

2003 Audit Committee Meetings Minutes

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**AUDIT COMMITTEE MEETING**

January 22, 2003

MINUTES

The quarterly meeting of the Audit Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the Westin Grand, 2350 M Street, NW, Washington, DC, on Wednesday, January 22, 2003. Mr. Ed Eichler, Interim Chair of the Committee, called the meeting to order at 4:16 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the USAC CEO, called the roll.

| All five members were present representing a quorum: | |
|----------------------------------------------------------------------------|-----------------------|
| Campbell, Anne - <i>Interim Vice Chair</i> | Hughes, Alison |
| Eichler, Ed - <i>Interim Chair</i> | Sanford, Jo Anne |
| Hess, Kevin | |
| Other Board members and officers of the Corporation present: | |
| Gumper, Frank - Board member | |
| Jortner, Wayne - USAC Board member | |
| Parrino, Cheryl - USAC Board Member and CEO | |
| | |
| Barash, D. Scott - Assistant Secretary; Vice President & General Counsel | |
| Blackwell, Mel - VP, External Communications & Rural Health Care Division | |
| Carmichael, Mark - Assistant Treasurer; VP, Finance & Financial Operations | |
| Flannery, Irene - VP, High Cost and Low Income Division | |
| Haga, Robert - VP, Strategic Planning & USAC Operations | |
| Others present for the meeting: | |
| Name | Company |
| Bayona, Janet | USAC |
| Carroll, Kristy | USAC |
| Delmar, Teleshia | USAC |
| French, Laurie | USAC |
| Griffin, Felice | Deloitte & Touche LLP |

| | |
|--------------------|-----------------------|
| Guiltinan, Barbara | Deloitte & Touche LLP |
| Hathaway, Don | Deloitte & Touche LLP |
| Howard, Cathy | USAC |
| Kaplan, Peter | Funds for Learning |
| Lenhardt, Chris | USAC |
| Miller, Linda | USAC |
| Niebauer, Amanda | USAC |
| Okudaira, Nobuko | USAC |
| Rodda, Jim | USAC |
| Scott, Wayne | USAC |

ACTION ITEMS

- a1. Approval of Audit Committee Charter.** Ms. Parrino recalled for the Committee that when the USAC Board of Directors formed the Audit Committee on December 16, 2002, USAC management proposed to prepare a charter for the Committee in order to define the role, responsibilities, and reporting structure of the Committee. She pointed out that in developing the charter, a couple changes were made from what the Board anticipated would be in the charter: (1) instead of requiring that the two at-large members have a background in financial reporting, accounting, auditing or other financial expertise, the language now states that at least one of any of the five members of the Committee shall have this background, and (2) added independent requirements for Audit Committee membership that address previous or current employment with USAC and possible family relationships with members of USAC management.

The Committee **DIRECTED** USAC staff to create a yearly calendar of significant audit events for use by the Committee in planning meetings and agendas.

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

RESOLVED, That the USAC Audit Committee recommends that the USAC Board of Directors approve the proposed Audit Committee Charter.

- a2. 2003 USAC Internal Audit Plan - Confidential & Proprietary - Executive Session.** 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, 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 2003 USAC Internal Audit Plan shall be conducted in *Executive Session*.

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

- a3. Acceptance of Two High Cost Beneficiary Audit Reports.** Mr. Scott, USAC Director of Internal Audit, explained that the USAC Internal Audit Division (IAD) recently performed two beneficiary audits for the High Cost Support Mechanism. One beneficiary was randomly selected, and the High Cost and Low Income Division referred the other beneficiary to IAD for audit. Mr. Scott reported that there were findings in both audits, and that questions remain regarding an issue that needs to be clarified with the FCC. He noted that management's response included a commitment to raise the issue requiring guidance with the FCC, follow-up with the carriers to obtain supporting documentation, and, where appropriate, seek prompt repayment of support. Mr. Scott said he would bring follow-up reports on these two audits to the Committee at a later date. He informed the Committee that a follow up report would be made for all audit reports going forward regardless of the findings. In addition, he said that IAD staff has created an aging report to track all audits.

Mr. Eichler noted that these type of resolutions in which the Audit Committee is approving the audit reports before they are filed with the FCC should read "approved" rather than "accepted" because "accept" is what the programmatic committees do before sending them on to the Audit Committee for final "approval." The Committee agreed with the revision to the proposed resolution. Mr. Gumper also noted that the High Cost & Low Income Committee revised the resolution to note the inclusion of a footnote in one of the audits before accepting the reports at its January 22, 2003, quarterly meeting. The Committee agreed with the revision as proposed by the High Cost & Low Income Committee.

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

RESOLVED, That the USAC Audit Committee *approves* the report of Audit No. HC001BE2002 as presented by the USAC Internal Audit Division, revised to include a footnote to indicate that an audit of Low Income support received was not included within in the scope of this High Cost beneficiary audit and Audit No. HC002BE2002 as presented by the USAC Internal Audit Division.

