



# Audit Committee

## Briefing Book

October 25, 2021

10:00 a.m. - 11:15 a.m. Eastern Time

Available for Public Use

Universal Service Administrative Company

700 12th Street NW, Suite 900

Washington, DC, 20005

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

<p><b>Monday, October 25, 2021</b>  <b>10:00 a.m. – 11:15 a.m. Eastern Time</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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<b>OPEN SESSION</b>		<i>Estimated Duration in Minutes</i>
Chair	<p><b>a1.</b> Consent Items (each item is available for discussion upon request):</p> <ul style="list-style-type: none"> <li><b>A.</b> Approval of Audit Committee Meeting Minutes of July 26, 2021</li> <li><b>B.</b> Approval of moving all <i>Executive Session</i> items into <i>Executive Session</i></li> <li><b>C.</b> Annual Assessment of the Independence and Financial Literacy of USAC Audit Committee Members</li> </ul>	5
Teleshia	<p><b>i1.</b> Audit and Assurance Division Business Update:</p> <ul style="list-style-type: none"> <li>• Q32021 Accomplishments</li> <li>• Plans for Q42021</li> <li>• Audits Aging Analysis</li> <li>• Roadmap</li> </ul>	20

<b>EXECUTIVE SESSION</b> <b>Confidential – Executive Session Recommended</b>		<i>Estimated Duration in Minutes</i>
Teleshia	<p><b>i2.</b> Audit and Assurance Division Business Update (<i>Continued</i>)</p> <ul style="list-style-type: none"> <li>• Improper Payment Results</li> <li>• Key Outcomes</li> </ul>	30
Teleshia	<b>a2.</b> Review of the Audit and Assurance Division Charter	5
Teleshia	<b>i3.</b> Audit Committee Executive Session with USAC’s Vice President of Audit and Assurance	10

**Next Scheduled USAC Audit Committee Meeting**

<p><b>Monday, January 24, 2022</b>  <b>8:30 a.m. – 10:00 a.m. Eastern Time</b>  <b>USAC Offices, Washington, D.C.</b></p>
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**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 resolutions below:

- A. Committee meeting minutes of July 26, 2021 (*see Attachment A-1*).
- B. Approval of moving all *Executive Session* item into *Executive Session*:
- (1) **i2** – 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 the Audit and Assurance Division Charter. USAC management recommends that this matter be discussed in *Executive Session* because the basis to support the changes relate to *specific internal controls, and/or confidential company data* that would constitute a discussion of internal rules and procedures.
  - (3) **i3** – Audit Committee 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. Acceptance of the Annual Assessment of the Independence and Financial Literacy of USAC Audit Committee Members. In accordance with Section II.A of the Committee’s Charter, the Committee members are required to meet established independence requirements (*see Attachment C*).

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 Audit Committee of the USAC Board of Directors hereby approves: (1) the Committee meeting minutes of July 26, 2021 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.

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

**AUDIT COMMITTEE MEETING**  
**Monday, July 26, 2021**

**(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, July 26, 2021. A virtual meeting platform was available to the general public for *Open Session* to accommodate the need for increased physical distancing on site due to the COVID-19 pandemic. Mr. Geoff Feiss, Committee Chair, called the meeting to order at 8:32 a.m. Eastern Time, with a quorum of all five of the Committee members present:

Choroser, Beth – Vice Chair – <i>by telephone</i>	Gillan, Joe
Feiss, Geoff – Chair	Schell, Julie Tritt
Fontana, Brent – <i>by telephone</i>	

Other Board members and officers of the corporation present:

Beyerhelm, Chris – Chief Administrative Officer – *by telephone*  
Davis, Craig – Vice President of Schools and Libraries – *by telephone*  
Delmar, Teleshia – Vice President of Audit and Assurance  
Garber, Michelle – Vice President of Enterprise Resources Program and Acting Vice President of Shared Services – *by telephone*  
Gregory, Amber – Member of the Board – *by telephone*  
Hutchinson, Kyle – Vice President of IT and Chief Information Officer – *by telephone*  
Morning, Kimberly – Acting Vice President and General Counsel, and Assistant Secretary  
Salvator, Charles – Vice President, Chief Financial Officer, and Assistant Treasurer  
Sekar, Radha – Chief Executive Officer  
Skriwan, Michael – Member of the Board  
Sweeney, Mark – Vice President of Rural Health Care – *by telephone*  
Wade, Dr. Joan – Member of the Board  
Wein, Olivia – Member of the Board

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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.

