



# Audit Committee

## Briefing Book

Tuesday, April 28, 2020

700 12th Street NW, Suite 900

Washington, DC, 20005

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

<p><b>Tuesday, April 28, 2020</b>  <b>USAC Offices</b>  <b>700 12th Street, N.W., Suite 900</b>  <b>Washington, D.C. 20005</b></p>
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<u><b>OPEN SESSION</b></u>		<i>Estimated Duration in Minutes</i>
Chair	<p><b>a1.</b> Consent Items (each item is available for discussion upon request):</p> <p style="margin-left: 20px;"><b>A.</b> Approval of Audit Committee Meeting Minutes of January 27, 2020</p> <p style="margin-left: 20px;"><b>B.</b> Approval of moving all <i>Executive Session</i> items into <i>Executive Session</i></p> <p style="margin-left: 20px;"><b>C.</b> Review of USAC’s Processes to Assess Compliance with Applicable Laws and Regulations</p>	3
Teleshia	<p><b>i1.</b> Audit and Assurance Division Business Update <i>(For Information Only)</i></p>	–

<u><b>EXECUTIVE SESSION</b></u>		
<b>Confidential – Executive Session Recommended</b>		
Teleshia	<p><b>i2.</b> Audit and Assurance Division Business Update <i>(Continued)</i></p> <ul style="list-style-type: none"> <li>• Supply Chain Audits</li> <li>• Lifeline Non-usage Audits</li> <li>• Impact of COVID-19 on Audit Operations</li> <li>• Strategic Audits</li> </ul>	17
Teleshia	<p><b>a2.</b> Action on Two USAC Audit and Assurance Division Strategic Audit Reports</p>	5
Chair	<p><b>i3.</b> Audit Committee Executive Session with USAC’s Vice President of Audit and Assurance</p>	5

**Next Scheduled USAC Audit Committee Meeting**

<p><b>Monday, July 27, 2020</b>  <b>8:30 a.m. – 9:45 a.m.</b>  <b>USAC Offices, Washington, D.C.</b></p>
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**Universal Service Administrative Company  
Audit Committee Meeting**

**ACTION ITEM**

**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 January 27, 2020 (*see Attachment A*).
- 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** – Action on Two Audit and Assurance Division Strategic Audit Reports. 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.
  - (3) **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. USAC’s Processes to Assess Compliance with Applicable Laws and Regulations (*see Attachment B*).

In accordance with Section III.G of the Committee’s Charter, the Committee, in consultation with USAC’s General Counsel, is required to review the processes established to assure compliance by USAC with all applicable laws. **Attachment B** documents the assessment and briefly discusses the controls in place to assure compliance. Compliance processes for administration of the Universal Service Fund and the Universal Service Support Mechanisms by each programmatic division and USAC’s financial operations are based on Section 254 of the Communications Act of 1934, as amended, Part 54 of the Commission’s rules,

Commission orders, and FCC staff directives. Since 1998, USAC has consistently received “clean” financial audit opinions, and the results of operational reviews to test compliance with program rules have not revealed any violations of applicable law. Additionally, through the combined efforts of USAC’s Office of General Counsel, Audit and Assurance Division, and Human Resources division, ongoing compliance with laws and regulations is monitored and assessed.

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 RESOLUTION:

**RESOLVED**, that the USAC Audit Committee hereby approves: (1) the Committee meeting minutes of January 27, 2020; (2) discussion in ***Executive Session*** of the items noted above; and (3) USAC’s Processes to Assess Compliance with Applicable Laws and Regulations.

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

**AUDIT COMMITTEE MEETING**  
**Monday, January 27, 2020**

**(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, January 27, 2020. Mr. Geoff Feiss, Committee Chair, called the meeting to order at 8:01 a.m. Eastern Time, with a quorum of all four Committee members present (there was one vacancy):

Choroser, Beth	Gillan, Joe
Feiss, Geoff – Chair	Tinic, Atilla

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  
Delmar, Teleshia – Vice President of Audit and Assurance  
Fontana, Brent – Member of the Board  
Gregory, Amber – Member of the Board  
Hutchinson, Kyle – Vice President of IT and Chief Information Officer  
Polk, Stephanie – Member of the Board  
Salvator, Charles – Vice President, Chief Financial Officer, and Assistant Treasurer  
Schell, Julie Tritt – Member of the Board  
Sekar, Radha – Chief Executive Officer  
Sweeney, Mark – Vice President of Rural Health Care

Others present:

<u>NAME</u>	<u>COMPANY</u>
Boakye-Gyan, Carol	USAC
Augustine, Steve	Kelley Drye
Braxton-Johnson, Kianna	USAC
Francisco, Dale	USAC
Frelow, Leslie	USAC
Goode, Vernell	USAC

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<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>
Jones, Latrice	USAC
Lutin, Smyth	Avitecture
Nelbach Nick	USAC
Nuzzo, Patsy	USAC
Samuels, Victoria	USAC
Santana-Gonzalez, Jeanette	USAC
Smith, Chris	USAC
Suggs-Moore, Vickie	USAC
Tawes, Pauline	USAC
Theobald, Fred	USAC
Theodoropoulos, Nicole	USAC
Tiwari, Tanya	USAC
Ward, Rashonda	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 October 28, 2019.
  - 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.

