

2009 Audit Committee Meetings Minutes

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

AUDIT COMMITTEE MEETING

January 22, 2009

MINUTES

The quarterly meeting of the Audit Committee (Committee) of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Monday, January 26, 2009. At the request of Mr. David McClure, Committee Vice Chair, who was attending the meeting by teleconference, Dr. Brian Talbot, chaired the meeting and called the meeting to order at 3:36 p.m. Eastern Time. Four of five Committee members were present, representing a quorum:

Anderson, D. Michael McClure, David – Vice Chair – *by telephone*
Knowles, Rex Talbott, Dr. Brian

Members of the Committee not present:
Campbell, Anne

Other Board of Directors (Board) members and officers of the corporation present:

Barash, Scott – Acting Chief Executive Officer – *by telephone*
Belden, Richard – Chief Operating Officer
Capozzi, David – Acting General Counsel and Assistant Secretary
Erwin, W.B. – Vice President of Finance and Assistant Treasurer
Feiss, Geoff – Member of the Board
Holcombe, Jamie – Vice President of Information Systems
Scott, Wayne – Vice President of Internal Audit

Others present for the meeting:

NAME COMPANY

Ahuja, Natasha USAC
Amalfitano, Vince FCC – *by telephone*
Beaver, Tracey USAC
Bhavsar, Tushar USAC
Bilodeau, Amanda USAC
Derocher, Michael USAC
Falkowitz, Ed USAC
Felton, Sharonda USAC
Goode, Vernell USAC
Nuzzo, Patsy USAC
Yee, Kim FCC

ACTION ITEMS:

a1. Approval of Audit Committee Meeting Minutes of October 27, 2008 and November 20, 2008. On a motion duly made and seconded, the Committee approved the minutes as written of The Committee meetings of October 27, 2008 and November 20, 2008.

a2. Recommendation for Annual Election of Committee Chair and Vice Chair. Dr. Talbott introduced this item to the Committee. Mr. Anderson nominated Mr. McClure to be Committee Chair, and Mr. Knowles to be Vice Chair. 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 David McClure as Chair and Rex Knowles as Vice Chair of the Committee for a term that begins immediately upon the adoption of this resolution by the Board and ends when a successor to the Chair and/or Vice Chair has been elected, when the Chair or Vice Chair resigns from the Committee or the Board, is removed by resolution of the Board, or the Chair and/or Vice Chair's Board term expires.

a3. Consideration of the 2009/2010 USAC Internal Audit Plan. In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that discussion of the Internal Audit Plan and the Resource Allocation Plan be conducted in *Executive Session* because discussion of specific audit plans, internal controls, and/or confidential company data constitutes a discussion of *internal rules and procedures*.

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

RESOLVED, that the USAC Audit Committee determines that discussion of the 2009/2010 USAC Internal Audit Plan shall be conducted in *Executive Session*.

a4. Action on One Internal Audit Division Information Technology Division Operational Audit Report. In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that this matter be discussed in *Executive Session* because the report relates to specific internal controls and/or confidential company data that would constitute a discussion of *internal rules and procedures*.

RESOLVED, that the USAC Audit Committee determines that discussion of the USAC Internal Audit Division Access Controls Audit Report labeled US2008OP001 shall be conducted in *Executive Session*.

a5. Miscellaneous. Solicit ideas for the April 2009 Committee Agenda. Dr. Talbott reminded members that they may offer suggestions for agenda items at each quarterly meeting. Ideas may be submitted to Mr. McClure, Mr. Knowles or Mr. Scott between quarterly meetings.

