

# 2004 Audit Committee Meetings Minutes

---

*Click on a date below to see the minutes. To see the entire year's minutes, click on the first date. Once open, search within the document for a particular word or phrase, using the 'Find' feature or Ctrl+f.*

## Meeting Dates

January 22, 2004 .....	2
January 26, 2004 .....	10
April 15, 2004 .....	18
April 19, 2004 .....	22
July 19, 2004 – Part I .....	31
July 19, 2004 – Part II .....	34
October 14, 2004 – Part I .....	40
October 18, 2004 – Part II .....	44

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY****AUDIT COMMITTEE MEETING**

January 22, 2004

**MINUTES**

Part II of the quarterly meeting of the Audit Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC, on Monday, January 26, 2004. The meeting was scheduled to begin at 3:30 p.m. Eastern Time; however, the USAC High Cost & Low Income Committee meeting was still in session at that time. It was suggested that in the interest of saving time, since the Audit Committee would be considering one of the same issues as the High Cost & Low Income Committee in **Executive Session** and since all members of the Audit Committee were present at that point, the Audit Committee come to order and vote to go into **Executive Session** along with the High Cost & Low Income Committee and discuss and take action on item #aAC02. Mr. Eichler, Chair of the Audit Committee agreed and called the Audit Committee to order at 3:34 p.m. Eastern Time. (See the minutes of the USAC High Cost & Low Income Committee from Monday, January 26, 2004.). Ms. Howard, Executive Assistant to the USAC CEO, called the roll.

<b>All five members of the Committee were present, representing a quorum:</b>	
Campbell, Anne - Vice Chair - <i>by telephone</i>	Hughes, Alison
Eichler, Ed - Chair	Sanford, Jo Anne - <i>by telephone</i>
Hess, Kevin	
<b>Other Board members and Officers of the Corporation present:</b>	
Baker, Dave - USAC Board Member	
Buller, Karen - USAC Board Member	
Cornell, Diane - USAC Board Member	
Duff, Bridget - USAC Board Member	
Gumper, Frank - USAC Board Member	
Jackson, Jimmy - USAC Board member	
Jortner, Wayne - USAC Board Member	
Lubin, Joel - USAC Board Member	
Parrino, Cheryl - USAC Board Member and CEO	
Barash, D. Scott - Vice President and General Counsel	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George - VP, Schools & Libraries Division	

Scott, Wayne – VP, Internal Audit Division	
<b>Others present for the meeting:</b>	
<b>Name</b>	<b>Company</b>
Barberis, Corrado	USAC
Carroll, Kristy	USAC
Cullen, Kathy	Telcordia
Davis, Ta'Nea	USAC
Delmar, Teleshia	USAC
Divak, Helen	Telcordia
Dunn, Amanda	USAC
Falkowitz, Ed	USAC
Faunce, Donna – <i>by telephone</i>	USAC
Gallant, Pam	USAC
Hill, William	FCC
Howard, Cathy	USAC
Jones, Cheryl	USAC
Khan, Sammy	USAC
Lenhardt, Chris	USAC
Long, Deborah	NECA
Majcher, Karen	USAC
McCrone, Tina	USAC
Miller, Linda	USAC
Murphy, Kristin	USAC
Nadel, Mark	FCC
Okudaira, Nobuko	USAC
Pertsevoi, Elizabeth	USAC
Spead, Michael	USAC
Stephens, Mark	FCC
Waugaman, Seth	USAC

### Executive Session

- a2. a2. Action on One High Cost Support Mechanism Operational Audit Report – Confidential & Proprietary – *Executive Session Recommended*.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in ***Executive Session***, Mr. Barash recommended that this item be discussed in ***Executive Session*** because discussion of the reports relates to specific internal controls, and/or confidential company data that would constitute a “[d]iscussion 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.”

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of the audit report of High Cost and Low Income Universal Service Support Mechanism beneficiaries labeled HC2003OP002 shall be conducted in **Executive Session**.

At 3:35 p.m., on a motion duly made and seconded, the Audit Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary item as noted above.

Mr. Scott introduced this item. Ms. Flannery reviewed how the audit developed and the basis for performing the audit; steps USAC management has taken in response to the audit findings; and the plan going forward to address issues of concern.

Mr. Hess, Chair of the USAC High Cost & Low Income Committee called for the vote of the High Cost & Low Income Committee and on a motion duly made and seconded, the Committee adopted the following resolution:

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC High Cost & Low Income Committee and directs that the Audit Report labeled HC2003OP002 be deemed final.

The Audit Committee recessed at 4:05 p.m. to allow the High Cost & Low Income Committee meeting to continue.

At the call of the Chair, the Audit Committee reconvened in open session at 4:17 p.m. Mr. Eichler requested a call of the roll again. Ms. Bayona, Administrative Assistant to USAC, called the roll.

<b>All five members of the Committee were present, representing a quorum:</b>	
Campbell, Anne – Vice Chair - <i>by telephone</i>	Hughes, Alison
Eichler, Ed – Chair	Sanford, Jo Anne – <i>by telephone</i>
Hess, Kevin	

## **ACTION ITEMS**

- a1. Approval of the 2004 USAC Internal Audit Plan – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of specific audit plans, internal controls, and/or confidential company data would constitute a “[d]iscussion 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.”

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of the 2004 USAC Internal Audit Plan shall be conducted in **Executive Session**.

See **Executive Session** for a report of the discussion and action taken on this item.

- a3. Action on Five Low Income Support Mechanism Beneficiary Audit Reports.** Ms. Delmar, Manager of Internal Audit, introduced this item and directed the Committee’s attention to five beneficiary audit reports of the Low Income Support Mechanism.

The Committee **DIRECTED** USAC staff to correct the typo found in the audit report labeled LI2003BE001: the report incorrectly said Showlow, Arizona and should have said Showlow, Arizona.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC High Cost & Low Income Committee and directs that the Audit Reports labeled LI2003BE001, LI2003BE007, LI2003BE008, LI2003BE009, and LI2003BE010 be deemed final.

- a4. Action on Six Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Mr. Scott introduced this item and directed the Committee’s attention to six beneficiary audit reports of the Schools and Libraries Support Mechanism. He indicated that all six audit reports were rated as not compliant and that USAC management is no longer seeking the Federal Communications Commission’s (FCC) clarification on one of the audits. Ms. Parrino reported that the USAC Schools & Libraries Committee had earlier today accepted the reports at its quarterly meeting without modification, with the understanding that no assumption should be made at this point as to from which entity SLD would seek the recovery of funds.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the Audit Reports labeled SL2003BE016, SL2003BE107, SL2003BE108, SL2003BE109, SL2003BE110, and SL2003BE011 be deemed final.

- a5. Action on One Schools and Libraries Support Mechanism Investigative Audit Report and Three Schools and Libraries Support Mechanism Beneficiary Audit Reports – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of the reports relates to investigatory matters or pending or contemplated enforcement action and public disclosure of the matters discussed therein could compromise law enforcement efforts.

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of audit reports of the Schools and Libraries Universal Service Support Mechanism beneficiaries labeled SL2003IV102, SL2003BE020, SL2003BE021, and SL2003BE101 shall be conducted in **Executive Session**.

See **Executive Session** for a report of the discussion and action taken on this item.

- a6. Action on One Schools and Libraries Support Mechanism Audit Performed by the Department of Interior, Office of Inspector General.** Mr. Scott introduced this item. There were no questions or further discussion.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the Audit Report labeled SL2003BE112 be deemed final.

- a7. Action on One Schools and Libraries Support Mechanism Operational Audit Report.** Mr. Scott introduced this item. There were no questions or further discussion.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the Audit Report labeled SL2003OP106 be deemed final.

- a8. Action on 24 Schools and Libraries Support Mechanism KPMG LLP Agreed – Upon Procedures Beneficiary Audit Reports – Confidential & Proprietary – Executive Session Option.** Mr. Scott introduced this item. In response to an inquiry, Mr. Scott clarified the rating criteria that are given to each audit report based on the findings and/or results. Mr. Barash recommended that, in accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, that discussion of this item be conducted in **Executive Session** because discussion of specific audit plans, targets, and/or techniques would constitute a “[d]iscussion 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.”

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of the details of the KPMG LLP agreed-upon procedures beneficiary audit reports listed on **Attachment A** of the Schools and Libraries Universal Service Support Mechanism shall be conducted in **Executive Session**.

See **Executive Session** for a report of the discussion and action taken on this item.

