2001 Schools and Libraries Committee Meetings Minutes

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The quarterly meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) was held at The Westin Grand, 2350 M Street, N.W., Washington, D.C. 20037. Ms. Kathleen Ouye, Chair of the Schools & Libraries Committee, called the meeting to order at 9:05 a.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll for Mr. D. Scott Barash, Assistant Secretary. Four of the seven members were present (there is one vacancy), representing a quorum:

- Hess, Kevin
- Ouye, Kathleen – Chair
- Parrino, Cheryl
- Talbott, Dr. Brian

One member arrived while the meeting was in progress:

- Davis, Fr. William

One member was absent:

- Bryant, Anne

Other Board members present:

- Gumper, Frank
- Rivera, Robert

Officers of the Corporation present:

- Barash, D. Scott – Assistant Secretary
- Haga, Robert – Assistant Treasurer

Others present for the meeting:

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OPEN SESSION:

ACTION ITEMS:

a1. Approval of the Minutes. On a motion duly made and seconded, the Committee approved the minutes as distributed of the Schools & Libraries Committee meetings of Wednesday, June 28, 2000; Monday, October 23, 2000; Monday, October 30, 2000; Monday, November 20, 2000; and Wednesday, December 20, 2000.

a2. Annual Election of Committee Chair and Vice Chair. Ms Parrino stated that the annual election of Chair and Vice Chair of the Committee takes place at the January quarterly meetings. The Schools & Libraries Committee should bring nominations for Committee Chair and Vice Chair to the Board of Directors.

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 Ms. Kathleen Ouye as Chair and Mr. Kevin Hess as Vice Chair of the USAC Schools & Libraries Committee for the term of one year that shall begin at the conclusion of the January 2001 Board meeting and that shall conclude at the close of the January 2002 Board meeting.

a3. Approval of Enforcement Investigation and Evaluation Procedures. Mr. Barash reminded the Committee that USAC staff has been working to develop a comprehensive policy concerning investigation and evaluation of potential violations of program rules and other enforcement-related matters. Ms. Carroll presented the Committee with a visual summary of the procedures that have been developed, and the Committee discussed the recommended procedures.

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

RESOLVED, That the USAC Schools & Libraries Committee recommends to the USAC Board of Directors that the proposed USAC Enforcement Compliance Plan be adopted.
a4. **Acceptance of the Beneficiary Audit.** Ms. Moore had planned to present a completed report on the Schools and Libraries Program Beneficiary Audit for the Committee’s approval. The auditors are in the process of completing the written report. Ms. Moore stated that USAC should receive the final report soon and she will schedule a conference call at that time for Committee review and acceptance of the report.

No action was taken on this item.

a5. **Approval of Recommendation to the FCC Concerning Commitments versus Disbursements.** Ms. Moore brought forth options to address the Committee’s and GAO’s concerns regarding the gap between funding commitments and disbursements of funds under the Schools and Libraries Universal Service Support Mechanism. Ms. Moore discussed three possible options: (1) commit funds at a level above the annual collections cap; (2) make “contingent” commitments; and/or (3) establish a procedure to roll unused funds over to the second following funding year and use those funds in addition to the annual collections cap. The Committee discussed the options, and expressed its preference for the third option but are willing to discuss option one as well as three with the FCC. Ms. Parrino stated that staff would present options one and three to the FCC and would convey the Committee’s views regarding the options.

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

**RESOLVED,** That the USAC Schools & Libraries Committee authorizes USAC staff to discuss with FCC staff the options outlined in the issue paper to address the gap between commitments and disbursements with option three being the recommended option.

a6. **Approval of Annual 2001 and 2nd Quarter 2001 Schools and Libraries Programmatic Budgets.** Ms. Moore reported that the proposed 2001 annual budget for the Schools and Libraries Support Mechanism is 17 percent lower than the revised 2000 budget. These savings are primarily due to lower vendor costs for program administration. Ms. Moore noted that the 2001 budget does not provide for forensic audit work; if such work becomes necessary, staff will return to the Committee with a budget increase for the beneficiary audit. Ms. Parrino informed the Committee that the new positions approved in October 2000 were for internal auditors; those internal auditors will be working with outside auditors and should enable staff to utilize the auditing budget more efficiently and effectively.

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

**RESOLVED,** That the USAC Schools & Libraries Committee approves an annual 2001 Schools and Libraries Programmatic Budget of $26,421,600; and

**RESOLVED FURTHER,** That the USAC Schools & Libraries Committee approves a 2nd Quarter 2001 programmatic budget of $6,898,000.

a7. **Approval of 2nd Quarter 2001 Schools and Libraries Projections and Resolution on the February 2001 FCC Filing.** Ms. Moore stated that the Committee must approve funding
requirements based on anticipated program demand and administrative expenses for the School and Libraries Support Mechanism for 2nd Quarter 2001, and must authorize the filing of this information with the February 2001 FCC filing. The proposal is to collect $562.5 million, which is one-fourth of the annual cap established by the FCC.

Mr. Haga reported to the Committee that the total adjustment to the 2Q2001 fund is slightly higher than previous adjustments. Attachment A provides details of the individual components of the funding requirement for the quarter. Mr. Haga called to the Committee’s attention Attachment B, which provides a graph of the total projected collections over the life of the program, and Attachment C, which provides a graph of the total support disbursed over the life of the program. Committee members indicated that they would like to see figures for the current quarter included in the graphs.

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

RESOLVED, That the USAC Schools & Libraries Committee approves the projection of demand for the Schools and Libraries Program for the 2nd Quarter 2001, and further recommends that USAC request that the FCC establish a contribution factor to collect $562.5 million for the Schools and Libraries Program for the 2nd Quarter 2001, directs staff to develop the best estimate of funds remaining for Year 1, and authorizes USAC staff to file this information in the February 2001 FCC filing.

a8. Approval of Service Substitution Policy Test Pilot. Ms. Moore stated to the Committee that staff is proposing a pilot project concerning service substitution. The proposed policy would enable applicants to substitute certain products in the current “basket” of approved services with new products of the same service type. Mr. McDonald discussed the proposal and gave several examples to provide some insight into the desires of applicants to make service changes.

Committee members discussed the proposal and voiced concerns about the pilot project. The concerns included placing limitations on the size of the project, the duration of the project, the demands on SLD staff and the impact on administrative costs, and overall fairness and compliance with the competitive bidding and cardinal change requirements. The Committee also expressed concern that such changes could send a wrong message to applicants and service providers concerning the administration of the program. Staff indicated that they would work closely with the Committee members to address their concerns, and would convey those concerns to the FCC during the FCC’s evaluation of whether to implement this change.

The Committee decided to hold this issue over for further discussion; no motion was made concerning this matter.

a9. Miscellaneous.