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 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.

- a2. Recommendation for Election of Committee Chair and Vice Chair.** Mr. Feiss introduced this item and asked that Ms. Schell, a member of the Nominating Committee, present the recommendations for the Audit Committee Chair and Vice Chair to the Committee.

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

**RESOLVED**, that the USAC Audit Committee recommends that the USAC Board of Directors elect **Geoff Feiss** as Chair and **Beth Choroser** 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).

- i1. Information on Fiscal Year 2019 FCC Agency Financial Report: USF Audit Summary.** Mr. Francisco presented this item to the Committee, noting that a material weakness identified in the Fiscal Year (FY) 2018 FCC Agency Financial Report was downgraded to significant deficiency in the FY 2019 FCC Agency Financial Report.
- i2. Audit and Assurance Division Business Update.** Ms. Delmar presented PowerPoint slides covering the following to the Committee:
1. October 2019 Audit Committee Recap
  2. 2019 Accomplishments
  3. Operational Results
  4. 2020 Goals and Objectives
  5. Audit and Assurance Division at a Glance
  6. 2020 Look Ahead

At 8:54 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**

- i3. Audit and Assurance Division Business Update (Continued).** Ms. Delmar continued her presentation, with the Committee regarding confidential audit matters.

At 9:37 a.m. Eastern Time, the Committee continued in *Executive Session* with only non-staff members of the Board and Ms. Delmar present.

- i4. 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 discussed items i3 and i4.

On a motion duly made and seconded, the Committee adjourned at 9:58 a.m. Eastern Time.

/s/ Ernesto Beckford  
Assistant Secretary



## ATTACHMENT B

### USAC'S PROCESSES TO ASSESS COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

#### Overview

The Universal Service Administrative Company (USAC) is a private, not-for-profit corporation, organized under the laws of Delaware. In 1998, pursuant to federal regulation, the Federal Communications Commission (FCC or Commission) designated USAC as the permanent Administrator of the federal Universal Service Fund (USF) and the four federal Universal Service Support Mechanisms the USF supports, including the High Cost, Low Income (Lifeline), Schools and Libraries (E-Rate), and Rural Health Care programs.<sup>1</sup> Pursuant to Section 254 of the Communications Act of 1934, as amended,<sup>2</sup> and Part 54 of the Commission's rules,<sup>3</sup> USAC administers the USF and the Universal Service Support Mechanisms, including performing the billing, collection, and disbursement (BC&D) functions. The policies and procedures followed by USAC are documented and executed in accordance with these rules, Commission orders, FCC staff directives, and other applicable law.

Following is an overview of the methods employed by USAC to verify compliance with applicable laws and regulations. This document does not list every step or procedure or provide detailed information, as we do not want to compromise the integrity of our operating procedures or disclose proprietary information.

#### Universal Service Support Mechanisms and the Universal Service Fund

The processes established for management of the USF and each of the support mechanisms are designed to comply with Part 54 of the Commission's rules, and, in particular, 47 C.F.R. §§ 54.700-717. Section 54.717 provides that USAC shall obtain and pay for an annual audit conducted by an independent auditor to examine its operations and books of account to determine whether USAC is properly administering the Universal Service Support Mechanisms.<sup>4</sup> The annual audit encompasses: (i) an audit of the financial statements of USAC; and (ii) an agreed-upon procedures (AUP) review of operations for compliance with the FCC's rules, including a review of internal controls for accounting and administration. The AUP review covers the USF, the support mechanisms and related BC&D functions, and other administrative areas of USAC, corporate governance, anti-fraud measures, audit follow-up and disbursements to name a

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<sup>1</sup> See 47 C.F.R. § 54.701(a); *Changes to the Board of Directors of the National Exchange Carrier Association, Inc. et al.*, CC Docket Nos. 97-21 *et al.*, Third Report and Order, Fourth Order on Reconsideration, and Eight Order on Reconsideration, 13 FCC Rcd 25058, 25069-70, para. 20 (1998).

<sup>2</sup> 47 U.S.C. § 254.

<sup>3</sup> See generally 47 C.F.R. pt. 54.

<sup>4</sup> See 47 C.F.R. § 54.717.

few. A section of the AUP verifies compliance with USAC policies and procedures and FCC rules and directives.