- a4. Acceptance of a High Cost Internal Operations Audit Report.** Mr. Scott explained that IAD staff performed audits of a select sample of High Cost Support Mechanism carriers and found only two minor exceptions, which have been resolved. He noted that the High Cost & Low Income Committee accepted the report without modification at its January 22, 2003, quarterly meeting.

The Committee **DIRECTED** IAD staff to create a document explaining the naming and numbering convention for audits now being used by IAD staff.

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

RESOLVED, That the USAC Audit Committee *approves* the report of Audit No. HC0030P2002, as presented by the USAC Internal Audit Division.

- a5. Acceptance of Nine Rural Health Care Support Mechanism Beneficiary Audit Reports.** Mr. Scott explained that IAD staff performed 18 audits of Rural Health Care Support Mechanism beneficiaries for 2002. He reported that nine of the reports have been finalized. He stated that there were no findings in those nine reports and that the Rural Health Care Committee accepted the reports without modification at its January 22, 2003, quarterly meeting.

On a motion duly made and seconded, the Committee adopted the following resolution; Ms. Hughes abstained due to a conflict of interest:

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

RESOLVED, That the USAC Audit Committee *approves* the 2002 Agreed Upon Procedures Reports (Audit Nos. RH001BE2002, RH002BE2002, RH003BE2002, RH004BE2002, RH005BE2002, RH006BE2002, RH007BE2002, RH008BE2002, and RH009BE2002) of Rural Health Care Support Mechanism beneficiaries as presented by the USAC Internal Audit Division.

- a6. Acceptance of Six Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Mr. Scott explained that IAD staff performed seven audits of Schools and Libraries Support Mechanism beneficiaries for 2002 and that six of the reports have been finalized. He reported that the beneficiaries were selected because of known problems and that the audits resulted in several findings. He noted that management's response indicated that, as appropriate, it would cancel commitments and seek recovery of any funds disbursed. Mr. Scott noted that the Schools & Libraries Committee accepted the reports without modification at its January 22, 2003, quarterly meeting.

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

RESOLVED, That the USAC Audit Committee *approves* the reports of Audit Nos. SL001BE2002, SL002BE2002, SL003BE2002, SL004BE2002, SL005BE2002, and SL006BE2002 as presented by the USAC Internal Audit Division.

Ms. Hughes asked to revisit this issue later in the meeting and noted that all schools audited in this matter are charter schools. Moreover, because there were similar findings in each audit, she suggested that outreach be developed for these types of schools in an effort to educate the applicants.

- a7. Acceptance of Two Schools and Libraries Support Mechanism Investigative Reports - Confidential & Proprietary - Executive Session.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in *Executive Session*, Mr. Barash recommended that discussion of the specific details of the audit findings be conducted in *Executive Session* because this investigation is not final and because of the sensitivity of the potential allegations and the potential for enforcement action.

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

RESOLVED, That the USAC Audit Committee determines that discussion of two investigative reports of the Schools and Libraries Support Mechanism beneficiaries shall be conducted in *Executive Session*.

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

- a8. Annual Election of Committee Chair and Vice Chair.** Ms. Parrino informed the Committee that the USAC Board of Directors elects the Committee Chair and Vice Chair, but that the Board has sought nominations from the Committee. She reminded the Committee that when the USAC Board of Directors formed the Committee on December 16, 2002, the Board appointed Mr. Eichler as interim Chair and Ms. Campbell as interim Vice Chair.

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

RESOLVED, That the USAC Audit Committee recommends that the USAC Board of Directors elect **Mr. Ed Eichler** as Chair and **Ms. Anne Campbell** as Vice Chair of the USAC Audit Committee for the term of one year that shall begin at the conclusion of the January 2003 quarterly Board meeting and that shall conclude at the close of the January 2004 quarterly Board meeting.

a9. Miscellaneous.

- **Authorization to Sign Memorandum of Understanding with FCC Inspector General and the Department of the Interior Inspector General Regarding Audits of Beneficiaries and Approval of Necessary Budget Increase - Confidential & Proprietary - *Executive Session*.** 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 this matter, which relates to USAC's *procurement strategy and contract negotiations*, and public disclosure of the matters discussed in this paper would compromise USAC's negotiation strategy to the detriment of the corporation and the Universal Service Fund. Moreover, this matter concerns an issue that remains predecisional at the FCC, and certain matters to be discussed regarding this document implicate the *attorney-client privilege* and, therefore, staff recommends that it not be discussed in open session.

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

RESOLVED, That the USAC Audit Committee determines that discussion of the signing of a Memorandum of Understanding with FCC Inspector General and the Department of the Interior Inspector General regarding audits of beneficiaries and approval of necessary budget increase shall be conducted in *Executive Session*.