#### a4. Miscellaneous.

- **Solicit Ideas for April Committee Agenda.** Mr. Eichler reminded Committee members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him or Mr. Scott between quarterly meetings.

#### Information Items

- i1. Review of Schools and Libraries Support Mechanism Changes to Address Audit Findings – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of specific internal controls and/or audit procedures would constitute a “[d]iscussion 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.”

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of proposed Schools and Libraries Support Mechanism program changes to address audit findings be conducted in **Executive Session**.

See [Executive Session](#) for a report of the discussion taken on this item.

- i2. Status Report on Actions Taken on Final Audits.** Mr. Scott indicated to the Committee that given the additional number of audits currently being tracked by the Internal Audit Division (IAD), it would be less cumbersome to have IAD bring forth an overall summary of the actions taken regarding finalized audits, as opposed to the current layout. The Committee had no objection. In response to a question, Ms. Parrino explained the process, as directed by the FCC, by which the Schools and Libraries Division (SLD) documents, records, and distributes the funds recovered from previous funding years.

#### i3. Miscellaneous.

- **Status Relating to Review of Lockbox Disbursements – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because it relates to investigatory matters or pending or contemplated enforcement action and public disclosure of the matters discussed therein could compromise law enforcement efforts.

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of unauthorized lockbox disbursements shall be conducted in **Executive Session**.

See **Executive Session** for a report of the discussion and action taken on this item.

At 4:44 p.m., the Committee voted to go into Executive Session to address the confidential and proprietary items as noted above.

#### Executive Session

**a1. Approval of the 2004 USAC Internal Audit Plan – Confidential & Proprietary.**

Mr. Scott introduced this item and reviewed certain aspects of the audit plan. He noted that the plan would include carryover audits from the 2003 Audit Plan that will be executed or completed in 2004.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendations of the USAC Executive, High Cost & Low Income, Rural Health Care, and Schools & Libraries Committees to include in the 2004 USAC Internal Audit Plan the proposed plans for financial and programmatic beneficiary audits for 2004 as presented by the USAC Internal Audit Division and approved by each Committee at their respective meetings on January 26, 2004; and

**RESOLVED FURTHER**, That the USAC Audit Committee approves the 2004 USAC Internal Audit Plan as presented by the USAC Internal Audit Division.

**a5. Action on One Schools and Libraries Support Mechanism Investigative Audit Report and Three Schools and Libraries Support Mechanism Beneficiary Audit Reports – Confidential & Proprietary.** Mr. Scott introduced this item; briefed the Committee on the audit findings, and outlined the specific criteria for each rating category. Mr. McDonald reported the steps USAC management has taken in response to the audit findings. The Committee engaged in extensive discussion of the findings in the reports before calling for the vote.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the Audit Reports labeled SL2003IV102, SL2003BE020, SL2003BE021, and SL2003BE101 be deemed final.

**a8. Action on 24 Schools and Libraries Support Mechanism KPMG LLP Agreed – Upon Procedures Beneficiary Audit Reports – Confidential & Proprietary.** Mr. Scott introduced this item. He addressed the rating criteria during the discussion of agenda item #a5 above. No further discussion was held.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the KPMG LLP agreed-upon procedures beneficiary audit reports listed on **Attachment A** be deemed final.

**i1. Review of Schools and Libraries Support Mechanism Changes to Address Audit**



**Findings – Confidential & Proprietary.** Mr. McDonald reviewed the exceptions found in the beneficiary audit reports, steps USAC management has taken that would reduce the probability of the exceptions from happening again; and Schools and Libraries Division’s proposal for improving program compliance. Mr. McDonald reported that the USAC Schools & Libraries Committee had accepted the resolution at its quarterly meeting earlier and that SLD would give an update to the Audit Committee at its April 2004 quarterly meeting.

At this point in the meeting, Mr. Eichler requested that everyone vacate the room except for the following persons: Audit Committee members, CEO, General Counsel, Assistant Treasurer, Minute taker, Internal Audit Manager, and Senior Internal Auditor (Ms. McCrone).

**i3. Miscellaneous.**

- **Status Relating to Review of Lockbox Disbursements – Confidential & Proprietary.** Mr. Scott presented a summary of an investigation and noted that management has and is taking steps to address certain matters identified in the audit report.

The Committee adjourned from **Executive Session** and reconvened in open session at 5:44 p.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Mr. Eichler adjourned the meeting at 5:46 p.m.

---

Robert W. Haga  
Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY****AUDIT COMMITTEE MEETING**

January 26, 2004

**MINUTES**

Part II of the quarterly meeting of the Audit Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC, on Monday, January 26, 2004. The meeting was scheduled to begin at 3:30 p.m. Eastern Time; however, the USAC High Cost & Low Income Committee meeting was still in session at that time. It was suggested that in the interest of saving time, since the Audit Committee would be considering one of the same issues as the High Cost & Low Income Committee in **Executive Session** and since all members of the Audit Committee were present at that point, the Audit Committee come to order and vote to go into **Executive Session** along with the High Cost & Low Income Committee and discuss and take action on item #aAC02. Mr. Eichler, Chair of the Audit Committee agreed and called the Audit Committee to order at 3:34 p.m. Eastern Time. (See the minutes of the USAC High Cost & Low Income Committee from Monday, January 26, 2004.). Ms. Howard, Executive Assistant to the USAC CEO, called the roll.

<b>All five members of the Committee were present, representing a quorum:</b>	
Campbell, Anne - Vice Chair - <i>by telephone</i>	Hughes, Alison
Eichler, Ed - Chair	Sanford, Jo Anne - <i>by telephone</i>
Hess, Kevin	
<b>Other Board members and Officers of the Corporation present:</b>	
Baker, Dave - USAC Board Member	
Buller, Karen - USAC Board Member	
Cornell, Diane - USAC Board Member	
Duff, Bridget - USAC Board Member	
Gumper, Frank - USAC Board Member	
Jackson, Jimmy - USAC Board member	
Jortner, Wayne - USAC Board Member	
Lubin, Joel - USAC Board Member	
Parrino, Cheryl - USAC Board Member and CEO	
Barash, D. Scott - Vice President and General Counsel	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George - VP, Schools & Libraries Division	

Scott, Wayne – VP, Internal Audit Division	
<b>Others present for the meeting:</b>	
<b>Name</b>	<b>Company</b>
Barberis, Corrado	USAC
Carroll, Kristy	USAC
Cullen, Kathy	Telcordia
Davis, Ta'Nea	USAC
Delmar, Teleshia	USAC
Divak, Helen	Telcordia
Dunn, Amanda	USAC
Falkowitz, Ed	USAC
Faunce, Donna – <i>by telephone</i>	USAC
Gallant, Pam	USAC
Hill, William	FCC
Howard, Cathy	USAC
Jones, Cheryl	USAC
Khan, Sammy	USAC
Lenhardt, Chris	USAC
Long, Deborah	NECA
Majcher, Karen	USAC
McCrone, Tina	USAC
Miller, Linda	USAC
Murphy, Kristin	USAC
Nadel, Mark	FCC
Okudaira, Nobuko	USAC
Pertsevoi, Elizabeth	USAC
Spead, Michael	USAC
Stephens, Mark	FCC
Waugaman, Seth	USAC

## Executive Session

- a2. a2. Action on One High Cost Support Mechanism Operational Audit Report – Confidential & Proprietary – *Executive Session Recommended*.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in ***Executive Session***, Mr. Barash recommended that this item be discussed in ***Executive Session*** because discussion of the reports relates to specific internal controls, and/or confidential company data that would constitute a “[d]iscussion 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.”

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of the audit report of High Cost and Low Income Universal Service Support Mechanism beneficiaries labeled HC2003OP002 shall be conducted in **Executive Session**.

At 3:35 p.m., on a motion duly made and seconded, the Audit Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary item as noted above.

Mr. Scott introduced this item. Ms. Flannery reviewed how the audit developed and the basis for performing the audit; steps USAC management has taken in response to the audit findings; and the plan going forward to address issues of concern.

Mr. Hess, Chair of the USAC High Cost & Low Income Committee called for the vote of the High Cost & Low Income Committee and on a motion duly made and seconded, the Committee adopted the following resolution:

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC High Cost & Low Income Committee and directs that the Audit Report labeled HC2003OP002 be deemed final.

The Audit Committee recessed at 4:05 p.m. to allow the High Cost & Low Income Committee meeting to continue.

At the call of the Chair, the Audit Committee reconvened in open session at 4:17 p.m. Mr. Eichler requested a call of the roll again. Ms. Bayona, Administrative Assistant to USAC, called the roll.