FCC rules provide that in choosing an auditing firm to conduct the annual audit, USAC shall not “engage an independent auditor that has been involved in designing the accounting or reporting systems under review in the audit.”<sup>5</sup> The independent audit provides an outside review as to whether the procedures used by USAC in administering the USF, the support mechanisms and related BC&D functions are in compliance with FCC rules. This is a major component of USAC’s program to determine compliance with FCC rules. The AUP document is revised annually by USAC and FCC staff to include testing compliance with new applicable rules and directives implemented over the past year.

All of the FCC-mandated financial audits of USAC conducted to date have resulted in “clean” financial audit opinions, and the agreed-upon procedure reviews have not resulted in findings that USAC failed to comply with applicable FCC directives with the exception of the AUP completed for 2017.

USAC staff for each of these areas is knowledgeable in applicable FCC rules, and staff reviews the rules to verify operating processes are compliant. In addition, the management of each area regularly communicates with FCC staff to seek guidance and discuss implementation issues to determine whether USAC is implementing the rules as intended by the Commission.

#### Universal Service Administrative Company

##### *A. Office of the General Counsel*

USAC’s Office of the General Counsel (OGC) advises the company concerning compliance with applicable laws and regulations. The OGC regularly consults with USAC management concerning compliance with local, state, and federal laws applicable to USAC’s operations. The USAC General Counsel is a member of the company’s senior leadership group. USAC attorneys assist USAC’s programmatic and administrative groups (including AAD), when requested, on matters dealing with FCC rules and directives as well as on issues not addressed in the rules or directives. Upon the release of a new order or directive affecting a USF program, OGC coordinates with the impacted program as part of the intake process in order to ensure that implementation is in accordance with all applicable rules and requirements. The OGC utilizes outside counsel and other information resources as needed. USAC attorneys also attend continuing education and other professional development programs throughout the year.

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<sup>5</sup> 47 C.F.R. § 54.717(c).

*B. Memorandum of Understanding*

The FCC and USAC originally entered into a Memorandum of Understanding (MOU) on September 9, 2008, as amended on November 4, 2014. The FCC and USAC subsequently entered into a revised MOU on May 2, 2016, and a further revised MOU on December 19, 2018. The MOU is a streamlined framework memorializing the FCC's and USAC's partnership to achieve success in the federal Universal Service Fund (USF) and its programs.

The MOU recognizes USAC as responsible for the efficient, effective, and competitively neutral management of the USF including:

- Collecting contributions and administering the disbursement of program support;
- Producing timely and relevant data and analysis to inform the Commission's policy-making and oversight of the USF; and
- Educating stakeholders to promote successful participation in the USF programs.

*C. Human Resources (HR)*

USAC's Chief Human Resources Officer is responsible for administering USAC's Human Resources (HR) policies and procedures in accordance with applicable employment laws and practices. To accomplish this task, HR is a member of various professional associations that monitor and provide nationwide employment law references and best practices. USAC's OGC has access to expertise in labor and employment law matters and has arranged with outside counsel for assistance when needed. To promote compliance with applicable employment laws and regulations, and to prevent, detect and correct inappropriate behaviors and build a productive, inclusive culture, all managers are required to attend Civil Treatment trainings and learning courses. In addition, all USAC employees are required to attend an annual ethics training provided by HR and OGC.

*D. Audit & Assurance Division*

USAC's Audit & Assurance Division (AAD) conducts objective and independent audits of beneficiaries of and contributors to the federal universal service fund. AAD also performs payment quality assessments in accordance with the Improper Payments Elimination and Recovery Improvement Act of 2012 as well as operational and financial audits of USAC's key functions. The audits and assessments test compliance with FCC rules, directives and other applicable law. AAD works closely with USAC's OGC, the FCC Office of Managing Director (OMD) and the FCC Wireline Competition Bureau (WCB).

Summary

USAC policies and procedures for administering the USF and the support mechanisms are designed to comply with applicable Commission rules and orders and FCC staff directives. Since 1998, USAC has consistently received “clean” financial audit opinions and the results of our operational reviews to test compliance with program rules have not identified any violations of applicable law. In addition, through the efforts of USAC’s OGC, AAD, and HR divisions, ongoing compliance with applicable laws and rules is monitored and assessed.