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

Information Items

- i1. **Status Report on USAC Audits.** Mr. Scott reviewed the status of the various ongoing audits.
- i2. **Internal Audit Division Report on the 2002 Internal Audit Plan.** Mr. Scott referred to Attachment A, which is a list of audits performed in 2002 and what action has been taken thus far on each one. He said that IAD is now tracking audit hours to use as a baseline for planning purposes. In response to a question by a Committee member, Ms. Parrino clarified that the costs for each audit are already covered in either the consolidated budget or in the appropriate programmatic budget. She said that, at this time, if the Audit Committee required additional funds to conduct an audit, it would have to coordinate the budget impact with the respective programmatic committee and/or the full Board.
- i3. **Audit Committee Meeting with USAC Independent Auditors - Confidential & Proprietary - Executive Session.** 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 of the importance of the Audit Committee having a candid interaction with USAC's independent auditors regarding specific ongoing audits and any risks that the audit firm has identified; moreover, and 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 the meeting with the independent external auditor firm retained by USAC shall be conducted in Executive Session.

See *Executive Session* for a report of the discussion.

- i4. **Audit Committee Meeting with the USAC Director of Internal Audit - Confidential & Proprietary - Executive Session.** 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 is important for the Audit Committee to have a candid discussion with the Internal Audit Division regarding specific ongoing audits and any risks that the Director may have identified, and 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 the meeting with the Director of Internal Audit shall be conducted in *Executive Session*.

See *Executive Session* for a report of the discussion.

i5. Miscellaneous. None.

At 5:23 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

- a2. 2003 USAC Internal Audit Plan - Confidential & Proprietary - Executive Session.** Mr. Scott reviewed the plan for 2003 and explained the process used to select audit targets for each mechanism. Mr. Scott then introduced members of the IAD staff who were present at the meeting.

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

RESOLVED, That the USAC Audit Committee approves the 2003 USAC Internal Audit Plan.

- a7. Acceptance of Two Schools and Libraries Support Mechanism Investigative Reports - Confidential & Proprietary - Executive Session.** Mr. Scott explained that the IAD performed investigative audits on two Schools and Libraries Support Mechanism beneficiaries and service providers that were referred to IAD by SLI. There were several findings in both reports. IAD staff discussed specific findings of the audit reports with the Committee. Mr. Scott also noted that management's response indicated that it would continue to work closely with law enforcement and the FCC Office of Inspector General on these matters, and, as appropriate, it would cancel commitments and seek recovery of funds already disbursed.

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

RESOLVED, That the USAC Audit Committee approves the reports of Audit No. SL007IV2002 and Audit No. SL008IV2002 for Funding Year 2000 as presented by the USAC Internal Audit Division.

a9. Miscellaneous.

- **Authorization to Sign Memorandum of Understanding with FCC Inspector General and the Department of the Interior Inspector General Regarding Audits of Beneficiaries and Approval of Necessary Budget Increase - Confidential & Proprietary - Executive Session.** Mr. Eichler announced that due to the unexpected length of the Audit Committee meeting, the extensive discussion at the Schools & Libraries Committee meeting on this subject, and the fact that this item will be brought before the full Board at its quarterly meeting on January 24, 2003, he laid the item on the table. No action was taken.

- i3. Audit Committee Meeting with USAC Independent Auditors - Confidential & Proprietary - Executive Session.** Ms. Parrino introduced Mr. Don Hathaway, Ms. Barbara Guiltinan, and Ms. Felice Griffin of Deloitte & Touche LLP (D&T), USAC's independent outside auditor. Ms. Griffin and Ms. Guiltinan reviewed D&T's 2002 Audit Plan for USAC as well as recent professional developments.

i4. Audit Committee Meeting with the USAC Director of Internal Audit - Confidential & Proprietary - Executive Session. Mr. Scott reported to the Committee that there were no issues or concerns that needed to be discussed with the Committee at this time.

The Committee adjourned from *Executive Session* and reconvened in open session at 6:47 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 6:48 p.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**AUDIT COMMITTEE MEETING**

April 17, 2003

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 17, 2003. Ms. Anne Campbell, Vice Chair of the Committee, called the meeting to order at 11:09 a.m. Eastern Time. Ms. Janet Bayona, Administrative Assistant to USAC, called the roll.

| | |
|----------------------------------------------------------------------------------------|----------------------------------------|
| Three of the five members of the Committee were present, representing a quorum: | |
| Campbell, Anne – Vice Chair – <i>by telephone</i> | Sanford, Jo Anne – <i>by telephone</i> |
| Hess, Kevin – <i>by telephone</i> | |
| Two members were absent: | |
| Eichler, Ed – Chair | Hughes, Alison |
| Other Board members and Officers of the Corporation present: | |
| Gumper, Frank – Board Member | |
| Parrino, Cheryl – Board Member and CEO | |
| Barash, D. Scott – Vice President and General Counsel | |
| Carmichael, Mark – Assistant Treasurer; VP, Finance and Financial Operations | |
| Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations | |
| Others present for the meeting: | |
| Name | Company |
| Bayona, Janet | USAC |
| Delmar, Teleshia | USAC |
| French, Laurie | USAC |
| Hill, William – <i>by telephone</i> | FCC |
| Lenhardt, Chris | USAC |
| Miller, Linda | USAC |
| Niebauer, Amanda | USAC |

| Others present for the meeting: | |
|----------------------------------------|----------------|
| Name | Company |
| Okudaira, Nobuko | USAC |
| Panton, Marcia | USAC |
| Rodda, Jim | USAC |
| Scott, Wayne | USAC |

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 meeting of Wednesday, January 22, 2003.
- a2. Approval of the Audit Committee Charter.** Mr. Scott, USAC Director of Internal Audit Division, recalled for the Committee that at the January 2003 meeting, the Board of Directors directed the Audit Committee to evaluate certain proposed revisions to the proposed Audit Committee Charter. Mr. Scott indicated that the Charter has been revised to address the Board’s concerns and is now being presented to the Committee and Board for review and approval. In addition, the USAC staff created a yearly audit committee calendar, which outlines significant audit events and will assist the Committee in planning future meetings and agendas.

