

Briefing book excludes all materials discussed in Executive Session.



# Audit Committee

## Briefing Book

Monday, January 27, 2020

8:00 a.m. – 9:30 a.m. Eastern Time

Universal Service Administrative Co. Offices

700 12th Street NW, Suite 900

Washington, DC, 20005

**Universal Service Administrative Company  
Audit Committee Quarterly Meeting  
Agenda**

**Monday, January 27, 2020  
8:00 a.m. – 9:30 a.m. Eastern Time  
USAC Offices  
700 12th Street, N.W., Suite 900  
Washington, D.C. 20005**

<b><u>OPEN SESSION</u></b>		<i>Estimated Duration in Minutes</i>
Chair	<b>a1.</b> Consent Items (each item is available for discussion upon request): <b>A.</b> Approval of Audit Committee Meeting Minutes of October 28, 2019 <b>B.</b> Approval of moving all <i>Executive Session</i> items into <i>Executive Session</i> <b>C.</b> Review of the 2020 Audit Committee Charter	5
Chair	<b>a2.</b> Recommendation for Election of Committee Chair and Vice Chair	5
Dale	<b>i1.</b> Information on Fiscal Year 2019 FCC Agency Financial Report: USF Audit Summary	10
Teleshia	<b>i2.</b> Audit and Assurance Division Business Update. <ul style="list-style-type: none"> <li>• October 2019 Audit Committee Recap</li> <li>• 2019 Accomplishments</li> <li>• Operational Results</li> <li>• 2020 Look Ahead</li> </ul>	30

<b><u>EXECUTIVE SESSION</u></b>		
<b>Confidential – Executive Session Recommended</b>		
Teleshia	<b>i3.</b> Audit and Assurance Division Business Update ( <i>Continued</i> ). <ul style="list-style-type: none"> <li>• BCAP Lessons Learned and Planned Actions</li> </ul>	25
Teleshia	<b>i4.</b> Audit Committee Executive Session with USAC’s Vice President of Audit and Assurance	15

**Next Scheduled USAC Audit Committee Meeting**

**Monday, April 27, 2020  
8:00 a.m. – 9:30 a.m.  
USAC Offices, Washington, D.C.**

**Universal Service Administrative Company  
Audit Committee Meeting**

<b>ACTION ITEM</b>
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**Consent Items**

**Action Requested**

The Audit Committee (Committee) of the USAC Board of Directors (Board) is requested to approve the consent items listed below.

**Discussion**

The Committee is requested to approve the following items using the consent resolution below:

- A. Committee meeting minutes of October 28, 2019 (*see Attachment A*).
- B. Approval of moving all *Executive Session* items into *Executive Session*:
  - (1) **i3** – USAC Audit and Assurance Division Business Update (*Continued*). USAC management recommends that this matter be discussed in Executive Session because it relates to *specific internal controls, or confidential company data* that would constitute a discussion of internal rules and procedures.
  - (2) **i4** – *Executive Session* with USAC’s Vice President of Audit and Assurance. USAC management recommends that this matter be discussed in *Executive Session* pursuant to the guidelines in the approved Audit Committee Charter.
- C. The 2020 Audit Committee Charter (*see Attachments C-1 and C-2*).

Upon request of a Committee member, the above items are available for discussion by the Committee.

**Recommended USAC Audit Committee Action**

APPROVAL OF THE FOLLOWING RESOLUTIONS:

**RESOLVED**, that the USAC Audit Committee hereby approves:  
(1) the Committee meeting minutes of October 28, 2019; and (2) discussion in *Executive Session* of the items noted above, and

**RESOLVED FURTHER**, that the USAC Audit Committee, having reviewed the existing Audit Committee Charter, recommends that the USAC Board of Directors approve the current Audit Committee Charter without revision.

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**  
**700 12th Street, N.W., Suite 900**  
**Washington, D.C. 20005**

**AUDIT COMMITTEE MEETING**  
**Monday, October 28, 2019**

**(DRAFT) MINUTES<sup>1</sup>**

The quarterly meeting of the Audit Committee (Committee) of the USAC Board of Directors (Board) was held at USAC's offices in Washington, D.C. on Monday, October 28, 2019. Mr. Geoff Feiss, Committee Chair, called the meeting to order at 8:00 a.m. Eastern Time, with a quorum of four of the five Committee members present:

Choroser, Beth  
Feiss, Geoff – Chair

Gillan, Joe  
Kinser, Cynthia

Members of the Committee not present:

Tinic, Atilla – Vice Chair

Other Board members and officers of the corporation present:

Ayer, Catriona – Vice President of Schools and Libraries  
Beckford, Ernesto – Vice President, General Counsel, and Assistant Secretary  
Beyerhelm, Chris – Vice President of Enterprise Portfolio Management  
Bocher, Bob – Member of the Board  
Delmar, Teleshia – Vice President of Audit and Assurance  
Garber, Michelle – Vice President of Lifeline  
Lubin, Joel – Member of the Board  
Salvator, Charles – Vice President, Chief Financial Officer, and Assistant Treasurer  
Sekar, Radha – Chief Executive Officer  
Schell, Julie Tritt – Member of the Board  
Sweeney, Mark – Vice President of Rural Health Care  
Wade, Dr. Joan Wade – Member of the Board  
Wein, Olivia – Member of the Board

Others present:

**NAME**  
Anderson, Latoya

**COMPANY**  
USAC

<sup>1</sup> Draft resolutions were presented to the Committee prior to the Committee meeting. Where appropriate, non-substantive changes have been made to the resolutions set forth herein to clarify language, where necessary, or to correct grammatical or spelling errors.

<u>NAME</u>	<u>COMPANY</u>
Barrett, Henry	USAC
Bean, Peter	USAC
Bellmore, Fred	Econometrica, Inc.
Boakye-Gyan, Carol	USAC
Brady, Jair	SLD
Braxton-Johnson, Kianna	USAC
Lutin, Smyth	Avitecture
Francisco, Dale	USAC
Goode, Vernell	USAC
James, Christine	USAC
Jarvis, Monica	USAC
Kaplan, Peter	Funds for Learning
Kriete, Debra	South Dakota DOE
Mitchell, Steve	USAC
Murray, Sheila	USAC
Nelbach Nick	USAC
Nuzzo, Patsy	USAC
Santana-Gonzalez, Jeanette	USAC
Sneed, Matt	USAC
Suggs-Moore, Vickie	USAC
Tawes, Pauline	USAC
Tiwari, Tanya	USAC
Ward, Rashonda	USAC
Willis, Catherine	USAC

### OPEN SESSION

All materials from *Open Session* can be found on the [USAC website](#).