- Approval of the June 30, 2000, Minutes of the Programmatic Subcommittee of the Schools & Libraries Committee. Ms. Ouye stated that the Programmatic Subcommittee of the Schools & Libraries Committee met once in 2000; on Friday, June
30. Two of the three members participated in the meeting. A majority of the participating members are no longer available to approve the minutes. Staff suggested that the Schools & Libraries Committee as a whole approve the proposed minutes. Mr. Barash indicated that he was present at the meeting in question and that the proposed minutes accurately reflect action taken at that meeting.

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

**RESOLVED,** That the USAC Schools & Libraries Committee approves the minutes of the Programmatic Subcommittee of the Schools & Libraries Committee of Friday, June 30, 2000, on behalf of the Programmatic Subcommittee.

- **Resolution Regarding USAC Filing re CHIP NPRM.** Ms. Moore reported to the Committee that the FCC’s Further Notice of Proposed Rule Making (NPRM) concerning the Children’s Internet Protection (CHIP) act was released on January 23, 2001. The notice invites comments within 15 days of publication in the Federal Register. Staff indicated they would notify Committee members when it was published and the exact due date for comments. Ms. Parrino stated that USAC’s comments, if any, would be limited to administrative issues.

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

**RESOLVED,** That the USAC Schools & Libraries Committee authorizes USAC management to file comments in response to the FCC’s NPRM concerning the Children’s Internet Protection Act that are limited to administrative matters.

At 11:35 a.m. the Committee voted to take a brief recess.

At the call of the Chair, the Committee reconvened in **Open Session** at 11:59 a.m. Ms. Ouye called the meeting to order and asked that the roll be taken. Ms. Simmons called the roll. Five of the seven members were present, representing a quorum.

Davis, Fr. William
Hess, Kevin
Ouye, Kathleen – Chair

Parrino, Cheryl
Talbott, Brian

**INFORMATION ITEMS:**

i1. **Schools and Libraries Program Status Update.** Ms. Moore reported to the Committee that the major milestone is that there is no report from Mr. McDonald on the GAO audit. Ms. Moore reported that Year 4 window closed on January 18, 2001. Staff will report to the Committee on how many applicants filed on-line versus on paper, and will provide the total demand level for Year 4 to the Committee when such information becomes available. Year 3 commitments were made in 29 waves totaling $2.085 billion. The Year 2 processing of “outside the window” Form 486 applications is nearing completion; the deadline for these applications is February 15. There was very little Year 1 activity during the last quarter.
i2. **Update on the Schools and Libraries Program Appeals Process and Status of Appeals.** Ms. Carroll gave the Committee an overview of the appeals before the FCC and SLD. Since inception of the program, 618 appeals have been filed with the FCC through December 31, 2000. Of these, 85 have been granted and 323 have been denied or dismissed. In addition, the FCC has granted in part and denied in part 8 appeals. There are 202 appeals currently pending at the FCC covering the first three program years. Ms. Carroll also provided the Committee with a status report on all appeals pending before the administrator for all program years.

The Committee discussed the need for detailed status reports on appeals and expressed concern that USAC may not be devoting sufficient staff resources to handling appeals. Ms. Moore reported that staff receives a daily report on the status of appeals in progress at SLD.

The Committee **DIRECTED** staff to provide the Committee with more detailed information on appeals pending with SLD in future issue papers.

i3. **Report on Schools and Libraries Division Outreach Activities.** Ms. Schatz reported on applicant outreach staff activities, and Ms. Wolfhagen reported on service provider outreach activities.

i4. **Report on Legislative and Media Activity.** Mr. Blackwell reported that USAC continued to respond to numerous inquiries from Congress and the FCC concerning the universal service support mechanisms and inquiries related to a variety of program issues. On December 15, 2000, Congress passed the Children’s Internet Protection Act, which affects schools and libraries that receive funds from the Schools and Libraries Support Mechanism. Mr. Blackwell discussed briefly the President’s education proposal and indicated that Committee members should feel free to refer inquiries regarding this issue and any other inquiries to him. Mr. Blackwell also reported that great improvements had been made to the 2000 USAC Annual Report to Congress and the FCC. He noted that Committee members had been provided with a draft of the report and requested that comments be returned to him by February 9, 2001. The Annual Report is due to the FCC and Congress by March 31, 2001.

i5. **Update on Schools and Libraries Program Enforcement Trends.** Mr. Barash reported that this item is being presented for the first time to the Committee. Ms. Carroll presented the Committee with an overview of enforcement trends and staff’s responses to those trends. Ms. Carroll reported that the number of calls from applicants, service providers, and consultants regarding allegations of potential waste, fraud, or abuse has increased and that USAC is increasing its investigation of such inquiries. Ms. Parrino stated that the Schools and Libraries Program Hotline collects information from callers.

The Committee **DIRECTED** staff to include the volume of calls as well as any trends noted based on our investigation of such calls in future issue papers. Mr. Barash stated that, where appropriate, USAC would be working with the FCC and/or other law enforcement authorities on these issues and that the Committee would be apprised of significant developments in the enforcement and program integrity areas.
i6. **Final NECA Bill for Six Month Period Ending June 30, 2000.** Ms. Moore reported to the Committee that at the July 2000 meeting of the Schools & Libraries Committee, the budget for the Schools and Libraries Program was increased by $2.8 million based on the receipt of an invoice from our vendor, NECA, for programmatic support services for May 2000 that exceeded USAC’s budgeted expectations. USAC staff has carefully reviewed the invoice in question. Ms. Moore stated that the scope of the incentive compensation package is being discussed with NECA. Mr. Haga reported that the proposed adjustments, with the exception of the incentive compensation and the vacation accrual, were appropriate. USAC continues to discuss with NECA an appropriate final settlement of these charges.

i7. **Status of Subcontractor Claim for 1999 Work.** Mr. Barash reported that staff has thoroughly analyzed the claim by a Schools and Libraries Support Mechanism subcontractor, National Computer Systems, Inc. (NCS), for additional 1999 compensation. USAC has responded in writing to the NCS claim, and is scheduled to meet with NCS and NECA representatives in early February to discuss the matter. Mr. Barash indicated that the Committee would be apprised of further developments.

i8. **Report from Schools & Libraries Committee’s Subcommittees.** No subcommittee meetings were held since the last quarterly Committee meeting.


i10. **Miscellaneous.** None.

There being no further business to attend to, Ms. Ouye adjourned the meeting at 12:30 p.m. Eastern Time.