INFORMATION ITEMS:

i1. FCC Office of Inspector General USF Audit Program Status Update. Mr. Scott presented this item to the Committee. Mr. Anderson requested that USAC direct the audit firms conducting audits under the FCC Office of Inspector General (OIG) USF audit program to notify beneficiaries and USF contributors that are being audited in consecutive years that their reports from the prior year audits will be completed on a priority basis.

i2. Quarterly Summary of Audit Reports Finalized at Programmatic and Executive Committee Meetings. Mr. Scott presented this item to the Committee.

i3. Report on the Audit of the FCC's Financial Statements for the Year Ending September 30, 2008. Mr. Scott presented this item to the Committee.

i4. Internal Audit Division Report on the 2007/2008 Internal Audit Plan. Mr. Scott presented this item to the Committee. In response to a question from Mr. Knowles concerning IAD involvement in the High Cost and Low Income Program operations support services transition, Mr. Scott stated that IAD is available to review plans or activities upon request of the Board or USAC management.

At 3:56 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential and proprietary items noted above.

EXECUTIVE SESSION:

a3. Consideration of the 2009/2010 USAC Internal Audit Plan. Mr. Scott introduced this item 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 approves the 2009/2010 USAC Internal Audit Plan as presented by the USAC Internal Audit Division.

a4. Action on One Internal Audit Division Information Technology Division Operational Audit Report. Mr. Scott introduced this item 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, having reviewed the USAC Internal Audit Division Access Controls Audit Report labeled US2008OP001, together with management's responses thereto, accepts the recommendations of the USAC Executive Committee and USAC management and hereby deems the report final.

At 4:18 p.m. Eastern Time, on a motion duly made and seconded, the Committee adjourned from *Executive Session* and immediately reconvened in *Open Session* at which time, Dr. Talbott reported that the Committee took action on items a3 and a4 above in *Executive Session*. Mr. McClure expressed the Committee's concern over the cost of the FCC OIG USF audit program audits given that USAC is conducting the audits at the direction of the FCC Inspector General.

Mr. McClure requested that USAC continue to seek opportunities to maximize the efficiency of and minimize the cost of the audits to the USF and the auditees.

On a motion duly made and seconded, the Committee adjourned at 4:23 p.m. Eastern Time.

/s/ David A. Capozzi
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

AUDIT COMMITTEE MEETING

April 27, 2009

MINUTES

The quarterly meeting of the Audit Committee (Committee) of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Monday, April 27, 2009. Mr. David McClure, Committee Chair, called the meeting to order at 3:16 p.m. Eastern Time with a quorum of four of the five Committee members present:

Anderson, D. Michael	Knowles, Rex – Vice Chair
Campbell, Anne	McClure, David – Chair

Members of the Committee not present:
Talbott, Dr. Brian

Other Board of Directors (Board) members and officers of the corporation present:

Barash, Scott – Acting Chief Executive Officer
Belden, Richard – Chief Operating Officer
Capozzi, David – Acting General Counsel and Assistant Secretary
Erwin, W.B. – Vice President of Finance and Assistant Treasurer
Holcombe, Jamie – Vice President of Information Systems
Ridley, Carolyn – Member of the Board
Scott, Wayne – Vice President of Internal Audit

Others present for the meeting:

NAME	COMPANY
Alleva, Larry	PricewaterhouseCoopers
Amalfitano, Vince	FCC – <i>by telephone</i>
Bellavia, Leslie	USAC
Bilodeau, Amanda	USAC
Brooks, Whitney	USAC
Carroll, Kristy	USAC
Delmar, Teleshia	USAC
Falkowitz, Ed	USAC
Garber, Michelle	USAC
Goode, Vernell	USAC

Hope, Francine	PricewaterhouseCoopers
Hubbard, Suzanne	PricewaterhouseCoopers
Lenhardt, Chris	USAC
Mitchell, Jeff	USAC
Nuzzo, Patsy	USAC
Phillips, Don	PricewaterhouseCoopers

ACTION ITEMS:

a1. Approval of Audit Committee Meeting Minutes of January 26, 2009. On a motion duly made and seconded, the Committee approved the minutes as written of the Committee meeting of January 26, 2009.