- a1. Consent Items.** Mr. Feiss presented this item to the Committee.
- A.** Approval of Committee Meeting Minutes of July 29, 2019.
  - B.** Approval of moving all *Executive Session* items into *Executive Session*:
    - (1) **i2** – USAC Audit and Assurance Division Business Update (*Continued*). USAC management recommends that this matter be discussed in Executive Session because it relates to *specific internal controls, or confidential company data* that would constitute a discussion of internal rules and procedures.
    - (2) **a2** – Review of USAC’s Audit and Assurance Division Charter. USAC management recommends that this matter be discussed in *Executive Session* because it relates to *specific internal controls, and/or confidential company data* that would constitute a discussion of internal rules and procedures.

- (3) **a3** – Review of USAC’s Audit and Assurance Division Peer Review Report. USAC management recommends that this matter be discussed in Executive Session because it relates to *specific internal controls, or confidential company data* that would constitute a discussion of internal rules and procedures.
- (4) **a4** – Action on One USAC Audit and Assurance Division Strategic Audit Report. USAC management recommends that this matter be conducted in *Executive Session* because this matter relates to *specific internal controls, and /or confidential company data* that would constitute a discussion of internal rules and procedures.
- (5) **a5** – Annual Review of USAC’s System of Internal Controls. USAC management recommends that this matter be conducted in *Executive Session* because this matter relates to *specific internal controls, and /or confidential company data* that would constitute a discussion of internal rules and procedures.
- (6) **a6** – Annual Review of USAC’s Financial Reporting Process. USAC management recommends that this matter be conducted in *Executive Session* because this matter relates to *specific internal controls, and /or confidential company data* that would constitute a discussion of internal rules and procedures.
- (7) **i3** – *Executive Session* with USAC’s Vice President of Audit and Assurance. USAC management recommends that this matter be discussed in *Executive Session* pursuant to the guidelines in the approved Audit Committee Charter.

- C. Annual Assessment of the Independence and Financial Literacy of Audit Committee Members. In accordance with Section II.A of the Committee’s Charter, the Committee members are required to meet established independence requirements.
- D. Annual Review of the Adequacy of USAC’s System of Internal Controls. In accordance with Section III.F of the Committee’s Charter, the Committee is required to review the adequacy of USAC’s system of internal controls.
- E. Annual Review of USAC’s Financial Reporting Process. In accordance with Section III.C of the Committee’s Charter, the Committee, is required to review the integrity of USAC’s financial reporting process.

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

**RESOLVED**, that the USAC Audit Committee hereby approves: (1) the Committee meeting minutes of July 29, 2019; and (2) discussion in *Executive Session* of the items noted above; and

**RESOLVED FURTHER**, that the USAC Audit Committee accepts the assessment and agrees that the Audit Committee consists of independent members and that there is a sufficient level of financial expertise; and

**RESOLVED FURTHER**, that the USAC Audit Committee accepts the review of the adequacy of USAC's system of internal controls; and

**RESOLVED FURTHER**, that the USAC Audit Committee accepts the review of USAC's financial reporting process.

- i1. Audit and Assurance Division Business Update.** Ms. Delmar presented PowerPoint slides covering the following to the Committee:
1. Action items and updates from the July 2019 Audit Committee meeting
  2. Audit and Assurance Division at a Glance
  3. Discussion Topics:
    - a. Beneficiary and Contributor Audit Program (BCAP);
    - b. Payment Quality Assurance (PQA);
    - c. Strategic Audit (SA) activities.

Mr. Feiss requested a mitigation plan and lessons learned for High Cost audits at the January Committee meeting.

At 8:36 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential items noted above.

### **EXECUTIVE SESSION**

**i2. Audit and Assurance Division Business Update (Continued).** Ms. Tawes and Mr. Bellmore presented this item for discussion. The Committee requested that additional time be allotted for discussion on final Payment Quality Assurance Program results in future meetings.

**a2. Review of the Audit and Assurance Division Charter.** Ms. Delmar presented this item to the Committee for consideration.

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

**RESOLVED**, that the Audit Committee of the USAC Board of Directors, approves the recommended changes to the Audit and Assurance Division Charter.

- a3. Review of the USAC Audit and Assurance Division External Peer Review Report.** Ms. Delmar presented this item to the Committee for consideration. On a motion duly made and seconded, and after discussion, the Committee adopted the following resolution:

**RESOLVED**, that the Audit Committee of the USAC Board of Directors, having reviewed the external Peer Review report submitted by Honkamp Krueger & Co, P.C., hereby deems the report final.

- a4. Action on One USAC Audit and Assurance Division Strategic Audit Report.** Ms. Boakye-Gyan presented the Strategic Audit Report to the Committee for consideration.

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

**RESOLVED**, that the USAC Audit Committee, having reviewed the USAC Audit and Assurance Division strategic audit report of USAC's Corporate Credit Card process, accepts the recommendation of USAC management and hereby deems the report final.

- a5. Annual Review of Adequacy of USAC's System of Internal Controls.** This item was approved with the Consent Items, no additional discussion was held.
- a6. Annual Review of USAC's Financial Reporting Process.** This item was approved with the Consent Items, no additional discussion was held.

At 9:24 a.m. Eastern Time, the Committee continued in *Executive Session* with only non-staff members of the Board and Ms. Delmar present.

- i3. Executive Session with USAC's Vice President of Audit and Assurance.** The Committee met with USAC's Vice President of Audit and Assurance, pursuant to the requirements set forth in USAC's Audit Committee Charter.

### **OPEN SESSION**

At 9:57 a.m. Eastern Time, the Committee moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Mr. Feiss reported that, in *Executive Session*, the Committee took action on items a2, a3 and a4 and discussed items i2 and i3.



Briefing book excludes all materials discussed in Executive Session.

On a motion duly made and seconded, the Committee adjourned at 9:59 a.m. Eastern Time.

/s/ Ernesto Beckford  
Assistant Secretary

**Universal Service Administrative Company  
Audit Committee Meeting**

**ACTION ITEM**

**Review of the 2020 Audit Committee Charter**

*Same as aBOD01D*

**Action Requested**

In accordance with USAC's Audit Committee Charter (Charter), Section III.A.1, the Audit Committee (Committee) of the USAC Board of Directors (Board) is required to review and reassess the adequacy of the Charter at least annually, and recommend changes, as deemed necessary, to the Board.

**Discussion**

USAC Audit and Assurance Division (AAD) staff and Committee members reviewed the Charter to determine if any changes should be recommended to the Committee and the Board of Directors for consideration. AAD does not recommend any changes to the Audit Committee for consideration at this time. **Attachment C-2** provides the existing Charter. The Committee recommends that the Board approve the existing Charter without revision.