____________________________________
D. Scott Barash
Assistant Secretary

____________________________________
Date
MINUTES

A meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) Board of Directors was held on Friday, March 30, 2001, at the USAC office, 2120 L Street, N.W., Suite 600, Washington, DC. Ms. Kathleen Ouye, Chair of the Committee called the meeting to order at 12:33 p.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC called the roll for Mr. Scott Barash, Assistant Secretary. Six of the seven members were present, representing a quorum:

- Bryant, Anne – by telephone
- Hess, Kevin - by telephone
- Jimmy Jackson – by telephone

One member was absent:
- Ouye, Kathleen – by telephone
- Parrino, Cheryl – by telephone
- Brian Talbott – by telephone
- Davis, Father William

Other Board members present:

- Rivera, Robert

Officers of the Corporation present:
- Barash, Scott – Assistant Secretary
- Haga, Robert – Assistant Treasurer

Others present for the meeting:

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OPEN SESSION:

ACTION ITEM:

a1. Approval of Commitment on Year 2 Post-Window Applications. Ms. Moore reported to the Committee that staff had considered the applications received from the date that the Year
2 window closed. FCC directed staff to deal with this process after the Year 3 window opened.

Mr. McDonald stated that Attachment A of this issue paper, the funding analysis, examines the financial ability to make commitments on the remaining Year 2 applications. Since the last time this Committee reviewed the Year 2 commitments, SLD has made additional commitments on in-window applications within the Committee’s authorized level and have been able to recover funds through the Form 500 process and other reductions. Due to these subsequent events the analysis shows sufficient funds are available from the Year 2 period to fund all applications received by March 31, 2000, without applying the rules of priority. Staff expected the first wave of post-window Year 2 commitments to exceed $170 million. There will be at least one more wave after the data entry of remaining applications (primarily applications rejected for wrong-year Forms 470 that are being reinstated). Staff proposes to reserve some additional funds for remaining appeals at the FCC, and for reductions made to post-window applications. SLD now projects that there will be about $49 million in unused funds at the conclusion of Year 2.

Committee members inquired about the FCC consideration of the rules on year-to-year rollover of funds. Ms. Moore stated that this item deals with commitments made to applicants outside the window, which is authorized for Year 2. Staff expects that there might be unused funds of approximately $49 million, and believes that current FCC rules require USAC to roll over the funds into the next available funding year. USAC does not know whether the FCC will authorize the roll over of funds or whether it will direct USAC to reduce future collection amounts.

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

**RESOLVED,** That the Schools & Libraries Committee authorizes SLD management to make commitments for approved requests on remaining Year 2 applications up to $192 million.

There being no further business to attend to, Ms. Ouye adjourned the meeting at 12:50 p.m. Eastern Time.

__________________________________
D. Scott Barash
Assistant Secretary

__________________________________
Date
The quarterly meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) was held at The Westin Grand, 2350 M Street, N.W., Washington, D.C. 20037. Ms. Kathleen Ouye, Chair of the Schools & Libraries Committee, called the meeting to order at 9:01 a.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll for Mr. D. Scott Barash, Assistant Secretary. All seven members were present, representing a quorum:

Bryant, Anne
Davis, Fr. William
Hess, Kevin
Jackson, James
Ouye, Kathleen – Chair
Parrino, Cheryl
Talbott, Dr. Brian

Other Board members present:
Gumper, Frank

Rivera, Robert

Officers of the Corporation present:
Barash, D. Scott – Assistant Secretary
Haga, Robert – Assistant Treasurer

Others present for the meeting:

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<td>Schatz, Linda</td>
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ACTION ITEMS:

a1. Approval of the Minutes. On a motion duly made and seconded, the Committee approved the minutes as distributed of the Schools & Libraries Committee meetings of Monday, January 29, 2001; and Friday, March 30, 2001.

a2. Dissolution of the Schools & Libraries Subcommittees. Ms. Parrino stated that in the initial stages of the administration of the Schools and Libraries Support Mechanism, the Schools & Libraries Committee created subcommittees in order to distribute the significant workload among the committee members. Since then, the need for committee and subcommittee activity between regular board meetings has decreased substantially. Ms. Parrino pointed out that staff has identified individual Committee members with special knowledge and expertise and will utilize those members’ expertise as needed.

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

RESOLVED, That the USAC Schools & Libraries Committee dissolves the Programmatic, Audit, and Finance Subcommittees of the Schools & Libraries Committee, effective immediately.

a3. Approval of 3rd Quarter 2001 Schools and Libraries Programmatic Budget. Ms. Moore reported that the budget before the Committee has not changed from the budget approved at the January meeting. She pointed out that even though costs have increased above the contract amount for the NECA contract due to the submission of more forms than budgeted for and due to system development necessitated by the recently enacted Internet filtering legislation, the programmatic budget is within the planned budget contingency for the year. The budget also reflects full staffing for the Division during the quarter.

The Committee discussed the potential FCC review of priorities for internal connections support in funding Year 4, including potential changes where applicants who received support in Year 3 would not be eligible to receive support in Year 4.

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

RESOLVED, That the USAC Schools & Libraries Committee approves a 3rd Quarter 2001 programmatic budget of $4,317,500.

a4. Approval of 3rd Quarter 2001 Schools and Libraries Projections and Resolution on the May 2001 FCC Filing. Ms. Moore stated that demand in Year 2 applications for support received outside the window from April 6, 1999, through March 31, 2000, exceeds $190 million. Thus, approximately $49 million in support collected for Year 2 will not be used.
in Year 2. Mr. Haga reviewed the details of the individual components of the funding requirements for the quarter, the total projected collections, and the total support disbursed in previous quarters.

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

**RESOLVED,** That the USAC Schools & Libraries Committee approves the projection of demand for the Schools and Libraries Support Mechanism for 3Q2001, as detailed in Attachment A and further recommends that USAC request that the FCC establish a contribution factor to collect $543,894,000 of additional funds for the Schools and Libraries Support Mechanism for 3Q2001, and authorizes USAC staff to file this information in the May 2001 FCC filing.

**a5. Approval of Management’s Response to the Consultant’s Report on the Schools and Libraries Division’s Invoice Payment Process.** Ms. Moore reported to the Committee that PricewaterhouseCoopers (PwC) completed its review of the SLD invoice payment process on time and within the budget. The report gives USAC a variety of improvement opportunities to explore both short- and long-term. The emphasis in the short-term is to focus resources on the areas of greatest risk. In the long-term, PwC suggests automating the identification of services and products on both the Form 471 and the invoice in order to have a more effective way of knowing what is being approved on the Form 471 and paid for on the invoice. This approach would be a major change to the support mechanism administration with significant costs as well as significant potential benefits.

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

**RESOLVED,** That the USAC Schools & Libraries Committee directs USAC management to implement those recommendations from the PricewaterhouseCoopers’ report *Invoice Payment Process Review of the Schools & Libraries Division* that management concludes would be cost-effective improvements, and to maintain a record of all USAC actions taken with respect to the PwC recommendations.