Others present:

<u>NAME</u>	<u>COMPANY</u>
Glisson, Connor – <i>by telephone</i>	USAC
Kriete, Debra – <i>by telephone</i>	State E-Rate Coordinators’ Alliance
Lee, James – <i>by telephone</i>	USAC
LeNard, David – <i>by telephone</i>	E-Rate Elite Services, Inc.
Leonard, Tom – <i>by telephone</i>	PricewaterhouseCoopers LLP (PwC)
Nuzzo, Patsy	USAC
Pace, Regina – <i>by telephone</i>	USAC
Phillippi, Megan	USAC
Sherwood, Nicole – <i>by telephone</i>	USAC
Tiwari, Tanya	USAC
Tuinstra, Jason – <i>by telephone</i>	PwC

### 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 April 26 and April 27, 2021.
  - B.** Approval of moving all *Executive Session* items into *Executive Session*:
    - (1) **a2** – Acceptance of USAC’s 2020 Annual Financial Statement Audit and Agreed-Upon Procedures Review. USAC management recommended 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) **a3** – Action on One USAC Audit and Assurance Division Strategic Audit Report. USAC management recommended 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. In addition, this item may include discussion of *internal rules and procedures* concerning the administration of the universal service support mechanisms where discussion of the matter in *Open Session* would result in *disclosure of confidential techniques and procedures* that would compromise program integrity.
    - (3) **a4** – Annual Review of USAC’s System of Internal Controls. USAC management recommended that this matter be conducted in *Executive Session* because this matter relates to *specific internal controls, or confidential company data* that would constitute a discussion of internal rules and procedures.

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- (4) **a5** – Annual Review of USAC’s Financial Reporting Process. Annual Review of USAC’s Financial Reporting Process. USAC management recommended that this matter be conducted in ***Executive Session*** because this matter relates to ***specific internal controls, or confidential company data*** that would constitute a discussion of internal rules and procedures.
- (5) **i2** – Audit Committee ***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 Review of USAC’s Systems 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.
- D. 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 Audit Committee of the USAC Board of Directors hereby approves: (1) the Committee meeting minutes of April 26 and April 27, 2021; (2) discussion in ***Executive Session*** of the items noted above; (3) the review of USAC’s system of internal controls; and (4) the review of USAC’s financial reporting process.

- ii. Audit and Assurance Business Update.** Ms. Delmar presented an update on the Audit and Assurance Division’s (AADs) accomplishments from second quarter 2021; plans for third quarter 2021; the combined status of Beneficiary and Contributor Audit Program (BCAP) audits in process as of July 1, 2021; and the combined aging report of BCAP audits in process as of July 1, 2021.

Mr. Gillan requested that the BCAP Aging Report include aging data from past quarters to show trends in processing times for the October 2021 and future quarterly meetings.

At 9:01 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved into ***Executive Session*** for the purpose of discussing confidential items. Only members of the Board, PwC, and USAC staff were present.

**EXECUTIVE SESSION**

- a2. Acceptance of USAC’s 2020 Annual Financial Statement Audit and Agreed-Upon Procedures Review.** Mr. Salvator introduced Mr. Leonard, and Mr.

Tuinstra, who presented an overview of the USAC 2020 Financial Statement Audit and Agreed-Upon Procedures (AUP) review reports. They noted that USAC received a “clean” audit opinion for its financial statements; and the AUP review did not disclose any significant audit findings.

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

**RESOLVED**, that the USAC Audit Committee, having reviewed the USAC 2020 Financial Statement Audit Report, as submitted by PricewaterhouseCoopers LLP, hereby accepts the final report;

**RESOLVED FURTHER**, that the USAC Audit Committee, having reviewed the summary of the USAC 2020 Agreed-Upon Procedures Review Report, as submitted by PricewaterhouseCoopers LLP, hereby accepts the final report.

At 9:15 a.m. Eastern Time, the meeting continued in *Executive Session* with only members of the Board and USAC staff present.

- a3. Action on One USAC Audit and Assurance Division Strategic Audit Report.** Ms. Delmar presented an overview of the strategic audit report of USAC’s competitive bidding review process for the E-Rate program.

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’s strategic audit report of USAC’s competitive bidding review process for the E-Rate program, accepts the recommendation of USAC management and hereby deems the report final.

- a4. Annual Review of USAC’s System of Internal Controls.** A report on this item was provided in the briefing book and approved by the Committee as part of the Consent Items.
- a5. Annual Review of USAC’s Financial Reporting Process.** A report on this item was provided in the briefing book and approved by the Committee as part of the Consent Items.