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

RESOLVED, That the USAC Audit Committee recommends that the USAC Board of Directors approve the proposed revised Audit Committee Charter.

- a3. Approval of a Letter to USAC’s Independent Audit Firm.** Ms. Parrino informed the Committee that Deloitte & Touche LLP (D&T) recently announced it would not separate its consulting business from its auditing practice. Because of D&T’s decision, USAC deemed it appropriate to issue a letter to the firm reminding D&T of USAC’s policy not to engage its auditing firm to provide accounting or consulting services of any kind, including but not limited to bookkeeping services, the design of accounting systems or operating procedures, or any other similar or related services.

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

RESOLVED, That the USAC Audit Committee approves the issuance of a letter to the independent auditing firm retained by USAC reminding the firm of USAC’s policy not to engage its auditing firm to provide accounting or consulting services of any kind, including but not limited to bookkeeping services, the design of accounting systems or operating procedures, or any other similar or related services.

a4. Miscellaneous. None

Information Items

i1. Review of USAC's Financial Reporting Process. Mr. Scott reported that the financial reporting process is sufficient for the reliability and integrity needed to prepare financial information. Mr. Scott highlighted the various controls and noted that the process included the proper segregation of duties and appropriate safeguarding of assets.

Mr. Carmichael noted that the disbursement function is now in-house. USAC is currently transitioning in-house the billing and collection functions as well as the USF accounting functions. These functions will be fully transitioned to USAC by year-end 2003.

i2. Review of Legal Matters. Mr. Barash updated the Committee on outstanding legal matters, including matters reported to USAC's external audit firm as of December 31, 2002 and subsequent events.

i3. Miscellaneous. None.

There being no further business, Ms. Campbell adjourned the meeting at 11:46 a.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**AUDIT COMMITTEE MEETING**

April 23, 2003

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 Westin Grand, 2350 M Street, NW, Washington, DC, on Wednesday, April 23, 2003. Mr. Ed Eichler, Chair of the Committee, called the meeting to order at 4:10 p.m. Eastern Time. Ms. Janet Bayona, Administrative Assistant to USAC, called the roll.

| Four of the five members of the Committee were present, representing a quorum: | |
|---------------------------------------------------------------------------------------|----------------------------------------|
| Campbell, Anne – Vice Chair | Hughes, Alison |
| Eichler, Ed – Chair | Sanford, Jo Anne – <i>by telephone</i> |
| One members were absent: | |
| Hess, Kevin | |
| Other Board members and Officers of the Corporation present: | |
| Gumper, Frank – Board Member | |
| Parrino, Cheryl – Board Member and CEO | |
| Talbott, Dr. Brian – Board Member | |
| Barash, D. Scott – Vice President and General Counsel | |
| Blackwell, Melvin – VP, Rural Health Care Division | |
| 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 and Libraries Division | |
| Others present for the meeting: | |
| Name | Company |
| Bayona, Janet | USAC |
| Carroll, Kristy | USAC |
| Delmar, Teleshia | USAC |
| Falkowitz, Ed | USAC |
| Fenstermaker, John | KPMG |
| French, Laurie | USAC |
| Gallant, Pam | USAC |
| Henzey, Terry | KPMG |

| Others present for the meeting: | |
|----------------------------------------|----------------|
| Name | Company |
| Hill, William | FCC |
| Lenhardt, Chris | USAC |
| Mendiola, Ray | NECA |
| Miller, Linda | USAC |
| Niebauer, Amanda | USAC |
| Okudaira, Nobuko | USAC |
| Scott, Wayne | USAC |
| Vierheller, Mike | KPMG |

ACTION ITEMS

- a1. Action on the 2002 Low Income Beneficiary Audit Report.** Ms. Flannery confirmed that the National Exchange Carrier Association, Inc. (NECA) performed the audit under contract with and at the direction of USAC. She delivered a brief summary of the findings and noted that the High Cost & Low Income Committee accepted the report without modification at its April 2003 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 High Cost & Low Income Committee and directs that the 2002 Low Income Beneficiary Audit Report be deemed final.

