

2007 Audit Committee Meetings Minutes

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

AUDIT COMMITTEE MEETING

January 27, 2007

MINUTES

The quarterly meeting of the Audit Committee (Committee) of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Monday, January 22, 2007. Ms. Anne Campbell called the meeting to order at 3:03 p.m. Eastern Time. Four of the five members of the Committee were present, representing a quorum:

Campbell, Anne Talbott, Dr. Brian
McClure, David Williams, Jason

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

Other Board Members and Officers of the corporation present:

Barash, Scott – Acting Chief Executive Officer
Belden, Richard – Chief Operating Officer
Capozzi, David – Acting General Counsel and Assistant Secretary
Erwin, W.B. – Vice President, Finance and Assistant Treasurer
Flannery, Irene – Senior Vice President, External Relations
Holcombe, Jamie – Vice President, Information Systems
Majcher, Karen – Vice President, High Cost and Low Income Division
Scott, Wayne – Vice President, Internal Audit

Others present for the meeting:

NAME COMPANY

Bayona, Janet USAC
Beard, Jay USAC
Bellavia, Leslie USAC
Briddell, Christopher USAC
Carroll, Kristy USAC
Davis, Craig USAC
Delmar, Teleshia - *via telephone* USAC
Desrocher, Michael USAC
Goff, Liz USAC
Goode, Vernell USAC

NAME COMPANY

Grant, Colleen USAC

Ho, Amanda USAC

Lenhardt, Christopher USAC

Mi, Christy USAC

Mitchell, Jeffrey USAC

Morrow, Henry FCC

Murphy, Kristin USAC

Nuzzo, Patsy USAC

Panton, Marci USAC

Rovetto, Ed USAC

Tilton, Michelle USAC

Whitaker, Michelle USAC

ACTION ITEMS:

a1. Approval of Audit Committee Meeting Minutes of October 23, 2006. On a motion duly made and seconded, the Committee approved the minutes as written of the Committee meeting of October 23, 2006.

a2. Recommendation for Annual Election of Committee Chair and Vice Chair.

Ms. Campbell introduced this item to the Committee and requested nominations for the Committee Chair and Vice Chair positions. Dr. Talbott nominated Mr. Williams as Chair and Mr. McClure as Vice Chair. There were no other nominations submitted.

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

RESOLVED, that the USAC Audit Committee recommends that the USAC Board of Directors elect **Jason Williams** as Chair and **David McClure** as Vice Chair of the USAC Audit Committee for a term that begins immediately following the conclusion of the January 23, 2007 Board of Directors meeting (whether by adjournment, postponement or recess) and ends when a successor to the Chair and/or Vice Chair has been elected or when the Chair or Vice Chair resigns from the Committee or the Board, is removed by resolution of the Board, or the Chair and/or Vice Chair's Board term expires.

a3. Consideration of the 2007/2008 USAC Internal Audit Plan – Confidential & Proprietary – Executive Session Recommended.

Mr. Capozzi recommended that in accordance with the approved criteria and procedure for conducting USAC Board and committee business in *Executive Session*, such discussion be conducted in *Executive Session* because discussion of specific audit plans, internal controls, and/or confidential company data constitutes a discussion of *internal rules and procedures* concerning the administration of the USF, the universal service support mechanisms and the company 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 2007/2008 USAC Internal Audit Plan shall be conducted in

Executive Session.

a4. Consideration of Revised Audit Committee Charter. Mr. Scott introduced this item to the Committee. In his presentation, Mr. Scott stated that no changes to the Audit Committee Charter are recommended at this time.

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

RESOLVED that the USAC Audit Committee, having reviewed the current Audit Committee Charter as presented by USAC Internal Audit Division staff, agrees that revisions are not required and recommends the USAC Board of Directors reaffirm approval of the Audit Committee Charter made by the Board of Directors on April 20, 2006.

a5. Action on One Rural Health Care Support Mechanism Operational Audit Report – Confidential & Proprietary – Executive Session Recommended. In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that the audit report be discussed in *Executive Session* because discussion of the report 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. On a motion duly made and seconded, the Board adopted the following resolution:

RESOLVED, that the USAC Audit Committee determines that discussion of the USAC Internal Audit Division Rural Health Care Operational Audit report labeled RH2006OP001 shall be conducted in *Executive Session*.

a6. Action on One Finance Division 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. Capozzi recommended that the audit report be discussed in *Executive Session* because discussion of the report 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.

