

# 2007 Board of Directors Meetings Minutes

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**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**BOARD OF DIRECTORS MEETING**

**January 2, 2007**

**MINUTES**

A non-quarterly meeting of the Board of Directors (Board) of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Tuesday, January 2, 2007. Dr. Brian Talbott, Chair of the Board, called the meeting to order at 12:00 p. m.. Eastern Time. Twelve of 17 Board members were present, representing a quorum:

Banks, Jonathan – <i>by telephone</i>	Jortner, Wayne – Treasurer – <i>by telephone</i>
Barash, Scott – Acting CEO	Kragel, Dr. Peter – <i>by telephone</i>
Berlyn, Debra – <i>by telephone</i>	Lubin, Joel – <i>by telephone</i>
Bryant, Dr. Anne – <i>by telephone</i>	Sanders, Dr. Jay – <i>by telephone</i>
Campbell, Anne – <i>by telephone</i>	Talbott, Dr. Brian – Chair – <i>by telephone</i>
Jackson, Jimmy – Vice Chair – <i>by telephone</i>	Williams, Jason – <i>by telephone</i>

Members of the Board not present:

Hess, Kevin  
Joseph, Kevin  
Lee, Jonathan  
Sanford, Jo Anne  
Simon, Phyllis

Officers of the corporation present:

Capozzi, David – Acting General Counsel and Assistant Secretary

Others present for the meeting:

<b><u>NAME</u></b>	<b><u>COMPANY</u></b>
Nuzzo, Patsy	USAC

**ACTION ITEMS:**

- a1. Election of Directors to the USAC Board of Directors.** At the request of Dr. Brian Talbott, Chair of the Board, Mr. Barash introduced this item to the Board. Dr. Bryant requested that bios for each new Board member be prepared and distributed to the Board. Mr. Barash stated that another meeting of the Board will be required to elect new Board members to committees who are not automatically appointed to a certain committee as a

result of the constituency a Board member represents. Dr. Talbott encouraged any Board member with a financial background is to volunteer to join the USAC Board of Directors Audit Committee.

On a motion duly made and seconded and after discussion, the Board adopted the following resolutions:

**RESOLVED**, that the USAC Board of Directors having received the selections from the Chairman of the FCC pursuant to 47 C.F.R. § 54.703(c)(3) and pursuant to Article II, § 4 of the USAC By-laws hereby elects David P. McClure, Phyllis Simon, Anne C. Boyle, D. Michael Anderson, Joel Lubin, and Jay Sanders, M.D., to the USAC Board of Directors each for a term beginning effective January 1, 2007 and continuing until December 31, 2009; and

**RESOLVED FURTHER**, that the USAC Board of Directors having received the selection from the Chairman of the FCC pursuant to 47 C.F.R. § 54.703(c)(3) and pursuant to Article II, § 4 of the USAC By-laws hereby elects Lee Beatty Schroeder to the USAC Board of Directors to fill the vacant seat for Cable Operators for the remaining term of said seat beginning effective January 1, 2007 and continuing until December 31, 2007; and

**RESOLVED FURTHER**, that each of the aforementioned directors shall remain a director until such director's: (i) resignation, (ii) removal pursuant to Article II, § 7 of the USAC By-laws and the provisions of the Delaware General Corporation Law, (iii) election of a successor pursuant to Article II, § 4 of the USAC By-laws or (iv) action by the stockholder of the corporation pursuant to the Article I of the USAC By-laws.

At 12:07 p.m. Eastern Time, on a motion duly made and seconded, the meeting adjourned.

/s/ David A. Capozzi

David A. Capozzi

Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**BOARD OF DIRECTORS MEETING**

**January 18, 2007**

**MINUTES**

A non-quarterly meeting of the Board of Directors (Board) of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Thursday, January 18, 2007. Dr. Brian Talbott, Chair of the Board, called the meeting to order at 11:03 a.m. Eastern Time. Eighteen of 19 Board members were present, representing a quorum:

Anderson, D. Michael – <i>by telephone</i>	Joseph, Kevin – <i>by telephone</i>
Banks, Jonathan	Kragel, Dr. Peter – <i>by telephone</i>
Barash, Scott – Acting CEO	Lee, Jonathan – <i>by telephone</i>
Berlyn, Debra – <i>by telephone</i>	McClure, David – <i>by telephone</i>
Boyle, Anne – <i>by telephone</i>	Sanders, Dr. Jay – <i>by telephone</i>
Bryant, Dr. Anne – <i>by telephone</i>	Schroeder, Lee – <i>by telephone</i>
Campbell, Anne – <i>by telephone</i>	Simon, Phyllis – <i>by telephone</i>
Jackson, Jimmy – Vice Chair – <i>by telephone</i>	Talbott, Dr. Brian – Chair
Jortner, Wayne – Treasurer – <i>by telephone</i>	Williams, Jason – <i>by telephone</i>

Member of the Board not present:

Lubin, Joel

Officers of the Corporation present:

Belden, Richard – Chief Operating Officer  
Capozzi, David – Acting General Counsel and Assistant Secretary  
England, William – Vice President, Rural Health Care Division  
Erwin, W.B. – Vice President, Finance and Assistant Treasurer  
Flannery, Irene – Senior Vice President, External Relations  
Majcher, Karen – Vice President, High Cost and Low Income Division  
Scott, Wayne – Vice President, Internal Audit

Others present for the meeting:

<b><u>NAME</u></b>	<b><u>COMPANY</u></b>
Bellavia, Leslie	USAC
Grant, Colleen	USAC

<u>NAME</u>	<u>COMPANY</u>
Herauf, Sherry	FCC
Mitchell, Jeffrey	USAC
Nuzzo, Patsy	USAC
Rovetto, Edward	USAC

**ACTION ITEMS:**

- a2. Appointment of Board Members to Committees.** Dr. Talbott introduced this item to the Board. Dr. Talbott noted that Lee Schroeder and Anne Boyle expressed an interest in being appointed as members of the Schools & Libraries Committee should openings arise in the future. In the interim, Ms. Schroeder and Ms. Boyle will be added as observers to the Schools & Libraries Committee.

On a motion duly made and seconded and after discussion, the Board adopted the following resolutions:

**RESOLVED**, that the USAC Board of Directors appoints **Jason Williams** as the High Cost & Low Income Committee representative to the USAC Audit Committee, **D. Michael Anderson** as the Rural Health Care Committee representative to the USAC Audit Committee, and **Dr. Brian Talbott** and **David P. McClure** as at-large members of the USAC Audit Committee, each for a term that begins immediately following the conclusion of this Board meeting (whether by adjournment, postponement or recess) and ends upon such person's resignation as a member of the Committee or the Board of Directors, removal from the Board pursuant to the USAC By-laws, Article II, § 7, removal from the Committee by resolution of the Board, or the expiration of such person's term as a member of the Board of Directors; and

**RESOLVED FURTHER**, that the USAC Board of Directors appoints **Anne Boyle** and **Joel Lubin** to the High Cost & Low Income Committee (as a result of their automatic selection to the committee pursuant to the requirements of the USAC By-laws, Article II, § 8), and **Jason Williams** to represent rural ILECs, each for a term that begins immediately following the conclusion of this Board meeting (whether by adjournment, postponement or recess) and ends upon such person's resignation as a member of the Committee or the Board of Directors, removal from the Board pursuant to the USAC By-laws, Article II, § 7, removal from the Committee by resolution of the Board, or the expiration of such person's term as a member of the Board of Directors; and

**RESOLVED FURTHER**, that the USAC Board of Directors appoints **Dr. Jay Sanders** and **Anne Boyle** to the Rural Health Care Committee (as a result of their automatic selection to the committee pursuant to the requirements of 47 C.F.R. § 54.705(b)(2) and the USAC By-laws, Article II, § 8) and **D. Michael Anderson** as the service provider representative to the Rural Health Care Committee and **Lee Beatty Schroeder** as an at-large member of the Rural Health Care Committee, each for a term that begins immediately following the conclusion of this Board meeting (whether by adjournment, postponement or recess) and ends upon such person's resignation as a member of the Committee or the Board, removal from the Board pursuant to the USAC By-laws, Article II, § 7, removal from the Committee by resolution of the Board, or the expiration of such person's term as a member of the Board of Directors; and

**RESOLVED FURTHER**, that the USAC Board of Directors appoints **David P. McClure** to the Schools & Libraries Committee as the service provider representative to the Schools & Libraries Committee for a term that begins immediately following the conclusion of this Board meeting (whether by adjournment, postponement or recess) and ends upon such person's resignation as a member of the Committee or the Board of Directors, removal from the Board pursuant to the USAC By-laws, Article II, § 7, removal from the Committee by resolution of the Board, or the expiration of such person's term as a member of the Board of Directors.

At 11:08 a.m. Eastern Time, on a motion duly made and seconded, the meeting adjourned.

/s/ David A. Capozzi

David A. Capozzi

Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**BOARD OF DIRECTORS MEETING**

**January 23, 2007**

**MINUTES**

The quarterly meeting of the Board of Directors (Board) of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Tuesday, January 23, 2007. Dr. Brian Talbott, Chair of the Board, called the meeting to order at 9:04 a.m. Eastern Time. Sixteen of the 18 Board members were present (there is one vacancy), representing a quorum:

Barash, Scott – Acting CEO	Lee, Jonathan
Berlyn, Debra	Lubin, Joel
Bryant, Dr. Anne	McClure, David
Campbell, Anne	Sanders, Dr. Jay
Jackson, Jimmy – Vice Chair	Schroeder, Lee
Jortner, Wayne – Treasurer	Simon, Phyllis
Joseph, Kevin	Talbott, Dr. Brian – Chair
Kragel, Dr. Peter	Williams, Jason

Mr. Joseph arrived at 9:20 a.m. Eastern Time. He did not participate in the discussion of or vote on items a1, a2, and a3.