**Recommended USAC Audit Committee Action**

APPROVAL OF THE FOLLOWING RESOLUTION:

**RESOLVED**, that the USAC Audit Committee, having reviewed the existing Audit Committee Charter recommends that the USAC Board of Directors approve the current Audit Committee Charter without revision.

**Recommended USAC Board of Directors Action**

APPROVAL OF THE FOLLOWING RESOLUTION:

**RESOLVED**, that the USAC Board of Directors, having reviewed the existing Audit Committee Charter hereby accepts the recommendation of the Audit Committee and approves the current Audit Committee Charter without revision.

**Available for Public Use**

Briefing book excludes all materials discussed in Executive Session.

**ACTION Item #aAC01**

**Attachment C-2**

**1/27/20**

**ATTACHMENT C-2**

**Audit Committee Charter**

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY  
AUDIT COMMITTEE CHARTER**

**January 2020**

- I. Audit Committee Purpose, Duties, and Responsibilities.
  - A. The Audit Committee (Committee) of the Board of Directors of the Universal Service Administrative Company (USAC) shall provide assistance to the Board of Directors (Board) in fulfilling the Board's oversight responsibilities relating to corporate accounting, financial reporting practices, internal control, Universal Service Fund program integrity, enterprise risk management, and all aspects of corporate compliance with applicable law.
  - B. The Committee's primary duties and responsibilities shall be as follows:
    1. Oversee management's efforts to maintain the reliability and integrity of USAC's accounting policies and financial reporting practices.
    2. Oversee management's efforts to establish, maintain, and review processes that assure that an adequate system of internal control is functioning within USAC through the execution of operational and Universal Service Fund Beneficiary and Contributor audits and the required annual financial statement audit and agreed upon procedures review.
    3. Oversee management's efforts to establish, maintain, and review processes that assure compliance by USAC with all applicable laws.
    4. Develop and oversee a Strategic Audit Plan to verify USAC's financial and operational integrity.
    5. Provide an avenue of communication between USAC's independent financial statement auditors, USAC management (including but not limited to the Chief Executive Officer, the Vice President of Finance and Chief Financial Officer, the Vice President and General Counsel, and the Vice President of each USAC programmatic division), the Vice President of Audit and Assurance, and the Board.
    6. Provide insight and recommendations to establish cost effective Universal Service Fund strategic audit plans that include a focus on high risk areas as identified through audit results and data analytics. Also, assist USAC by providing solutions to mitigate common audit findings and suggestions to build a more collaborative audit experience for Universal Service Fund participants.

## II. Audit Committee Composition, Appointment, and Meetings.

### A. Composition

1. The Committee shall consist of five Board members:
  - a. At least one representative from each of the three programmatic committees of the Board (the High Cost & Low Income Committee, the Rural Health Care Committee, and the Schools & Libraries Committee). The Chairperson of the Audit Committee will serve as a member of the Executive Committee.
  - b. Two at-large Board members.
  - c. At least one Committee member shall have a background in financial reporting, accounting, or auditing, or other financial expertise.
2. Each member of the Committee shall meet each of the following independence requirements:
  - a. Is not and has not been employed in an executive capacity by USAC for at least five years prior to appointment to the Committee.
  - b. Is not an advisor or consultant to USAC, and does not have a personal services contract or other business relationship with USAC.
  - c. Is not a spouse, parent, sibling, child, or in-law of any person described in the preceding two clauses of this paragraph or of any member of USAC management.

### B. Appointment

1. The members of the Committee shall be appointed annually by the Board. Each member shall hold office until he/she resigns, is removed or until a successor is appointed by the Board.
2. The Board shall appoint one of the members of the Committee as Chair and another as Vice Chair.

### C. Meetings

1. The Committee shall meet at least quarterly and at such other times as the Committee deems necessary.
2. The Committee shall, at least annually and at such other times as the Committee deems necessary, separately meet with USAC management, the Vice President of Audit and Assurance, and representatives of the independent financial auditing firm retained by USAC to discuss any matters that either the Committee or any of these groups believes should be discussed privately.

3. The Committee may direct any member of the Board, officer, or employee of USAC or advisor to USAC, including outside counsel or independent auditors, to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Committee shall advise the Board of all such special meetings either prior to the meeting or promptly thereafter.

### III. Responsibilities and Duties

#### A. Review of Documents, Reports, and Assessments

1. Review and reassess, at least annually, the adequacy of the Committee Charter and make recommendations to the Board, as deemed necessary.
2. Review, in conjunction with management and representatives of the independent auditing firm retained by USAC, the annual financial statements and the audit reports included with those statements and the annual agreed upon procedures review report.
  - a. Discuss with management and the independent auditors significant issues regarding accounting principles, practices, and judgments.
  - b. Discuss any significant judgments made in management's preparation of the financial statements and any significant difficulties encountered during the course of the review or audit, including any restrictions on the scope of work or access to required information.
  - c. Discuss any significant exceptions in the agreed upon procedures review report.
3. Annually develop and approve a Strategic Audit Plan in consultation with the Vice President of Audit and Assurance. In addition to projects outlined in the Strategic Audit Plan, the Committee may from time to time request additional specific operational and/or financial audits.
4. Review USAC financial, operational and compliance audit reports prepared by the independent auditors or the Audit and Assurance Division and management's response thereto.
5. Review, at least annually, a summary report of common audit findings concerning Universal Service Fund beneficiary and contributor audits performed under the Universal Service Fund Beneficiary and Contributor Audit Program.
  - a. Discuss audit results to highlight areas of high risk for consideration in developing future Universal Service Fund audit plans; identify FCC rules that may require revision to improve compliance among beneficiaries and contributors; and propose suggestions for improving audit efficiency among beneficiaries and contributors.



- a. All significant accounting policies and practices to be used.
  - b. All alternative disclosures and treatments of financial information within generally accepted accounting principles that have been discussed with management, including the ramifications of such alternative disclosures and treatments and the treatment preferred by the independent auditing firm.
  - c. Other written communications between the independent auditors and management, such as any management letter or schedule of adjusted differences.
4. Review and evaluate significant disagreement among USAC management and the independent auditing firm(s) retained by USAC and/or the Vice President of Audit and Assurance in connection with the preparation of the USAC financial statements, and management's response thereto.
- D. Oversight of the Operational Reporting Process, Agreed-Upon Procedures Review
1. In consultation with the independent auditing firm(s) retained by USAC and the Vice President of Audit and Assurance, review the integrity of internal controls and operating procedures and any exceptions identified in the agreed-upon procedures reviews.
  2. Review changes to USAC's internal controls or operating procedures and practices for consistency with suggestions of an independent auditing firm retained by USAC, management, or the Vice President of Audit and Assurance.
  3. Ensure and oversee timely reports from the independent auditing firm(s) retained by USAC to the Audit Committee.
  4. Review and evaluate significant disagreement among USAC management and the independent auditing firm(s) retained by USAC and/or the Vice President of Audit and Assurance in connection with the preparation of USAC's agreed upon procedures report and management's response thereto.
- E. Oversight of Audit and Assurance Division
1. Review and approve the Audit and Assurance Division Charter, organizational structure, budget, activities, and significant changes to the Strategic Audit Plan, as needed.
  2. Review and approve the appointment, replacement, reassignment or material changes in the role and/or responsibility of the Vice President of Audit and Assurance Division.