RESOLVED, that the USAC Audit Committee determines that discussion of the USAC Internal Audit Division Vendor Compliance Operational Audit report labeled US2006OP002 shall be conducted in *Executive Session*.

a7. Miscellaneous.

- Solicit ideas for the April 2007 Committee Agenda. Ms. Campbell reminded members that they may offer suggestions for agenda items at each quarterly meeting. Ideas may be submitted to Mr. Williams, Mr. McClure or Mr. Barash between quarterly meetings.

INFORMATION ITEMS:

i1. Status Report on the USAC-FCC Office of Inspector General Audit Program. Mr. Scott introduced this item to the Committee. Jeff Mitchell, Director of USAC Outsourced Audits, provided a report on the USAC-FCC Office of Inspector General Audit Program. In his report, Mr. Mitchell highlighted the following:

- 459 of 460 audits have been formally announced by USAC and are under way.
- 142 audits are presently in the field/deskwork stage or completed.
- 29 draft reports have been delivered—all in Schools and Libraries.
- IAD has completed 25 of 54 planned field visits to observe audit firms performing fieldwork.
- An integrated master schedule to track required stages in each of the 460 audits has been developed. A total of 8,000 different audit tasks and milestones are being tracked.
- The SharePoint website USAC established to manage the project includes 97 users, 51 of whom are external users, including FCC staff and audit firms. More will be added when the audit firms being retained to perform quality assurance reviews on the audit reports are brought on board.
- Four audit firms have been selected to provide quality assurance reviews of the audit reports submitted by the nine audit firms performing the audits. The purpose of the quality assurance work is to provide USAC with guidance as to whether each audit was performed in accordance with Generally Accepted Government Auditing Standards. Where required, USAC-provided training of these firms is underway.
- Although significant unknowns, variables, and risks remain, and notwithstanding some slippage of early-stage deadlines, projections based on the latest information from the audit firms show audit reports coming in on schedule with most of the audit firms coming in on or under budget.

Mr. Scott noted that all audits will be brought to the relevant programmatic committee for approval prior to being released to the FCC.

i2. Summary of Audit Reports Finalized at Support Mechanism Quarterly Committee Meetings. Leslie Bellavia, Manager of Internal Audits, USAC Internal Audit Division (IAD) presented this item to the Committee.

i3. Internal Audit Division Report on the 2005/ 2006 Internal Audit Plan. Mr. Scott presented this item to the Committee.

i4. 2007 Audit Committee Meeting Planner. Mr. Scott presented this item to the Committee.

i5. Report on the Audit of the FCC's Financial Statements for the Year Ending September 30, 2006. Mr. Scott presented this item to the Committee. He noted that the FCC received an unqualified or "clean" opinion for the year ending September 30, 2006.

At 3:38 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential and proprietary items noted above.

EXECUTIVE SESSION:

a3. Consideration of the 2007/2008 USAC Internal Audit Plan. Mr. Scott presented the plan to the Committee. He noted that the audit plan may be modified depending upon the needs of the business.

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

RESOLVED, that the USAC Audit Committee approves the 2007/2008 USAC Internal Audit Plan as presented by the USAC Internal Audit Division.

a5. Action on One Rural Health Care Support Mechanism Operational Audit Report.

Kristin Murphy, Senior Auditor, USAC IAD, presented the report to the Committee.

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

RESOLVED, that the USAC Audit Committee accepts the recommendation of the USAC Rural Health Care Committee and directs that the USAC Internal Audit Division (IAD) Rural Health Care Operational Audit Report labeled RH2006OP001 be deemed final.

a6. Action on One Finance Division Operational Audit Report. Ms. Bellavia presented the report to the Committee. Mr. McClure requested that a statement be added to each audit report indicating that management is recommending the Committee deem the audit report final. Mr. Barash and Mr. Scott stated they would check the history of the agreed upon wording and report back to the Board.