Members of the Board not present:

Anderson, D. Michael

Boyle, Anne

Officers of the corporation present:

Belden, Richard – Chief Operating Officer  
Blackwell, Mel – Vice President, Schools & Libraries Division  
Capozzi, David – Acting General Counsel and Assistant Secretary  
England, William – Vice President, Rural Health Care Division  
Erwin, W.B. – Vice President, Finance and Assistant Treasurer  
Flannery, Irene – Senior Vice President, External Relations  
Holcombe, Jamie – Vice President, Information Systems  
Majcher, Karen – Vice President, High Cost & Low Income Division  
Scott, Wayne – Vice President, Internal Audit

Others present for the meeting:

<b><u>NAME</u></b>	<b><u>COMPANY</u></b>
Ahn, Shane	USAC
Beach, Cynthia	USAC
Beard, Jay	USAC
Bellavia, Leslie	USAC
Brooks, Whitney	FCC
Carroll, Kristy	USAC
Castro, Mauricio	USAC
Davis, Craig	USAC
Falkowitz, Ed	USAC
Friend, Daniel	USAC
Gerensky-Greene, Mitko	USAC
Goff, Liz	USAC
Kraft, Mick	USAC
Lawhead, Merry	USAC
LeNard, David	USAC
Malychev, Victor	USAC
Mardis, James	USAC
McCloud, Robert	USAC
Mitchell, Jeff	USAC
Mondenge, Yvie	USAC
Morrow, Henry	FCC
Nesbitt, Tom	USAC
Nuzzo, Patsy	USAC
Panton, Marci	USAC
Patterson, Tuaranna	USAC

<u>NAME</u>	<u>COMPANY</u>
Rovetto, Edward	USAC
Spiller, Bob	USAC
Stankus, Paul	USAC
Stark, Eric	USAC
Tilton, Michelle	USAC
Trew, Anne Marie	USAC
Uzoukwu, Gene	USAC

**ACTION ITEMS:**

**Annual Election of Committee Chairs and Vice Chairs, and Election and Appointment of Corporate Officers.** Dr. Talbott introduced this item to the Board and requested nominations for the Board Chair and Vice Chair and corporate Treasurer and Secretary positions. Dr. Bryant reported that the USAC Nominating Committee has nominated Mr. Jackson for Board Vice Chair, Mr. Jortner for corporate Treasurer and Dr. Kragel for corporate Secretary. Dr. Bryant also nominated Dr. Talbott for the position of Board Chair. Dr. Bryant reported that the USAC Nominating Committee has nominated W.B. Erwin for the position of Assistant Treasurer of the corporation and David A. Capozzi for the position of Assistant Secretary of the corporation.

On a motion duly made and seconded and after discussion, the Board adopted the following resolutions:

**RESOLVED**, that the USAC Board of Directors elects **Dr. Brian Talbott** as Chair of the Board and accepts the recommendation of the USAC Nominating Committee and elects **Jimmy Jackson** as Vice Chair of the Board, **Dr. Peter Kragel** as Secretary of the corporation, and **Wayne Jortner** as Treasurer of the corporation, each for a term that begins immediately following the conclusion of this Board meeting (whether by adjournment, postponement or recess) and ends when such member's successor has been elected or when such member resigns such position or from the Board, is removed by resolution of the Board, or such member's Board term expires.

*Election of Committee Chairs and Vice Chairs*

**RESOLVED**, that the USAC Board of Directors accepts the recommendation of the Audit Committee and elects **Jason Williams** as Chair and **David McClure** as Vice Chair of the **Audit Committee**, each for a term that begins immediately following the conclusion of this Board meeting (whether by adjournment, postponement or recess) and ends when such

member's successor has been elected or when such member resigns from the Committee or the Board, is removed by resolution of the Board, or such member's Board term expires; and

**RESOLVED FURTHER**, that the USAC Board of Directors accepts the recommendation of the High Cost & Low Income Committee and elects **Joel Lubin** as Chair and **Debra Berlyn** as Vice Chair of the **High Cost & Low Income Committee**, each for a term that begins immediately following the conclusion of this Board meeting (whether by adjournment, postponement or recess) and ends when such member's successor has been elected or when such member resigns from the Committee or the Board, is removed by resolution of the Board, or such member's Board term expires; and

**RESOLVED FURTHER**, that the USAC Board of Directors accepts the recommendation of the Rural Health Care Committee and elects **Dr. Jay Sanders** as Chair and **Dr. Peter Kragel** as Vice Chair of the **Rural Health Care Committee**, each for a term that begins immediately following the conclusion of this Board meeting (whether by adjournment, postponement or recess) and ends when such member's successor has been elected or when such member resigns from the Committee or the Board, is removed by resolution of the Board, or such member's Board term expires; and

**RESOLVED FURTHER**, that the USAC Board of Directors accepts the recommendation of the **Schools & Libraries Committee** and elects **Anne Campbell** as Chair and **Dr. Anne Bryant** as Vice Chair of the **Schools & Libraries Committee**, each for a term that begins immediately following the conclusion of this Board meeting (whether by adjournment, postponement or recess) and ends when such member's successor has been elected or when such member resigns from the Committee or the Board, is removed by resolution of the Board, or such member's Board term expires.

*Appointment of USAC Staff Members as Assistant Secretary and Assistant Treasurer*

**RESOLVED**, that the USAC Board of Directors accepts the recommendation of the USAC Nominating Committee and appoints **David A. Capozzi** as Assistant Secretary of the corporation and **W.B. Erwin** as Assistant Treasurer of the corporation, each for a term that begins immediately following the conclusion of this Board meeting (whether by adjournment, postponement or recess) and ends when such person's successor has been appointed, such person resigns from the position, his employment with USAC terminates for whatever reason, or such person is removed by the Acting CEO or CEO or by resolution of the Board.

- a3. **Resolutions Honoring Board Members Whose Terms Have Expired.** Dr. Talbott introduced this item to the Board.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors hereby expresses its sincere appreciation to Mr. Dave Baker, Ms. Bridget Duff, Mr. Kevin Hess and Ms. Jo Anne Sanford for their years of dedicated service on the Board of Directors of the Universal Service Administrative Company and wishes them the best in their future endeavors.

- a4. **Approval of Board of Directors Meeting Minutes of October 24, 2006, December 19, 2006 and January 2, 2007.** On a motion duly made and seconded, the Board approved the minutes as written of the Board meetings of October 24, 2006, December 19, 2006, and January 2, 2007.
- a5. **Reports from the Committee Chairs: Audit Committee, Executive Committee, High Cost & Low Income Committee, Rural Health Care Committee, and Schools & Libraries Committee.** The Committee Chairs reported on issues discussed and action taken by their respective committees since the October 2006 quarterly meetings: Dr. Talbott reported on the Executive Committee meeting; Ms Campbell reported on the Schools & Libraries Committee meetings; Dr. Sanders reported on the Rural Health Care Committee meetings; Mr. Lubin reported on the High Cost & Low Income Committee meeting; and Ms. Campbell reported on the Audit Committee meeting.
- a6. **Approval of April 2008 – January 2009 Board of Directors Quarterly Meeting Schedule.** Mr. Barash introduced this item to the Board.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors adopts the following Board of Directors and Committee quarterly meetings schedule for April 2008 – January 2009:

<b>Executive Committee</b>	<b>Programmatic Committees &amp; Board of Directors</b>	<b>FCC Quarterly Filing Dates</b>
April 24, 2008	April 28-29, 2008 ( <i>Easter is March 23</i> )	May 2, 2008 (Wednesday)
July 24, 2008	July 28-29, 2008	Aug. 1, 2008 (Friday)

<b>Executive Committee</b>	<b>Programmatic Committees &amp; Board of Directors</b>	<b>FCC Quarterly Filing Dates</b>
October 23, 2008	October 27-28, 2008	Oct. 31, 2008 (Friday)
January 22, 2009	January 26-27, 2009 <i>(Monday, 1/19/09 is the MLK holiday; Tuesday, 1/20/09 is the date for the presidential inauguration )</i>	Jan. 30, 2009 (Friday)

- a7. **Approval of 2<sup>nd</sup> Quarter 2007 and 2007 Annual USAC Common and Consolidated Budgets.** Mr. Erwin introduced this item to the Board.

In his presentation, Mr. Erwin noted the following concerning the 2007 Common Budget:

- The budget of \$37,571,400 is \$450,000 higher than the budget presented to the Board in October 2006. The change is attributable to additional cost associated with the quality assurance work for the IPIA audits that was not known in October.
- The 2007 budget includes: (a) \$14,401,700 for compensation and benefits, which represents 38% of the total budget; (b) \$10,830,000 for non-support mechanism specific audits, which represents 29% of the budget, and includes \$9,400,000 for IPIA contributor audits and \$1,400,000 for the financial and agreed upon procedures audit required by Part 54 of the FCC's rules; (c) \$4,213,000 for professional fees, which represents 11% of the budget, and includes \$2,100,000 for consulting associated with various IT projects, \$1,500,000 for outside counsel, \$250,000 for documentation of internal controls, and \$360,300 for education and communications and special projects; and (d) \$6,072,700 for rent, supplies and equipment, education and training, and various other administrative and outreach functions, which represents the remaining 22% of the budget.
- \$11,340,400 will be collected in the 2<sup>nd</sup> Quarter 2007 to support these expenditures, which is approximately 49% higher than the 2<sup>nd</sup> Quarter 2006 actual expenditures—primarily due to increased audit costs.