3. Review the effectiveness of the internal audit activities, including compliance with Generally Accepted Government Auditing Standards (GAGAS) as issued by the Comptroller General of the United States (as amended) and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.
4. Review reports of whistleblower complaints received by the Vice President of Audit and Assurance. Such reports shall be prepared jointly by the Vice President of Audit and Assurance and USAC's Office of General Counsel.

F. Assessment of Internal Controls, Annual Report on Internal Controls

1. Review with management, the independent auditors, and the Vice President of Audit and Assurance the effectiveness of the Company's process for assessing significant risks or exposures and the steps management has taken to minimize such risks and exposures to the Company.
2. Review with management, the independent auditors, and the Vice President of Audit and Assurance the adequacy of the Company's system of internal controls as noted in the Annual Report on Internal Controls as issued by the independent auditing firm.
3. Establish and maintain procedures for the following activities:
  - a. The receipt, retention, and treatment of complaints received by USAC regarding accounting, internal controls, operating procedures, or auditing matters.
  - b. The confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

G. Compliance With Applicable Law

1. In consultation with the Vice President and General Counsel, review at least annually any legal matters that could have a significant effect on the USAC's operations, financial statements, and reports received from regulators.
2. In consultation with the Vice President and General Counsel, review the processes established to assure compliance by USAC with all applicable laws.
3. Review the results of any investigations concerning waste, fraud, abuse, and/or accounting irregularities and make recommendations for remedial action, if appropriate.

#### H. Other Responsibilities of the Audit Committee

1. Periodically report to the Board through the Committee Chair or pursuant to other means acceptable to the Board.
2. Maintain minutes or other records of meetings and activities of the Committee.
3. Perform any other activities consistent with the Committee Charter, USAC's By-laws, and applicable laws, as the Committee or the Board deems appropriate.
4. When deemed appropriate by the Committee, the Committee will retain outside legal, accounting, or other advisors or consultants to advise and assist the Committee, without needing to seek approval for the retention of such advisors or consultants from the Board, *provided* that the cost is less than \$250,000 in any single calendar year. If the cost for such purpose exceeds \$250,000 in a calendar year, the Committee shall obtain Board approval before engaging or continuing to engage an outside advisor or consultant.

#### IV. Limitations on Responsibilities and Duties of Audit Committee Members and Audit Committee

- A. The responsibility of the Committee is oversight. USAC management is responsible for the USAC financial statements as well as financial reporting processes, principles, and internal controls. The independent auditing firm(s) retained by USAC is/are responsible for performing audits of the annual financial statements, expressing an opinion as to the conformity of such annual financial statements with generally accepted accounting principles, and other procedures. The members of the Committee are not engaged in the accounting or auditing profession and, consequently, are not experts in matters involving auditing or accounting.
- B. Each member of the Committee shall be entitled reasonably to rely on the following:
  1. The integrity of those persons within USAC and of the professionals and experts (such as the independent auditors) who provide professional advice and information to the Committee and/or USAC.
  2. The accuracy of the financial and other information provided to the Committee by such persons, professionals, or experts, absent actual knowledge to the contrary.
- C. Pursuant to USAC By-Laws and FCC rules, the programmatic committees of the Board have the authority for the performance of audits of beneficiaries of the respective support mechanisms and the full Board has the authority for the performance of audits of contributors to the Universal Service Fund. The Audit

Committee shall provide advice and assistance to the programmatic committees in support of the primary role of the programmatic committees with respect to audits of beneficiaries and the Board with respect to audits of contributors.

V. Procedures for Discussing Matters in *Executive Session*

- A. In general, any USAC Board member may attend any meeting of the Committee, including *Executive Sessions*, as an observer, even though the person is not a member of the Audit Committee. The exceptions to this general rule are as follows:
1. Where the Board member is aware of an actual or potential conflict of interest with respect to a matter coming before the Committee in *Executive Session*, he/she shall bring the matter to the attention of the Committee or, if the Committee is aware of the conflict of interest, the Committee or any member thereof may raise the issue for consideration. The Board member may self-recuse from the meeting or, upon the vote of the Committee, be excluded from the relevant portion of the *Executive Session* of the Committee meeting.
  2. Where a Board member seeking to attend an *Executive Session* of the Committee is aware of an actual or potential conflict of interest with respect to a matter coming before the Committee in *Executive Session*, he/she shall bring the matter to the attention of the Committee or, if the Committee is aware of the actual or the potential conflict of interest, the Committee or any member thereof may raise the issue for consideration. Where disclosure and/or discussion of the specific issue or potential conflict of interest would compromise the integrity of the Universal Service Fund, the Committee shall exclude all persons other than Audit Committee members.
  3. Where the Committee wishes to meet with USAC's independent auditing firm, the Vice President of Audit and Assurance, the Vice President and General Counsel, the Vice President of Finance and Chief Financial Officer, and/or other representatives to discuss or seek assurances concerning any significant difficulties encountered during the course of a review or audit, including any restrictions on the scope of work or access to required information, or matters of a similar nature, and/or engaged in the preliminary assessment of any investigation, the Committee may exclude Board members who are not members of the Committee from attending the relevant portion of the *Executive Session* of the Committee meeting.

**Universal Service Administrative Company  
Audit Committee Meeting**

**ACTION ITEM**

**Recommendation for Election of  
Committee Chair and Vice Chair**

**Action Requested**

The USAC Audit Committee (Committee) is taking action to bring its Chair and Vice Chair nominations for consideration by the full Board of Directors (Board) at the Board meeting to be held on January 28, 2020.

**Discussion**

The pertinent resolution related to the election of committee chair and vice chair positions was adopted by the Board on January 25, 2000 and reads as follows:

**RESOLVED**, that the USAC Board of Directors accepts the recommendations of the USAC Nominating Committee that: (1) in addition to the annual election of officers, all Committee chairs and vice chairs shall also be elected annually; (2) the first election for Committee chairs and vice chairs shall occur at the election of officers at the January 2001 Board of Directors meeting; (3) there shall be no term limits imposed on officer and Committee chair and vice-chair positions; and (4) there shall be no automatic succession of positions....<sup>1</sup>

On January 29, 2019, the Board elected Geoff Feiss as Chair and Atilla Tinic as Vice Chair of the Audit Committee.