<b>All five members of the Committee were present, representing a quorum:</b>	
Campbell, Anne – Vice Chair - <i>by telephone</i>	Hughes, Alison
Eichler, Ed – Chair	Sanford, Jo Anne – <i>by telephone</i>
Hess, Kevin	

### Action Items

- a1. Approval of the 2004 USAC Internal Audit Plan – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of specific audit plans, internal controls, and/or confidential company data would constitute a “[d]iscussion 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.”

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of the 2004 USAC Internal Audit Plan shall be conducted in **Executive Session**.

See **Executive Session** for a report of the discussion and action taken on this item.

- a3. Action on Five Low Income Support Mechanism Beneficiary Audit Reports.** Ms. Delmar, Manager of Internal Audit, introduced this item and directed the Committee’s attention to five beneficiary audit reports of the Low Income Support Mechanism.

The Committee **DIRECTED** USAC staff to correct the typo found in the audit report labeled LI2003BE001: the report incorrectly said Showlow, Arizona and should have said Showlow, Arizona.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC High Cost & Low Income Committee and directs that the Audit Reports labeled LI2003BE001, LI2003BE007, LI2003BE008, LI2003BE009, and LI2003BE010 be deemed final.

- a4. Action on Six Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Mr. Scott introduced this item and directed the Committee’s attention to six beneficiary audit reports of the Schools and Libraries Support Mechanism. He indicated that all six audit reports were rated as not compliant and that USAC management is no longer seeking the Federal Communications Commission’s (FCC) clarification on one of the audits. Ms. Parrino reported that the USAC Schools & Libraries Committee had earlier today accepted the reports at its quarterly meeting without modification, with the understanding that no assumption should be made at this point as to from which entity SLD would seek the recovery of funds.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the Audit Reports labeled SL2003BE016, SL2003BE107, SL2003BE108, SL2003BE109, SL2003BE110, and SL2003BE011 be deemed final.

- a5. Action on One Schools and Libraries Support Mechanism Investigative Audit Report and Three Schools and Libraries Support Mechanism Beneficiary Audit Reports – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of the reports relates to investigatory matters or pending or contemplated enforcement action and public disclosure of the matters discussed therein could compromise law enforcement

efforts.

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of audit reports of the Schools and Libraries Universal Service Support Mechanism beneficiaries labeled SL2003IV102, SL2003BE020, SL2003BE021, and SL2003BE101 shall be conducted in **Executive Session**.

See **Executive Session** for a report of the discussion and action taken on this item.

- a6. Action on One Schools and Libraries Support Mechanism Audit Performed by the Department of Interior, Office of Inspector General.** Mr. Scott introduced this item. There were no questions or further discussion.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the Audit Report labeled SL2003BE112 be deemed final.

- a7. Action on One Schools and Libraries Support Mechanism Operational Audit Report.** Mr. Scott introduced this item. There were no questions or further discussion.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the Audit Report labeled SL2003OP106 be deemed final.

- a8. Action on 24 Schools and Libraries Support Mechanism KPMG LLP Agreed – Upon Procedures Beneficiary Audit Reports – Confidential & Proprietary – Executive Session Option.** Mr. Scott introduced this item. In response to an inquiry, Mr. Scott clarified the rating criteria that are given to each audit report based on the findings and/or results. Mr. Barash recommended that, in accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, that discussion of this item be conducted in **Executive Session** because discussion of specific audit plans, targets, and/or techniques would constitute a “[d]iscussion 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.”

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of the details of the KPMG LLP agreed-upon procedures beneficiary audit reports listed on **Attachment A** of the Schools and Libraries Universal Service Support Mechanism shall be conducted in **Executive Session**.

See **Executive Session** for a report of the discussion and action taken on this item.

#### a4. Miscellaneous.

- **Solicit Ideas for April Committee Agenda.** Mr. Eichler reminded Committee members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him or Mr. Scott between quarterly meetings.

#### Information Items

- i1. Review of Schools and Libraries Support Mechanism Changes to Address Audit Findings – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of specific internal controls and/or audit procedures would constitute a “[d]iscussion 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.”

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of proposed Schools and Libraries Support Mechanism program changes to address audit findings be conducted in **Executive Session**.

See **Executive Session** for a report of the discussion taken on this item.

- i2. Status Report on Actions Taken on Final Audits.** Mr. Scott indicated to the Committee that given the additional number of audits currently being tracked by the Internal Audit Division (IAD), it would be less cumbersome to have IAD bring forth an overall summary of the actions taken regarding finalized audits, as opposed to the current layout. The Committee had no objection. In response to a question, Ms. Parrino explained the process, as directed by the FCC, by which the Schools and Libraries Division (SLD) documents, records, and distributes the funds recovered from previous funding years.

#### i3. Miscellaneous.

- **Status Relating to Review of Lockbox Disbursements – Confidential & Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because it relates to investigatory matters or pending or contemplated enforcement action and public disclosure of the matters discussed therein could compromise law enforcement efforts.

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of unauthorized lockbox disbursements shall be conducted in

***Executive Session.***

See ***Executive Session*** for a report of the discussion and action taken on this item.

At 4:44 p.m., the Committee voted to go into Executive Session to address the confidential and proprietary items as noted above.

**Executive Session**

**a1. Approval of the 2004 USAC Internal Audit Plan – Confidential & Proprietary.**

Mr. Scott introduced this item and reviewed certain aspects of the audit plan. He noted that the plan would include carryover audits from the 2003 Audit Plan that will be executed or completed in 2004.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendations of the USAC Executive, High Cost & Low Income, Rural Health Care, and Schools & Libraries Committees to include in the 2004 USAC Internal Audit Plan the proposed plans for financial and programmatic beneficiary audits for 2004 as presented by the USAC Internal Audit Division and approved by each Committee at their respective meetings on January 26, 2004; and

**RESOLVED FURTHER**, That the USAC Audit Committee approves the 2004 USAC Internal Audit Plan as presented by the USAC Internal Audit Division.

**a5. Action on One Schools and Libraries Support Mechanism Investigative Audit Report and Three Schools and Libraries Support Mechanism Beneficiary Audit Reports – Confidential & Proprietary.** Mr. Scott introduced this item; briefed the Committee on the audit findings, and outlined the specific criteria for each rating category. Mr. McDonald reported the steps USAC management has taken in response to the audit findings. The Committee engaged in extensive discussion of the findings in the reports before calling for the vote.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the Audit Reports labeled SL2003IV102, SL2003BE020, SL2003BE021, and SL2003BE101 be deemed final.

**a8. Action on 24 Schools and Libraries Support Mechanism KPMG LLP Agreed – Upon Procedures Beneficiary Audit Reports – Confidential & Proprietary.** Mr. Scott introduced this item. He addressed the rating criteria during the discussion of agenda item #a5 above. No further discussion was held.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the KPMG LLP agreed-upon procedures beneficiary audit reports listed on **Attachment A** be deemed final.

**i1. Review of Schools and Libraries Support Mechanism Changes to Address Audit**



**Findings – Confidential & Proprietary.** Mr. McDonald reviewed the exceptions found in the beneficiary audit reports, steps USAC management has taken that would reduce the probability of the exceptions from happening again; and Schools and Libraries Division’s proposal for improving program compliance. Mr. McDonald reported that the USAC Schools & Libraries Committee had accepted the resolution at its quarterly meeting earlier and that SLD would give an update to the Audit Committee at its April 2004 quarterly meeting.

At this point in the meeting, Mr. Eichler requested that everyone vacate the room except for the following persons: Audit Committee members, CEO, General Counsel, Assistant Treasurer, Minute taker, Internal Audit Manager, and Senior Internal Auditor (Ms. McCrone).

**i3. Miscellaneous.**

- **Status Relating to Review of Lockbox Disbursements – Confidential & Proprietary.** Mr. Scott presented a summary of an investigation and noted that management has and is taking steps to address certain matters identified in the audit report.

The Committee adjourned from **Executive Session** and reconvened in open session at 5:44 p.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Mr. Eichler adjourned the meeting at 5:46 p.m.

---

Robert W. Haga  
Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY****AUDIT COMMITTEE MEETING**

April 15, 2004

**MINUTES**

Part I of the quarterly meeting of the Audit Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, D.C. on Thursday, April 15, 2004. Mr. Eichler, Chair of the Committee, called the meeting to order at 1:32 p.m. Eastern Time. Ms. Bayona, Administrative Assistant for USAC, called the roll.