**a6. Miscellaneous.** None.

**INFORMATION ITEMS:**

**i1. Schools and Libraries Support Mechanism Status Update.** Ms. Moore stated that the first wave of commitments is expected to be issued in April for Year 2 out-of-window applications and that there will be at least one or two additional waves after this. March 30, 2001, was the deadline for payment of previously approved Year 2 requests. Ms. Moore gave a status report on the review of Year 3 appeals and cited the work of Ms. Ayer in leading the appeals process. Commitment letters are expected to be issued in May for these appeals. SLD staff is also working with the FCC staff regarding implementation of the new requirements of the Internet filtering legislation recently signed into law.

**i2. Update on the Schools and Libraries Support Mechanism Appeals Process and Status of Appeals to the FCC.** Ms. Carroll gave the Committee an overview of the appeals
before the FCC and SLD. Since inception of the support mechanism, 667 appeals have been filed with the FCC through March 31, 2001. Of these, 98 have been granted and 416 have been denied or dismissed. In addition, the FCC has granted in part and denied in part 10 appeals. There are 143 appeals pending at the FCC. Ms. Carroll also reviewed the Los Angeles Unified and Naperville decisions with the Committee.

i3. **Report on Schools and Libraries Division Outreach Activities.** Ms. Wolfhagen reported on service provider outreach activities, and Ms. Schatz reported on applicant outreach staff activities. Ms. Schatz will provide the Committee members with Children’s Internet Protection Act (CIPA) information.

i4. **Report on Legislative and Media Activity.** Mr. Blackwell reported that USAC continues to respond to numerous inquiries from Congress and the FCC concerning the universal service support mechanisms. He also reported that Ms. Moore testified at a hearing before the Subcommittee on Telecommunications and the Internet on March 8, 2001. Mr. Blackwell referred the Committee to Attachment A of the issue paper for a summary of key legislation introduced during the 107th Congress. Media coverage has been focused on the opening of the window for Year 4 E-rate applications. The Annual Report was distributed to the Committee members, Congress, and the FCC in March 2001 in accordance with USAC’s regulatory obligation.

At 10:30 a.m., the Committee voted to take a brief recess. At the call of the Chair, the Committee reconvened in **Open Session** at 11:00 a.m. Ms. Ouye called the meeting to order and asked that the roll be taken. Ms. Simmons called the roll. All seven members were present, representing a quorum.

Bryant, Anne  
Davis, Fr. William  
Hess, Kevin  
Jackson, James  
Ouye, Kathleen  
Parrino, Cheryl  
Talbott, Dr. Brian

i5. **Update on Schools and Libraries Support Mechanism Enforcement Trends.** In response to a previous request by the Committee, Ms. Carroll presented a numerical breakdown on the Schools and Libraries Support Mechanism Hotline “Code 9” calls. She also gave an overview of enforcement trends and staff’s responses to those trends. Staff has continued to work closely with the FCC and other federal and state law enforcement authorities on some of these matters. Ms. Carroll also noted that USAC recently updated its procedures on preventing disbursements to service providers with pending enforcement-related issues until after the issues are resolved.

i6. **Final NECA Bill for Six Month Period Ending June 30, 2000.** For information only. No discussion held.

i7. **Analysis of Commitments vs. Disbursements.** Ms. Moore reported that staff would keep the Committee apprised on the analysis of the gap between funding commitments and funds actually disbursed. Ms. Moore provided the Committee with a breakdown of funding commitments and disbursements of funds by services.
The Committee DIRECTED staff to further split commitments and disbursements into categories by types of services.

i8. **Report on Adding User Search Capabilities to Support Mechanism Data.** Mr. Haga reported that what began as an internal request for information has now been expanded in an effort to allow external users to quickly access USAC information. Staff is working to automate the ability of internal and external customers to access relevant support mechanism data. After completing the web interface and search capabilities for Schools and Libraries Support Mechanism data, staff will move to the other support mechanisms so that data can be found and easily searched by USAC’s customers.

i9. **Report from Schools & Libraries Committee’s Subcommittees.** No subcommittee meetings were held since the last quarterly Committee meeting.


i11. **Miscellaneous.** None.

There being no further business to attend to, Ms. Ouye adjourned the meeting at 11:45 a.m. Eastern Time.

______________________________________

D. Scott Barash  
Assistant Secretary

______________________________________

Date
MINUTES
A meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) Board of Directors was held on Thursday, July 12, 2001, at the USAC office, 2120 L Street, N.W., Suite 600, Washington, DC. Ms. Kathleen Ouye, Chair of the Committee called the meeting to order at 12:05 p.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll for Mr. Scott Barash, Assistant Secretary. Four of the seven members were present, representing a quorum:

Jackson, Jimmy – by telephone
Ouye, Kathleen - by telephone
Parino, Cheryl – by telephone
Talbott, Brian – by telephone

Three members were absent:
Bryant, Anne
Hess, Kevin
Davis, Fr. William

Other Board members and officers of the Corporation present:
Rivera, Robert – by telephone
Barash, Scott – Assistant Secretary
Haga, Robert – Assistant Treasurer – by telephone

Others present for the meeting:

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ACTION ITEM:

a1. Parameter Analysis, Denial Analysis, Contingency Funding Reserve: Wave 1, Year 4.
Mr. McDonald stated that the purpose of this meeting is to set the funding threshold for the parameter analysis and the denial analysis for Wave 1, Year 4. Mr. McDonald discussed with the Committee the parameter and denial analyses as set forth in detail in Attachments A and B of the issue paper provided to the Committee.

Committee members inquired about the possibility of notifying applicants when they are approved for Priority 1 funding (telecommunications service or Internet access) even before review of Priority 2 requests (internal connections) are completed. Mr. McDonald stated that...
the system does not have the capability of processing commitment letters for a portion of the application and later processing commitment letters for any remaining funding. Staff will be looking into adding this capability for future funding years.

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

**RESOLVED,** That the Schools & Libraries Committee authorizes staff, upon FCC approval, to commit the first wave for Year 4 with the parameters set at 20 percent for Priority One Services and also set so that no commitments are made for Internal Connections, to set the Contingency Funding Reserve at $32 million, and to deny all FRNs for internal connections at discount percentages of less than 85 percent for lack of funding.

There being no further business to attend to, Ms. Ouye adjourned the meeting at 12:37 p.m. Eastern Time.