At their January 27, 2020 quarterly meetings, each committee of the Board (including the Audit Committee and each of the programmatic committees) will nominate Board members to serve as chair and vice chair of their respective committees. Those recommendations will be submitted to the Board at the Board meeting to be held on January 28, 2020.

**Recommended USAC Audit Committee Action**

APPROVAL OF THE FOLLOWING RESOLUTION:

<sup>1</sup> USAC Board of Directors Meeting Minutes, at 4 (Jan. 25, 2000), *available at* <http://usac.org/about/about/leadership/board-minutes/bod.aspx>.

**RESOLVED**, that the USAC Audit Committee recommends that the USAC Board of Directors elect \_\_\_\_\_ as Chair and \_\_\_\_\_ as Vice Chair of the Committee. The term for each position begins immediately upon the election to such position by the Board and ends at such time as the Chair or Vice Chair (as the case may be): (i) is replaced by a successor selected by the Board, (ii) resigns from the Committee or the Board, (iii) is removed by resolution of the Board, or (iv) is no longer a member of the Board (whichever comes first).



Briefing book excludes all materials discussed in Executive Session.

# Information on Fiscal Year 2019 (FY2019) FCC Agency Financial Report / USF Audit Summary

January 27, 2020



Available for Public Use

# FY2019 FCC Agency Financial Report (AFR): USF Audit Summary

## Overview

- Audit conducted by Kearney & Company on behalf of the FCC OIG
- Auditors issued a clean audit opinion of the FCC's financial statements, and the USF balances were presented fairly, in all material respects, for the fiscal year ending September 30, 2019

## Internal Control Findings

- Material weakness identified in FY 2018 downgraded to Significant Deficiency FY2019 FCC Agency Financial Report <sup>1</sup>
  - USF Budgetary Resources Deficiencies related to Rural Health Care and Schools & Libraries obligations
  - See FY2019 FCC AFR at: <https://docs.fcc.gov/public/attachments/DOC-360844A1.pdf>

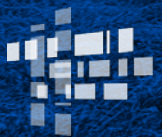


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# Audit and Assurance Business Update

Audit Committee

January 27, 2020



Universal Service  
Administrative Co.



Briefing book excludes all materials discussed in Executive Session.

<b>Topic</b>	<b>Description</b>	<b>Purpose</b>	<b>Presenter</b>	<b>Length</b>
October 2019 Committee Recap	Action items and updates from previous Audit Committee meetings	Informational	Teleshia	2 min
2019 Accomplishments	Significant quantitative & qualitative accomplishments	Informational	Teleshia	5 min
Operational Results	Key outcomes from BCAP audits and PQA assessments	Informational	Teleshia	10 min
2020 Goals & Objectives	Primary goal and objective for the division	Informational	Teleshia	1 min
Audit and Assurance Division at a Glance	Overview of activities for next 12 months	Informational	Teleshia	5 min
2020 Look Ahead	Upcoming key milestones	Informational	Teleshia	2 min
Appendix	Glossary	Informational	-	-

## October 2019 Audit Committee Recap

Action items and updates from the previous Audit Committee meeting

Activity	Status
<u>BCAP</u> : For the AAD Operational Results, provide the cumulative audit recommended recovery and recaptured amounts over the last three years, including the impact of appeals and any timing issues.	This item is addressed in the AAD Business Update .
<u>BCAP</u> : Identify which audit findings are new or novel when the audit reports are presented to the Board.	USAC staff will present new or novel audit findings in the respective committee meetings.
<u>High Cost Audit Backlog</u> : Compile a list of lessons learned from the existing backlog of high cost audits and develop a mitigation plan to present at the January 2020 board meeting.	This item is addressed in executive session.
<u>PQA</u> : In future meetings, provide more time to discuss PQA improper payment results.	USAC staff will present the PQA improper payment results in each respective committee meeting when the PQA results are available in October 2020.

# 2019 Accomplishments

## **BCAP**

- Completed 85 audits during Fiscal Year 2019 (7 CR, 13 HC, 28 LI, 35 SL, 2 RH).
- Implemented GAGAS July 2019 revisions which comprised a major rewrite of policies and training staff on updates.
- Received Peer Review “Pass” result on the independent assessment of BCAP operations.
- Implemented on-demand video training series across program areas to enhance auditor knowledge.

## **PQA**

- Completed 1,248 assessments for Fiscal Year 2019 (200 HC, 278 LI, 410 RHC, 360 SL).
- Received FCC approval of PQA procedures for Fiscal Year 2020.

## **Strategic Audit**

- Completed 5 audits across all four programs and enterprise divisions.
- Received minor audit findings on the 2019 AUP and performed audit readiness for the 2020 AUP.

## **Other Activity**

- Initiated PQA and Strategic Audit surveys to obtain feedback from entities about the process.
- Prepared content for the AAD Knowledge Management Portal.
- Presented audit-related topics at the E-Rate Applicant and Service Provider trainings and High Cost and Lifeline webinars.

# 2019 Accomplishments – Cont’d

Identified the following key findings by Program:

Program	Key Findings	Corrective Actions
Contributor Revenue	<ul style="list-style-type: none"> <li>• Non-Telecommunications and Information Service Revenues</li> <li>• Private Line Revenue(s)</li> <li>• Customer Category - End User vs. Reseller</li> </ul>	<ul style="list-style-type: none"> <li>• Developed and delivered educational materials regarding non-telecom and information service revenues which included training webinars; newsletters, content on webpages.</li> <li>• Utilized Private Line Clarification Order to train filers on proper reporting of Private Line revenues to ensure the accuracy of their 2019 499-A filings.</li> <li>• Developed a wholesaler/reseller certification template to assist contributor filers with revenue reporting.</li> </ul>
High Cost	<ul style="list-style-type: none"> <li>• Inaccurate Data</li> <li>• Lack of/Inadequate Documentation</li> <li>• Inaccurate/Misclassified Access Line/Loop Counts</li> <li>• Misclassified Assets, Expenses, and/or Liabilities</li> <li>• Improper Allocation Methodology</li> </ul>	<ul style="list-style-type: none"> <li>• Developed and delivered webinars to educate carriers on best practices related to documentation and provide guidance to avoid key findings:                             <ul style="list-style-type: none"> <li>➤ Data inaccuracy due to inadequate/inaccurate documentation and inaccurate depreciation calculation</li> <li>➤ Retention of documentation necessary to support audit investigations</li> <li>➤ Potential errors arising from usage of inaccurate or misclassified access lines and loop counts</li> <li>➤ Ineligible items as listed in FCC Orders</li> <li>➤ Improper Allocation Methodology common errors and avoidance best practices</li> </ul> </li> </ul>
Lifeline	<ul style="list-style-type: none"> <li>• Inaccurate Form 497 Reporting</li> <li>• Improper Certification and/or Recertification Documentation Disclosures</li> <li>• Lack of/Inadequate Documentation</li> <li>• Subscribers Outside of Service Area</li> </ul>	<ul style="list-style-type: none"> <li>• Implemented system requiring service providers to claim only subscribers active in National Lifeline Accountability Database (NLAD).</li> <li>• Implemented Universal Forms standardizing certification and recertification disclosures for initial applications.</li> </ul>