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

RESOLVED, that the USAC Audit Committee accepts the recommendation of the USAC Executive Committee and directs that the USAC Internal Audit Division USAC Vendor Compliance Audit Report labeled US2006OP002 be deemed final.

At 3:55 p.m. Eastern Time, on a motion duly made and seconded, the Committee voted to move out of *Executive Session* and immediately reconvened in *Open Session* at which time, Ms. Campbell reported that the Committee took action on items a3, a5, and a6 above in *Executive Session*.

On a motion duly made and seconded, the Committee adjourned at 3:56 p.m. Eastern Time.

David A. Capozzi
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

AUDIT COMMITTEE MEETING

April 23, 2007

MINUTES

The quarterly meeting of the Audit Committee (Committee) of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Monday, April 23, 2007. Mr. Jason Williams, Committee Chair, called the meeting to order at 3:00 p.m. Eastern Time. All five members of the Committee were present, representing a quorum:

Anderson, D. Michael Talbott, Dr. Brian
Campbell, Anne Williams, Jason
McClure, David – Vice Chair

Other Board Members and Officers of the corporation present:
Belden, Richard – Chief Operating Officer
Capozzi, David – Acting General Counsel and Assistant Secretary
Erwin, WB – Vice President, Finance and Assistant Treasurer
Flannery, Irene – Senior Vice President, External Relations
Holcombe, Jamie – Vice President, Information Systems
Majcher, Karen – Vice President, High Cost and Low Income Division
Scott, Wayne – Vice President, Internal Audit

Others present for the meeting:

NAME COMPANY

Ahn, Shane USAC
Anderson, Latoya USAC
Bayona, Janet USAC
Beard, Jay USAC
Bellavia, Leslie USAC
Braxton, Kianna USAC
Briddell, Chris USAC
Davis, Craig USAC
Desrocher, Michael USAC
Goode, Vernell USAC
Grant, Colleen USAC
Ho, Amanda USAC
LeNard, David USAC
Lenhardt, Chris USAC
Mi, Christy USAC
Mitchell, Jeff USAC
Morrow, Henry FCC
Nuzzo, Patsy USAC

Rodriguez, Jose Luis FCC
Tawes, Pauline USAC
Whitaker, Michelle USAC

ACTION ITEMS

a1. Approval of Audit Committee Meeting Minutes of January 22, 2007. On a motion duly made and seconded, the Committee approved the minutes as written of the Committee meeting of January 22, 2007.

a2. Review of Changes to USAC's Auditing and Accounting Principles and Practices. Mr. Scott introduced this item to the Committee noting that USAC's independent auditor, Deloitte & Touché LLP (D&T), provided USAC management with comments as part of the financial audit conducted for the year ending December 31, 2005, and USAC received a clean opinion. Mr. Scott also noted that while the recommended changes from D&T did not represent significant changes in accounting principles or practices, these recommendations will help USAC continue to improve the effectiveness of internal controls. The Committee discussed the potential for overlap between comments from this audit and the Information Technology Risk Assessment Audit.

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

RESOLVED, that the USAC Audit Committee, having reviewed the suggested internal control improvements suggested by Deloitte & Touché LLP (D&T) and USAC staff responses thereto hereby accepts the recommendation of the USAC Internal Audit Division and approves the changes as recommended by D&T as supplemented by USAC management responses.

a3. Review of the Integrity of USAC's Financial Reporting Process. Mr. Scott introduced this item to the Committee. Committee discussion focused on the modernization of the USAC accounting system and the impact on current processes. Mr. Erwin noted that the need to upgrade USAC's accounting systems would continue to be listed on USAC's audit reports until the upgrades are complete.

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

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

a4. Review of USAC's Processes to Assure Compliance with Applicable Laws and Regulations. Mr. Scott introduced this item to the Committee.

On a motion duly made and seconded and after discussion, the Committee adopted the following resolution with the majority voting to approve the resolution and Mr. Williams voting against approving the resolution:

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

a5. Miscellaneous.

- Solicit ideas for July 2007 Committee Agenda. Mr. Williams informed the Committee that agenda ideas for the next quarterly meeting may be submitted to Mr. McClure, Mr. Scott or him.

INFORMATION ITEMS:

i1. Status Report on USAC-FCC Office of Inspector General Audit Program.