D. Scott Barash
Assistant Secretary

Date

071201SLmin
UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

July 23, 2001

MINUTES

The quarterly meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) was held at The Westin Grand, 2350 M Street, N.W., Washington, D.C. 20037. Ms. Kathleen Ouye, Chair of the Schools & Libraries Committee, called the meeting to order at 9:10 a.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll for Mr. D. Scott Barash, Assistant Secretary. All seven members were present, representing a quorum:

Bryant, Anne
Davis, Fr. William
Hess, Kevin
Jackson, James – by telephone
Ouye, Kathleen
Parrino, Cheryl
Talbott, Dr. Brian

Other Board members and officers of the Corporation present:

Buller, Karen – Board member

Gumper, Frank – Board member

Rivera, Robert – Board member – by telephone

Barash, D. Scott – Assistant Secretary
Haga, Robert – Assistant Treasurer

Others present for the meeting:

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<tr>
<th>NAME</th>
<th>COMPANY</th>
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<tr>
<td>Ayer, Catriona</td>
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<tr>
<td>Barrett, Andrew</td>
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<td>USAC</td>
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<tr>
<td>Fitzgerald, Sara</td>
<td>Funds for Learning</td>
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ACTION ITEMS:

a1. Approval of the Minutes. On a motion duly made and seconded, the Committee approved the minutes as distributed of the Schools & Libraries Committee meetings of Monday, April 23, 2001, and Thursday, July 12, 2001; and the Schools and Libraries Programmatic Subcommittee meetings of Monday, February 8, 1999; Monday, March 22, 1999; and Monday, June 14, 1999.

a2. Acceptance of USAC 2000 Financial Audits and Agreed Upon Procedures Reviews. Ms. Parrino reported to the Committee that USAC’s independent auditor has completed the 2000 financial and operational audits for USAC. The review does not identify any major issues and USAC received a clean financial opinion.

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 accept the USAC 2000 agreed upon procedures review as it relates to the Schools and Libraries Support Mechanism.

a3. Adoption of a Resolution to Honor Ms. Kate Moore. Ms. Ouye stated that Ms. Kate Moore, President of the Schools and Libraries Division, resigned from USAC effective June 11, 2001. Ms. Moore dedicated almost four years to the Schools and Libraries Support Mechanism and to USAC. Ms. Ouye and other Committee members agreed that it is appropriate for the Schools & Libraries Committee to recognize her dedicated service with a resolution in her honor.

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

RESOLVED, That the members of the USAC Schools & Libraries Committee expresses their profound appreciation for the service Ms. Kate Moore has provided to the USAC Schools & Libraries Committee and to the Schools and Libraries Support Mechanism, and hereby adopts the attached resolution honoring her and wishing her the best in her teaching profession and in all her future endeavors.

a4. Approval of Plan for 2001 Audit of Schools and Libraries Support Mechanism Beneficiaries. Ms. Parrino stated that the overall audit plan would include three main components. USAC will target a certain number of beneficiaries based on risk criteria developed by management, and will perform a certain number of additional reviews using statistical sampling. To conduct these reviews USAC plans to engage Andersen LLP (Andersen), USAC’s internal audit staff, and the
Defense Contract Audit Agency (DCAA). This approach will not only provide greater coverage, but will also provide the ability to make an overall assessment of program compliance. Ms. Parrino stated that steps will be taken to coordinate between the three audit groups to ensure that there is no overlap and that the audit programs are similar or complementary. Staff will provide additional information to the Committee regarding the cost per site and per audit in order to assist in comparing overall cost of each audit as such information becomes available.

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

RESOLVED, That the members of the USAC Schools & Libraries Committee support the USAC Executive Committee determination to approve the proposed plan for the 2001 audit of Schools and Libraries Support Mechanism beneficiaries.

a5. Approval of 4th Quarter 2001 Schools and Libraries Programmatic Budget. Ms. Faunce stated that the Committee must approve a 4th Quarter 2001 Program Budget for the Schools and Libraries Support Mechanism to include in USAC’s August 2001 FCC filing. Ms. Faunce then reported that the proposed 4th Quarter 2001 budget of $7,127,400 is 14 percent lower than the revised 4th Quarter 2000 budget. These savings are primarily due to lower vendor costs for program support services.

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

RESOLVED, That the USAC Schools & Libraries Committee approves a 4th Quarter 2001 budget for the Schools and Libraries Support Mechanism of $7,127,400.

a6. Approval of 4th Quarter 2001 Schools and Libraries Support Mechanism Projections and Resolution on the August 2001 FCC Filing. Mr. Haga reported that the total fund requirement of $562.5 million, which includes administrative expenses of $8.084 million, increased by the prior-period adjustment of $14.512 million, and reduced by the deduction of the projected interest of $17.357 million, results in a total projected funding requirement of $559.655 million for the Schools and Libraries Support Mechanism for the 4th Quarter 2001.

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 23, 2001, a summary of the 4th Quarter 2001 support mechanism estimates, including administrative costs provided in Attachment A, hereby directs USAC staff to proceed with the required August 2, 2001, filing to the FCC on behalf of the Committee.

a7. Miscellaneous. None.

INFORMATION ITEMS:

i1. Schools and Libraries Support Mechanism Status Update. Mr. McDonald reported that funding for Year 1 is complete. Recent funding commitments for Year 2 total $169 million, largely for applications received after the filing window closed. The top priority for funding Year 3 has been processing Year 3 appeals. For funding Year 4, the FCC concluded that it would not change the rules of priority, but that it will continue to consider the operational and other implementation
issues raised by comments in that proceeding. The first wave of Year 4 funding commitments will be in the mail today, July 23, 2001. More than 6,000 letters will be mailed. A significant portion of these letters will be denials because staff knows that funds will not be sufficient to commit funds to applications for internal connections below 85 percent. Ms. Parrino stated that waves would be issued every other week. Ms. Ouye would like staff to push to complete Year 4 funding commitments by the end of September in order to meet applicant and service provider needs.

i2. Update on the Schools and Libraries Support Mechanism Appeals Process and Status of Appeals to the FCC. Ms. Ayer reported on the status of appeals to the Administrator: 2,679 appeals were filed for Year 2—98 are pending from out-of-window applications; 1,955 appeals were filed for Year 3—88 are pending; 391 appeals have been received for Year 4—162 are pending. Ms. Carroll reported on the status of appeals to the FCC: 764 appeals have been filed from the inception of the program through June 30, 2001. Of these, 108 have been granted and 471 have been denied or dismissed. In addition, the FCC has granted in part and denied in part 10 appeals. There are 175 appeals currently pending at the FCC. Ms. Ouye thanked the staff for their work on the appeals process.