## Universal Service Administrative Company Audit Committee Meeting

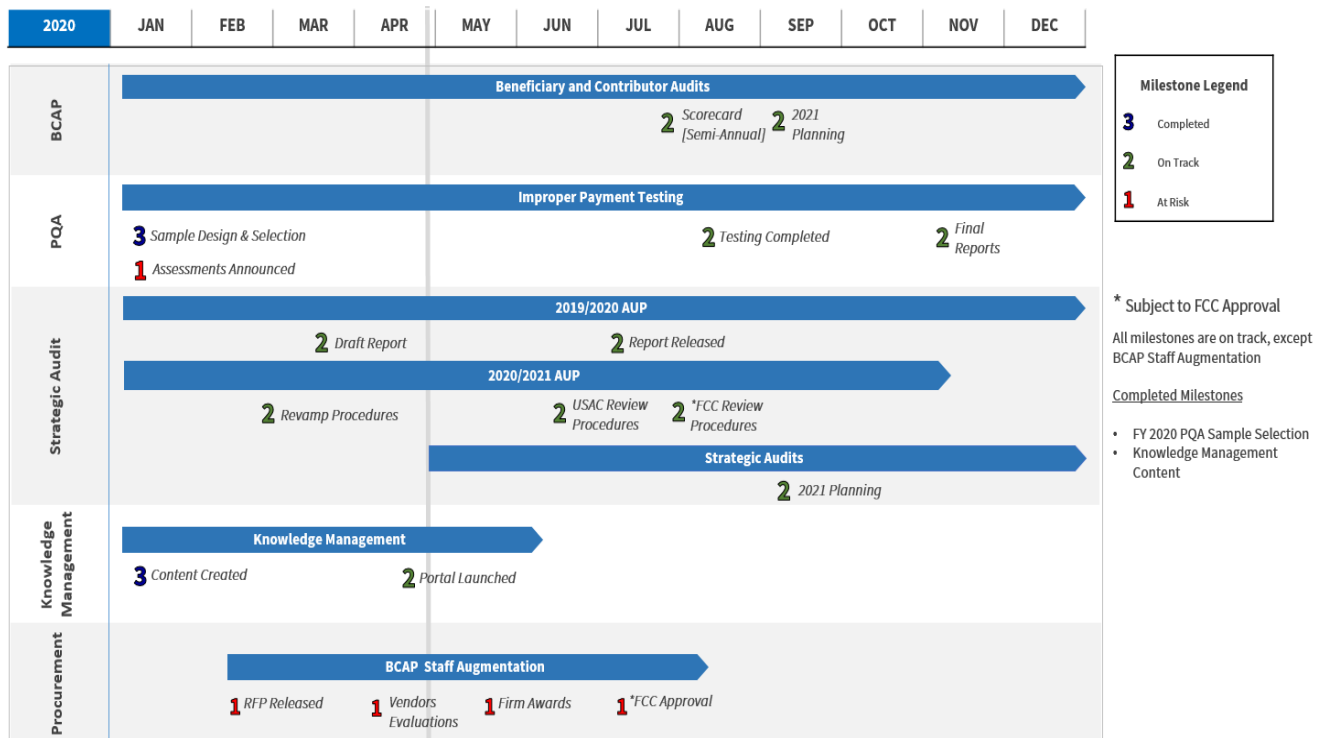
### INFORMATION ITEM

### USAC Audit and Assurance Division Business Update

#### Information Presented

This information paper provides an update on the status of activities performed by the USAC Audit and Assurance Division (AAD). The activities reported in this paper include the work performed in the Beneficiary and Contributor Audit Program (BCAP), the Payment Quality Assurance (PQA) program, and the Strategic Audit (SA) functions within AAD.

#### Audit and Assurance Division at a Glance



**Beneficiary and Contributor Audit Program (BCAP)**

BCAP is designed to assess beneficiary and contributor compliance with the Federal Communications Commission (FCC) rules and requirements. The combined status of all BCAP audits in process is summarized in the table below.

**Audits in Process  
As of March 30, 2020**

Audit Status				
Program	Announced	Fieldwork	Reporting	Total
CR	0	4	3	7
HC	0	19	20	39
LI	0	21	1	22
SL	0	36	38	74
RHC	0	13	3	16
<b>Total</b>	<b>0</b>	<b>93</b>	<b>65</b>	<b>158</b>

**Payment Quality Assurance (PQA) Program**

PQA is designed to assess the accuracy of Universal Service Fund (USF) disbursements and determine whether improper payments exist. The PQA program also assists the FCC in meeting its reporting obligations under the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).<sup>1</sup> The combined status of all PQA assessments in process is summarized in the table below.

**Assessments in Process  
As of March 30, 2020**

PQA Status				
Program	Sample Size	Announced	In Progress	Completed
HC	180	124	124	0
LI	250	250	250	0
SL	375	375	375	0
RHC	400	400	400	0
<b>Total</b>	<b>1,205</b>	<b>1,149</b>	<b>1,149</b>	<b>0</b>

<sup>1</sup> See The Improper Payments Elimination and Recovery Act of 2012, Pub L. No. 112 -248 (Jan. 10, 2013).