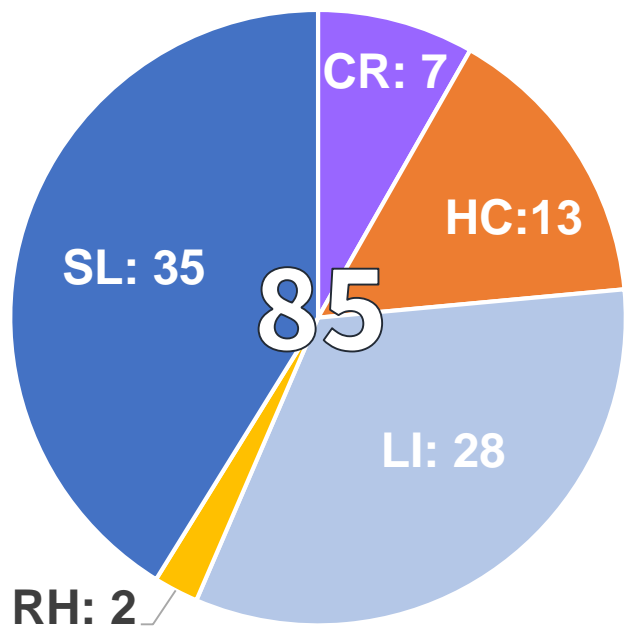
## 2019 Accomplishments – Cont’d

Identified the following key findings by Program:

Program	Key Findings	Corrective Actions
Schools and Libraries	<ul style="list-style-type: none"> <li>• Service Provider or Beneficiary Over-Invoiced SLP</li> <li>• Inadequate Competitive Bidding Process</li> <li>• Lack of/Inadequate Documentation</li> <li>• CIPA Violations</li> <li>• Category 2 Budget</li> </ul>	<ul style="list-style-type: none"> <li>• Developed online training for applicants and service providers and included topics related to over-invoicing and lack of documentation.</li> <li>• Developed online training for applicants and service providers that targets participants on Tribal land.</li> <li>• Developed on-line training related to invoicing.</li> <li>• Developed targeted outreach program to address root causes for entities with significant audit findings.</li> <li>• Updated SLD website to improve search functionality, accessibility and user experience.</li> <li>• Conducted outreach to applicants via EPC Customer Contact Templates (CCT) and News Briefs sent every Friday to users.</li> <li>• Created a Category 2 Budget Tool for applicants to utilize to understand their budgets when submitting funding requests.</li> </ul>
Rural Health Care	<ul style="list-style-type: none"> <li>• Service Provider or Beneficiary Over-Invoiced RHCP</li> <li>• Beneficiary Did Not Establish Fair Share</li> </ul>	<ul style="list-style-type: none"> <li>• Implemented an enhanced review of certain FCC Form 463 where applicants need to provide proof of services and costs.</li> <li>• Required applicants to certify and input a percentage eligible expense and eligible site on the Form 462.</li> </ul>

# 2019 Operational Results

October 1, 2018 – September 30, 2019



## NEW/NOVEL FINDINGS

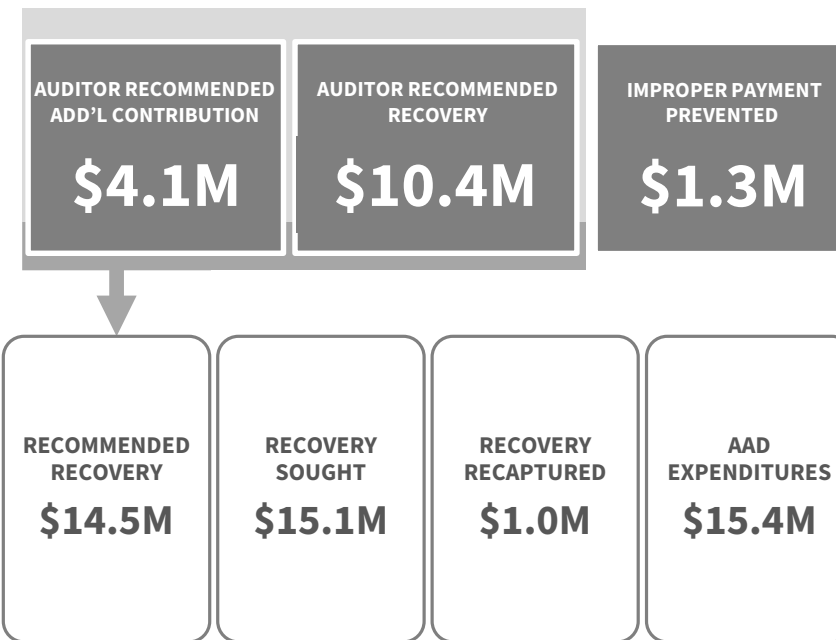


**AUDITS REFERRED TO FCC: 8**

## AUDITOR RECOMMENDED RECOVERY vs DISBURSEMENT AMOUNT (\$ MIL)



## FISCAL YEAR FINANCIAL RESULTS



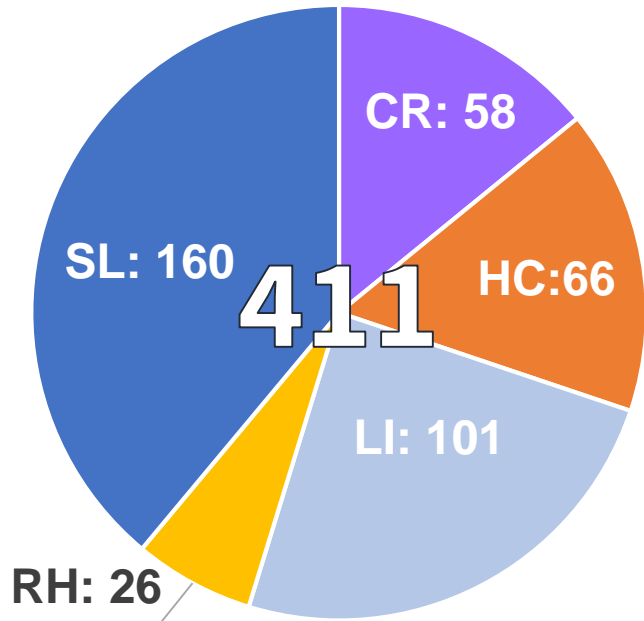
## PQA IMPROPER PAYMENTS

Program	Cases	IPERIA \$
HC	200	\$21,867
LI	278	\$15,834
SL	360	\$2,849,411
RH	410	\$3,005,016
<b>Total</b>	<b>1,248</b>	<b>\$5,892,128</b>

# 2017 - 2019 Operational Results

October 1, 2016 – September 30, 2019

Briefing book excludes all materials discussed in Executive Session.