i3. Report on Schools and Libraries Division Outreach Activities. Ms. Schatz reported on applicant outreach staff activities, with focus on the impact of the compliance with the requirements of the Children’s Internet Protection Act (CIPA) and the impact of those requirements on the Schools and Libraries Support Mechanism. Staff developed a list of frequently asked questions regarding CIPA, which are posted on the USAC web site. Ms. Parrino stated that staff would send out the frequently asked questions on CIPA to Committee members. Ms. Schatz stated that the “train-the-trainers” workshop for state coordinators will be held on September 17 and 18, 2001, in Arlington, VA. Ms. Wolfhagen reported on service provider outreach activities. Ms. Wolfhagen stated that two sets of service provider training workshops would be held: one in Seattle, WA in August and one in the Washington, DC area in late September or early October.

i4. Report on Legislative and Media Activity. Mr. Blackwell gave the Committee an update on Legislative and Media Activity.

i5. Analysis of Commitments vs. Disbursements. Mr. McDonald updated the Committee on the status of the relationship between funds committed and funds disbursed for Funding Years 2 and 3.

i6. Update on Schools and Libraries Support Mechanism Enforcement Trends. Ms. Carroll reported that during this quarter, staff formalized procedures for referring enforcement matters regarding allegations of fraud, waste, or abuse in the Universal Service Support Mechanisms to the FCC Office of the Inspector General (OIG). Pursuant to these procedures, USAC has referred three matters to the OIG. USAC has also provided information to numerous local and federal law enforcement authorities in response to requests for information pertaining to ongoing investigations. In addition, the OIG and USAC have established a working relationship with the Washington Office of the Federal Bureau of Investigation’s Governmental Fraud Unit.

i7. Final NECA Bill for Six Month Period Ending June 30, 2000 – Confidential & Proprietary. In accordance with the guidelines regarding Executive Session approved by the USAC Board of Directors, Mr. Barash explained the basis for staff’s recommendation that this item be discussed in Executive Session. Mr. Barash stated that this matter be discussed in Executive Session based on the fact that this matter involves contracting matters, the disclosure of which could compromise
USAC’s negotiating position, as well as on the fact that discussion of this matter in open session would compromise USAC’s attorney-client privilege.

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

**RESOLVED,** That the USAC Schools & Libraries Committee determines that discussion of matters concerning resolution of the final NECA bill for the six-month period ending June 30, 2000, shall be conducted in **Executive Session.**

See **Executive Session.**

i8. **Schools and Libraries Support Mechanism Timeline and Key Dates.** For information only. No discussion held.

i9. **Miscellaneous.**

- **Update Regarding the Search for an Executive to Lead the Schools and Libraries Division.** Ms. Parrino reported that USAC has hired an executive search firm to assist in recruiting an executive to lead the Schools and Libraries Division. The firm selected, JDG Associates, has extensive experience in recruiting for both non-profit organizations and telecommunications and other technology corporations. Ms. Parrino said she would keep the Committee apprised of significant developments.

On a motion duly made and seconded, the Committee voted at 11:05 a.m. to go into **Executive Session** for purposes of discussing the confidential and proprietary item as listed above.

**EXECUTIVE SESSION:**

i1. **Final NECA Bill for Six Month Period Ending June 30, 2000 – Confidential & Proprietary.** Mr. Haga reported on matters concerning the final NECA bill for the six-month period ending June 30, 2000.

On a motion duly made and seconded, the Committee adjourned from **Executive Session** and reconvened in Open Session at 11:15 a.m. to report out the discussion during **Executive Session.**

There being no further business to attend to, Ms. Ouye adjourned the meeting at 11:20 a.m.

___________________________________
D. Scott Barash
Assistant Secretary

___________________________________
Date
UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Schools and Libraries Committee Meeting

August 23, 2001

MINUTES

A meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) Board of Directors was held on Thursday, August 23, 2001, at the USAC office, 2120 L Street, N.W., Suite 600, Washington, DC. Ms. Kathleen Ouye, Chair of the Committee called the meeting to order at 12:03 p.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll for Mr. Scott Barash, Assistant Secretary. Five of the seven members were present, representing a quorum:

Hess, Kevin – by telephone
Jackson, Jimmy – by telephone
Ouye, Kathleen – by telephone
Parrino, Cheryl
Talbott, Brian – by telephone
Two members were absent:
Bryant, Anne
Davis, Fr. William
Other Board members and officers of the Corporation present:
Rivera, Robert – Board Member – by telephone
Barash, Scott – Assistant Secretary
Haga, Robert – Assistant Treasurer
Another Board member joined the meeting in progress:

Gumper, Frank – by telephone

Others present for the meeting:

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<tr>
<td>McDonald, George</td>
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<td>Simmons, Ann</td>
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ACTION ITEM:

a1. Approval of a Disbursement Parameter Analysis, Denial Analysis, and Contingency Funding Reserve. Mr. McDonald explained that a gap between funding commitments and actual funds disbursed has occurred in all funding years to date. In the first funding year, USAC disbursed approximately 80.4 percent of funds committed. In the second funding year (through June 30, 2001), USAC disbursed approximately 74.6 percent of commitments. At this time it is too early to
estimate the rate for the third year of funding; however, as of August 17, 2001, $1.090 billion of the $2.125 billion or 51.3 percent in outstanding commitments had been disbursed. For the fourth funding year, USAC believes it is very safe to assume that disbursements will be less than 90 percent of funds committed. Mr. McDonald suggested that USAC move to a disbursement analysis rather than the traditional commitment analysis based on this historical experience and then discussed with the Committee the parameter analysis in Attachment B of the issue paper that was sent to the Committee members. This analysis, with conservative assumptions, showed that funding Priority 1 services and internal connections at 90 percent would not result in disbursements for Year 4 above the cap of $2.25 billion.

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

RESOLVED, That the Schools & Libraries Committee authorizes staff to adopt a new procedure for the parameter analysis that would focus on disbursements rather than commitments, and authorizes the funding of all eligible internal connections at the 90 percent discount level if FCC staff concurs with this approach.

There being no further business to attend to, Ms. Ouye adjourned the meeting at 12:15 p.m.