<b>All five members were present, representing a quorum:</b>	
Campbell, Anne - Vice Chair - <i>by telephone</i>	Hughes, Alison - <i>by telephone</i>
Eichler, Ed - Chair - <i>by telephone</i>	Sanford, Jo Anne - <i>by telephone</i>
Hess, Kevin - <i>by telephone</i>	
<b>Other Board members and Officers of the Corporation present:</b>	
Duff, Bridget - USAC Board Member - <i>by telephone</i>	
Gumper, Frank - USAC Board Member	
Zaina, Lisa - USAC Board Member and CEO	
Barash, D. Scott - Vice President and General Counsel	
Carmichael, Mark - Assistant Treasurer; VP, Finance Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
Scott, Wayne - VP, Internal Audit Division	
<b>Others present for the meeting:</b>	
<b>Name</b>	<b>Company</b>
Bayona, Janet	USAC
Delmar, Teleshia	USAC
Dunn, Amanda	USAC
Hill, William - <i>by telephone</i>	FCC
Lenhardt, Chris	USAC
McCrone, Tina	USAC
Miller, Linda	USAC
Murphy, Kristin - <i>by telephone</i>	USAC
Okudaira, Nobuko	USAC
Panton, Marcia - <i>by telephone</i>	USAC
Stephens, Mark - <i>by telephone</i>	FCC

## ACTION ITEMS:

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Committee approved the minutes as distributed of the USAC Audit Committee meetings of Thursday, [January 22, 2004](#); and Monday, [January 26, 2004](#).
- a2. Action on the Review of the Integrity of USAC's Financial Reporting Process.** Mr. Scott introduced this item and indicated that the Internal Audit Division completed its annual review and assessment of USAC's financial reporting process. Ms. Zaina indicated that the procedures and internal controls outlined within the financial reporting process appear to be effective and efficient. Ms. Campbell thanked the USAC staff for the updated report and asked that they continue monitoring the information technology operations and how the transition of these operations in-house might affect the process.

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

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

- a3. Review and Approval of Changes to USAC's Auditing and Accounting Principles and Practices.** Mr. Scott introduced this item, reminded the Committee of the Federal Communications Commission (FCC) order, which requires USAC to migrate its accounting and audit procedures to comply with Generally Accepted Accounting Principles for Federal Agencies (FedGAAP) and Generally Accepted Government Auditing Standards (GAGAS) by October 1, 2004, and noted USAC's initiatives thus far towards accomplishing this goal. Mr. Eichler noted that the Universal Service Fund (USF), at a transaction level, would follow FedGAAP compliance and FCC's fiscal year-end of September 30. Handling the USF in this manner would establish consistency in accounting practices with the FCC.

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

**RESOLVED**, That the USAC Audit Committee, having reviewed the proposed changes as well as the implemented changes to date to USAC's current Universal Service Fund accounting and auditing principles and practices to bring the Universal Service Fund into compliance with Generally Accepted Accounting Principles for Federal Agencies and Generally Accepted Government Auditing Standards pursuant to Federal Communications Commission order, *In the Matter of Application of Generally Accepted Accounting Principles for Federal Agencies and Generally Accepted Government Auditing Standards to the Universal Service Fund, Order, CC Docket No. 96-45, FCC 03-232 (rel. Oct. 3, 2003)*, hereby approves the changes as submitted by the USAC Internal Audit Division.

- a4. Review of USAC's Processes to Assure Compliance with Applicable Laws and Regulations.** Mr. Scott introduced this item. There were no comments.

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

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

- a5. Action on 37 Contributor Revenue Agreed-Upon Procedures Operational Reports as Prepared by Deloitte & Touche LLP and One Summary Report as Prepared by USAC Internal Audit Division - Confidential & Proprietary - Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of the reports relates to specific internal controls, and/or confidential company data that would constitute a "[d]iscussion 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." In addition, he stated that 47 C.F.R. § 54.711(b) requires USAC to keep all contributor-specific revenue information confidential, and to the extent that any such information is discussed, confidential treatment is required.

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

**RESOLVED**, That the USAC Executive Committee determines that discussion of the Contributor Revenue Agreed-Upon Procedures Operational Reports labeled US2003OP001 - US2003OP037 and one summary report labeled US2003OP038 shall be conducted in **Executive Session**.

See **Executive Session** for a report of the discussion and action taken on this item

- a6. Miscellaneous.** None.

#### Information Items

- i1. Miscellaneous.** None.

At 1:45 p.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** to address the confidential and proprietary item as noted above.

#### Executive Session

- a5. Action on 37 Contributor Revenue Agreed-Upon Procedures Operational Reports as Prepared by Deloitte & Touche LLP and One Summary Report as**

**Prepared by USAC Internal Audit Division- Confidential & Proprietary.**

Mr. Scott introduced this item, discussed the re-rating of one contributor revenue agreed-upon procedures operational report, and reviewed the quality of the deliverables produced by Deloitte & Touche LLP. The Chair asked that the resolution be amended to reflect the change in numbers of "inadequate" processes.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Executive Committee and directs that the 37 Contributor Revenue Agreed-Upon Procedures Reports labeled US2003OP001 - US2003OP037 as prepared by Deloitte & Touche LLP and one summary report labeled US2003OP038 as prepared by the USAC Internal Audit Division each be deemed final; and

**RESOLVED FURTHER**, That the USAC Audit Committee accepts the recommendation of the USAC Executive Committee and directs the USAC Internal Audit Division to conduct an examination to determine if ~~18~~ 17 Universal Service Fund contributors, with processes concerning preparation of FCC Form 499-A deemed "inadequate" by the Internal Audit Division based on the reports identified in the prior resolution, have correctly reported revenues on FCC Form 499-A in accordance with FCC regulations.

The Committee adjourned from **Executive Session** and reconvened in open session at 1:56 p.m. to report the discussion and action of the Committee during **Executive Session**.

There being no further business, Mr. Eichler adjourned the meeting at 1:58 p.m

---

Robert W. Haga  
Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY****AUDIT COMMITTEE MEETING**

April 19, 2004

**MINUTES**

Part II of the quarterly meeting of the Audit Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC, on Monday, April 19, 2004. Mr. Eichler, Chair of the Committee, called the meeting to order at 4:16 p.m. Eastern Time. Ms. Bayona, Administrative Assistant for USAC, called the roll. All five members of the Committee were present, representing a quorum:

<b>All five members were present, representing a quorum:</b>	
Campbell, Anne - Vice Chair	Hughes, Alison
Eichler, Ed - Chair	Sanford, Jo Anne
Hess, Kevin	
<b>Other Board members and Officers of the Corporation present:</b>	
Duff, Bridget - USAC Board Member	
Gumper, Frank - USAC Board Member	
Talbott, Brian - USAC Board Member	
Zaina, Lisa - USAC Board Member and CEO	
Barash, D. Scott - Vice President and General Counsel	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations	
McDonald, George - VP, Schools & Libraries Division	
Scott, Wayne - VP, Internal Audit Division	
<b>Others present for the meeting:</b>	
<b>Name</b>	<b>Company</b>
Bayona, Janet	USAC
Carroll, Kristy	USAC
Delmar, Teleshia	USAC
Dunn, Amanda	USAC
Falkowitz, Ed	USAC
Helbing, Jeremy	USAC
Hill, William	FCC

Lenhardt, Chris	USAC
Long, Deborah	NECA
McCrone, Tina	USAC
Miller, Linda	USAC
Murphy, Kristin	USAC
Okudaira, Nobuko	USAC
Stephens, Mark	FCC

**ACTION ITEMS:**

- a1. Action on One USAC Internal Audit Division High Cost Support Mechanism Operational Audit Report - Confidential & Proprietary - *Executive Session Recommended*.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash recommended that discussion of this item be conducted in *Executive Session* because discussion of the report relates to specific internal controls, and/or confidential company data that would constitute a "[d]iscussion 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."

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 High Cost Support Mechanism operational audit report labeled HC2003OP003 shall be conducted in *Executive Session*.

See *Executive Session* below for a report of the discussion and action taken on this item.

- a2. Action on Two USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports.** Ms. Murphy, USAC Staff Auditor, introduced this item. There was no discussion.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC High Cost & Low Income Committee and directs that the two USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports labeled LI2003BE011 and LI2003BE012 be deemed final.

- a3. Action on One Department of Interior, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit Report.** Mr. Scott introduced this item. There was no discussion.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the Department of Interior, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit Report labeled SL2003BE123 be deemed final.