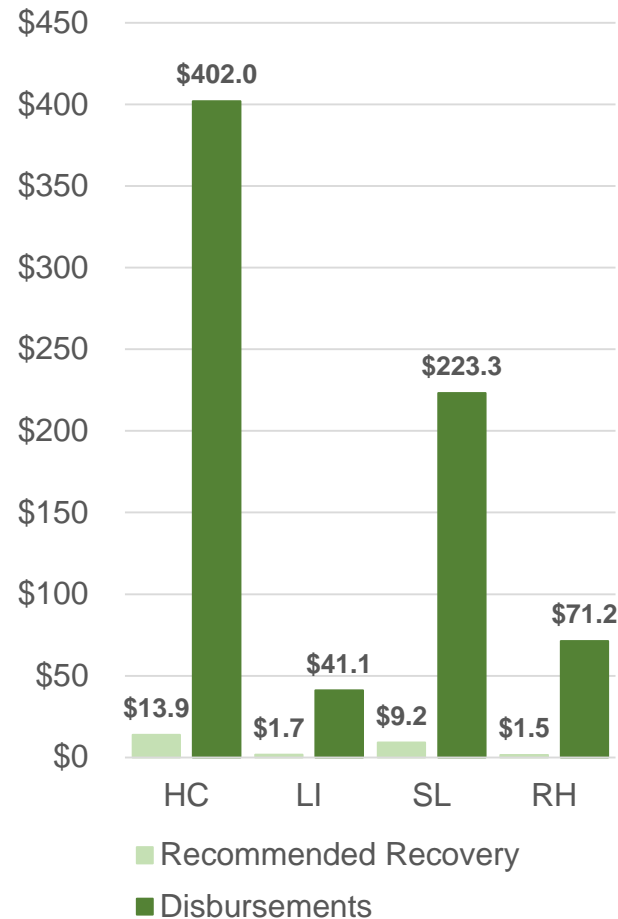


## NEW/NOVEL FINDINGS\*

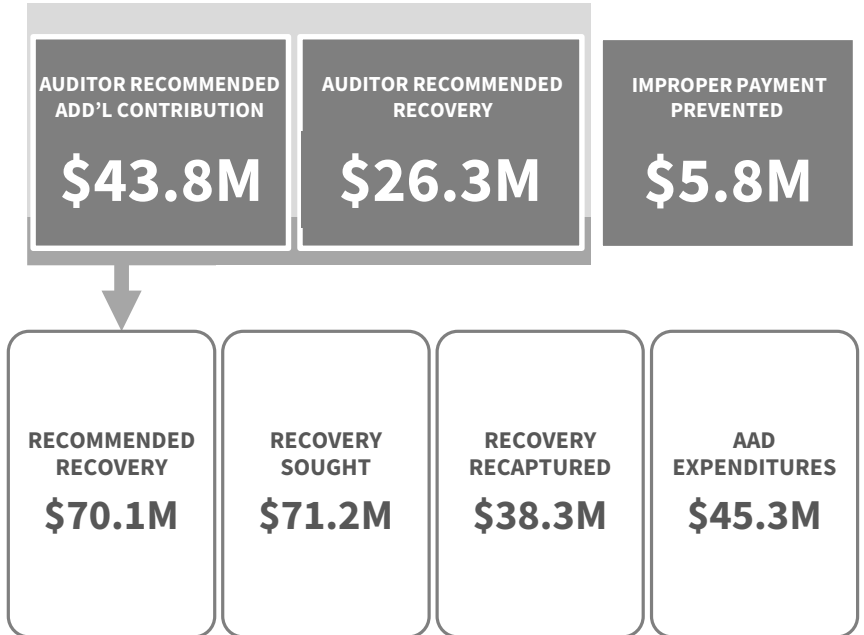


**AUDITS REFERRED TO FCC: 45**

## AUDITOR RECOMMENDED RECOVERY vs DISBURSEMENT AMOUNT (\$ MIL)



## FISCAL YEAR FINANCIAL RESULTS



## PQA IMPROPER PAYMENTS

Program	Cases	IPERIA \$
HC	893	\$106,611
LI	1,027	\$1,408,921
SL	1,281	\$12,803,147
RH	410	\$3,005,016
<b>Total</b>	<b>3,611</b>	<b>\$17,323,694</b>

\*New/Novel findings for FY 2018 – FY 2019; no data available for FY2017.

# Recoveries by Status (\$ MIL)

October 1, 2016 – September 30, 2019

Briefing book excludes all materials discussed in Executive Session.

**FY 2019**

Program	Recommended Recovery	Recovery Sought	Recovery Recaptured	Collections in Progress
CR	\$4.1*	\$4.1	\$0.8	\$3.3
HC	\$8.9	\$8.9	<\$0.1	<\$0.1
LI	\$1.0	\$1.0	\$0.1	\$0.2
SL	\$0.4	\$1.1	<\$0.1	\$1.1
RH	<\$0.1	<\$0.1	<\$0.1	\$0.0
<b>Total</b>	<b>\$14.5</b>	<b>\$15.1</b>	<b>\$1.0</b>	<b>\$4.6</b>
<b>% Recovery Sought</b>			<b>7%</b>	<b>30%</b>