Mr. Erwin also noted the following concerning the 2007 Consolidated Budget:

- The budget is \$4,256,500 higher than the budget presented to the Board in October. The increased amount is attributable to: (a) \$450,000 for the IPIA audit work and changes approved by the committees during their meetings on January 22, 2007; (b) \$2,850,000 added to the Schools and Libraries budget, which represents the actual cost of the new Solix fixed price contract which was not known in October; (c) \$800,000 added to the High Cost budget for systems development at Telcordia; and (d) \$156,500 added to the Rural Health Care budget consisting of \$104,100 for a new position and \$52,400 to provide funding under the terms of the new Solix program support services agreement.

- The total budget of \$37,297,900 is \$17,000,000 or 85% higher than 2<sup>nd</sup> Quarter 2006 actual expenditures, primarily due to higher audit costs and increased costs associated with the fixed price contracts with Solix and Telcordia.

Mr. Barash noted that USAC's administrative budget is 1.7% of USF collections compared to the approved administrative for budget for the federal government's Digital Television Conversion initiative, which Congress established at 10% of total program funds.

On a motion duly made and seconded and after discussion, the Board adopted the following resolutions:

**RESOLVED**, that the USAC Board of Directors approves a 2<sup>nd</sup> Quarter 2007 USAC Common Budget of \$11,340,400; and

**RESOLVED FURTHER**, that the USAC Board of Directors approves a 2007 annual USAC Common Budget of \$37,571,400; and

**RESOLVED FURTHER**, that the USAC Board of Directors approves a 2<sup>nd</sup> Quarter 2007 USAC Consolidated Budget of \$37,297,900, and

**RESOLVED FURTHER**, that the USAC Board of Directors approves a 2007 annual USAC Consolidated Budget of \$124,689,300.

- a8. **Approval of 2<sup>nd</sup> Quarter 2007 Revenue Projections for the March, 2007 Universal Service Fund Contribution Base Filing.** Mr. Erwin introduced this item to the Board. In his presentation, Mr. Erwin noted that the projections are based on a rolling four-quarter average to assist in normalizing the quarterly contribution base projection that may vary widely due to prior period adjustment issues. Mr. Lubin requested that USAC staff investigate the feasibility of averaging prior period adjustments over a rolling four quarter schedule to moderate the affects on the contribution factor of large swings in the amount of prior period adjustments from quarter-to-quarter.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors, having reviewed at its meeting on January 23, 2007, a summary of the current status of the March 2, 2007 FCC filing requirements, authorizes staff to proceed with the required March 2, 2007 filing to the FCC on behalf of USAC using a preliminary estimate of \$18.751 billion for the Universal Service Fund projected contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

- a9. **Consideration of Revised Audit Committee Charter.** Mr. Scott introduced this item to the Board. He stated that no revisions to the Audit Committee Charter adopted in April 2006 are proposed at this time.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors, having reviewed the current Audit Committee Charter as presented by USAC Internal Audit Division staff, accepts the recommendation of the USAC Audit Committee and reaffirms its approval of the Audit Committee Charter made on April 20, 2006.

a10. **Miscellaneous.**

- Solicit ideas for the April 2007 Committee Agenda. Dr. Talbott reminded members that they may offer suggestions for agenda items at each quarterly meeting. Ideas may be submitted to Dr. Talbott, Mr. Jackson, or Mr. Barash between quarterly meetings.

**INFORMATION ITEMS:**

- i1. **Assistant Treasurer's Report.** In accordance with the approved criteria and procedure for conducting USAC Board and committee business in **Executive Session**, Mr. Capozzi recommended that discussion of this item be conducted in **Executive Session** because the information on application of the Antideficiency Act to the Universal Service Fund included in this issue paper represents a pre-decisional matter being reviewed by the FCC and USAC.

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

**RESOLVED**, that the USAC Board of Directors determines that discussion of the Assistant Treasurer's Report shall be conducted in **Executive Session**.

- i2. **External Relations Report.** This report was provided for informational purposes.
- i3. **Site Visit Program Quarterly Report.** The report was provided for informational purposes.
- i4. **Pending Litigation and Bankruptcy Matters.** The report was provided for informational purposes.

- i5. **Disposition of Contributor Appeals.** The report was provided for informational purposes.
- i6. **Report on the Audit of the FCC’s Financial Statements for the Year Ending September 30, 2006.** Mr. Scott presented this item to the Board. In his presentation, Mr. Scott noted that the FCC received an unqualified or “clean” opinion for the year ending September 30, 2006.
- i7. **Status Report on the USAC-FCC Office of Inspector General Audit Program.** Mr. Scott introduced presented this item to the Board. In his report, Mr. Scott noted that these audits are a priority and USAC is devoting substantial staff resources and is working closely with the FCC Office of Inspector General (OIG) to complete this effort within the deadlines set by the OIG. Jeff Mitchell, Director of USAC Outsourced Audits, provided a report on the USAC-FCC Office of Inspector General Audit Program. In his report, Mr. Mitchell highlighted the following:
- 459 of 460 audits have been formally announced by USAC and are under way.
  - 142 audits are presently in the field/deskwork stage or completed.
  - 29 draft reports have been delivered—all in Schools and Libraries.
  - IAD has completed 25 of 54 planned field visits to observe audit firms performing fieldwork.
  - An integrated master schedule to track required stages in each of the 460 audits has been developed. A total of 8,000 different audit tasks and milestones are being tracked.
  - The SharePoint website USAC established to manage the project includes 97 users, 51 of whom are external users, including FCC staff and audit firms. More will be added when the audit firms being retained to perform quality assurance reviews on the audit reports are brought on board.
  - Four audit firms have been selected to provide quality assurance reviews of the audit reports submitted by the nine audit firms performing the audits. The purpose of the quality assurance work is to provide USAC with guidance as to whether each audit was performed in accordance with Generally Accepted Government Auditing Standards. Where required, USAC-provided training of these firms is underway.
  - Although significant unknowns, variables, and risks remain, and notwithstanding some slippage of early-stage deadlines, projections based on the latest information from the audit firms show audit reports coming in on schedule with most of the audit firms coming in on or under budget.

Mr. Jortner requested a comparison of the expenses associated with conducting the audits to the amounts recovered as a result of the audits.

- i8. **Summary of Audit Reports Finalized at Support Mechanism Quarterly Meetings.** The report was provided for informational purposes.
- i9. **Approval of USAC 2006 Annual Report to the FCC and Congress.** Ms. Flannery presented this item to the Board. In her report, Ms. Flannery noted that the USAC 2006 Annual Report will be distributed to the FCC and Congress on March 30<sup>th</sup>. She requested any suggested changes be sent to her by January 31, 2007.

- i10. **Update on the Schools and Libraries and Rural Health Care Program Support Services Agreement – Confidential & Proprietary – *Executive Session Recommended.*** In accordance with the approved criteria and procedure for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that discussion of this item be conducted in *Executive Session* because discussion of this matter relates to USAC’s **procurement strategy and contract negotiations**, and public disclosure of the matters discussed in this paper would compromise USAC’s negotiation strategy to the detriment of the Universal Service Fund, the universal service support programs and the company.

**RESOLVED**, that the USAC Board of Directors determines that consideration of the course of action concerning Schools and Libraries and Rural Health Care program support services shall be conducted in *Executive Session*.

- i11. **2006 USAC Accomplishments.** Mr. Barash presented this item to the Board. In his report, Mr. Barash noted that:
- USAC worked diligently to continue improving the company’s relationship with the FCC and the results have been positive.
  - USAC implemented many FCC-mandated significant and challenging changes to the programs and contributor reporting requirements.
  - USAC started the extensive IPIA audit effort from scratch and it is well underway.
  - A new contract was negotiated with Solix for Schools and Libraries and Rural Health Care program support services that includes ongoing support for the next three years and development of new information systems.
- i12. **2007 USAC Objectives.** Mr. Barash presented this item to the Board. In his report, Mr. Barash focused on key areas including the IPIA audits; the Schools and Libraries and Rural Health Care Support Services systems development effort; the USAC financial systems redesign; the Rural Health Care pilot program; expansion of the Site Visit Program; and effective management of USF cash balances to maximize interest income within the investing criteria established by the FCC. Mr. Jortner commended the staff for its work on managing the USF cash balances and suggested that USAC continue to work with the FCC to expand alternatives available for investing USF cash.

At 9:55 a.m. Eastern Time, on a motion duly made and seconded, the Board moved into *Executive Session* for the purpose of discussing the confidential and proprietary items noted above. The Board then recessed until 10:10 a.m. Eastern Time at which time it reconvened in *Executive Session*.

**EXECUTIVE SESSION:**

- i1. **Assistant Treasurer’s Report.** Mr. Erwin and Mr. Belden presented this item to the Board.
- i10. **Update on the Schools and Libraries and Rural Health Care Program Support Services Agreement.** Mr. Barash presented this item to the Board.