**a4. Action on Four Federal Communications Commission, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit Reports.**

Mr. Scott introduced this item and responded to an inquiry regarding the Schools and Libraries Division's (SLD) role in reviewing the audit reports conducted by the Federal Communications Commission (FCC). He noted that the FCC's initiative acts as a vehicle for SLD to address and perform additional follow-ups to any findings noted by the FCC.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the Federal Communications Commission, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit Reports labeled SL2003BE125 - SL2003BE128 be deemed final.

**a5. Action on 12 KPMG LLP Schools and Libraries Support Mechanism Agreed-Upon Procedures Beneficiary Audit Reports.**

Mr. Scott introduced this item and directed the Committee's attention to twelve beneficiary audit reports conducted by KPMG LLP, USAC's independent auditors, of the Schools and Libraries Support Mechanism. He noted the following: (1) in regard to the audit report labeled SL2003BE027, the conclusion made in reference to the technology plan is no longer classified as a rule violation but only a finding; and (2) for audit report labeled SL2003BE034, the issue pertaining to the discount calculation has been cleared by USAC management.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the 12 KPMG LLP Schools and Libraries Support Mechanism agreed-upon procedures beneficiary audit reports labeled SL2003BE27, SL2003BE37, SL2003BE40, SL2003BE43, SL2003BE47, SL2003BE52, SL2003BE60, SL2003BE69, SL2003BE75, SL2003BE77, SL2003BE83, and SL2003BE86 be deemed final.

A Committee member requested to revisit agenda item #aAC03 to address a question.

**a3. Action on One Department of Interior, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit Report - Executive Session Option.**

A Committee member requested a discussion of the audit findings in this report. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that such a discussion be conducted in **Executive Session** because a discussion of specific audit plans, targets, and/or techniques would constitute a "[d]iscussion 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." The Committee concurred.

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of the Department of Interior, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit Report shall be conducted in **Executive Session**.

See **Executive Session** below for a report of this discussion.

- a6. Action on 14 USAC Internal Audit Division Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Mr. Lenhardt, USAC Staff Auditor, introduced this item and noted the following corrections to the issue paper: only one was rated generally complaint, and five should have been listed as rated non-compliant. He then stated that the non-compliant reports consisted of the following exceptions: two applicants lacked supporting documentation for the amounts claimed for reimbursement; and three applicants over-invoiced SLD for support payments.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the 14 USAC Internal Audit Division Schools and Libraries Support Mechanism Beneficiary Audit Reports labeled SL2003BE103, SL2003BE104, SL2003BE105, SL2003BE111, SL2003BE113, SL2003BE114, SL2003BE115, SL2003BE116, SL2003BE117, SL2003BE118, SL2003BE119, SL2003BE120, SL2003BE121, and SL2003BE122 be deemed final.

- a7. Approval of Course of Action Regarding United States Department of Education, Office of Inspector General, Memorandum of Understanding - Confidential & Proprietary - Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of specific audit plans, targets and/or techniques would constitute a "[d]iscussion 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."

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of the Course of Action Regarding United States Department of Education, Office of Inspector General, Memorandum of Understanding shall be conducted in **Executive Session**.

See **Executive Session** below for a report of the discussion and action taken on this item.

- a8. Approval of Course of Action and Request for Budgetary Authority Concerning an Investigative Audit Matter - Confidential & Proprietary - Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of specific audit plans, internal controls, and/or confidential company data would constitute a "[d]iscussion 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."

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of the proposed course of action regarding an investigative audit matter and request for budget authority shall be conducted in **Executive Session**.

See **Executive Session** below for a report of the discussion and action taken on this item

- a9. Approval of the Revised 2004 USAC Internal Audit Plan - Confidential & Proprietary - Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because discussion of specific audit plans, internal controls, and/or confidential company data would constitute a "[d]iscussion 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."

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of specific details of the revised 2004 USAC Internal Audit Plan shall be conducted in **Executive Session**.

See **Executive Session** below for a report of the discussion and action taken on this item

**a10. Miscellaneous.**

- **Solicit Ideas for July Committee Agenda.** Mr. Eichler reminded Committee members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him, or Mr. Scott, between quarterly meetings.

**Information Items**

- i1. Report of the FCC Financial Audit of the FCC's Financial Statements for the Year Ending September 30, 2003.** Mr. Scott announced the completion of the FCC's Financial Audit and stated that the FCC received a clean audit opinion from the independent auditors regarding the Universal Service Fund.
- i2. Status Report on Ongoing USAC Audits.** Ms. Delmar, USAC Manager of Internal Audit Division, briefed the Committee on the status of various ongoing and planned audits of USAC and the Universal Service Support Mechanisms. Mr. Scott indicated that he would distribute a chart showing a summary of KPMG finalized audits and USAC finalized SLD audits at the April 20, 2004, Board meeting.

Mr. Scott announced that Ms. McCrone, USAC Senior Internal Auditor, had passed the Certified Fraud Examiners (CFE) exam.

- i3. Status Report on Actions Taken on Final Audits.** Ms. Delmar directed the Committee's attention to the overall summary of the follow up actions taken on finalized audits of USAC and the Universal Service Support Mechanisms. She then highlighted the format changes in the summary matrix.
- i4. Annual *Executive Session* with USAC's Vice President of the Internal Audit Division - Confidential & Proprietary - *Executive Session Recommended*.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in ***Executive Session***, Mr. Barash recommended that discussion of this item be conducted in ***Executive Session*** pursuant to the guidelines in 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 Annual Audit Charter shall be conducted in ***Executive Session***, with only Committee members and the Vice President of Internal Audit present.

See ***Executive Session*** below for a report of this discussion.

- i5. Miscellaneous.** None.

At 4:35 p.m., on a motion duly made and seconded, the Committee voted to move into ***Executive Session*** to address the confidential and proprietary items as noted above.

## Executive Session

- a3. Action on One Department of Interior, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit Report - Executive Session Option.** Mr. Scott introduced this item and reviewed certain aspects of the audit findings. In response to an inquiry from a Committee member, Mr. Barash and Ms. Zaina commented on the process for determining the source of monetary recovery.
- a1. Action on One USAC Internal Audit Division High Cost Support Mechanism Operational Audit Report - Confidential & Proprietary.** Ms. Dunn, USAC Staff Auditor, introduced this item. There was no discussion.

On a motion duly made and seconded, the Committee adopted the following resolutions. Mr. Hess abstained because one of the companies discussed in the audit report is affiliated with the parent company of his employer.

**RESOLVED,** That the USAC Audit Committee accepts the recommendation of the USAC High Cost & Low Income Committee and directs that the USAC Internal Audit Division High Cost Support Mechanism Operational Audit Report labeled HC2003OP003 be deemed final.

At this time, Board member Mr. Gumper announced to the Committee that he has a potential conflict with the next two action items and thus recused himself from these items and left the meeting at this point.

- a7. Approval of Course of Action Regarding United States Department of Education, Office of Inspector General, Memorandum of Understanding - Confidential & Proprietary.** Mr. Scott introduced this item. Mr. McDonald reviewed a presentation with the Committee that was given to the Schools & Libraries Committee by the Department of Education Office of Inspector General earlier on potential issues related to Schools and Libraries Support Mechanism in New York City. He reviewed how the proposed audit came about and USAC's plans going forward to address the issues of concern. Ms. Zaina pointed out that the FCC Office of Inspector General asked for our expertise on this matter and had invited USAC to participate. Mr. Scott added that the FCC put together a plan that would include himself and Mr. Lenhardt in the process.

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

**RESOLVED,** That the USAC Audit Committee authorizes USAC management to enter into a proposed Memorandum of Understanding between USAC, the Department of Education Inspector General, and the FCC Inspector General to conduct an audit regarding the use of Schools and Libraries Support Mechanism funds at the New York City Department of Education.

- a8. Approval of Course of Action and Request for Budgetary Authority Concerning an Investigative Audit Matter - Confidential & Proprietary.** Mr. Scott introduced this item. He directed the Committee's attention to the allegations concerning the activities of certain contributors to the Universal Service Fund raised in a letter to the USAC CEO dated March 5 and on the proposed course of action USAC would take to

address the matters raised in the letter. He said that the Internal Audit Division (IAD) management has determined that a budget increase for the hiring of three new auditors would be required in order to perform the necessary procedures to investigate this and other matters further. He noted that the Board budget issue paper further explained the additional work requests made of IAD, and that while this additional staff would immediately be directed toward this matter, once this matter is concluded, they would be focusing on contributor audits.

The Committee **DIRECTED** IAD staff to report further on the assignments and long-term plans that they have for the new hires upon completion of this investigative audit.