Mr. Scott presented this item to the Committee. In his presentation, Mr. Scott noted that 254 draft reports have been received and are being reviewed for compliance by the Quality Assurance (QA) firms, and the QA firms have completed reviews 76 reports, with comments pending from the audit firms. Mr. Scott also stated that in an ongoing effort to ensure the competency and quality of the audit examinations, USAC's Internal Audit Division (IAD) has observed a number of the visits performed by the outside audit firms. Mr. Scott also noted that 72% of those audits have received an unqualified or "clean" opinion and will not require management responses. Mr. Scott indicated that USAC management will be submitting for approval to the Board or respective committees, batches of final audit reports with associated USAC management responses (if any) as they become available, and to meet the July 31, 2007 FCC Office of Inspector General (OIG) deadline, special Board and committee meetings will likely be needed during May, June and July 2007. Mr. Jortner requested a bi-monthly update be distributed to the Committee to provide ongoing status. Jeff Mitchell, Director of USAC Outsourced Audits, USAC IAD, addressed planning for the IPIA audits expected to commence in September 2007. In his presentation, Mr. Mitchell stated that USAC and the OIG have worked together to define the scope of the audit and quality assessment efforts, develop sampling requirements, define criteria for establishing materiality, and review audit and quality assurance plans. USAC has provided recommendations based on efficiencies gained through the current audit process.

i2. Quarterly Summary of Audit Reports Finalized at Support Mechanism and Executive Committee Meetings. Ms. Bellavia, Manager of Internal Audit, USAC IAD, presented this item to the Committee.

i3. Semiannual Status Report on Ongoing USAC Audits. Mr. Scott presented this item to the Committee. In his presentation, Mr. Scott noted that Clifton Gunderson LLP is preparing to initiate the FCC's annual audit, including the audit of the USF, for the fiscal year ending September 30, 2007. In addition, Mr. Scott noted that a draft report of an independent audit of USAC's 2006 Financial Statements was filed with the FCC on April 16, 2007, and he anticipates the report will be presented at the July 2007 quarterly meetings.

i4. Semiannual Status Report on Actions Taken on Final USAC Audits. Mr. Scott presented a summary listing of finalized programmatic and operational audits for which fund recoveries or process improvements have been received or implemented as a result of follow-up action taken by management to resolve audit findings.

i5. Annual Executive Session with USAC's Vice President, Internal Audit – Confidential & Proprietary – *Executive Session Recommended*. In accordance with the approved criteria and procedure for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that this matter be discussed in *Executive Session* pursuant to the guidelines in the approved Audit Committee Charter.

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

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

i6. Miscellaneous. There were no additional discussion items. At 4:32 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* with only members of the Committee and USAC Officers present for the purpose of discussing the confidential and proprietary item noted above.

EXECUTIVE SESSION:

i5. Annual Executive Session with USAC's Vice President, Internal Audit. Mr. Scott discussed this item with the Committee. At 5:08 p.m. Eastern Time, on a motion duly made and seconded, the Committee adjourned from *Executive Session* and immediately reconvened in *Open Session* at which time, Mr. Williams reported that the Committee discussed item i5 above in *Executive Session*.

On a motion duly made and seconded, the Committee adjourned at 5:10 p.m. Eastern Time.

/s/ David A. Capozzi
David A. Capozzi
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

AUDIT COMMITTEE MEETING

July 23, 2007

MINUTES

The quarterly meeting of the Audit Committee (Committee) of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Monday, July 23, 2007. Mr. Jason Williams, Chair of the Committee, called the meeting to order at 2:36 p.m. Eastern Time. Three of five members of the Committee were present, representing a quorum:

Anderson, D. Michael
Campbell, Anne
Williams, Jason – Chair – *by telephone*

Members of the Committee not present:
McClure, David
Talbot, Dr. Brian

Other Board Members and Officers of the corporation present:
Barash, Scott – Acting Chief Executive Officer
Belden, Richard – Chief Operating Officer
Capozzi, David – Acting General Counsel and Assistant Secretary
England, Dr. William – Vice President, Rural Health Care Division
Erwin, W.B. – Vice President, Finance, and Assistant Treasurer
Holcombe, Jamie – Vice President, Information Systems
Majcher, Karen – Vice President, High Cost and Low Income Division
Scott, Wayne – Vice President, Internal Audit