At 10:47 a.m. Eastern Time, on a motion duly made and seconded, the Committee voted to move out of **Executive Session** and immediately reconvened in **Open Session**. Dr. Talbott reported that the Board discussed information items i1 and i10 in **Executive Session**.

On a motion duly made and seconded, the Board adjourned at 10:48 a.m. Eastern Time.

/s/ David A. Capozzi

David A. Capozzi

Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**BOARD OF DIRECTORS MEETING**

**April 24, 2007**

**MINUTES**

The quarterly meeting of the Board of Directors (Board) of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Tuesday, April 24, 2007. Dr. Brian Talbott, Board Chair, called the meeting to order at 9:00 a.m. Eastern Time. Seventeen of 18 Board members were present (there is one vacancy), representing a quorum:

Anderson, D. Michael	Lee, Jonathan
Berlyn, Debra	Lubin, Joel
Boyle, Anne	McClure, David
Bryant, Dr. Anne	Sanders, M.D., Jay
Campbell, Anne	Schroeder, Lee
Jackson, Jimmy – Vice Chair	Simon, Phyllis
Jortner, Wayne – Treasurer	Talbott, Dr. Brian – Chair
Joseph, Kevin	Williams, Jason
Kragel, M.D., Peter – Secretary	

Mr. Joseph arrived at 9:21 a.m. Eastern Time. He did not participate in the discussion of or vote on items a1, a2 and a3.

Members of the Board not present:

Barash, Scott – Acting Chief Executive Officer

Officers of the corporation present:

Belden, Richard – Chief Operating Officer  
Capozzi, David – Acting General Counsel and Assistant Secretary  
England, Dr. William – Vice President, Rural Health Care Division  
Erwin, WB – Vice President, Finance and Assistant Treasurer  
Flannery, Irene – Senior Vice President, External Relations  
Holcombe, Jamie – Vice President, Information Systems  
Majcher, Karen – Vice President, High Cost & Low Income Division  
Scott, Wayne – Vice President, Internal Audit

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
Bancroft, Royce	USAC
Beard, Jay	USAC
Bellavia, Leslie	USAC
Byrd, Pamela	USAC
Castro, Mauricio	USAC
Davis, Craig	USAC
Falkowitz, Ed	USAC
Faunce, Donna	USAC
Frederick, Wendy	USAC
Gallant, Pamela	USAC
Gelman, Sheryl	USAC
Gerensky-Greene, Mitko	USAC
Goff, Liz	USAC
Huff, Bridgett	BEC
Jones, Pamela	USAC
Jones, Samantha	USAC
Klaffky, John	Bearing Point
LeNard, David	USAC
Lowery, Craig	USAC
McIntyre, Deirdre	USAC
Mitchell, Jeff	USAC
Mondenge, Yvie	USAC
Morrow, Henry	FCC
Mosley, Corey	USAC

<u>NAME</u>	<u>COMPANY</u>
Nagrod, Christine	USAC
Nuzzo, Patsy	USAC
Panton, Marci	USAC
Parry, John	Solix
Reynolds, Renee	USAC
Rodriguez, Jose Luis	FCC
Rovetto, Edward	USAC
Trew, Anne Marie	USAC
Uzoukwu, Gene	USAC
Yee, Kim	FCC

**ACTION ITEMS:**

- a1. **Approval of Board of Directors Meeting Minutes of January 18, 2007 and January 23, 2007.** On a motion duly made and seconded, the Board approved the minutes of the Board meetings of January 18, 2007 and January 23, 2007. Ms. Schroeder did not vote on this item.
- a2. **Reports from the Committee Chairs: Audit Committee, Executive Committee, High Cost & Low Income Committee, Rural Health Care Committee, and Schools & Libraries Committee.** The Committee Chairs reported on issues discussed and action taken by their respective committees since the January 2007 quarterly meetings: Dr. Talbott reported on the Executive Committee meeting; Ms. Campbell reported on the Schools & Libraries Committee meetings, Dr. Sanders reported on the Rural Health Care Committee meeting; Mr. Lubin reported on the High Cost & Low Income Committee meeting, and Mr. Williams reported on the Audit Committee meeting.
- a3. **Approval of 3<sup>rd</sup> Quarter 2007 USAC Common and Consolidated Budgets.** Mr. Erwin introduced this item to the Board. No changes were proposed to the budget approved by the Board in January 2007. Mr. Erwin reported that the 3<sup>rd</sup> Quarter 2007 (3Q2007) common budget is 42% higher than 3<sup>rd</sup> Quarter 2006 (3Q2006) actual expenditures primarily due to the increase for contributor audits conducted pursuant to USAC's Improper Payments Information Act (IPIA) initiative with the FCC Office of Inspector General and projected full staffing in 2007 versus a number of vacant positions in 2006. Mr. Erwin also reported that the 3Q2007 consolidated budget is \$6,616,300 (32%) higher than 3Q2006 actual expenditures due to higher IPIA audit costs, higher costs for the Solix and Telcordia contracts, and projected full staffing.

On a motion duly made and seconded and after discussion, the Board adopted the following resolutions:

**RESOLVED**, that the USAC Board of Directors approves a 3<sup>rd</sup> Quarter 2007 USAC common budget of \$8,577,600; and

**RESOLVED FURTHER**, that the USAC Board of Directors approves a 3<sup>rd</sup> Quarter 2007 USAC consolidated budget of \$28,072,700.

- a4. **Approval of 3<sup>rd</sup> Quarter 2007 Revenue Projections for the June 1, 2007 Universal Service Fund Contribution Base Filing.** Mr. Erwin introduced this item to the Board. In his presentation, Mr. Erwin reported that program demand is essentially flat compared to 2<sup>nd</sup> Quarter 2007. Mr. Belden noted that with the demand at \$1.8 billion, the anticipated contribution factor would be in the range of 11.2% to 11.7%.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors, having reviewed at its meeting on April 24, 2007, a summary of the current status of the June 1, 2007 FCC filing requirements, authorizes staff to proceed with the required June 1, 2007 filing to the FCC on behalf of USAC using a preliminary estimate of \$18.67 billion for the Universal Service Fund projected contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

- a5. **Consideration of Year 2 Contract for USAC-FCC Office of Inspector General Audit Program Support Services for Project Management – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedures for conducting USAC Board and Committee business in *Executive Session*, Mr. Capozzi recommended that discussion of this item be conducted in *Executive Session* because discussion of this matter relates to USAC's *procurement strategy and contract administration*.

**RESOLVED**, that the USAC Board of Directors determines that consideration of whether to exercise the first of four option years of the existing contract for IPIA project management support services related to support of the second year of the IPIA audit effort shall be conducted in *Executive Session*.

- a6. **Miscellaneous.**

- Solicit ideas for July 2007 Board Agenda. Dr. Talbott reminded Board members that agenda ideas for the next quarterly meeting may be submitted to Mr. Jackson, Mr. Barash or him.

## **INFORMATION ITEMS:**

- i1. Assistant Treasurer's Report.** Mr. Erwin presented this item to the Board. During discussion, Mr. Erwin reported on the review conducted by the Investment Committee to show an estimate of interest income that could be earned by using other investment options. Mr. Erwin reminded the Board that USAC currently invests in Treasury Securities based on FCC guidance and government accounting rules that require funds invested in anything other than Treasury Securities to be recorded as obligations. When funds are obligated, they are not considered available for commitment to programmatic activities. The Investment Committee did not propose a change in current investment strategy, but wanted the Board to be informed of higher interest earnings that could be achieved under alternative investment scenarios.
- i2. External Relations Report.** Ms. Flannery presented this item to the Board. She reported that copies of USAC's 2006 Annual Report were delivered to Congress and the FCC.
- i3. Site Visit Program Quarterly Report.** Ms. Flannery presented this item to the Board. She reported that a new School and Libraries Site Visit Program—Helping Applicants to Succeed (HATS)—launched in January 2007 with 100 HATS site visits planned. Site visits for the Rural Health Care Support Mechanism began in April, and Low Income site visits, the first of 50, will begin in May 2007.
- i4. Bankruptcy and Other Litigation Matters Report.** The report was provided for informational purposes. No discussion was held.
- i5. Disposition of Contributor Appeals.** The report was provided for informational purposes. No discussion was held.
- i6. Semiannual Status Report on Ongoing USAC Audits.** The report was provided for informational purposes. No discussion was held.
- i7. Semiannual Status Report on Actions Taken on Final USAC Audits.** The report was provided for informational purposes. No discussion was held.
- i8. Quarterly Summary of Audit Reports Finalized at Support Mechanism Quarterly Meetings.** The report was provided for informational purposes. No discussion was held.
- i9. Status Report on USAC-FCC Office of Inspector General Audit Program.** Mr. Scott presented this item to the Board. In his presentation, Mr. Scott noted that 254 draft reports have been received and are being reviewed for compliance by the Quality Assurance (QA) firms, and the QA firms have reviewed 76 reports, with comments pending from the audit firms. Mr. Scott also stated that in an ongoing effort to ensure the competency and quality of the audit examinations, USAC's Internal Audit Division (IAD) has observed all or part of the visits performed by the outside audit firms. Mr. Scott also noted that 72% of those audits have

received an unqualified or “clean” opinion and will not require management responses. Mr. Scott indicated that USAC management will be submitting for approval to the Board or respective committees, batches of final audit reports with associated USAC management responses (if any) as they become available, and to meet the July 31, 2007 FCC OIG deadline, special committee and Board meetings will likely be needed during May, June and July 2007. Mr. Jortner requested a bi-monthly update be distributed to the Audit Committee to provide ongoing status.