a2. Review of Changes to USAC's Auditing and Accounting Principles and Practices. Mr. Scott presented this item to the Committee, noting that there were no significant changes to accounting principles or practices that have been implemented or are scheduled over the next year, and, if any such changes are made, USAC's Internal Audit Division (IAD) will report those activities at the April 2010 Committee meeting. Mr. Scott also noted that the FCC's outside auditors, Clifton Gunderson LLP, recommended certain changes to USAC's internal controls related to Universal Service Fund (USF) accounting, and he recommended that the Committee approve these recommended changes as well as USAC's proposed responses to the auditors' findings relating to USAC's administration of the USF from the FCC's fiscal year 2008 audit. 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 suggested internal control improvements suggested by Clifton Gunderson LLP (CG) and USAC management responses thereto hereby accepts the recommendation of USAC management and approves the changes recommended by CG as supplemented by USAC management responses.

a3. Review of the Integrity of USAC's Financial Reporting Process. Mr. Scott presented this item to the Committee, noting that based on a review conducted by IAD, the process indicates that there is adequate segregation of duties among the individuals responsible for initiating, preparing, approving, processing and reconciling transactions. In addition, Mr. Scott noted that the approval levels and controls surrounding computer system access for these individuals are appropriate. Mr. Scott stated that IAD has concluded that the financial reporting process is sufficient for the reliability and integrity needed to prepare financial information.

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

RESOLVED, that the USAC Audit Committee accepts the Internal Audit Division's review and assessment of USAC's financial reporting processes.

a4. Review of USAC's Processes to Assure Compliance with Applicable Laws and Regulations. Mr. Scott presented this item to the Committee, noting that IAD has assessed USAC's processes to

assure compliance with applicable laws and regulations and has concluded that the USAC's processes are in compliance with applicable laws and regulations.

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

RESOLVED, that the USAC Audit Committee accepts the USAC Internal Audit Division's assessment that USAC's processes are in compliance with applicable laws and regulations.

a5. Action on One USAC Internal Audit Division Finance Division Operational Audit Report. In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that this matter be discussed in *Executive Session* because the report relates to specific *internal controls and/or confidential company data* that would constitute a discussion of *internal rules and procedures*.

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

RESOLVED, that the USAC Audit Committee determines that discussion of the USAC Internal Audit Division Form 499 Process Review Audit Report labeled US2008OP003 shall be conducted in *Executive Session*.

a6. Miscellaneous. Solicit ideas for the July 2009 Committee Agenda. Mr. McClure reminded members that they may offer suggestions for agenda items at each quarterly meeting. Ideas may be submitted to Mr. McClure, Mr. Knowles, Mr. Barash or Mr. Scott between quarterly meetings.

INFORMATION ITEMS:

i1. FCC Office of Inspector General USF Audit Program Status Update. Mr. Scott presented this item to the Committee.

i2. Quarterly Summary of Audit Reports Finalized at Programmatic and Executive Committee Meetings. Mr. Scott presented this item to the Committee.

i3. Semiannual Status Report on Ongoing USAC Audits. Mr. Scott presented this item to the Committee.

i4. Semiannual Status Report on Actions Taken on Final USAC Audits. Mr. Scott presented this item to the Committee.

i5. Status Report on USAC Operational Audit Report on Information Technology Access Controls. In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that this matter be discussed in *Executive Session* because the report relates to specific *internal controls and/or confidential company data* that would constitute a discussion of *internal rules and procedures*.

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

RESOLVED, that the USAC Audit Committee determines that discussion of the status report on USAC Operational Audit Report on Information Technology Access Controls shall be conducted in *Executive Session*.

i6. Distribution of Materials on Audit Committee Best Practices. Mr. Scott presented this item to the Committee.

i7. Annual Executive Session with USAC's Vice President of Internal Audit. In accordance with the approved criteria and procedures for conducting USAC Board and committee business in

Executive Session, Mr. Capozzi recommended that this matter be discussed in *Executive Session* pursuant to the guidelines in Sections II, C-3 and V, A-3 of the approved Audit Committee Charter. On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, that the USAC Audit Committee determines that the annual meeting with USAC's Vice President of Internal Audit required by the USAC Audit Committee Charter shall be conducted in *Executive Session* with only Audit Committee members and the Vice President of Internal Audit present, and, at the discretion of the Audit Committee, other members of USAC management and USAC's outside auditing firms may also be present.

i8. Audit Committee Update from USAC's Independent Auditing Firm – PricewaterhouseCoopers, LLC. Mr. Scott introduced representatives from PricewaterhouseCoopers, LLC, who then presented information to the Committee concerning progress on USAC's annual financial audit and agreed-upon-procedures review.