Others present for the meeting:

NAME COMPANY

Ahn, Shane USAC
Anderson, Latoya USAC
Bayona, Janet USAC
Beard, Jay USAC
Betancourt, Laura USAC
Braxton, Kianna USAC
Briddell, Christopher USAC
Davis, Craig USAC
Delmar, Teleshia USAC
Desrocher, Michael USAC

Goode, Vernell USAC
Grant, Colleen USAC
Ho, Amanda USAC
LeNard, Dave USAC
Lenhardt, Christopher USAC
McCloud, Robert USAC
Mitchell, Jeffrey USAC
Monroe, Kevin Deloitte & Touche LLP
Morrow, Henry FCC
Nuzzo, Patsy USAC
Rodriguez, Eduardo Deloitte & Touche LLP
Samuel, Denise USAC
Ware, Macon Deloitte & Touche LLP

ACTION ITEMS

a1. Approval of Audit Committee Meeting Minutes of April 23, 2007. On a motion duly made and seconded, the Committee approved the minutes as written of the Committee meeting of April 23, 2007.

a2. Acceptance of 2006 USAC Financial Audit and Agreed Upon Procedures Review. Mr. Scott introduced this item to the Committee and requested that Mr. Macon Ware of Deloitte & Touche (D&T) present the firm's report. In his presentation, Mr. Ware noted that USAC received a "clean" audit opinion for the financial statements. The Committee discussed with Mr. Ware the appearance of a potential conflict of interest around D&T's involvement with another client in a matter related to the Schools and Libraries Support Mechanism. The Committee requested D&T send a written statement to USAC by week's end explaining the action D&T has taken to mitigate the actual or potential conflict.

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

RESOLVED, that the USAC Audit Committee, having reviewed the USAC 2006 Financial Audit Report as submitted by Deloitte & Touche LLP, hereby deems the report final; and
RESOLVED FURTHER, that the USAC Audit Committee, having reviewed the USAC 2006 Agreed-Upon Procedures Review Report as submitted by Deloitte & Touche LLP, hereby deems such report final; and

RESOLVED FURTHER, that the USAC Audit Committee recommends that Deloitte & Touche LLP file the final USAC 2006 Financial Audit Report and Agreed-Upon Procedures Review Report with the FCC.

a3. Action on Two Schools and Libraries Division Operational Follow-Up Audit Reports – Confidential & Proprietary – *Executive Session Recommended*. In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that the audit reports be discussed in *Executive*

Session because the reports relate 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.

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 Schools and Libraries Support Mechanism Operational Follow-Up Audit Reports labeled SL2006FL003 and SL2006FL004 shall be conducted in *Executive Session*.

a4. Action on One USAC Operational Follow-Up Audit Report – Confidential & Proprietary – Executive Session Recommended. In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that this matter be discussed in *Executive Session* because the report relates to specific internal controls and/or confidential company data that would constitute a *discussion of internal rules and procedures* concerning the administration of the universal service support mechanisms. On a motion duly made and seconded and after discussion, the Committee adopted the following resolution:

RESOLVED, that the USAC Audit Committee determines that discussion of the USAC Internal Audit Division USAC Operational Follow- Up Audit Report labeled US2007FL001 shall be conducted in *Executive Session*.

a5. Miscellaneous. Solicit ideas for the October 2007 Committee Agenda. Mr. Williams reminded members that they may offer suggestions for agenda items at each quarterly meeting. Ideas may be submitted to Mr. Williams, Mr. McClure or Mr. Scott between quarterly meetings.

INFORMATION ITEMS:

i1. Status Report on USAC-FCC Office of Inspector General Audit Program. Mr. Jeffrey Mitchell, USAC Director of Outsourced Audit Services, presented this item to the Committee. In his presentation, Mr. Mitchell noted that 148 of the scheduled 459 audits have been deemed final. In addition, the estimated total cost for the 459 audits is projected to be \$6 million less than originally estimated. Mr. Mitchell also reported that the FCC Office of General Inspector (OIG) has indicated that audits to be performed as Round 2 of this effort will be greater in scope and magnitude than the initial round and will continue with the compliance attestation audit approach. Mr. Mitchell noted that USAC management was currently evaluating the audit firms used in Round 1 and a Request for Proposals has been issued for audit services for Rounds 2 audits of Schools and Libraries Support Mechanism beneficiaries.

i2. Annual Report on Legal Matters that Could Significantly Affect USAC's Operations – Executive Session Option. Mr. Capozzi stated that there were no such matters at this time.