Jeff Mitchell, Director of USAC Outsourced Audits, USAC IAD, addressed planning for the IPIA audits expected to commence in September 2007. In his presentation, Mr. Mitchell stated that USAC and the OIG have worked together to define the scope of the audit and quality assessment, develop sampling requirements, define criteria for establishing materiality, and review audit and quality assurance plans. USAC has provided recommendations based on efficiencies gained through the current audit process.

- i10. Update on the Schools and Libraries and Rural Health Care Program Support Services Agreement – Confidential & Proprietary – *Executive Session Recommended*.** In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that discussion of this item be conducted in *Executive Session* because discussion of this matter relates to USAC’s ***procurement strategy and contract administration***.

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

**RESOLVED**, that the USAC Board of Directors determines that discussion of the Schools and Libraries and Rural Health Care program support services agreement shall be conducted in *Executive Session*.

- i11. Update on Data Center Operations Strategy – Confidential & Proprietary – *Executive Session Recommended*.** Dr. Talbott deferred this item to the next quarterly Board Meeting.

i12. Treatment of Prior Period Adjustments. Mr. Erwin presented this item in response to a Board request that USAC staff investigate the feasibility of averaging prior period adjustments over a rolling four quarter schedule to moderate the affects on the contribution factor of large swings in the amount of prior period adjustments from quarter-to-quarter. The Board requested USAC management review the findings of this study with the FCC and report back following those discussions.

**i13. Miscellaneous.**

- **USAC Response to House Energy and Commerce Committee.** Mr. Capozzi discussed this item with the Board.

At 10:39 a.m. Eastern Time, on a motion duly made and seconded, the Board moved into **Executive Session** for the purpose of discussing the confidential and proprietary items noted above. The Board then recessed until 10:55 a.m. Eastern Time at which time it reconvened in **Executive Session**.

**EXECUTIVE SESSION:**

**a5. Consideration of Year 2 Contract for USAC-FCC Office of Inspector General Audit Program Support Services for Project Management.** Mr. Belden introduced this item to the Board.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors, having reviewed the recommendation of USAC management, hereby authorizes USAC management to exercise the first of four option years on the existing contract with Washington Consulting Inc. to provide project management services related to the second year of the IPIA audit program in an amount not to exceed \$1,102,400.

At 11:00 a.m. Eastern Time, the Board determined to discuss item i10 below with only Board members and USAC Officers present.

**i10. Update on the Schools and Libraries and Rural Health Care Program Support Services Agreement.** Mr. Belden presented this item to the Board.

At 11:40 a.m. Eastern Time, on a motion duly made and seconded, the Committee adjourned from **Executive Session** and immediately reconvened in **Open Session**. Dr. Talbott reported that the Board took action on item a5 and discussed item i10 above in **Executive Session**. On a motion duly made and seconded, the Board adjourned at 11:44 a.m. Eastern Time.

/s/ David A. Capozzi

David A. Capozzi

Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**BOARD OF DIRECTORS MEETING**

**June 4, 2007**

**MINUTES**

A non-quarterly joint meeting of the Board of Directors (Board), Rural Health Care and Schools and Libraries Committees of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Monday, June 4, 2007. Dr. Brian Talbott, Chair of the Board, called the meeting to order at 1:03 p.m. Eastern Time. Twelve of the 18 Board members were present (there is one vacancy), representing a quorum:

Anderson, D. Michael  
Barash, Scott – Acting CEO  
Bryant, Dr. Anne – *by telephone*  
Campbell, Anne – *by telephone*  
Jackson, Jimmy – Vice Chair – *by telephone*  
Jortner, Wayne – Treasurer – *by telephone*

Joseph, Kevin – *by telephone*  
Kragel, M.D., Peter – *by telephone*  
Lubin, Joel – *by telephone*  
Sanders, M.D., Jay – *by telephone*  
Talbot, Dr. Brian – Chair – *by telephone*  
Williams, Jason – *by telephone*

Members of the Board not present:

Berlyn, Debra  
Boyle, Anne  
Lee, Jonathan  
McClure, David  
Schroeder, Lee  
Simon, Phyllis

Officers of the corporation present:

Belden, Richard – Chief Operating Officer  
Blackwell, Mel – Vice President, Schools and Libraries Division  
Capozzi, David – Acting General Counsel and Assistant Secretary  
England, Dr. William – Vice President, Rural Health Care Division  
Erwin, WB – Vice President, Finance and Assistant Treasurer  
Flannery, Irene – Senior Vice President, External Relations  
Holcombe, Jamie – Vice President, Information Systems  
Scott, Wayne – Vice President, Internal Audit

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
Kiser, Cherie	Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
Lerner, Richard	FCC
Nuzzo, Patsy	USAC

**ACTION ITEMS:**

- a2. **Consideration of Rural Health Care and Schools and Libraries Program Support Services Procurement Strategy – Confidential & Proprietary – *Executive Session Recommended.*** In accordance with the approved criteria and procedures for conducting USAC Board and committee business in ***Executive Session***, Mr. Capozzi recommended that discussion of this item be conducted in ***Executive Session*** because this matter relates to USAC’s ***procurement strategy and contract administration.***

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

**RESOLVED**, that the USAC Board of Directors determines that consideration of the Rural Health Care and Schools and Libraries Program Support Services procurement strategy shall be conducted in ***Executive Session.***

At 1:07 p.m. Eastern Time, on a motion duly made and seconded, the Board moved into ***Executive Session*** for the purpose of discussing the confidential and proprietary item noted above.

**EXECUTIVE SESSION:**

- a2. **Consideration of Rural Health Care and Schools and Libraries Program Support Services Procurement Strategy.** Mr. Barash introduced this item to the Board.

On a motion duly made and seconded and after discussion, the Board adopted the following resolutions:

**RESOLVED**, that the USAC Board of Directors, having considered the Rural Health Care and Schools and Libraries Program Support Services procurement strategy proposed by management and recommended by the Rural Health Care and Schools & Libraries Committees, hereby authorizes management to proceed with implementing the proposed procurement strategy; and

**RESOLVED FURTHER**, that the USAC Board of Directors hereby directs management to obtain any necessary approvals from the Federal Communications Commission for solicitations to be issued pursuant to the proposed strategy.

At 1:35 p.m. Eastern Time, the Board voted to move out of *Executive Session* and immediately reconvened in *Open Session*, at which time Dr. Talbott reported that the Board considered and took action on item a2 above in *Executive Session*. (Also at this time, the Rural Health Care Committee and Schools and Libraries Committee meetings adjourned with only the Board meeting continuing.)

- a1. **Consideration of Memorandum of Understanding Between the FCC and USAC – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that discussion of this item be conducted in *Executive Session* because this matter is *subject to the attorney-client privilege* and relates to *internal personnel matters*.

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

**RESOLVED**, that the USAC Board of Directors determines that consideration of the Memorandum of Understanding between the FCC and USAC shall be conducted in *Executive Session*.

At 1:38 p.m. Eastern Time, on a motion duly made and seconded, the Board moved into *Executive Session* with only members of the Board, Mr. Belden, Mr. Capozzi, Ms. Nuzzo and Ms. Kiser present for the purpose of discussing the confidential and proprietary item noted above.

**EXECUTIVE SESSION:**

**al. Consideration of Memorandum of Understanding Between the FCC and USAC.**

On a motion duly made and seconded and after discussion, the Board adopted following resolutions with the majority voting to approve the resolutions. Dr. Bryant and Mr. Jortner voted against adopting the resolutions, and Dr. Sanders abstained from voting. Mr. Barash recused himself from voting in light of the fact that he is the only inside director, and in so doing noted the Chair of the Board recommended he recuse himself from voting on this matter:

**RESOLVED**, that the USAC Board of Directors accepts the terms and conditions set forth in the Memorandum of Understanding (MOU) proposed by the Federal Communications Commission (FCC) on April 25, 2007, and hereby directs USAC management to execute the MOU; and

**RESOLVED FURTHER**, that the USAC Board of Directors hereby directs USAC management to proceed with implementing the terms and conditions of the MOU into USAC's corporate policies, procedures and code of conduct, as appropriate; and

**RESOLVED FURTHER**, that the USAC Board of Directors hereby directs USAC management to continue working with the FCC to seek revisions to the MOU consistent with the recommendations made by USAC management and other issues that arise as USAC implements the MOU, and reports on the effects of the MOU implementation to the Board of Directors or the Executive Committee on behalf of the Board periodically but not less than quarterly; and

**RESOLVED FURTHER**, that the USAC Board of Directors hereby amends the By-laws of the corporation by adding a new Section 5 to Article VII of the By-laws, which states:

"5. MEMORANDUM OF UNDERSTANDING BETWEEN THE FEDERAL COMMUNICATIONS COMMISSION AND THE CORPORATION. The Federal Communications Commission (FCC) and the Corporation may from time to time have in effect a Memorandum of Understanding (MOU) governing the Corporation's administration of the Universal Service Fund and the universal service support mechanisms and the FCC's oversight thereof. During the period of time such MOU is in effect, the Corporation acknowledges the legal, binding

effect of the MOU, and the terms of the MOU shall be made a part of the Corporation's policies, procedures and code of conduct, as appropriate."