At 4:08 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential and proprietary items noted above.

EXECUTIVE SESSION:

a5. Action on One USAC Internal Audit Division Finance Division Operational Audit Report. Ms. Bellavia presented this item 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, having reviewed the USAC Internal Audit Division Form 499 Process Review Audit Report labeled US2008OP003, together with management's responses thereto, accepts the recommendations of the USAC Executive Committee and USAC management and hereby deems the report final.

i5. Status Report on USAC Operational Audit Report on Information Technology Access Controls. Mr. Scott presented this item to the Committee.

i7. Annual Executive Session with USAC's Vice President of Internal Audit. Mr. Scott met with members of the Committee to discuss this matter.

At 4:53 p.m. Eastern Time, on a motion duly made and seconded, the Committee adjourned from *Executive Session* and immediately reconvened in *Open Session* at which time, Mr. McClure reported that the Committee, in *Executive Session*, took action on item a5 and discussed items i5 and i7 above. On a motion duly made and seconded, the Committee adjourned at 4:55 p.m. Eastern Time.

/s/ David A. Capozzi
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

AUDIT COMMITTEE MEETING

July 27, 2009

MINUTES

The quarterly meeting of the Audit Committee (Committee) of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Monday, July 27, 2009. Mr. Rex Knowles, Committee Vice Chair, called the meeting to order at 3:04 p.m. Eastern Time with a quorum of all five Committee members present:

Anderson, D. Michael

McClure, David – Chair – *by telephone*

Campbell, Anne

Talbott, Dr. Brian

Knowles, Rex – Vice Chair

Other Board of Directors (Board) members and officers of the corporation present:

Barash, Scott – Acting Chief Executive Officer

Belden, Richard – Chief Operating Officer

Capozzi, David – Acting General Counsel and Assistant Secretary

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

Ridley, Carolyn – Member of the Board

Scott, Wayne – Vice President of Internal Audit

Others present for the meeting:

NAME

COMPANY

Bellavia, Leslie

USAC

Bilodeau, Amanda

USAC

Brooks, Whitney

USAC

Delmar, Teleshia

USAC

Falkowitz, Ed

USAC

Goode, Vernell

USAC

Mitchell, Jeff

USAC

Nuzzo, Patsy

USAC

Hultquist, Mary

USAC

Beard, Jay

USAC

Iversen, Eric

USAC

Machinski, Thad
Reynolds, Dan

FCC
USAC

ACTION ITEMS:

Approval of Audit Committee Meeting Minutes of April 27, 2009. On a motion duly made and seconded, the Committee approved the minutes as written of the Committee meeting of April 27, 2009.

Consideration of Exercise of Contract Option with PricewaterhouseCoopers LLP to Perform Part 54 Annual Audit. In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration*.

On a motion duly made and seconded, the Committee adopted the following resolution:
RESOLVED, that the USAC Audit Committee determines that consideration of the exercise of the contract renewal option with PricewaterhouseCoopers LLP to perform the USAC annual financial audit, agreed-upon-procedures review and internal controls review shall be conducted in *Executive Session*.

Consideration of FCC OIG USF Audit Program Follow-Up Work, USAC Beneficiary and USF Contributor Compliance Audit Program (BCAP), and Improper Payments Information Act Assessment Program. In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that this matter be considered in *Executive Session* because discussion of specific audit plans, internal controls, and/or confidential company data constitutes a discussion of *internal rules and procedures* and relates to *pre-decisional matters pending before the Federal Communications Commission*

On a motion duly made and seconded, the Committee adopted the following resolution:
RESOLVED, that the USAC Executive Committee determines that discussion of the Improper Payments Information Act Assessment Plan and Beneficiary Compliance Audit Program shall be conducted in *Executive Session*.

a6. Miscellaneous. Solicit ideas for the October 2009 Committee Agenda. Mr. Knowles reminded members that they may offer suggestions for agenda items at each quarterly meeting. Ideas may be submitted to Mr. McClure, Mr. Knowles, Mr. Barash or Mr. Scott between quarterly meetings.