__________________________
D. Scott Barash
Assistant Secretary

__________________________
Date
MINUTES

The quarterly meeting of the Schools & Libraries Committee of the Universal Service Administrative Company (USAC) was held at The Westin Grand, 2350 M Street, N.W., Washington, D.C., on Monday, October 22, 2001. Ms. Kathleen Ouye, Chair of the Committee, called the meeting to order at 9:00 a.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll on behalf of Mr. D. Scott Barash, Assistant Secretary. Six of the seven members were present, representing a quorum:

Bryant, Anne
Davis, Fr. William
Hess, Kevin – by telephone
Jackson, James
Ouye, Kathleen
Parrino, Cheryl

One member was absent:

Talbott, Brian

Other Board members and officers of the Corporation present:

Buller, Karen – Board member
Gumper, Frank – Board member
Rivera, Robert – Board member
Barash, D. Scott – Assistant Secretary
Haga, Robert – Assistant Treasurer

Others present for the meeting:

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<tr>
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<td>Ayer, Catriona</td>
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<td>Heend, Orin</td>
<td>Funds for Learning</td>
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ACTION ITEMS:

a1. Approval of the Minutes. On a motion duly made and seconded, the Committee approved the minutes as distributed of the Schools & Libraries Committee meetings of Monday, July 23, 2001, and Thursday, August 23, 2001.

a2. Acceptance of the Schools and Libraries Support Mechanism Funding Year 1 Beneficiary Agreed Upon Procedures Report – Confidential & Proprietary. In accordance with the guidelines regarding Executive Session approved by the USAC Board of Directors, Mr. Barash recommended that, because there is an ongoing investigation in relation to the beneficiary review, and because of the sensitivity of the potential allegations and the potential for enforcement action, discussion of a matter concerning one beneficiary should be held in Executive Session.

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

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

See Executive Session for a report on the discussion by the Committee on this matter.

Mr. Haga stated that there are three objectives of USAC’s beneficiary agreed upon procedures engagement program: (1) to detect and deter any waste, fraud, and abuse; (2) to generate insight about quality of administration; and (3) to identify areas for improvement in the administration of the Schools and Libraries Support Mechanism. Overall, the agreed-upon procedures review of beneficiaries indicate that applicants are generally following program rules. He informed the Committee that USAC management’s comments to the report are outlined in the letter before the Committee.

Ms. Parrino discussed efforts being made to help applicants do a better job of compliance with the rules. Mr. McDonald added that many of the issues identified in the review are related to retention of documentation by program participants. He stated that deficiencies in documentation in Year 1 had been recognized earlier and Form 471 instructions were modified to address this issue.

Mr. Haga thanked Mr. Jim Rodda, one of USAC’s internal auditors, for his hard work and close coordination with Arthur Andersen staff to finalize the report.
On a motion duly made and seconded, the Committee adopted the following resolution:


a3. Approval of a 4th Quarter 2001 Budget Increase for Development of the Invoice-Simplified Tracking and Review System (I-STARS). An updated issue paper was distributed to the Committee. Mr. McDonald described the benefits of the proposed Invoice Simplified Tracking and Review System (I-STARS). He stated that it would improve internal controls, enhance productivity and data integrity, improve customer service, and provide better performance measurement information. Mr. McDonald stated that the annual cost savings from the productivity enhancement would likely be $275,000.

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

RESOLVED, That the USAC Schools & Libraries Committee authorizes an increase of $400,000 in the 4th Quarter 2001 budget to begin development of the Invoice Simplified Tracking and Review System (I-STARS).

a4. Approval of 1st Quarter 2002 Schools and Libraries Programmatic Budget and Information of Estimated 2002 Annual Budget. Ms. Faunce stated that the Committee must approve a 1st Quarter 2002 programmatic budget for the Schools and Libraries Support Mechanism to include in the November 2001 FCC quarterly filing. USAC staff is providing an estimated 2002 annual budget at this time, and will present the final 2002 annual budget to the Committee at its January 2002 meeting. Ms. Faunce then stated that Attachment A of the issue paper compares the 2002 estimated annual Schools and Libraries Support Mechanism budget to the 2001 annual budget and 2000 actual expenditures. It also provides a comparison of actual 1st Quarter 2000 and 1st Quarter 2001 expenditures to the proposed 1st Quarter 2002 budget. The estimated 2002 programmatic annual budget reflects the following assumptions: no new positions, higher costs associated with both the agreed upon procedures review and beneficiary audits, and an amount equal to 29 percent of the fixed price contract for NECA contract change orders.

Ms. Parrino stated that the 2002 budget includes funds for an expanded program of beneficiary reviews. The FCC and USAC had discussed with the Defense Contract Audit Agency (DCAA) the possibility of DCAA’s performing the reviews, but DCAA has recently concluded that it will not perform the reviews. USAC staff is working with the FCC to determine the best approach to accomplish USAC’s objectives. At this time, USAC is exploring an approach involving a combination of internal resources, FCC resources, and an accounting firm or firms. Using this combination of resources, USAC hopes to be able to accomplish the beneficiary reviews for approximately the same cost that was projected for DCAA to do the work.

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

RESOLVED, That the USAC Schools & Libraries Committee approves a 1st Quarter 2002 budget for the Schools and Libraries Support Mechanism of $8,869,000.
a5. Approval of 1st Quarter 2002 Schools and Libraries Support Mechanism Projections and Resolution on the November 2, 2001, FCC Filing. Mr. Haga discussed with the Committee the funding requirements based on anticipated program demand and administrative expenses for the Schools and Libraries Support Mechanism for the 1st Quarter 2002. Because demand continues to be well above the funding cap for the support mechanism, staff recommends approval of a demand estimate of one-quarter of the annual cap. Further, as USAC has done with the revenue base and High Cost and Low Income Support Mechanisms, staff recommends that the Committee establish a variance threshold within which to make adjustments within the demand level to allow for the accurate reflection of adjustments and interest projections in the filing. A revised issue paper containing amended resolutions to address this recommendation was distributed to the Committee. A revised Attachment A was also distributed.

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

RESOLVED, That the USAC Schools & Libraries Committee, authorizes USAC staff to file Schools & Libraries Support Mechanism requirement amounts with variances not exceeding a total of $10 million of the Committee-approved support amounts; and

RESOLVED FURTHER, That the USAC Schools & Libraries Committee, requires the approval of the Committee Chair for variances over $10 million but not more than $15 million. Any variances above $15 million must have full Committee approval before staff submits the filing to the FCC; and

RESOLVED FURTHER, That the USAC Schools & Libraries Committee, having reviewed at its meeting on October 22, 2001, a summary of the 1st Quarter 2002 support mechanism estimates, including administrative costs provided in revised Attachment A, hereby directs USAC staff to proceed with the required November 2, 2001, filing to the FCC on behalf of the Committee.

a6. Miscellaneous.

- Approval of Year 5 Application Window. The issue paper for this item was distributed at the meeting. Mr. McDonald stated that USAC management recommends that the Schools and Libraries Division (SLD) follow the Year 4 model in establishing the Year 5 filing window. SLD staff proposes that the window for Year 5 open on Monday, November 5, 2001, and close on Thursday, January 17, 2002, providing a 74-day filing period. Staff expects to have electronic certification available for Forms 470 and 471 by the end of October 2001. Applicants who can and do obtain user IDs and PINs will be able to forego sending in paper certifications. Staff will encourage these applicants to submit their Item 21 attachments with application number clearly marked, but believe that eliminating the Item 21 attachment as a window filing requirement would encourage greater use of electronic certification, which would save substantial time and resources in processing and give applicants assurance up front that they have completed the certification process.