At 2:59 p.m. Eastern Time, on a motion duly made and seconded, the Board adjourned from **Executive Session** and immediately reconvened in **Open Session**. Dr. Talbott reported that the Board considered and took action on item a1 in **Executive Session**. On a motion duly made and seconded, the Board adjourned at 3:00 p.m. Eastern Time.

/s/ David A. Capozzi

David A. Capozzi

Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**BOARD OF DIRECTORS MEETING**

**July 24, 2007**

**MINUTES**

The quarterly meeting of the Board of Directors (Board) of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Tuesday, July 24, 2007. Dr. Brian Talbott, Board Chair, called the meeting to order at 9:04 a.m. Eastern Time. Fifteen of seventeen Board members were present (there are two vacancies), representing a quorum:

Anderson, D. Michael	Lee, Jonathan
Barash, Scott – Acting CEO	Lubin, Joel
Boyle, Anne	McClure, David
Bryant, Dr. Anne	Sanders, Dr. Jay
Campbell, Anne	Simon, Phyllis
Jackson, Jimmy – Vice Chair – <i>by telephone</i>	Talbott, Dr. Brian – Chair
Jortner, Wayne – Treasurer	Williams, Jason – <i>by telephone</i>
Kragel, Dr. Peter – Secretary	

Members of the Board not present:

Joseph, Kevin  
Schroeder, Lee

Officers of the corporation present:

Belden, Richard – Chief Operating Officer  
Blackwell, Mel – Vice President, Schools & Libraries Division  
Capozzi, David – Acting General Counsel and Assistant Secretary  
England, Dr. William – Vice President, Rural Health Care Division  
Erwin, W.B. – Vice President, Finance, and Assistant Treasurer  
Holcombe, Jamie – Vice President, Information Systems  
Majcher, Karen – Vice President, High Cost & Low Income Division  
Scott, Wayne – Vice President, Internal Audit

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
Ahn, Shane	USAC
Beach, Cynthia	USAC

<u>NAME</u>	<u>COMPANY</u>
Beard, Jay	USAC
Andy Easley	USAC
Betancourt, Laura	USAC
Byrd, Pamela	USAC
Carroll, Kristy	USAC
Davis, Craig	USAC
Delmar, Teleshia	USAC
Faunce, Donna	USAC
Frederick, Wendy	USAC
Friend, Daniel	USAC
Gallant, Pam	USAC
Gelman, Sheryl	USAC
Gerensky-Greene, Mitko	USAC
Henley, Michelle	BearingPoint
Hughes, Jeff	USAC
Jones, Samantha	USAC
Klaffky, John	BearingPoint
Kraft, Michael	USAC
LeNard, David	USAC
Malychev, Victor	USAC
McCloud, Robert	USAC
Mitchell, Jeff	USAC
Mondenge, Yvie	USAC
Morrow, Henry	FCC
Nesbitt, Tom	USAC

<u>NAME</u>	<u>COMPANY</u>
Nuzzo, Patsy	USAC
Panton, Marci	USAC
Parry, John	Solix
Rogers, Camelia	USAC
Rovetto, Edward	USAC
Spiller, Bob	USAC
Stankus, Paul	USAC
Stark, Eric	USAC
Tilton, Michelle	USAC
Trew, Anne Marie	USAC
Uzoukwu, Gene	USAC
Reynolds, Renee	USAC

**ACTION ITEMS:**

- a11. Approval of Board of Directors Meeting Minutes of April 24, 2007 and June 4, 2007.** On a motion duly made and seconded, the Board approved the minutes as written of the Board meetings of April 24, 2007 and June 4, 2007.
- a12. Reports from the Committee Chairs: Audit Committee, Executive Committee, High Cost & Low Income Committee, Rural Health Care Committee, and Schools & Libraries Committee.** The Committee Chairs reported on issues discussed and actions taken by their respective committees since the April 2007 quarterly meetings. Dr. Sanders reported on the Rural Health Care Committee meetings; Ms. Campbell reported on the Schools & Libraries Committee meetings; Mr. Lubin reported on the High Cost & Low Income Committee meeting; Mr. Williams reported on the Audit Committee meeting; and Mr. Jackson reported on the Executive Committee meeting.
- a13. Approval of 4<sup>th</sup> Quarter 2007 and Revised Annual 2007 USAC Common and Consolidated Budgets.** Mr. Erwin introduced this item to the Board. In his presentation, Mr. Erwin noted that the proposed Fourth Quarter 2007 (4Q2007) Common budget of \$6,854,100 is \$769,700 lower than the annual budget approved by the Board in January. The decrease is primarily driven by lower costs for Round 1 of the IPIA audits. The decrease for contributor audits in the common budget is \$3,087,500. This decrease is offset by an increase for Round 2 contributor audits of \$1,203,000, and by additional funding for quality assurance and project management work

associated with the IPIA audits of \$1,160,000. Management is also proposing to make some minor modifications to the Finance and IT budgets for training, printing, and non-capitalized hardware and software purchases that will result in additional savings of \$45,000. The 4Q2007 common budget includes:

- \$3,601,200 for compensation and benefits for 139 employees (including four new positions approved by the Board in October);
- \$168,200 for education and training for USAC employees and recruitment for new positions;
- \$271,500 for IPIA contributor audits;
- \$211,000 for the financial and AUP audits;
- \$298,800 for professional fees for various outreach and IT projects, including the financial system modernization effort;
- \$122,500 for Form 499 data collection activities; and
- \$2,180,900 for rent, telecommunications, computer support, supplies, printing, travel and miscellaneous administrative, outreach functions and professional fees.

Mr. Erwin also noted that the 4Q2007 consolidated budget of \$21,850,200 is \$3,694,200 lower than the budget approved in January. The consolidated budget includes:

- \$9,347,600 for work to be performed by Solix for the Rural Health Care and Schools and Libraries programs;
- \$1,665,000 for Telcordia for High Cost and Low Income program services;
- \$1,789,400 for audits;
- \$4,860,400 for salaries and benefits for 184 employees;
- \$2,520,600 for professional fees; and
- \$1,667,200 for bank fees, rent, supplies, and other miscellaneous administrative activities.

The 4Q2007 budget is 15% lower than 4Q2006 actual expenditures due primarily to the budget reductions for the IPIA audits.

On a motion duly made and seconded and after discussion, the Board adopted the following resolutions:

**RESOLVED**, that the USAC Board of Directors approves a 4<sup>th</sup> Quarter 2007 USAC common budget of \$6,854,100; and

**RESOLVED FURTHER**, that the USAC Board of Directors approves a revised annual 2007 USAC common budget of \$36,801,700; and

**RESOLVED FURTHER**, that the USAC Board of Directors approves a 4<sup>th</sup> Quarter 2007 USAC consolidated budget of \$21,850,200; and

**RESOLVED FURTHER**, that the USAC Board of Directors approves a revised annual 2007 USAC consolidated budget of \$120,995,100

- a14. Approval of 4th Quarter 2007 Revenue Projections for the September 1, 2007 Universal Service Fund Contribution Base Filing.** Mr. Erwin introduced this item to the Board noting the FCC announced a 3<sup>rd</sup> Quarter 2007 contribution factor of 11.3%. Based on a rolling four-quarter average, Mr. Erwin recommended the Board approve a projected contribution base of \$18.62 billion.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors, having reviewed at its meeting on July 24, 2007, a summary of the current status of the Universal Service Fund (USF) contribution base filing information, authorizes staff to proceed with the required filing to the FCC on behalf of USAC using a preliminary estimate of \$18.62 billion for the Universal Service Fund projected contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

- a15. Consideration of 2008 Site Visit Program – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration*.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors determines that consideration of management's recommended approach to the site visit program in 2008 shall be conducted in *Executive Session*.

- a16. Miscellaneous.**

- a6-1. Discussion of Personnel Matter – Confidential & Proprietary – Executive Session Recommended.** Dr. Talbott requested that the Board hold a discussion concerning a personnel matter in *Executive Session*. In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that discussion of this item be conducted in *Executive Session* because this is a *personnel matter*.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors determines that discussion of a personnel matter shall be conducted in ***Executive Session***.

Solicit ideas for October 2007 Board Agenda. Dr. Talbott reminded Board members that they may offer suggestions for agenda items at each quarterly meeting. Ideas may be submitted to Dr. Talbott, Mr. Jackson, or Mr. Barash between quarterly meetings.

**INFORMATION ITEMS:**

- i13. Assistant Treasurer's Report.** Mr. Erwin presented this item to the Board. In his presentation, Mr. Erwin noted that there were no changes in the USF investment policy and USAC continues to assist the FCC in its USF delinquent contribution collection and Debt Collection Improvement Act (DCIA) enforcement efforts. Mr. Barash noted that, pursuant to the Board's request during the April 2007 meeting, management presented to FCC staff a proposal addressing options for managing and reporting prior period adjustments, and FCC staff have taken this matter under advisement.
- i14. External Relations Report.** This report was provided for informational purposes. No discussion was held.
- i15. USAC Site Visit Program Quarterly Report.** This report was provided for informational purposes. No discussion was held.
- i16. Bankruptcy and Other Litigation Matters Report.** This report was provided for informational purposes. No discussion was held.
- i17. Disposition of Contributor Appeals.** This report was provided for informational purposes. No discussion was held.
- i6. Quarterly Summary of Audit Reports Finalized at Programmatic and Executive Committee Meetings.** Mr. Scott presented this item to the Board. In his presentation, Mr. Scott explained that the primary purpose for conducting audits during the quarter was to assist the FCC's Office of Inspector General (OIG) in conducting the number of audits necessary to calculate an estimated error rate of improper payments in accordance with Office of Management and Budget (OMB) guidance for the Improper Payments Information Act (IPIA). Mr. Scott explained that the FCC OIG defined the objectives, scope and size of the audit program, and the audits are performed as compliance attestation examinations with each audit concluding with one of four opinions: unqualified, qualified, disclaimer, or adverse.