INFORMATION ITEMS:

i1. FCC Office of Inspector General USF Audit Program Status Update. Mr. Jeff Mitchell presented this item to the Committee, noting that for Round 2 of the FCC Office of Inspector General (OIG) USF audit program there are 90 High Cost Support Mechanism beneficiary audit reports remaining to be completed by staff and submitted to the High Cost & Low Income Committee for review; and the Round 3 budget has been reduced by \$26.5 million because there will be no Low Income Support Mechanism or Rural Health Care Support Mechanism beneficiary audits under Round 3.

i2. Status Report on USAC's 2008 Annual Audit. In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that presentation of the status report on the 2008 USAC Annual Audit be conducted in *Executive Session* because discussion of specific audit plans, internal controls, and/or confidential company data constitutes a discussion of *internal rules and procedures*.

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

RESOLVED, that the USAC Audit Committee determines that discussion of the 2008 USAC annual financial audit and agreed-upon-procedures review shall be conducted in *Executive Session*.

i3. Annual Report on Legal Claims That Could Significantly Affect USAC's Operations. Mr. Capozzi presented this item to the Committee noting that at the present time there were no significant claims that could significantly affect the operations of the corporation.

i4. Quarterly Summary of Audit Reports Finalized at Programmatic and Executive Committee Meetings. Mr. Scott presented this item to the Committee.

At 3:16 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential and proprietary items noted above.

EXECUTIVE SESSION:

a2. Consideration of Exercise of Contract Option with PricewaterhouseCoopers LLP to Perform Part 54 Annual Audit. Mr. Scott presented this item to the Committee.

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

RESOLVED, that the USAC Board of Directors accepts the recommendation of USAC management and the USAC Audit Committee and authorizes management to exercise, subject to management obtaining any necessary approvals from Federal Communications Commission staff, the second of three one-year, priced renewal options with PricewaterhouseCoopers LLP to conduct the 2009 USAC annual financial audit, agreed-upon-procedures review, and internal controls review.

a3. Consideration of FCC OIG USF Audit Program Follow-Up Work, USAC Beneficiary and USF Contributor Compliance Audit Program (BCAP), and Improper Payments Information Act Assessment Program. Mr. Barash presented this item to the Committee.

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

RESOLVED, that the USAC Audit Committee, having reviewed USAC management's recommendation, recommends that the USAC Board of Directors approve the continued development by USAC management of programs to address beneficiary compliance and support the FCC in meeting its Improper Payments Information Act compliance obligations; and

RESOLVED FURTHER, that the USAC Audit Committee, having reviewed USAC management's recommendation, recommends that the USAC Board of Directors authorize management to incur necessary start-up expenses for the programs as outlined in the proposed 4Q2009 common and consolidated budgets.

i2. Status Report on USAC's 2008 Annual Audit. Mr. Scott presented this item to the Committee. At 4:00 p.m. Eastern Time, on a motion duly made and seconded, the Committee adjourned from *Executive Session* and immediately reconvened in *Open Session* at which time Mr. Knowles reported that the Committee, in *Executive Session*, took action on items a2 and a3 and discussed item i2 above. On a motion duly made and seconded, the Committee adjourned at 4:01 p.m. Eastern Time.