At 9:26 a.m. Eastern Time, on a motion duly made and seconded, the Committee continued in *Executive Session* with only members of the Board and Ms. Delmar present.

- i2. Audit Committee Executive Session with USAC’s Vice President of Audit and Assurance.** Per the guidelines in the approved Audit Committee Charter, Ms. Delmar met with members of Audit Committee and Board of Directors in a



confidential *Executive Session*.

**OPEN SESSION**

At 9:56 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 and a3 and discussed item i2.

On a motion duly made and seconded, the Committee adjourned at 9:56 a.m. Eastern Time.

/s/ Kimberly Morning  
Assistant Secretary

**Attachment C**  
**Annual Assessment of the Independence and Financial Literacy**  
**of USAC Audit Committee Members**

**Action Requested**

In accordance with the Audit Committee Charter (Charter), the Audit Committee (Committee) of the USAC Board of Directors is required to assess the independence and financial literacy of its members to ensure that the Committee can adequately fulfill its roles and responsibilities. This issue paper documents the assessment of the Committee made by the USAC Audit and Assurance Division (AAD).

**Discussion**

The Charter requires that the Committee assess the independence and financial literacy of its members at least annually to verify that the Committee is independent and has a sufficient level of financial expertise to perform its duties.

The following is a summary of the Charter’s independence and financial literacy requirements and an assessment of each Committee member’s compliance with specific sections:

<b>Audit Committee Charter (Section II, A1c, 2a-c)</b>	<b>Joseph Gillan</b>	<b>Geoff Feiss</b>	<b>Beth Choroser</b>	<b>Julie Tritt Schell</b>	<b>Brent Fontana</b>
[The member] is not and has not been employed in an executive capacity by the Company for at least five years prior to appointment to the Audit Committee.	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
[The member] is not an advisor or consultant to the Company, and does not have a personal services contract or other business relationship with the Company.*	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>

<b>Audit Committee Charter (Section II, A1c, 2a-c)</b>	<b>Joseph Gillan</b>	<b>Geoff Feiss</b>	<b>Beth Choroser</b>	<b>Julie Tritt Schell</b>	<b>Brent Fontana</b>
[The member] 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 the management of the Company.	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
At least one member shall have a background in financial reporting, accounting, or auditing, or other financial expertise.	<i>Yes</i>	<i>No</i>	<i>Yes</i>	<i>No</i>	<i>Yes</i>
<i>*NOTE: None of the members of the Audit Committee have a consulting arrangement or contractual business relationship with USAC. Members may be employees of companies or entities that contribute to and/or receive funds from the Universal Service Fund (USF).</i>					

The financial proficiency shown by Mr. Joseph Gillan, Ms. Choroser, and Mr. Fontana, is experience acquired during their professional careers.

- Mr. Gillan is an economist with extensive experience evaluating financial implications of technological change and regulatory policy in the telecommunications industry. Mr. Gillan has provided expert testimony in over 300 proceedings. Mr. Gillan was previously employed on the staff of the Illinois Commerce Commission as the Director of Market Structure, where he oversaw Commission policies that encouraged competition in the electric, gas, and telecommunications industries.
- Ms. Choroser holds an MBA from Syracuse University, which included significant course work in accounting and finance. In addition, Ms. Choroser has significant experience in budgeting and establishing tariffs in the utility industry. Specifically, in the telecommunication industry, Ms. Choroser has experience with telecommunications tax and surcharge filings, including the preparation of the FCC Form 499-A.
- Mr. Fontana has extensive experience in managing networks and acquisitions. He has held key positions with the responsibility of managing cross-functional execution across product management and development, sales, operations, finance, marketing, and business development. In his current capacity as the Global Principal of Fiber Network Development for Amazon Web Services, Mr.

Fontana is defining cross-functional fiber network design and development strategies. Mr. Fontana received his Bachelor of Arts in Economics encompassing business, general economic theory, managerial accounting, legal communications, resource allocation, advanced statistical analysis, labor and international economics.

The professional backgrounds noted above provide the Committee with adequate financial, telecommunications, and regulatory experience to sufficiently fulfill Committee roles and responsibilities. AAD has concluded that the members of the Committee as a whole fulfill the requirements for independence and financial literacy required by the Charter and recommends that the Committee accept this assessment.