Mr. Scott explained that the costs associated with each audit include the audit firm, the quality assurance auditors, and the project management team (as billed through May 31, 2007); however, the expenses and time of USAC staff, and the beneficiaries being audited were not included. Mr. Scott noted that the beneficiary surveys were expanded to request information on the expenses incurred by each beneficiary for their work involved in responding to the audits. Mr. Scott indicated that identifying these expenses, as well as USAC staff expenses combined with the costs associated with the auditing firms, quality assurance and project management would give a more accurate cost per audit.

Ms. Campbell and Dr. Bryant expressed concern over the disparity between the cost of the audits and the amount to be recovered asking if a cap could be placed on the audits to eliminate spending so much to recover so little. Mr. Scott explained that the FCC's OIG directed USAC management to utilize a compliance attestation methodology, which typically has a higher cost than a traditional performance audit. In conducting attestation audits, the costs are greater due to the potential greater risks assumed by the auditors, because the auditor expresses an opinion as to whether the beneficiary and USAC management assertions concerning compliance with program requirements and orders were fairly stated. Mr. Scott also shared that the OIG had directed USAC management to continue this approach with the next round of IPIA audits. Dr. Talbot suggested that while the audits were showing a positive outcome, USAC now needs to address how audit money is spent. Dr. Bryant questioned the difference between compliance attestation audits compared to the previous targeted audits. Mr. Scott noted that targeted audits provide more substantial information that includes information regarding the entire beneficiary, rather than just an individual payment.

Mr. Belden noted that the IPIA requires that programs classified as high risk under IPIA guidelines go through a statistically valid audit each year, and the statistically valid sample associated with such audits by necessity includes entities receiving \$0 in benefits and entities where USAC was already in the process of recovery of benefits previously paid. Mr. Belden also noted the number of High Cost audits is expected to increase in Year 2 of the program.

Mr. Scott noted that when there are findings to the audits that produce a monetary effect, USAC management will defer to the FCC for guidance if the rules are not clear as to whether a recovery of benefits previously paid should be made. Mr. Jortner requested an exhibit by program that showed costs and expected benefits recoveries of IPIA audits compared to other audits.

- i7. Status Report on the USAC-FCC Office of Inspector General Audit Program.** Mr. Scott noted that discussion on this item has been incorporated in the previous discussion.

- i8. Update on Procurement Matters – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedures for conducting USAC Board and Committee business in *Executive Session*, Mr. Capozzi recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration* and concerns *pre-decisional matters* pending with the FCC.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors determines that the discussion of the procurement matters associated with this item shall be conducted in *Executive Session*.

- i9. Implementation of the FCC-USAC Memorandum of Understanding.** Mr. Barash presented this item to the Board noting that the FCC requested by August 1 a matrix describing the implementation steps and status for the FCC – USAC Memorandum of Understanding (MOU). A proposed draft was included in the presentation and a quarterly update will be provided to the Board. Mr. Barash referenced the USAC Confidentiality Agreement required under the MOU and requested that Board members execute the document and return it to USAC as soon as possible.

- i10. Mid-Year Report on USAC 2007 Objectives.** Mr. Barash presented this item to the Board.

- i11. Acceptance of 2006 USAC Financial Audit and Agreed Upon Procedures Review.** Mr. Scott presented this item to the Board.

- i12. Miscellaneous.**

- i12-1. Discussion of Matter Concerning USAC's External Auditors – Confidential & Proprietary – Executive Session Recommended.** Mr. Barash requested that the Board hold a discussion concerning a matter related to USAC's external auditors in *Executive Session*. In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration*.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors determines that discussion concerning a matter related to USAC's external auditors shall be conducted in **Executive Session**.

At 10:41 a.m. Eastern Time, on a motion duly made and seconded, the Board moved into **Executive Session** for the purpose of discussing the confidential and proprietary items noted above. The Board then recessed until 10:58 a.m. Eastern Time at which time it reconvened in **Executive Session**.

**EXECUTIVE SESSION:**

**a5. Consideration of 2008 Site Visit Program.** Mr. Barash presented this item to the Board.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors approves the 2008 site visit program strategy as proposed by USAC management.

**i8. Update on Procurement Matters.** Mr. Belden presented this item to the Board.

At 11:32 a.m. Eastern Time, the Board continued in **Executive Session** with only members of the Board, officers and representatives of the FCC present.

**i12-1. Discussion of Matter Concerning USAC's External Auditors.** The Board discussed this matter.

At 12:00 p.m. Eastern Time, the Board continued in **Executive Session** with only members of the Board and the Acting General Counsel present.

**a6-1. Discussion of Personnel Matter.** The Board considered this matter.

At 12:33 p.m. Eastern Time, the Board adjourned from **Executive Session** and reconvened in **Open Session**. Dr. Talbott reported that in **Executive Session** the Board considered and took action on items a5 and a6-1 and discussed items i8 and i12-1 above.

On a motion duly made and seconded, the Board adjourned at 12:35 p.m. Eastern Time.

/s/ David A. Capozzi

Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**BOARD OF DIRECTORS MEETING**

**October 23, 2007**

**MINUTES**

The quarterly meeting of the Board of Directors (Board) of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Tuesday, October 23, 2007. Dr. Brian Talbott, Board Chair, called the meeting to order at 9:02 a.m. Eastern Time. Thirteen of 17 Board members were present (there are two vacancies), representing a quorum:

Anderson, D. Michael	Kragel, Dr. Peter – Secretary
Barash, Scott – Acting CEO	Lee, Jonathan
Boyle, Anne	McClure, David
Campbell, Anne	Simon, Phyllis – <i>by telephone</i>
Jackson, Jimmy – Vice Chair	Talbott, Dr. Brian – Chair
Jortner, Wayne – Treasurer	Williams, Jason
Joseph, Kevin – <i>by telephone</i>	

Ms. Lee Schroeder joined the meeting by telephone at 9:05 a.m. Eastern Time. She did not participate in the discussion of or vote on item a1.

Mr. Joel Lubin joined the meeting at 9:15 a.m. Eastern Time. He did not participate in the discussion of or vote on items a1, a2 or a3.

Members of the Board not present:

Bryant, Dr. Anne

Sanders, Dr. Jay

Officers of the corporation present:

Belden, Richard – Chief Operating Officer

Capozzi, David – Acting General Counsel and Assistant Secretary

England, Dr. William – Vice President, Rural Health Care Division

Erwin, W.B. – Vice President, Finance, and Assistant Treasurer

Holcombe, Jamie – Vice President, Information Systems

Majcher, Karen – Vice President, High Cost & Low Income Division

Scott, Wayne – Vice President, Internal Audit

Others present for the meeting:

<b><u>NAME</u></b>	<b><u>COMPANY</u></b>
Ahn, Shane	USAC
Bancroft, Royce	USAC
Beach, Cynthia	USAC
Bellevia, Leslie	USAC
Betancourt, Laura	USAC
Castro, Mauricio	USAC
Delmar, Teleshia	USAC
Falkowitz, Ed	USAC
Faunce, Donna	USAC
Friend, Daniel	USAC
Gallant, Pam	USAC
Gerensky-Greene, Mitko	USAC
Goode, Vernell	USAC
Harkin, Jeanette	Washington Consulting
Irversen, Eric	USAC
Jones, Samantha	USAC
Kennedyd, Sarmann	USAC
King, Sola	USAC
Kraft, Michael	USAC
LeNard, David	USAC
Malychev, Victor	USAC
McCloud, Robert	USAC
Messemer, Steve	BearingPoint
Mitchell, Jeff	USAC

<u>NAME</u>	<u>COMPANY</u>
Mondenge, Yvie	USAC
Morrow, Henry	FCC
Nuzzo, Patsy	USAC
Rogers, Camelia	USAC
Spiller, Bob	USAC
Stirratt, Tom	Washington Consulting
Tilton, Michelle	USAC
Trew, Anne Marie	USAC
Uzoukwu, Gene	USAC

ACTION ITEMS:

- a17. Approval of Board of Directors Meeting Minutes of July 24, 2007.** On a motion duly made and seconded, the Board approved the minutes as written of the Board meeting of July 24, 2007.
- a18. Reports from the Committee Chairs: Audit Committee, Executive Committee, High Cost & Low Income Committee, Rural Health Care Committee, and Schools & Libraries Committee.** The Committee Chairs reported on issues discussed and actions taken by their respective committees since the July 2007 quarterly meetings. Dr. Kragel reported on the Rural Health Care Committee meetings; Ms. Campbell reported on the Schools & Libraries Committee meetings; Mr. Lubin reported on the High Cost & Low Income Committee meeting; Mr. Williams reported on the Audit Committee meeting; and Dr. Talbott reported on the Executive Committee meeting.
- a19. Appointment of a Nominating Committee and Direction to Committees for the Appointment of Committee Chairs and Vice Chairs.** Dr. Talbott introduced this item to the board.