/s/ David A. Capozzi
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

AUDIT COMMITTEE MEETING

October 26, 2009

MINUTES

The quarterly meeting of the Audit Committee (Committee) of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Monday, October 26, 2009. Mr. David McClure, Committee Chair, called the meeting to order at 3:12 p.m. Eastern Time, with a quorum of four of the five Committee members present:

Campbell, Anne McClure, David – Chair
Knowles, Rex – Vice Chair Talbott, Dr. Brian

Members of the Committee not present:
Anderson, D. Michael

Other Board of Directors (Board) members and officers of the corporation present:

Barash, Scott – Acting Chief Executive Officer
Belden, Richard – Chief Operating Officer
Capozzi, David – Acting General Counsel and Assistant Secretary
Erwin, W.B. – Vice President of Finance and Assistant Treasurer
Feiss, Geoff – Member of the Board
Holcombe, Jamie – Vice President of Information Technology
Scott, Wayne – Vice President of Internal Audit

Others present for the meeting:

NAME COMPANY

Amalfitano, Vince FCC – *by telephone*
Beard, Jay USAC
Bellavia, Leslie USAC
Bilodeau, Amanda USAC
Delmar, Teleshia USAC
Falkowitz, Ed USAC
Goode, Vernell USAC
Hope, Francine PricewaterhouseCoopers LLP
Hopper, Melissa USAC
Hubbard, Suzanne PricewaterhouseCoopers LLP
Hultquist, Mary USAC
VanderMolen, Kevin USAC
Mitchell, Jeff USAC

Nuzzo, Patsy USAC
Reynolds, Dan USAC
Yee, Kim FCC

ACTION ITEMS:

a1. Approval of Audit Committee Meeting Minutes of July 27, 2009. On a motion duly made and seconded, the Committee approved the minutes, as written, of the Committee meeting of July 27, 2009.

a2. Annual Acceptance of the Assessment by the USAC Internal Audit Division of the Independence and Financial Literacy of the USAC Audit Committee Members. Mr. Scott presented this item to the Committee.

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

RESOLVED, that the USAC Audit Committee accepts the assessment made by the USAC Internal Audit Division and agrees that the Audit Committee is adequately staffed with independent members and has a sufficient level of financial expertise.

a3. Annual Review of the Internal Audit Charter; the Organizational Structure, Budget, and Activities of the Internal Audit Division; and Significant Changes to the Internal Audit Plan. Mr. Scott presented this item to the Committee.

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

RESOLVED, that the USAC Audit Committee hereby accepts the recommendation of USAC management and approves the proposed changes to the Internal Audit Charter.

a4. Annual Review of the Effectiveness of the Company's Process For Assessing Significant Risks and Exposures and the Steps Management Has Taken to Minimize Such Risks and Exposures. Mr. Scott presented this item to the Committee.

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

RESOLVED, that the USAC Audit Committee accepts the Internal Audit Division's review of the effectiveness of the Company's process for assessing significant risks and exposures, as well as the steps management has taken to minimize such risks and exposures.

a5. Annual Review of the Adequacy of USAC's System of Internal Controls. Mr. Scott presented this item to the Committee.

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

RESOLVED, that the USAC Audit Committee accepts the review of the adequacy of USAC's system of internal controls performed by the USAC Internal Audit Division.

a6. Acceptance of USAC 2008 Annual Financial Audit and Agreed-Upon Procedures

Review. Mr. Scott introduced this item to the Committee. Ms. Suzanne Hubbard and Ms. Francine Hope of PricewaterhouseCoopers LLP (PwC) presented PwC's reports to the Committee. In response to comments from Ms. Campbell, Dr. Talbott and Mr. Knowles, Mr. Erwin stated that management has taken action to rectify control deficiencies identified in the PwC reports. Mr. Barash commended PwC on its professionalism, flexibility and excellent work, especially given the late start it had due to delays in receiving FCC staff approval to begin work.