- a2. Action on Eight Rural Health Care Support Mechanism Beneficiary Audit Reports.** Mr. Scott, USAC Director of Internal Audit, introduced eight completed audit reports to the Committee for review and noted each report has been watermarked DRAFT. The watermark will remain on the report until it receives final approval from the Committee. Mr. Scott informed the Committee that the Rural Health Care Committee accepted the reports without modification at its April 2003 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 Rural Health Care Committee and directs that the 2002 Agreed Upon Procedures Reports (Audit Nos. RH2002BE010, RH2002BE011, RH2002BE012, RH2002BE013, RH2002BE014, RH2002BE015, RH2002BE016 and RH2002BE017) of Rural Health Care Support Mechanism beneficiaries be deemed final.

- a3. Action on Seven Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Mr. Scott introduced seven completed audit reports concerning Schools and Libraries Support Mechanism beneficiaries. He noted that these beneficiary audits were randomly selected and performed by the USAC Internal Audit Division, and that the Schools & Libraries Committee accepted the reports without modification at its April 2003 quarterly meeting. Mr. Scott verified that corrections would be made to the total amounts disbursed as shown in Attachment E and to the total amounts committed and disbursed as shown in Attachment F.

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 SL2002BE011, SL2003BE001, SL2003BE002, SL2003BE003, SL2003BE005, SL2003BE006, and SL2003BE010 be deemed final.

- a4. Action on the Schools and Libraries Support Mechanism Andersen Agreed Upon Procedures Beneficiary Report.** Mr. Scott introduced this item and provided a brief overview of the Arthur Andersen Agreed Upon Procedures Beneficiary Report to the Committee. He noted that the Schools & Libraries Committee accepted the report without modification at its April 2003 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 Schools & Libraries Committee and directs that the Andersen agreed upon procedures beneficiary audit reports be deemed final.

- a5. Approval of the Revised 2003 USAC Internal Audit Plan – Confidential & Proprietary – Executive Session.** In accordance with the approved criteria and procedures for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that discussion of this item be conducted in **Executive Session** because a discussion of specific audit plans, internal controls and/or confidential company data 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 2003 USAC Internal Audit Plan shall be conducted in **Executive Session**.

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

- a6. Action on Two Schools and Libraries Support mechanism Beneficiary Audit Reports – Confidential & Proprietary – Executive Session.** 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 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 two audit reports of the Schools and Libraries Universal Service Support Mechanism beneficiaries labeled SL2002BE009 and SL2002BE010 shall be conducted in **Executive Session**.

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

- a7. Miscellaneous.**

- Solicit Ideas for July Committee Agenda. There was no discussion and no

suggestions were offered at this time.

Information Items

- i1. Report of the Financial Audit of the FCC for the Year Ending September 20, 2002.** Ms. Parrino announced that the FCC completed its audit for the fiscal year ending September 20, 2002, and reported that the categorization of the Fund by the FCC continues to be a significant issue. Though the FCC received a clean opinion, there are a number of findings in the audit related to the Fund, several of which are repeat findings and are the result of the federal funds issue. Ms. Parrino noted that the bottom line is the FCC has received a clean audit opinion from the external auditors regarding the USF.
- i2. Status Report of USAC Audits.** Mr. Scott reviewed the status of various ongoing and planned audits of USAC and the Universal Service Support Mechanisms. He indicated that the final report of the financial audit would be presented at the July 2003 quarterly meeting. In addition, Ms. Parrino announced that USAC was granted a permanent extension of the filing deadline.

Mr. Scott announced that KPMG would present an engagement report to the Committee on the Schools and Libraries Support Mechanism beneficiary audits. He introduced Mr. John Fenstermaker, Mr. Mike Vierheller, and Mr. Terry Henzey of KPMG, LLP, USAC's independent auditor. Mr. Henzey led the presentation and responded to questions from the Committee.

- i3. Status Report on Actions Taken on Final Audits.** Mr. Scott explained that this will be a new issue paper that will provide details of follow-up actions being taken on final audits and that once all follow-up action has been reported for an audit, the audit will be dropped from this list. He pointed out that staff included an audit report naming convention table in the issue paper to assist the Committee in understanding how the audit reports are numbered.
- i4. Miscellaneous.** None.

At 4:48 p.m., the Chair called a recess. At the call of the Chair, the Committee reconvened at 5:00 p.m. and voted to move into **Executive Session** for purposes of discussing the confidential and proprietary items as noted above.

Executive Session

- a5. Approval of the Revised 2003 USAC Internal Audit Plan – Confidential & Proprietary – Executive Session.** Mr. Scott reviewed the revisions to the 2003 USAC Internal Audit Plan and noted that the revisions affect audit plans for the Schools and Libraries Division and Rural Health Care Division.

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

RESOLVED, That the USAC Audit Committee approves the revised 2003 USAC Internal Audit Plan.

- a6. Action on Two Schools and Libraries Support mechanism Beneficiary Audit Reports – Confidential & Proprietary – Executive Session.** Mr. Scott explained that the two beneficiary audit reports prepared by USAC's Internal Audit Division (IAD) revealed several findings. These two "high risk" beneficiaries were selected based on specific risk factors identified throughout the Program Integrity Assurance process and through other correspondence communicated to IAD. Local and federal law

enforcement is now handling these cases. USAC will continue to work closely with law enforcement on these matters. He noted that the Schools & Libraries Committee accepted the reports without modification at its April 2003 quarterly meeting. The Committee DIRECTED that future audit reports include the state in which the school being audited is located.