On a motion duly made and seconded and after discussion, the Board adopted the following resolutions:

**RESOLVED**, that the USAC Board of Directors establishes a Nominating Committee for the purpose of recommending to the USAC Board of Directors at its January 2008 meeting nominations for the elected USAC officer positions; and

**RESOLVED FURTHER**, that the USAC Board of Directors appoints Dr. Jay Sanders as Nominating Committee chair and Mr. James Jackson and Mr. Jason Williams as members of the Nominating Committee; and

**RESOLVED FURTHER**, that the USAC Board of Directors directs each Committee of the Board to bring to the Board at the January 22, 2008 meeting nominations for a chair and vice chair of each respective committee.

- a20. Approval of 1<sup>st</sup> Quarter 2008 Consolidated and Common Budgets and Information on the Estimated 2008 Annual Budget.** In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration*.

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

**RESOLVED**, that the USAC Board of Directors determines that approval of 1<sup>st</sup> Quarter 2008 Consolidated and Common Budgets and Information on the Estimated 2008 Annual Budget shall be conducted in *Executive Session*.

- a21. Approval of 1<sup>st</sup> Quarter 2008 Revenue Projections for the November 30, 2007 Universal Service Fund Contribution Base Filing.** Mr. Erwin introduced this item to the Board, noting that based on a rolling four-quarter average, USAC staff recommends the Board approve a projected contribution base of \$18.52 billion.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors, having reviewed at its meeting on October 23, 2007, a summary of the current status of the Universal Service Fund (USF) contribution base filing information, authorizes staff to proceed with the required filing to the FCC on behalf of USAC using a preliminary estimate of \$18.52 billion for the USF projected contribution base. Staff may make adjustments in accordance with the approved \$1.25 billion variance threshold.

- a22. **Consideration of Revised Data Center Strategy and Collocation 2 Data Center.** In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration*.

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

**RESOLVED**, that the USAC Board of Directors determines that consideration and discussion of the updated data center collocation strategy shall be conducted in *Executive Session*.

- a23. **Consideration of Proposed Litigation Settlement.** In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that discussion of this item be conducted in *Executive Session* because this matter is subject to the *attorney-client privilege related to pending litigation*.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the discussion of the proposed litigation settlement in the Loral Space & Communications Ltd., and affiliated entities bankruptcy matter shall be conducted in *Executive Session*.

- a24. **Consideration of Contract for the Financial Systems Modernization Requirements Analysis and Ongoing Project Oversight and Quality Assurance.** In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended the discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration*.

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

**RESOLVED**, that the USAC Board of Directors determines that consideration of the contract for requirements analysis and project oversight and quality assurance services for modernizing USAC's financial systems shall be conducted in *Executive Session*.

**a25. Miscellaneous.**

**a9-1.** Solicit ideas for January 2008 Board Agenda. Dr. Talbott reminded Board members that they may offer suggestions for agenda items at each quarterly meeting. Ideas may be submitted to Dr. Talbott, Mr. Jackson, or Mr. Barash between quarterly meetings.

**INFORMATION ITEMS:**

- i1. Assistant Treasurer's Report.** Mr. Erwin presented this item to the Board noting that the Third Quarter 2007 prior period adjustment of \$147.40 million consists of lower than projected disbursements of \$60.22 million, higher than projected billings of \$80.37 million, lower than projected interest income of \$0.11 million, higher than projected bad debt expense of \$1.80 million, and the 2006 administrative expense true-up reduction of \$8.72 million. The net effect of these variances results in a \$147.40 reduction in First Quarter 2008 demand. Mr. Jortner noted for the record that the cash balance has continued to grow.
- i2. External Relations Report.** This report was provided for informational purposes. No discussion was held.
- i3. USAC Site Visit Program Quarterly Report.** This report was provided for informational purposes. No discussion was held.
- i4. Bankruptcy and Other Litigation Matters Report.** This report was provided for informational purposes. No discussion was held.
- i5. Disposition of Contributor Appeals.** This report was provided for informational purposes. No discussion was held.
- i6. Quarterly Summary of Audit Reports Finalized at Programmatic and Executive Committee Meetings.** Mr. Scott presented this item to the Board noting that to date 333 of the 459 Improper Payment Information Act (IPIA) Audits have been deemed final. Mr. Scott reported that the Schools & Libraries and Rural Health Care audits are complete, and the remaining High Cost and Low Income audits would be presented to the High Cost & Low Income Committee in November, leaving only Contributors audits pending for approval by the Executive Committee.

- i7. Semiannual Status Report on Ongoing USAC Audits.** Mr. Scott introduced this item to the Board noting that an outside peer review firm was engaged by USAC to conduct a peer review of IAD to determine if IAD is adequately following Generally Accepted Government Auditing Standards (GAGAS). IAD received a clean report indicating it is properly following GAGAS.
- i8. Semiannual Status Report on Actions Taken on Final USAC Audits.** Mr. Scott introduced this item to the Board. He noted that the report provided a listing of finalized programmatic and operational audits for which fund recoveries or process improvements have been received or implemented as a result of follow-up action taken by management to resolve audit findings. Once complete, the audits will be removed from the summary matrix and will no longer be tracked by IAD. Mr. Scott, in response to a question from Mr. Lee, noted that audits with partial recovery were pending guidance from the FCC.
- i9. Status Report on the USAC-FCC Office of Inspector General Audit Program.** In accordance with the approved criteria and procedures for conducting USAC Board and Committee business in *Executive Session*, Mr. Capozzi recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration* as well as *investigatory records*.

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

**RESOLVED**, that the USAC Board of Directors determines that consideration and discussion of the status report on the USAC-FCC Office of Inspector General Audit Program be conducted in *Executive Session*.

- i10. Update on Procurement Matters.** In accordance with the approved criteria and procedures for conducting USAC Board and Committee business in *Executive Session*, Mr. Capozzi recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration*.

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

**RESOLVED**, that the USAC Board of Directors determines that the discussion of the procurement matters associated with this item shall be conducted in *Executive Session*.

- i11. Implementation of the FCC-USAC Memorandum of Understanding.** Mr. Barash presented this item to the Board noting that the FCC provided comments and USAC

management continued to make progress on implementing various portions of the Memorandum of Understanding.

**i12. Rural Health Care Pilot Program Update.** Dr. England provided an overview of this item, noting that USAC has continued discussions with the FCC concerning administration of the pilot program.

**i13. Nominations for Seven Board Member Positions.** Mr. Barash introduced this item to the Board. Reporting that the FCC's Office of Managing Director issued a Public Notice on October 12, 2007 regarding nominations for the USAC Board. Nominations are due by November 1, 2007. In response to Board questions, Mr. Barash noted that incumbent Board members could be reappointed.

At 9:32 a.m. Eastern Time, on a motion duly made and seconded, the Board moved into **Executive Session** for the purpose of discussing the confidential and proprietary items noted above. The Board then recessed until 9:45 a.m. Eastern Time at which time it reconvened in **Executive Session**.

**EXECUTIVE SESSION:**

**a4. Approval of 1<sup>st</sup> Quarter 2008 Consolidated and Common Budgets and Information on the Estimated 2008 Annual Budget.** Mr. Belden presented this item to the Board.

On a motion duly made and seconded and after discussion, the Board adopted the following resolutions:

**RESOLVED**, that the USAC Board of Directors approves a 1<sup>st</sup> Quarter 2008 USAC common budget of \$8.8 million; and

**RESOLVED FURTHER**, that the USAC Board of Directors approves a 1<sup>st</sup> Quarter 2008 USAC consolidated budget of \$38.1 million.

**a6. Consideration of Revised Data Center Strategy and Collocation 2 Data Center.** Mr. Belden presented this item to the Board.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors, having reviewed USAC management's recommendation, approves the proposed data center collocation strategy and hereby authorizes USAC management to contract with Equinix to establish a second collocation facility to initially house Rural Health Care and Schools and Libraries program support applications. The contract shall be for a one year term in an amount not-to-exceed \$137,120.

- a7. **Consideration of Proposed Litigation Settlement.** Mr. Capozzi introduced this item to the Board.

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors approves a settlement agreement in accordance with the terms and conditions described by counsel herein, thereby resolving all claims by and between USAC and the Loral Space & Communications Ltd., and affiliated entities bankruptcy estate.

- a8. **Consideration of Contract for the Financial Systems Modernization Requirements Analysis and Ongoing Project Oversight and Quality Assurance.** **Mr. Belden introduced this item to the Board.**

On a motion duly made and seconded and after discussion, the Board adopted the following resolution:

**RESOLVED**, that the USAC Board of Directors, having reviewed the recommendation of USAC management, hereby authorizes management to award a contract to MIL Corporation to provide financial requirements analysis and project oversight and quality assurance services related to the Financial Systems Modernization project in an amount not-to-exceed \$1,440,000, subject to any necessary FCC approvals.

- i9. **Status Report on the USAC-FCC Office of Inspector General Audit Program.** Discussion of this item occurred during the discussion of item a4 above.

- i10. **Update on Procurement Matters.** Discussion of this item occurred during the discussion of item a4 above.

At 11:55 a.m. Eastern Time, the Board adjourned from **Executive Session** and reconvened in **Open Session**. Dr. Talbott reported that in **Executive Session** the Board considered and took action on items a4, a6, a7, a8 discussed items i9 and i10 above.

On a motion duly made and seconded, the Board adjourned at 11:56 a.m. Eastern Time.

/s/ David A. Capozzi

Assistant Secretary