in open session at 2:48 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 2:49 p.m.

Robert Haga
Assistant Secretary