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 SL2002BE009 and SL2002BE010 be deemed final.

The Committee adjourned from **Executive Session** and reconvened in open session at 5:06 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 5:07 p.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**AUDIT COMMITTEE MEETING**

July 17, 2003

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, July 17, 2003. Mr. Eichler, Chair of the Committee, called the meeting to order at 1:35 p.m. Eastern Time. Ms. Bayona, Administrative Assistant for USAC, called the roll.

| | |
|----------------------------------------------------------------------------------------|----------------------------------------|
| Three of the five members of the Committee were present, representing a quorum: | |
| Eichler, Ed - Chair - <i>by telephone</i> | Hess, Kevin - <i>by telephone</i> |
| Campbell, Anne - Vice Chair - <i>by telephone</i> | |
| Two members joined the meeting in progress: | |
| Hughes, Alison - <i>by telephone</i> | Sanford, Jo Anne - <i>by telephone</i> |
| Other Board members and Officers of the Corporation present: | |
| Parrino, Cheryl - Board Member and CEO | |
| Barash, D. Scott - Vice President and General Counsel | |
| Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations | |
| Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations | |
| Others present for the meeting: | |
| Name | Company |
| Bayona, Janet | USAC |
| Delmar, Teleshia | USAC |
| Dunn, Amanda | USAC |
| Hill, William - <i>by telephone</i> | FCC |
| Murphy, Kristin | USAC |
| Miller, Linda | USAC |
| Scott, Wayne | USAC |
| Stevens, 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, April 17, 2003, and Wednesday, April 23, 2003.

Committee members Ms. Hughes and Ms. Sanford joined the meeting during the discussion of the following item:

- a2. Approval of the Procedures for Referring Issues to the Audit Committee.** Mr. Scott, USAC Director of Internal Audit, introduced this item and summarized the procedures for referring issues or complaints to the USAC Audit Committee. Upon further review of the procedures, Ms. Parrino suggested a language change to Step 5 to reflect that reports on issues referred to the Committee will be provided to the USAC Board of Directors "as appropriate." The Committee agreed to approve the procedures as revised.

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

RESOLVED, That the USAC Audit Committee recommends that the USAC Board of Directors approve the "Procedures for Referring Issues to the Audit Committee" and the "Request for Audit Committee Review" form as presented by USAC staff. USAC staff is authorized to make minor editorial changes to the procedures and form before finalizing.

- a3. Preliminary Review of USAC 2002 Financial Audit and Agreed Upon Procedures Review.** Ms. Parrino introduced this item and reported that USAC received a clean audit opinion on its financial statements and that the agreed upon procedures operational review did not identify any major issues. Ms. Parrino explained that this was only a preliminary review and that the Committee would take action on this item during Part II of its quarterly meeting on July 21, 2003. There were no questions or further discussion.
- a4. Authorization to File the Draft USAC 2003 Financial Audit and Agreed Upon Procedures Review Plan with the FCC.** Mr. Scott introduced this item and highlighted some of the support mechanism changes that were made to the programs since the last audit. He addressed the strikeouts within the table of contents of the Plan and noted that the High Cost procedures required the most modification.

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 2003 Financial Audit and Agreed Upon Procedures Review Plan.

- a5. Miscellaneous.** None

Information Items

- i1. Review of USAC's Processes to Assure Compliance with Laws and Regulations.** Mr. Scott delivered a brief summary of the major ways in which USAC assures compliance with laws and regulations.
- i2. Review of Patterns or Trends in Audit Findings.** Mr. Scott summarized for the Committee the specific trends noted during the performance of beneficiary audits by

support mechanism. He indicated that there were no significant patterns or trends within the Rural Health Care Support Mechanism and that too few audits have been completed within the Low Income Support Mechanism to note any patterns or trends there. He reported that the most noticeable pattern within the Schools and Libraries Support Mechanism was the lack of maintaining documentation, and within the High Cost Support Mechanism, the most significant pattern dealt with mapping and wire zone issues.

Ms. Hughes suggested that outreach be developed for those areas where noticeable trends exists, perhaps a publication outlining various tips such as (1) how to account for equipment or (2) ways of maintaining adequate documentation.

i3. Review of Significant Legal Matters. Mr. Barash reported no significant legal matters requiring specific and separate attention by the Committee at this time.

i4. Miscellaneous. None.