**Recommended USAC Audit Committee Action**

APPROVAL OF THE FOLLOWING RESOLUTION:

**RESOLVED** 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.



# **Audit Committee Meeting**

Audit and Assurance Business Update

*Open Session*

October 25, 2021



# Agenda

- Q32021 Accomplishments
- Plans for Q42021
- Audit Aging Analysis
- Roadmap

# Q32021 Accomplishments

- Beneficiary and Contributor Audit Program (BCAP)
  - Announced 66 audits (2 Contributor Revenue (CR), 29 High Cost (HC), 9 Lifeline (LI), 14 E-rate, 12 Rural Health Care (RHC)).
  - Released 9 audits (1 CR, 1 HC, 2 LI, 4 E-rate, 1 RHC).
  - Submitted Fiscal Year 2022 BCAP plan and audit procedures to FCC.
- Payment Quality Assurance (PQA)
  - Completed 965 assessments (240 LI, 375 RHC, 350 E-rate).
- Supply Chain Audit Program (SCAP)
  - Completed bid evaluation and selected external audit firms.
  - Developed audit sample and compiled certifications for task order creation.
  - Prepared webinar and external auditor training materials.

# Plans for Q42021

- BCAP
  - Announce 10 audits and complete 23 audits.
  - Complete HC audit procedures training.
  - Kickoff planning activities for audits outsourced in FY2022 BCAP plan.
- PQA
  - Announce a sample of FY2022 assessments.
- SCAP
  - Release task orders, evaluate firms, and onboard auditors.
  - Conduct series of audit focused webinars for program participants.
- Other Activities
  - Gather data requirements and process flows in preparation for workpaper software upgrade.
  - Upgrade the AAD time reporting software to the most secure version of the software.



## BCAP Audits in Process

The combined status of BCAP audits in process as of October 1, 2021:

Program	Announced	Fieldwork	Reporting	<b>Total</b>
Contributor Revenue	1	8	2	<b>11</b>
High Cost	16	18	4	<b>38</b>
Lifeline	1	16	20	<b>37</b>
E-rate	2	21	36	<b>59</b>
Rural Health Care	5	18	15	<b>38</b>
<b>Total</b>	<b>25</b>	<b>81</b>	<b>77</b>	<b>183</b>

# BCAP Aging Report

The combined aging report of BCAP audits in process as of October 1, 2021:

Program	>6 months	>12 months	>18 months	<b>Total</b>
Contributor Revenue	2	0	2	<b>4</b>
High Cost	0	0	6	<b>6</b>
Lifeline	2	1	19	<b>22</b>
E-rate	16	4	16	<b>36</b>
Rural Health Care	0	8	14	<b>22</b>
<b>Total #</b>	<b>20</b>	<b>13</b>	<b>57</b>	<b>90</b>
<b>Total %</b>	<b>22%</b>	<b>14%</b>	<b>63%</b>	<b>100%</b>
<b>Reporting Phase</b>	<b>17</b>	<b>8</b>	<b>51</b>	<b>76</b>