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

i4. Audit Committee Executive Session with USAC's Independent Auditing Firm –Deloitte & Touche – Confidential & Proprietary – Executive Session

Recommended. In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended that this matter be discussed in *Executive Session* to fulfill the requirements of Section II.C.2 of the USAC Audit Committee Charter (Charter), which states:

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

i5. Miscellaneous. Mr. Williams inquired as to any requirements imposed on the Committee by the FCC-USAC Memorandum of Understanding. Mr. Scott noted that additional information will need to be shared with the FCC and the frequency will also change, but otherwise, there are no substantial impacts on the Committee.

At 3:45 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential and proprietary items noted above.

EXECUTIVE SESSION:

a3. Action on Two Schools and Libraries Division Operational Follow-Up Audit Reports.

Mr. Scott presented this item to the Committee.

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

RESOLVED, that the USAC Audit Committee, having reviewed the USAC Internal Audit Division Schools and Libraries Support Mechanism Operational Follow-up Audit Reports labeled SL2006FL003 and SL2006FL004, together with management's responses thereto, accepts the recommendations of the USAC Schools & Libraries Committee and USAC management and directs that such reports be deemed final.

a4. Action on One USAC Operational Follow-Up Audit Report. Mr. Scott introduced this item to the Committee.

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

RESOLVED, that the USAC Audit Committee, having reviewed the USAC Internal Audit Division USAC Operational Follow-Up Audit Report labeled US2007FL001, together with management's responses thereto, accepts the recommendation of USAC management and the USAC Executive Committee and directs that such report be deemed final. At 3:50 p.m. Eastern Time, the Committee continued in *Executive Session* with only Deloitte & Touche, LLP and members of the Committee present for the purpose of discussing the following item:

i4. Audit Committee Executive Session with USAC's Independent Auditing Firm—Deloitte & Touche LLP.

At 4:38 p.m. Eastern Time, on a motion duly made and seconded, the Committee voted to move out of *Executive Session* and immediately reconvened in *Open Session* at which time, Mr.

Williams reported that the Committee in *Executive Session* discussed and took action on items a3 and a4, and discussed item i4 above.

On a motion duly made and seconded, the Committee adjourned at 4:40 p.m. Eastern Time.

/s/ David A. Capozzi
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

AUDIT COMMITTEE MEETING

October 22, 2007

MINUTES

The quarterly meeting of the Audit Committee (Committee) of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Monday, October 22, 2007. Mr. Jason Williams, Committee Chair, called the meeting to order at 3:04 p.m. Eastern Time. Three of five members of the Committee were present, representing a quorum:

Anderson, D. Michael
Talbott, Dr, Brian
Williams, Jason – Chair

Ms. Anne Campbell joined the meeting at 3:07 p.m. Eastern Time. She did not participate in the discussion of or vote on item a1 or a2.

Mr. Dave McClure joined the meeting at 3:30 p.m. He did not participate the discussion or vote on items a1, a2, a3, a4, a5 or a6, nor did he participate in the discussion of items i1, i2 and i3.

Other Board Members and Officers of the corporation present:

Barash, Scott – Acting Chief Executive Officer
Belden, Richard – Chief Operating Officer
Capozzi, David – Acting General Counsel and Assistant Secretary
Erwin, W.B. – Vice President, Finance, and Assistant Treasurer
Holcombe, Jamie – Vice President, Information Systems
Majcher, Karen – Vice President, High Cost and Low Income Division
Scott, Wayne – Vice President, Internal Audit

NAME COMPANY

Anderson, Latoya USAC
Bayona, Janet USAC
Bellavia, Leslie – *by telephone* USAC
Bilodeau, Amanda USAC
Castro, Mauricio USAC
Delmar, Teleshia USAC
Desrocher, Michael USAC
Friend, Dan USAC
Goode, Vernell USAC
Grant, Colleen USAC
Hughes, Jeff USAC