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

**RESOLVED**, That the USAC Audit Committee recommends that the USAC Board of Directors approve the recommendation made by USAC Internal Audit Division management to proceed with the required audit work to investigate the issues raised in the March 5 letter to the USAC CEO concerning the activities of certain contributors to the Universal Service Fund; and

**RESOLVED FURTHER**, That the USAC Audit Committee recommends that the USAC Board of Directors authorize USAC Internal Audit Division management to proceed with hiring three additional auditors.

- a9. Approval of the Revised 2004 USAC Internal Audit Plan - Confidential & Proprietary.** Mr. Scott introduced this item and reviewed the proposed revisions to the 2004 USAC Internal Audit Plan. He noted that IAD staff would be performing a number of high-risk contributor audits this year.

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

**RESOLVED**, That the USAC Audit Committee approves the revised 2004 USAC Internal Audit Plan as presented by the USAC Internal Audit Division staff.

At 5:38 p.m., the Committee recessed from **Executive Session** and reconvened in open session to report the discussions and actions of the Committee thus far during **Executive Session**.

At 5:40 p.m., Mr. Eichler requested that everyone except the Committee members and the Vice President of Internal Audit vacate the room. On a motion duly made and seconded, the Committee reconvened in **Executive Session**.

**Executive Session (Cont.)**

- i4. Annual Executive Session with USAC's Vice President of the Internal Audit Division - Confidential & Proprietary.** Mr. Scott reported to the Committee that there were no issues or concerns that needed to be discussed with the Committee at this time.

At 5:50 p.m, the Committee adjourned from **Executive Session** and reconvened in open session to report the discussion of the Committee during **Executive Session**.

There being no further business, Mr. Eichler adjourned the meeting at 5:55 p.m.

---

Robert W. Haga  
Assistant Secretary

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**AUDIT COMMITTEE MEETING**

**July 19, 2004 – Part I**

**MINUTES**

Part I of the quarterly meeting of the Audit Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC, on Monday, July 19, 2004. Mr. Eichler, Chair of the committee, called the meeting to order at 12:00 Noon Eastern Time. Ms. Renee Lamoureux, Executive Assistant to the USAC CEO, called the roll. All five members of the Committee were present, representing a quorum:

Campbell, Anne – Vice Chair	Hughes, Alison – <i>by telephone</i>
Eichler, Ed – Chair	Sanford, Jo Anne
Hess, Kevin	

Other board members and Officers of the Corporation present:

Duff, Bridget – USAC Board Member  
Gumper, Frank – USAC Board Member  
Zaina, Lisa – USAC Board Member and CEO

Barash, D. Scott – Vice President and General Counsel  
Carmichael, Mark – Assistant Treasurer; VP, Finance and Financial Operations  
Flannery, Irene – VP, High Cost and Low Income Division  
Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations – *by telephone*  
McDonald, George – VP, Schools & Libraries Division  
Scott, Wayne – VP, Internal Audit Division

Other present for the meeting:

<b>NAME</b>	<b>COMPANY</b>
Bayona, Janet	USAC
Delmar, Teleshia	USAC
Dunn, Amanda	USAC
Lamoureux, Renee	USAC
Lenhardt, Chris	USAC
McCrone, Tina	USAC
Murphy, Kristin	USAC
Okudaira, Nobuko	USAC

**ACTION ITEMS:**

**a1. Approval of Audit Committee Meeting Minutes of Thursday, April 15, 2004, and Monday, April 19, 2004.** On a motion duly made and seconded, the Committee approved the minutes, as distributed, of the USAC Audit Committee meetings of Thursday, April 15, 2004 and Monday, April 19, 2004.

**a2. Preliminary Review of USAC 2003 Independent Audit of USAC Financial Statements and Agreed Upon Procedures Review.** Mr. Scott presented the 2003 financial and operational audits performed by USAC's independent auditor, Deloitte Touche.

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

**RESOLVED,** That the USAC Audit Committee authorizes USAC staff to file with the FCC the proposed USAC 2004 Financial Audit and Agreed Upon Procedures Review Plan.

**a3. Authorization to File the Draft USAC 2004 Financial Audit and Agreed Upon Procedures Review Plan with the FCC.** Mr. Scott advised the Committee that USAC is required to file the draft USAC 2004 Financial Audit and Agreed Upon Procedures Review Plan with the Wireline Competition Bureau.

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

**RESOLVED,** That the USAC Audit Committee authorizes USAC staff to file with the FCC the proposed USAC 2004 Financial Audit and Agreed Upon Procedures Review Plan.

**a4. Action on One USAC Operational Audit Report Website Maintenance.** Ms. Delmar reviewed the findings of the recent audit performed by IAD to assess the adequacy of the website maintenance function.

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

**RESOLVED,** That the USAC Executive Committee has reviewed Audit Report labeled US2004OP001, together with management's response thereto, and recommends to the USAC Audit Committee that the audit report be deemed final.

**a5. Miscellaneous.**

- **Solicit Ideas for October Committee Agenda.** Mr. Eichler reminded Committee members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him, or Mr. Scott, between quarterly meetings.



**INFORMATION ITEMS**

- i1. Annual Report on Legal Matters that Could Have a Significant Impact on the Company's Operations.** Mr. Barash advised that there were no significant legal matters requiring specific and separate attention by the Audit Committee at this time.
- i2. Status Report of Ongoing USAC Audits.** Ms. Delmar provided an update on that status of various ongoing audits.
- i3. Status Report on Actions Taken on Final USAC Audits.** Ms. Delmar advised that a number of collection efforts have begun.

There being no further business, Mr. Eichler adjourned the meeting at 12:30 p.m.

---

Robert W. Haga

Assistant Secretary

---

Date

071904ACmin

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY****AUDIT COMMITTEE MEETING**

July 19, 2004 – Part II

**MINUTES**

Part II of the quarterly meeting of the Audit Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC, on Monday, July 19, 2004. Mr. Eichler, Chair of the Committee, called the meeting to order at 4:17 p.m. Eastern Time. Ms. Bayona, Administrative Assistant for USAC, called the roll.

<b>Four of the five members of the Committee were present, representing a quorum:</b>	
Campbell, Anne - Vice Chair	Hess, Kevin
Eichler, Ed - Chair	Sanford, Jo Anne
<b>One member was absent:</b>	
Hughes, Alison	
<b>Other Board members and Officers of the Corporation present:</b>	
Askin, Jonathan - USAC Board Member - <i>by telephone</i>	
Duff, Bridget - USAC Board Member	
Gumper, Frank - USAC Board Member	
Zaina, Lisa - USAC Board Member and CEO	
Barash, D. Scott - Vice President and General Counsel	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations - <i>by telephone</i>	
McDonald, George - VP, Schools & Libraries Division	
Scott, Wayne - VP, Internal Audit Division	
<b>Others present for the meeting:</b>	
<b>Name</b>	<b>Company</b>
Ammon, Craig	USAC
Ashe-Donnem, Caroline	USAC
Bayona, Janet	USAC
Beach, Cynthia	USAC
Carroll, Kristy	USAC
Delmar, Teleshia	USAC

Dunn, Amanda	USAC
Falkowitz, Ed	USAC
Goodin, Larissa	USAC
Guiltinan, Barbara	Deloitte & Touche LLP
Hill, William	FCC
Lenhardt, Chris	USAC
McCrone, Tina	USAC
Murphy, Kristin	USAC
Okudaira, Nobuko	USAC
Stephens, Mark	FCC
Tramontana, Cam	Deloitte & Touche LLP

## ACTION ITEMS

- a1. Action on One USAC Internal Audit Division High Cost Support Mechanism Beneficiary Audit Report. *Executive Session Recommended.*** Ms. Okudaira, USAC Staff Auditor, presented this item. There were no questions or further discussion.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC High Cost & Low Income Committee and directs that the USAC Internal Audit Division High Cost Support Mechanism Beneficiary Audit Report labeled HC2004BE001 be deemed final.

- a2. Action on Two USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports.** Ms. Murphy, USAC Staff Auditor, introduced this item. There was no further discussion.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC High Cost & Low Income Committee and directs that the two USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports labeled LI2003BE013 and LI2004BE001 be deemed final.

- a3. Action on Four Federal Communications Commission, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Mr. Scott introduced this item. There was no further discussion.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the Federal Communications Commission, Office of Inspector General, Schools and Libraries Support Mechanism Beneficiary Audit Reports labeled SL2003BE135 - SL2003BE138 be deemed final.