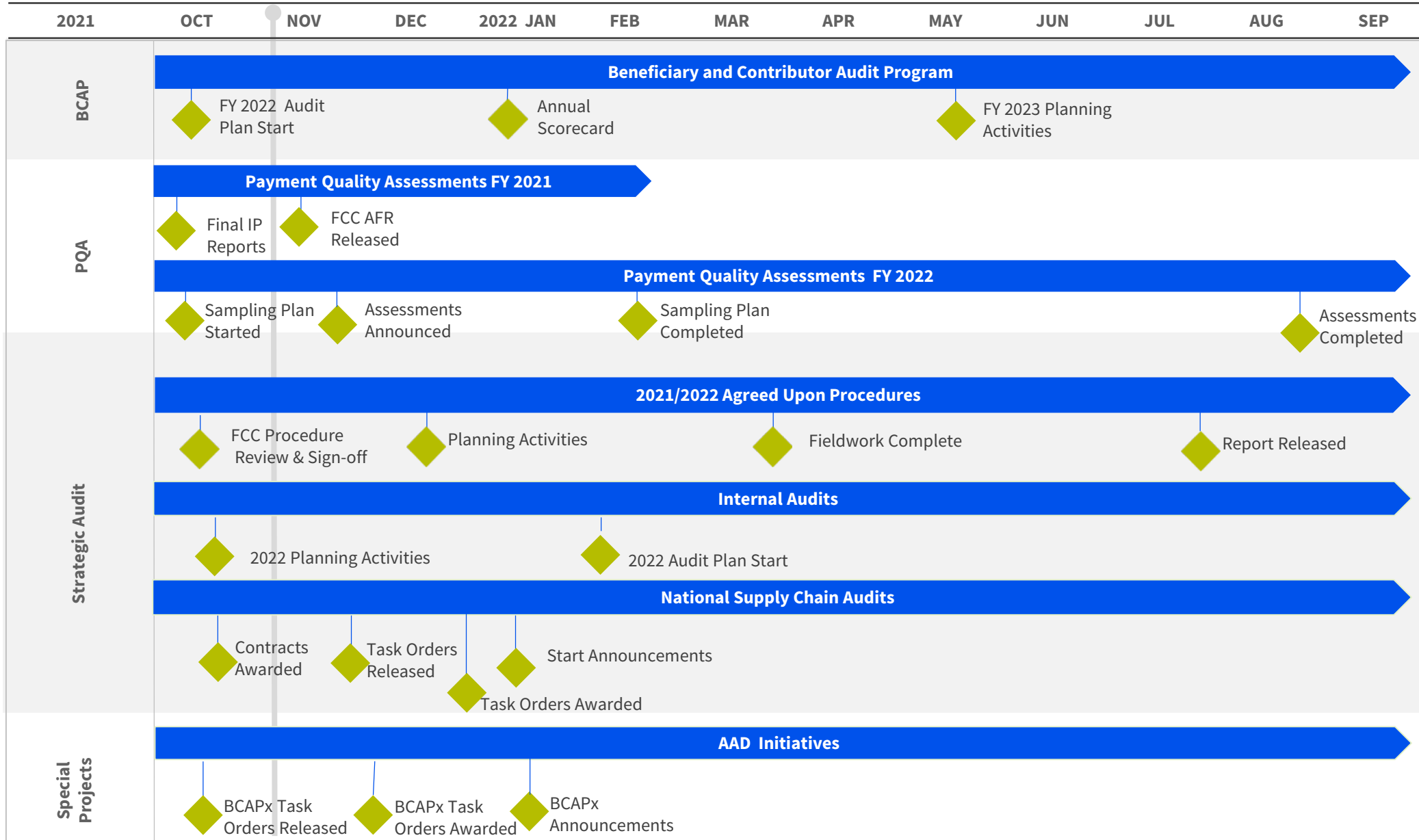
Available for Public Use Note: For the 49 audits >18 months, 27 are with the FCC and 22 are with USAC for review.

# BCAP Aging Report Quarter-over-Quarter Comparison

The combined aging report of BCAP audits in process as of October 1, 2021:

Duration	June 30, 2021	September 30, 2021	Difference
>6 months	31	20	11
>12 months	8	13	-5
>18 months	49	57	-8
<b>Total #</b>	<b>88</b>	<b>90</b>	<b>-2</b>
<b>Reporting Phase</b>	<b>66</b>	<b>76</b>	<b>-10</b>

# Roadmap



**Milestone Legend**

-  At Risk
-  On Track
-  Completed

# Appendix A: Glossary of Terms

Term	Definition
AFR	Agency Financial Report
AAD	Audit and Assurance Division: An organization 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.
BCAP	Beneficiary and Contributor Audit Program: BCAP assesses beneficiary and contributor compliance with the Federal Communications Commission (FCC) rules, orders, and program requirements (FCC Rules).
BCAPx	Beneficiary and Contributor Audit Program Outsourced Audits: BCAP audits performed by outsourced (outside) audit firms.
CR	Contributor Revenue: Audits of Contributor Revenue filers.
E-rate	E-rate: Audits of E-rate program participants.
HC	High Cost: Audits of High Cost program participants.

# Appendix A: Glossary of Terms (Continued)

Term	Definition
IP	Improper Payment
LI	Lifeline: Audits of Lifeline program participants.
PQA	Payment Quality Assurance: PQA assesses the accuracy of USF disbursements and determines whether improper payments exist, and assists the FCC in meeting its reporting obligations subject to Program Integrity Information Act.
RHC	Rural Health Care: Audits of Rural Health Care program participants.
SA	Strategic Audits: Strategic Audits assess USAC's compliance with FCC Rules, policies and procedures, and the effectiveness and efficiency of internal operations.
SCAP	Supply Chain Audit Program: SCAP assesses program participant compliance with the Federal Communications Commission (FCC) rules, orders, and program requirements (FCC Rules) related to protecting the communications supply chain.
USF	Universal Service Fund: The four universal service programs.



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