There being no further business, Mr. Eichler adjourned the meeting at 2:16 p.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**AUDIT COMMITTEE MEETING**

July 21, 2003

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 Westin Grand, 2350 M Street, NW, Washington, DC, on Monday, July 21, 2003. Mr. Eichler, Chair of the Committee, called the meeting to order at 4:05 p.m. Eastern Time. Ms. Bayona, USAC Administrative Assistant, called the roll.

| Four of the five members of the Committee were present, representing a quorum: | |
|---------------------------------------------------------------------------------------|-----------------------|
| Campbell, Anne – Vice Chair | Hess, Kevin |
| Eichler, Ed – Chair | Sanford, Jo Anne |
| One member joined the meeting in progress: | |
| Hughes, Alison - <i>by telephone</i> | |
| Other Board members and Officers of the Corporation present: | |
| Gumper, Frank – Board Member | |
| Parrino, Cheryl - Board Member and CEO | |
| Barash, D. Scott - Vice President and General Counsel | |
| Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations | |
| Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations | |
| McDonald, George – VP, Schools and Libraries Division | |
| Others present for the meeting: | |
| Name | Company |
| Bayona, Janet | USAC |
| Crostic, Joe | KPMG |
| Delmar, Teleshia | USAC |
| Dunn, Amanda | USAC |
| Falkowitz, Ed | USAC |
| Griffin, Felice | Deloitte & Touche LLP |
| Guiltinan, Barbara | Deloitte & Touche LLP |
| Hill, Bill | FCC |
| Lenhardt, Chris | USAC |
| Miller, Linda | USAC |
| Murphy, Kristin | USAC |

| | |
|------------------|------|
| Okudaira, Nobuko | USAC |
| Scott, Wayne | USAC |
| Stephen, Mark | FCC |
| Vierheller, Mike | KPMG |
| Whitesell, Sarah | FCC |
| Zaina, Lisa | FCC |

ACTION ITEMS

- a1. Approval of the Procedures for Referring Issues to the Audit Committee.** The Committee took action on this item during Part I of its quarterly meeting on July 17, 2003. No additional questions had been raised since that time; therefore, no further action was necessary.
- a2. Action on Two Low Income Beneficiary Audit Reports.** Ms. Delmar, USAC Senior 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 High Cost & Low Income Committee and directs that the Audit Reports labeled LI2003BE002 and LI2003BE003 be deemed final.

- a3. Action on One Rural Health Care Support Mechanism Beneficiary Audit Report.** Mr. Scott, USAC Director of Internal Audit, introduced this item and reported on the one remaining 2002 beneficiary audit report of the Rural Health Care Support Mechanism. Mr. Scott indicated that there were no audit findings.

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 Rural Health Care Committee and directs that the Audit Report labeled RH2002BE018 be deemed final.

- a4. Action on Eight Schools and Libraries Support Mechanism Beneficiary Audit Reports.** Mr. Scott introduced this item and noted that three of the beneficiaries audited were compliant with the requirements, one was generally compliant, and four were not compliant.

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 SL2003BE004, SL2003BE007, SL2003BE009, SL2003BE012, SL2003BE013, SL2003BE014, SL2003BE017, and SL2003BE019 be deemed final.

- a5. Action on a Schools and Libraries Follow Up Audit Report.** Mr. Scott introduced this item and reported that there were no exceptions noted in the operational follow up audit report of the Schools and Libraries Support Mechanism.

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 Audit Report No. SL2002FL012 be deemed final.

- a6. Action on USAC 2002 Financial Audit and Agreed Upon Procedures Review.** Ms. Parrino introduced this item and reported that USAC received a clean audit opinion on its financial statements and that there were no major findings in the agreed upon procedures (AUP) review. Ms. Parrino turned the floor over to the representatives of USAC's external auditing firm, Ms. Gultinan and Ms. Griffin of Deloitte & Touche LLP (D&T), for a report on the audit.

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

RESOLVED, That the USAC Audit Committee, having reviewed the USAC 2002 financial audit report as submitted by Deloitte & 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 2002 agreed upon procedures review report as submitted by Deloitte & 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 & Touche LLP, with a copy to the FCC, accepting the USAC 2002 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 & Touche LLP to file the final USAC 2002 financial audit report and agreed upon procedures review report with the FCC.

- a7. Approval of Hiring Two Auditors and Status Report of USAC Audits.** Mr. Scott introduced this item and briefed the Committee on the status of ongoing and planned audits of USAC and the Universal Service Support Mechanisms. In response to Ms. Campbell's inquiry regarding the 81 Schools and Libraries Support Mechanism beneficiary audits, Mr. Vierheller, Engagement Director at KPMG, indicated that the first draft should be issued during the first week in September. In addition, Mr. Scott announced the scheduling of both an Audit Committee and Schools & Libraries Committee meeting in Mid-September to review and deem the initial 75 Schools and Libraries Support Mechanism beneficiary audit reports as final. He stated further that the remaining Schools and Libraries Support Mechanism beneficiary audit reports would be presented at the October 2003 meetings.

Mr. Scott sought approval for the hiring of two additional auditors in order to accomplish the expanded annual audit plan. Ms. Parrino informed the Committee that this would not have an impact on this year's budget but will in 2004. Mr. Scott introduced the newest staff member of the USAC Internal Audit Division, Ms. Murphy, USAC Staff Auditor. Upon further review of the resolution, the Committee determined it

would not be necessary to include projected budget amounts in the resolution.