LeNard, Dave USAC
Lenhardt, Christopher USAC
McCloud, Robert USAC
Mi, Xirong USAC
Mitchell, Jeffrey USAC
Morrow, Henry FCC
Nuzzo, Patsy USAC
Rogers, Camelia USAC
Samuel, Denise USAC
Tawes, Pauline USAC

ACTION ITEMS:

a1. Approval of Audit Committee Meeting Minutes of July 23, 2007. On a motion duly made and seconded, the Committee approved the minutes as written of the Committee meeting of July 23, 2007.

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

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

RESOLVED, that the USAC Audit Committee 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 this item to the Committee, noting that the proposed budget for 2008 could change based on the final directive of the FCC with regards to the Improper Payments Information Act (IPIA) audits.

He also reported that due to the IPIA audits, the Internal Audit Division (IAD) was behind on the current audit plan and proposed five new full-time positions for the Division. Ms. Campbell asked if the additional expense of the IPIA audits included the internal USAC costs. Mr. Barash noted that the expenses associated with the audits do not include costs to beneficiaries or contributors to the USF, and the current 2008 budget is based on a total of 500 audits and would have to be adjusted based on the final directives from the FCC. Dr. Talbott requested that staff prepare a report of total aggregate audit costs incurred by USAC.

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

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

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

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

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

a5. Annual Review of the Adequacy of USAC's System of Internal Controls. Mr. Scott introduced this item to the Committee, noting that the assessment performed by USAC's Internal Audit Division indicated that there were adequate systems in place to ensure compliance with internal policies and procedures, and FCC Directives and applicable federal, state and local laws and regulations. Mr. Scott also stated that there is sufficient separation of duties among the individuals responsible for initiating, preparing, approving and processing data, and management's philosophy and operating style encourage the utmost integrity and ethical conduct; therefore, management has established and is maintaining an adequate system of internal control that allows for the successful achievement of objectives without compromising standards.

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

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

a6. Miscellaneous. Solicit ideas for the January 2008 Committee Agenda. Mr. Williams reminded members that they may offer suggestions for agenda items at

each quarterly meeting. Ideas may be submitted to Mr. Williams, Mr. McClure or Mr. Scott between quarterly meetings.

INFORMATION ITEMS:

i1. Status Report on USAC-FCC Office of Inspector General Audit Program. Mr. Jeff Mitchell, Director of Outsourced Audit Services, presented this item to the Committee, noting that USAC was able to deliver 99% of the Round 1 audit results data to the OIG in August 2007.

As of October 22, 2007, 332 final reports have been presented to the committees with another 127 scheduled for consideration during or soon after the October 2007 quarterly meetings. Mr. Mitchell reported that discussion has continued with the OIG regarding Round 2 audits for High Cost, Schools and Libraries and Low Income beneficiaries. He also commented that USAC is now four months behind the June 2007 start for Round 1 Schools and Libraries audits and two months behind the August start for Round 1 audits in the other areas. In the meantime, USAC has been working to complete as much groundwork as possible to ensure a successful start for Round 2. Mr. Scott noted that training for Round 2 has started and would continue in November.

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

i3. Semiannual Status Report on Ongoing USAC Audits. Mr. Scott presented this item to the Committee, including providing a status of the ongoing audits of USAC, the Universal Service Fund and the universal service support mechanisms.

Mr. Scott also noted that the competitive bidding process to select an audit firm to conduct USAC's annual audit and agreed-upon procedures review was nearing completion and he anticipates a contract would be awarded to a firm soon.

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

i5. USAC Internal Audit Division Peer Review Report. Mr. Scott presented this item to the Committee, noting that a peer review was conducted to satisfy the requirements of Generally Accepted Government Auditing Standards. Mr. Barash noted that the peer review was extensive and included all USAC senior management, Internal Audit Division staff, and Mr. Williams, the Committee Chair. Mr. Scott stated that the company received a clean opinion.

On a motion duly made and seconded, the Committee adjourned at 3:43 p.m. Eastern Time.

/s/ David A. Capozzi
Assistant Secretary