- a4. Action on One USAC Internal Audit Division Schools and Libraries Support Mechanism Investigative Audit Report and Six USAC Internal Audit Division Schools and Libraries Support Mechanism Beneficiary Audit Reports - Confidential & Proprietary - Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash recommended that such a discussion be conducted in *Executive Session* because a discussion of the reports relates to investigatory matters or pending or contemplated enforcement action and public disclosure of the matters discussed therein could compromise law enforcement efforts.

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of Schools and Libraries Support Mechanism audit reports labeled SL2003BE124, SL2004BE002, SL2004IV003, SL2004BE004, SL2004BE005, SL2004BE006, and SL2004BE007 shall be conducted in *Executive Session*.

See *Executive Session* below for a report of this discussion.

- a5. Action on Two USAC Internal Audit Division Follow Up Audit Done on Audits Performed by KPMG.** Mr. Lenhardt, USAC Staff Auditor, introduced this item. There were no questions or further discussion.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the two USAC Internal Audit Division Schools and Libraries Support Mechanism Follow Up Audit Reports labeled SL2004FL008 and SL2004FL009 be deemed final.

- a6. Preliminary Review of USAC 2003 Independent Audit of USAC Financial Statement and Agreed Upon Procedures Review.** Mr. Scott introduced this item and introduced Ms. Barbara Guiltinan and Mr. Cam Tramontana of Deloitte & Touche LLP (D&T), USAC's independent outside auditors. Ms. Guiltinan and Mr. Tramontana reported on the deliverables and outcome of the audits and responded to questions from the Committee.

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

**RESOLVED**, That the USAC Audit Committee, having reviewed the USAC 2003 financial audit report as submitted by Deloitte and Touche LLP, hereby recommends to the USAC Board of Directors that such report be deemed final; and

**RESOLVED FURTHER**, That the USAC Audit Committee, having reviewed the USAC 2003 agreed upon procedures review report as submitted by Deloitte and Touche LLP, hereby recommends to the USAC Board of Directors that such report be deemed final; and

**RESOLVED FURTHER**, That the USAC Audit Committee recommends that the USAC Board of Directors authorize the USAC CEO to submit a management response to Deloitte and Touche LLP, with a copy to the FCC, accepting the USAC 2003 financial audit report and agreed upon procedures review report, and committing to take the actions necessary to address the issues that were identified in the agreed upon procedures review report; and

**RESOLVED FURTHER**, That the USAC Audit Committee recommends that the USAC Board of Directors authorize Deloitte and Touche LLP to file the final USAC 2003 financial audit report and agreed upon procedures review report with the FCC.

- a7. Action on Five KPMG LLP Schools and Libraries Support Mechanism Agreed-Upon Procedures Beneficiary Audit Reports.** Mr. Scott introduced this item and noted that one audit report received a "generally compliant" rating while the remaining four were given a rating of "not compliant." Mr. Scott and Mr. Eichler assured the Committee that there was nothing significant in details between USAC's executive summaries and KPMG's reports. Mr. Eichler then brought to the Committee's attention that the Schools and Libraries (SL) Committee had accepted the reports without modification at its July 2004 quarterly meeting.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the 5 KPMG LLP Schools and Libraries Support Mechanism agreed-upon procedures beneficiary audit reports labeled SL2003BE24, SL2003BE97, SL2003BE98, SL2003BE99, and SL2003BE100 be deemed final.

- a8. Approval to Revise the Audit Methodology Used By External Auditors to Perform Schools and Libraries Support Mechanism Beneficiary Audits.** Mr. Scott introduced this item. He indicated that by using the performance audit approach for future beneficiary audits, it would provide the SL Committee and USAC management with a more conclusive report and offer an auditor's opinion on the beneficiary's compliance with program rules and regulations. Mr. Scott indicated that KPMG is prepared to engage in this type of audit.

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

**RESOLVED**, That USAC Audit Committee authorizes USAC staff, under appropriate circumstances, to revise the methodology used on Schools and Libraries Support Mechanism audits from the agreed upon procedures (AUP) approach to a performance audit approach.

**a9. Miscellaneous.**

- **Solicit Ideas for October Committee Agenda.** Mr. Eichler reminded Committee members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him, or Mr. Scott, between quarterly meetings.

**Information Items**

- i1. *Executive Session with Independent Audit Firm Deloitte & Touche - Confidential & Proprietary - Executive Session Recommended.*** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in ***Executive Session***, Mr. Barash recommended that discussion of this item be conducted in ***Executive Session*** pursuant to the guidelines in 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 meeting with Independent Audit Firm Deloitte & Touche required by the USAC Annual Audit Charter shall be conducted in ***Executive Session***, with only Committee members and Deloitte & Touche present.

See ***Executive Session*** below for a report of this discussion.

- i2. Miscellaneous.** Mr. Scott introduced the newest addition to the USAC Internal Audit Division, Ms. Caroline Ashe-Donnem, USAC Senior Auditor.

At 4:55 p.m., on a motion duly made and seconded, the Committee voted to move into ***Executive Session*** to address the confidential and proprietary items as noted above.

**Executive Session**

- a4. Action on One USAC Internal Audit Division Schools and Libraries Support Mechanism Investigative Audit Report and Six USAC Internal Audit Division Schools and Libraries Support Mechanism Beneficiary Audit Reports - Confidential & Proprietary - Executive Session.** Mr. Lenhardt, USAC Staff Auditor, introduced this item and directed the Committee's attention to two corrections relating to the SL2004BE004 beneficiary audit report.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the Seven USAC Internal Audit Division Schools and Libraries Support Mechanism Audit Reports labeled SL2003BE124, SL2004BE002, SL2004IV003, SL2004BE004, SL2004BE005, SL2004BE006, and SL2004BE007 be deemed final.

At 5:06 p.m., the Committee adjourned from **Executive Session** and reconvened in open session to report the discussions and actions of the Committee thus far during **Executive Session**.

Mr. Eichler requested that the Committee and D&T remain seated while everyone else vacates the room. At 5:07 p.m., on a motion duly made and seconded, the Committee reconvened in **Executive Session**.

**Executive Session (Cont.)**

**i1. Executive Session with Independent Audit Firm Deloitte & Touche - Confidential & Proprietary.** Ms. Guiltinan and Mr. Tramontana discussed matters with the Committee as required by the Statements of Auditing Standards No. 61, as modified or supplemented.

At 5:15 p.m, the Committee adjourned from **Executive Session** and reconvened in open session to report the discussion of the Committee during **Executive Session**.

There being no further business, Mr. Eichler adjourned the meeting at 5:18 p.m.

---

Robert W. Haga  
Assistant Secretary

---

Date

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY****AUDIT COMMITTEE MEETING**

October 14, 2004 – Part I

**MINUTES**

Part I of the quarterly meeting of the Audit Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC, on Thursday, October 14, 2004. Mr. Eichler, Chair of the Committee, called the meeting to order at 1:37 PM Eastern Time. Ms. Renee Lamoureux, Executive Assistant to the USAC CEO, called the roll.

<b>Four of the five members of the Committee were present, representing a quorum:</b>	
Campbell, Anne - Vice Chair – <i>by telephone</i>	Hughes, Alison – <i>by telephone</i>
Eichler, Ed - Chair – <i>by telephone</i>	Sanford, Jo Anne – <i>by telephone</i>
<b>One member was absent:</b>	
Hess, Kevin	
<b>Other Board members and Officers of the Corporation present:</b>	
Gumper, Frank – USAC Board Member	
Zaina, Lisa – USAC Board Member and CEO	
Barash, D. Scott – Vice President and General Counsel	
Carmichael, Mark – Asst. Treasurer; VP, Finance and Financial Operations	
Flannery, Irene – Vice President, High Cost and Low Income Division	
Haga, Robert – Asst. Secretary; Vice President, Strategic Planning & USAC Operations	
McDonald, George – Vice President, Schools & Libraries Division	
Scott, Wayne – Vice President, Internal Audit Division	
<b>Others present for the meeting:</b>	
<b>Name</b>	<b>Company</b>
Bayona, Janet	USAC
Chou, Elizabeth	USAC
Goodin, Larissa	USAC
Helbing, Jeremy	USAC
Dunn, Amanda	USAC
Lamoureux, Renee	USAC
Lenhardt, Chris	USAC
McCrone, Tina	USAC
Miller, Linda	USAC



Murphy, Kristin	USAC
Okudaira, Nobuko	USAC
Trew, Anne Marie	USAC

**Action Items**

- a1. Approval of Audit Committee Meeting Minutes of Monday, July 19, 2004, Parts I and II.** On a motion duly made and seconded, the Committee approved the minutes, as distributed, of the USAC Audit Committee meetings, Parts I and II, of Monday, July 19, 2004.
- a2. 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 the Internal Audit Division’s assessment of the independence and financial literacy of the members of the USAC Audit Committee.