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

RESOLVED, that the USAC Audit Committee, having reviewed the USAC 2008 Financial Audit Report as submitted by PricewaterhouseCoopers LLP, hereby deems the report final; and **RESOLVED FURTHER**, that the USAC Audit Committee, having reviewed the USAC 2008 Agreed-Upon Procedures Review Report as submitted by PricewaterhouseCoopers LLP, hereby deems such report final; and

RESOLVED FURTHER, that the USAC Audit Committee recommends that PricewaterhouseCoopers LLP file the final USAC 2008 Financial Audit Report and Agreed-Upon Procedures Review Report with the FCC.

a7. Miscellaneous. Solicit ideas for the January 2010 Committee Agenda. Mr. McClure reminded members that they may offer suggestions for agenda items at each quarterly meeting. Ideas may be submitted to Mr. McClure, Mr. Knowles, Mr. Barash or Mr. Scott between quarterly meetings.

INFORMATION ITEMS:

i1. FCC Office of Inspector General USF Audit Program Status Update. Mr. Scott presented this item to the Committee, noting that, for Round 1, the FCC Office of Inspector General (OIG) reported an improper payment rate of 12.9 percent; and after follow-up work by USAC, USAC reported a revised improper payment rate of 8.6 percent. Mr. Scott also reported that, for Round 2, 16 High Cost Program beneficiary audits remain to be reviewed by the High Cost & Low Income Committee out of the original 390 audit reports; and all Schools and Libraries Program beneficiary audit reports have been completed and reviewed by the Schools & Libraries Committee. In addition, Mr. Scott reported that USAC staff is continuing to perform follow-up work on a number of Round 2 audits.

Finally, Mr. Scott reported that USAC staff is working to bring Round 3 audit reports to the appropriate committees for review as quickly as possible. In response to a question from Mr. Knowles, Mr. Scott reported that USAC has budgeted sufficient funds to complete the Round 3 reports and perform follow-up work where needed.

i2. Update on USAC Universal Service Support Mechanism Beneficiary and USF Contributor Compliance Audit Program (BCAP) and Improper Payments Information Act (IPIA) Assessment Program. Mr. Scott presented this item to the Committee. Mr. Barash noted that USAC staff continues to answer questions from FCC staff and refine the proposed programs based on FCC staff requirements. Mr. Barash also noted that USAC is waiting for FCC staff to approve these programs.

i3. Quarterly Summary of Audit Reports Finalized at Programmatic and Executive Committee Meetings. Mr. Scott presented this item to the Committee.

i4. Semiannual Status Report on Ongoing USAC Audits. Mr. Scott presented this item to the Committee. Mr. Scott reported that USAC is waiting for FCC approval to authorize PricewaterhouseCoopers LLP to start the USAC 2009 annual financial audit and agreed-upon procedures review. Mr. Capozzi also provided a status on the performance audit of the High Cost & Low Income and Schools & Libraries Committees being conducted by the FCC OIG.

i5. Semiannual Status Report on Actions Taken on Final USAC Audits. Mr. Scott presented this item to the Committee.

i6. Audit Committee Executive Session with USAC's Independent Auditing Firm – PricewaterhouseCoopers LLP. In accordance with the approved criteria and procedures for conducting USAC Board of Directors (Board) and committee business in *Executive Session*, Mr. Capozzi recommended that this matter be discussed in *Executive Session* pursuant to Section II.C.2 of the Audit Committee Charter (Charter), which states:

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 Internal Audit, and representatives of each independent auditing firm retained by USAC to discuss any matters that either the Committee or any of these groups believes *should be discussed privately*.

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

RESOLVED, that the USAC Audit Committee determines that discussion with representatives of the independent auditing firm retained by USAC–PricewaterhouseCoopers LLP–shall be conducted in *Executive Session*.

At 4:12 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential and proprietary items noted above.

EXECUTIVE SESSION:

i6. Audit Committee Executive Session with USAC’s Independent Auditing Firm – PricewaterhouseCoopers LLP. Mr. Scott presented this item to the Committee.

At 4:23 p.m. Eastern Time, on a motion duly made and seconded, the Committee adjourned from *Executive Session* and immediately reconvened in *Open Session*, at which time, Mr. McClure reported that the Committee in *Executive Session* discussed item i6 above. On a motion duly made and seconded, the Committee adjourned at 4:24 p.m. Eastern Time.

/s/ David A. Capozzi
Assistant Secretary