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

RESOLVED, That the USAC Schools & Libraries Committee determines that the Year 5
application window for the Schools and Libraries Universal Service Support Mechanism shall be a period of 74 days, and that the window will open on November 5, 2001, and close on January 17, 2002.

- **Settlement of a Schools and Libraries Support Mechanism Subcontract Claim – Confidential & Proprietary.** The issue paper for this item was distributed at the meeting. In accordance with the guidelines regarding Executive Session approved by the USAC Board of Directors, Mr. Barash recommended that because an assessment of the merits of the contract claim and the appropriateness of the course of action recommended by staff require a legal assessment of the applicable contract provisions, and because this matter could result in litigation or other dispute resolution processes, discussion of this matter should be held in Executive Session.

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

**RESOLVED,** That the USAC Schools & Libraries Committee determines that discussion of the staff recommendation concerning resolution of claim for additional compensation for 1999 by a subcontractor performing services for the Schools and Libraries Support Mechanism shall be conducted in Executive Session.

See Executive Session for a report of the action taken by the Committee on this matter.

**INFORMATION ITEMS:**

i1. **Schools and Libraries Support Mechanism Update.** Mr. McDonald reported that as of October 1, there remains up to $637,000 in undisbursed commitments on Year 1 funding requests for which staff would still process invoices if and when they are submitted. At least one additional wave will be needed to make commitments on Year 2 applications. USAC continues to process Year 3 appeals. For Year 4, six waves have been issued with funding commitments totaling $1.565 billion.

i2. **Status of Schools and Libraries Support Mechanism Appeals.** Ms. Ayer distributed Attachment A for this item and reported on the status of appeals to the Administrator for all funding years. Ms. Carroll reported on the status of appeals of USAC decisions that are pending before the FCC for all funding years.

i3. **Report on Schools and Libraries Division Outreach Activities.** Ms. Schatz reported on applicant outreach staff activities. Ms. Wolfhagen reported on service provider outreach activities.

At 11:00 a.m., the Committee voted to take a brief recess. At the call of the Chair, the Committee reconvened in Open Session at 11:12 a.m.

i4. **Report on Legislative and Media Activity.** Mr. Blackwell gave the Committee an update on legislative and media Activity.

i5. **Update on Universal Service Support Mechanisms Enforcement Trends.** Ms. Carroll gave the Committee an overview of the enforcement trends and staff’s responses to those trends.

i6. **Schools and Libraries Support Mechanism Timeline and Key Dates.** For information only. No discussion held.
i7. **Miscellaneous.** None

At 11:30 a.m., on a motion duly made and seconded, the Committee voted to go into *Executive Session* for purposes of discussing the confidential and proprietary items as listed above. On a motion duly made and seconded, the Committee voted at 11:47 a.m. to return to Open Session for the purposes of reporting matters discussed in *Executive Session*.

**EXECUTIVE SESSION:**

**a1. Acceptance of the Schools and Libraries Support Mechanism Funding Year 1 Beneficiary Agreed Upon Procedures Report – Confidential & Proprietary.** Mr. Barash updated the Committee on the status of a pending investigation of a Schools and Libraries Support Mechanism beneficiary.

**a2. Miscellaneous.**

- **Settlement of a Schools and Libraries Support Mechanism Subcontract Claim – Confidential & Proprietary.** Mr. McDonald discussed with the Committee issues surrounding the settlement of a Schools and Libraries Support Mechanism subcontract claim. Mr. Barash provided legal advice concerning the proposed settlement.

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

**RESOLVED,** That the USAC Schools & Libraries Committee accepts the recommendation of staff to resolve the NCS claim for payment for 1999 services rendered on the terms and conditions set forth in this issue paper and directs staff to take the steps required to implement the terms and conditions of the agreement in principle reached with NECA concerning this matter; and

**RESOLVED FURTHER,** That the USAC Schools & Libraries Committee authorizes an additional $500,000 for the 4th Quarter 2001 Schools and Libraries Support Mechanism programmatic budget.

There being no further business to attend to, Ms. Ouye adjourned the meeting at 11:53 a.m.

____________________________________

D. Scott Barash
Assistant Secretary

____________________________________
A meeting of the Schools & Libraries Committee of the Board of Directors of the Universal Service Administrative Company (USAC) was held at 2120 L Street, N.W., Suite 600, Washington, D.C., on Wednesday, December 19, 2001. Ms. Kathleen Ouye, Chair of the Committee, called the meeting to order at 4:05 p.m. Eastern Time. Ms. Ann Simmons, Administrative Assistant for USAC, called the roll on behalf of Mr. D. Scott Barash, Assistant Secretary. Five of the seven members were present, representing a quorum:

- Davis, Fr. William – by telephone
- Jackson, James – by telephone
- Ouye, Kathleen – by telephone
- Parrino, Cheryl
- Talbott, Brian – by telephone

Two members were absent:
Bryant, Anne
Hess, Kevin

Other Board members and officers of the Corporation present:

- Rivera, Robert – Board member – by telephone
- Barash, D. Scott – Assistant Secretary

Others present for the meeting:

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<th>NAME</th>
<th>COMPANY</th>
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<tbody>
<tr>
<td>McDonald, George</td>
<td>USAC</td>
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<tr>
<td>Simmons, Ann</td>
<td>USAC</td>
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</tbody>
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ACTION ITEMS:

a1. Approval of Reduction in Contingency Funding Reserve and Lowering of Funding Parameter for Internal Connections for Year 4. Mr. McDonald informed the Committee that USAC staff recommends that the Committee approve lowering the contingency funding reserve to $74 million and fully fund all eligible internal connection requests with a discount percentage of 88% or higher. Mr. McDonald reviewed the details of the analysis with the Committee.

Mr. McDonald stated that the parameter analysis contained in Attachment A of the issue paper shows that internal connections at 88% and above, in addition to all approved Priority 1 requests, can be fully funded with a conservative assumption that disbursements will be 90% of the commitments, and with a conservative reduction rate going forward of 16%. Under these assumptions, unused funds would be an estimated $66 million, after funding Priority 1 requests and internal connections at 88% to 90% – much less than would be required to fully fund internal connections requests at 87%. Thus, USAC staff is recommending a lowering of the internal connections discount percentage to 88% at this time.

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

RESOLVED, That the USAC Schools & Libraries Committee approves reduction of the Contingency Funding Reserve from $201 million to $74 million and the funding of all approved internal connections requests at the 88% discount level and above.

There being no further business to attend to, Ms. Ouye adjourned the meeting at 4:25 p.m.

________________________________________
D. Scott Barash
Assistant Secretary

__________________________
Date