On a motion duly made and seconded, 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 introduced the proposed changes to the USAC Internal Audit Charter, organizational structure, budget and activities.

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

**RESOLVED**, That the USAC Audit Committee, having reviewed the proposed changes to the Internal Audit Charter, hereby approves the proposed changes.

- a4. Review of 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.** Mr. Scott presented the Internal Audit Division’s assessment of the effectiveness of USAC’s process for assessing significant risks or exposures and the steps management has taken to minimize such risks and exposures.

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

**RESOLVED**, That the USAC Audit Committee accepts the Internal Audit Division’s assessment of 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.

**a5. Review of the Adequacy of USAC's System of Internal Controls.** Mr. Scott presented the Internal Audit Division's assessment of the adequacy of USAC's system of internal controls.

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

**RESOLVED**, That the USAC Audit Committee accepts the review of the adequacy of USAC's systems of internal controls performed by the USAC Internal Audit Division.

**a6. Action on Six Internal Audit Division Follow-Up Audits Done on Contributor Revenue Audits Performed by Deloitte & Touché – Confidential and Proprietary – Executive Session Recommended.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that Contributor Revenue Follow-Up Reports be discussed in **Executive Session** because discussion these audits relates to specific internal controls, and/or confidential company data that would constitute a 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. Mr. Barash specifically noted that 47 C.F.R. §54.711(b) requires USAC to keep all contributor-specific revenue information confidential, and to the extent that any such information is discussed, confidential treatment is required.

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of the Contributor Revenue Follow-Up Reports labeled CR2004FL001 through CR2004FL006 shall be conducted in **Executive Session**.

See **Executive Session** for a report of the discussion and action taken on this item.

**a7. Miscellaneous.**

- **Solicit Ideas for January Committee Agenda.** Mr. Eichler reminded Committee members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him, or Mr. Scott, between quarterly meetings.

At 1:42 p.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above.

**Executive Session**

**a6. Action on Six Internal Audit Division Follow-Up Audits Done on Contributor Revenue Audits Performed by Deloitte & Touché – Confidential and Proprietary.** Nobuko Okudaira, Senior Internal Auditor, presented the six reports to the Committee. Ms. Okudaira noted a change to the reported revenue on page one of USAC Audit No. CR2004FL004.

On a motion duly made and seconded, the Committee adopted the following resolutions. Mr. Eichler abstained from voting on USAC Audit Reports labeled CR2004FL004 and CR2005FL2005 because the subject company of these audits are competitors or affiliated with competitors to his employer.

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Executive Committee and directs that the six USAC Internal Audit Division Contributor Revenue Follow-Up Audit Reports labeled CR2004FL001 through CR2004FL006 be deemed final.

The Board adjourned from **Executive Session** and reconvened in open session at 1:55 p.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Mr. Eichler adjourned the meeting at 1:57 p.m.

---

Robert W. Haga  
Assistant Secretary

---

Date

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY****AUDIT COMMITTEE MEETING**

October 18, 2004 – Part II

**MINUTES**

Part II of the quarterly meeting of the Audit Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the USAC office in Washington, DC, on Monday, October 18, 2004. Mr. Eichler, Chair of the Committee, called the meeting to order at 3:26 PM Eastern Time. Ms. Renee Lamoureux, Executive Assistant to the USAC CEO, called the roll.

<b>All five members of the Committee were present, representing a quorum:</b>	
Campbell, Anne - Vice Chair	Hughes, Alison
Eichler, Ed - Chair	Sanford, Jo Anne – <i>by telephone</i>
Hess, Kevin	

<b>Other Board members and Officers of the Corporation present:</b>
Gumper, Frank – USAC Board Member
Zaina, Lisa – USAC Board Member and CEO
Barash, D. Scott – Vice President and General Counsel
Carmichael, Mark – Asst. Treasurer; VP, Finance and Financial Operations
Flannery, Irene – Vice President, High Cost and Low Income Division
Haga, Robert – Asst. Secretary; Vice President, Strategic Planning & USAC Operations
McDonald, George – Vice President, Schools & Libraries Division
Scott, Wayne – Vice President, Internal Audit Division

<b>Others present for the meeting:</b>	
<b>Name</b>	<b>Company</b>
Bayona, Janet	USAC
Bancroft, Royce	USAC
Dunn, Amanda	USAC
Helbing, Jeremy	USAC
Lamoureux, Renee	USAC
Miller, Linda	USAC
Murphy, Kristin	USAC
Okudaira, Nobuko	USAC
Rodriguez, Juan	FCC

**ACTION ITEMS:**

- a1. Action on Two High Cost Support Mechanism Beneficiary Audit Reports – Confidential & Proprietary – *Executive Session Recommended*.** Ms. Nobuko Okudaira, Senior Internal Auditor, presented the USAC Internal Audit Division High Cost Support Mechanism Audit Reports labeled HC2004BE002 and HC2004BE003 to the committee. Mr. Barash recommended discussion of report labeled HC2004BE002 be held in ***Executive Session***, in accordance with the approved criteria and procedure for conducting USAC Board and Committee business in ***Executive Session*** as discussion of specific audit plans, targets and/or techniques would constitute a 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.

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

**RESOLVED**, That the USAC Audit Committee determines that discussion of the Beneficiary Audit Report labeled HC2004BE002 shall be conducted in ***Executive Session***; and

**FURTHER RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC High Cost & Low Income Committee and directs that the USAC Internal Audit Division High Cost Support Mechanism Beneficiary Audit Report labeled HC2004BE003 be deemed final.

See ***Executive Session*** for a report of the discussion and action taken on this item.

- a2. Action on Three Low Income Support Mechanism Beneficiary Audit Reports.** Ms. Kristen Murphy, Staff Internal Auditor, presented the audit reports to the Committee for approval noting that the report labeled LI2003BE002 should be relabeled LI2004BE002.

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

**RESOLVED**, That the USAC Audit Committee accepts the assessment made by the USAC High Cost & Low Income Committee and directs that the three USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports labeled LI2004BE002, LI2004BE003 and LI2004BE004 be deemed final.

- a3. Action on One Internal Audit Division Follow-Up Audits Done on Audits Performed by KPMG.** Mr. Chris Lenhardt, Senior Internal Auditor – Fraud Specialist, presented the follow-up audit report labeled SL2004FL028 to the committee.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC Schools & Libraries Committee and directs that the USAC Internal Audit Division Schools and Libraries Support Mechanism Follow-Up Audit labeled SL2004FL028 be deemed final.

- a4. Action on Four Rural Health Care Support Mechanism Beneficiary Audit Reports.** Mr. Chris Lenhardt presented four Rural Health Care Support Mechanism beneficiary audit reports to the Committee.

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

**RESOLVED**, That the USAC Audit Committee accepts the re commendation of the USAC Rural Health Care Committee and directs that the 2004 Agreed Upon Procedures Reports (Audit Nos. RH2004BE001, RH2004BE002, RH2004BE003 and RH2004BE004) of Rural Health Care Support Mechanism beneficiaries be deemed final.

**a5. Miscellaneous.**

- **Solicit Ideas for January Committee Agenda.** Mr. Eichler reminded Committee members that they may offer suggestions for agenda items at each quarterly meeting or by contacting him, or Mr. Scott, between quarterly meetings.

At 3:42 p.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above. .

**Executive Session**

- a1. Action on Two High Cost Support Mechanism Beneficiary Audit Reports – Confidential & Proprietary – Executive Session Recommended.** The Committee discussed the report from Ms. Nobuko Okudaira regarding the USAC Internal Audit Division High Cost Support Mechanism Audit Report labeled HC2004BE002.

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

**RESOLVED**, That the USAC Audit Committee accepts the recommendation of the USAC High Cost & Low Income Committee and directs that the USAC Internal Audit Division High Cost Support Mechanism Beneficiary Audit Report labeled HC2004BE002 be deemed final.

The Board adjourned from **Executive Session** and reconvened in open session at 3:52 p.m. to report the discussions and actions of the Committee during **Executive Session**.

There being no further business, Mr. Eichler adjourned the meeting at 3:55 p.m.

---

Robert W. Haga  
Assistant Secretary

---

Date