**FY2017 - FY2019**

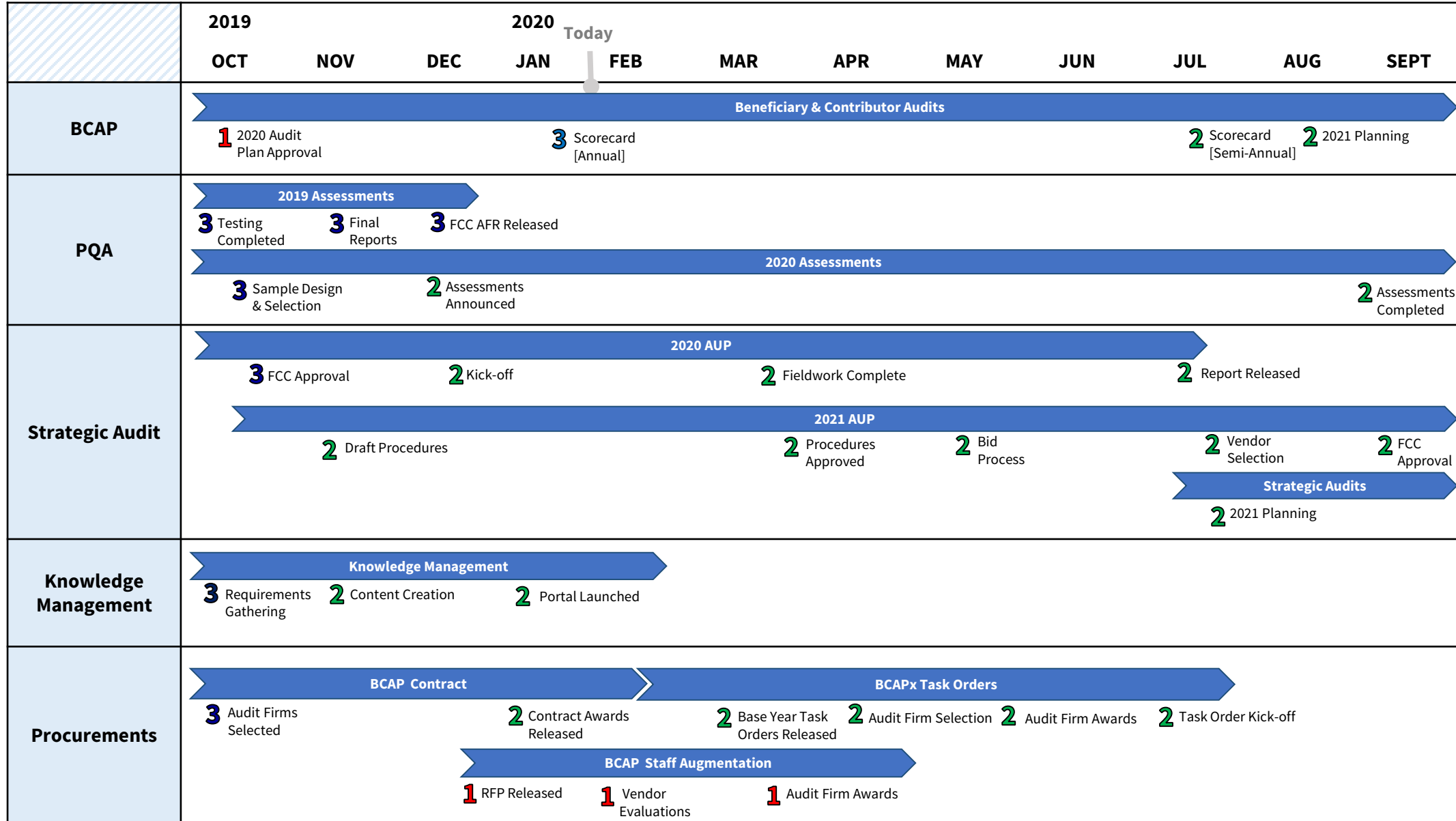
Program	Recommended Recovery	Recovery Sought	Recovery Recaptured	Collections in Progress
CR	\$43.8*	\$46.0	\$32.7	\$10.2
HC	\$13.9	\$14.2	\$2.5	\$2.9
LI	\$1.7	\$1.5	\$0.1	\$0.6
SL	\$9.2	\$9.4	\$2.9	\$5.3
RH	\$1.5	\$0.1	<\$0.1	\$0.1
<b>Total</b>	<b>\$70.1</b>	<b>\$71.2</b>	<b>\$38.3</b>	<b>\$19.1</b>
<b>% Recovery Sought</b>			<b>54%</b>	<b>26%</b>



## 2020 Goals & Objectives

The primary goal and objective of the Audit and Assurance Division is to preserve the integrity of universal service funds and USAC's corporate resources by conducting independent and objective audits, performing quality assessments and evaluating the efficiency and effectiveness of USAC's operations.

# Audit and Assurance Division at a Glance



Milestone Legend	
3	Completed
2	On Track
1	At Risk

# 2020 Look Ahead

## **BCAP**

- Procure audit firms for co-sourced resources and external audit firm BCAP work
- Announce all audits carried over from the Fiscal Year 2019 BCAP plan and select audits under the Fiscal Year 2020 BCAP plan
- Revise audit programs to address new FCC Orders, AAD lessons learned, and audit selection methodologies

## **PQA**

- Complete all Fiscal Year 2020 PQA assessments

## **Strategic Audit**

- Procure firm to perform the annual AUP
- Revamp AUP procedures for 2021
- Complete 2019/2020 Strategic Audit Plan
- Complete the Peer Review (an independent assessment of Strategic Audit operations)

## **Other Activity**

- Implement the FCC Order In-Take initiative
- Upgrade audit tools to adopt most current technologies: Audit Workpapers, Time Tracking and Quality Assurance

## Appendix: Glossary of Acronyms and Projects

Term	Definition
AAD	Audit and Assurance Division. A division within USAC with the mission to preserve the integrity of universal service funds and USAC's corporate resources by conducting objective audits, performing quality assessments and evaluating the efficiency and effectiveness of USAC's operations.
AAD Portal	A platform designed to centralize key data attributes across disparate applications used by AAD to plan, manage and report audit progress. Customized dashboards and reporting present data by program, audit and resource and deliver performance measurements at a click of the mouse.
AFR	Agency Financial Report. Federal government report that provides an overview of an agency's performance and financial information to enable the President, Congress, and the public to assess accomplishments for each fiscal year.
AUP	Agreed Upon Procedures. An agreed-upon procedure engagement is a standard a company or client outlines when it hires an external party to perform an audit on a specific test or business process.
BCAP	Beneficiary and Contributor Audit Program (BCAP). The BCAP is designed to assess beneficiary and contributor compliance with the FCC rules and requirements (collectively, FCC Rules).

## Appendix: Glossary of Acronyms and Projects

Term	Definition
GAGAS	Generally Accepted Government Auditing Standards. Also referred to as “Yellow Book.” The standards are used by auditors of government entities, entities that receive government awards, and other organizations performing Yellow Book audits as it provides a framework for conducting high-quality audits with competence, integrity, objectivity, and independence.
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012. Requires federal agencies to review and report on major programs that are susceptible to improper payments. The Universal Service Fund is subject to IPERIA.
PQA	Payment Quality Assurance. PQA is designed to assess the accuracy of Universal Service Fund (USF) disbursements and determine whether improper payments exist, and assists the FCC in meeting its reporting obligations under the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).
Peer Review	As part of a formal and independent process of quality assurance, AAD undergoes a peer review. GAGAS requires that peer reviews are performed by an independent, qualified external reviewer at least once every three years.
RFP	Request for Proposal. A document that solicits proposal, often made through a bidding process, by a company interested in procurement of a commodity or service to potential suppliers to submit business proposals. It is submitted early in the procurement cycle.