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

RESOLVED, That the USAC Audit Committee authorizes USAC staff to proceed with hiring two additional auditors to accomplish the expanded annual audit plan ~~at the projected budget increase of \$62,550. A budget increase in 2003 for this activity will not be required due to the fact that USAC is under budget in other areas.~~

a8. Miscellaneous. None.

Information Items

- i1. Status Report on Actions Taken on Final Audits.** Mr. Scott presented a brief overview on the disposition of the final audit reports of USAC and the Universal Service Support Mechanisms.
- i2. Executive Session with Independent Audit Firm Deloitte & Touche LLP.** In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that this matter be discussed in **Executive Session** per 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 discussion with representatives of the independent auditing firm retained by USAC, Deloitte & Touche LLP, shall be conducted in **Executive Session**.

See [Executive Session](#) for a report of the discussion.

- i3. Executive Session** with USAC's Internal Audit Division. In accordance with the approved criteria and procedure for conducting USAC Board and Committee business in **Executive Session**, Mr. Barash recommended that this matter be discussed in **Executive Session** per 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 discussion with USAC's Director of Internal Audit shall be conducted in **Executive Session**.

See [Executive Session](#) for a report of the discussion.

i4. Miscellaneous. None.

At 5:00 p.m., on a motion duly made and seconded, the Committee voted to move into Executive Session for the purpose of discussing the confidential and proprietary items as noted above. Mr. Eichler requested that everyone except Committee members and representatives from the independent auditing firm of Deloitte & Touche LLP vacate the room at this point.

Executive Session

- i2. **Executive Session with Independent Audit Firm Deloitte & Touche LLP.** Ms. Guiltinan and Ms. Griffin of Deloitte & Touche LLP discussed matters with the Committee as required by the Statements of Auditing Standards No. 61, as modified or supplemented.

At this point in the meeting, Mr. Eichler requested that the representatives from Deloitte & Touche LLP vacate the room and then invited the USAC Director of Internal Audit to join the **Executive Session**.

- i3. **Executive Session with USAC's Internal Audit Division – Executive Session Recommended.** Mr. Scott reported to the Committee that there were no issues or concerns that needed to be discussed with the Committee at this time.

The Committee adjourned from **Executive Session** and reconvened in open session at 5:14 p.m. to report the discussions of the Committee during **Executive Session**.

There being no further business, Mr. Eichler adjourned the meeting at 5:15 p.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**AUDIT COMMITTEE MEETING**

September 30, 2003

MINUTES

A joint meeting of the Board of Directors of the Universal Service Administrative Company (USAC) and its Audit and Schools & Libraries Committees was held at the USAC office in Washington, DC on Tuesday, September 30, 2003. Mr. Gumper, Chair of the Board, on behalf of Mr. Eichler, Chair of the Audit Committee, called the meeting to order at 3:10 p.m. Eastern Time. Ms. Howard, Executive Assistant to the USAC CEO, called the roll.

| Three of the five directors of the Audit Committee were present, representing a quorum: | |
|------------------------------------------------------------------------------------------------|------------------------------------------|
| Eichler, Ed - Chair - <i>by telephone</i> | Sanford, Jo Anne - <i>by telephone</i> |
| Hughes, Alison - <i>by telephone</i> | |
| Two directors were absent: | |
| Campbell, Anne - Vice Chair | Hess, Kevin |
| Other Directors and Officers of the Corporation present: | |
| Bryant, Anne - <i>by telephone</i> | Jortner, Wayne - <i>by telephone</i> |
| Buller, Karen - <i>by telephone</i> | Parrino, Cheryl - <i>by telephone</i> |
| Coltharp, Jim - <i>by telephone</i> | Rivera, Robert - <i>by telephone</i> |
| Cornell, Diane - <i>by telephone</i> | Sanders, Dr. Jay - <i>by telephone</i> |
| Gumper, Frank - <i>by telephone</i> | Talbott, Dr. Brian - <i>by telephone</i> |
| Jackson, Jimmy - <i>by telephone</i> | |
| Barash, D. Scott - Vice President and General Counsel | |
| Haga, Robert - Assistant Secretary; VP, Strategic Planning and USAC Operations | |
| McDonald, George - VP, Schools and Libraries Division | |
| Others present for the meeting: | |
| Name | Company |
| Howard, Cathy - <i>by telephone</i> | USAC |
| Scott, Wayne | USAC |

ACTION ITEMS

- a1.** *Authorization to Extend the Memorandum of Understanding with FCC Inspector General and the Department of the Interior Inspector General Regarding Audits of Schools and Libraries Support Mechanism Beneficiaries for Federal Fiscal Year 2004 and to Establish the Necessary Budget - 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 explained that USAC management recommends that discussion of this matter be conducted in *Executive Session* because this matter relates to a *pre-decisional matter* before the FCC to which USAC is privy, and discussion of such matters in open session would undermine the agency's deliberative process or would result in the disclosure of an agency's conclusions or rationales before the agency had formally decided the matter. In addition, this matter concerns a *USAC procurement issue*, and discussion of this matter in open session could compromise USAC's negotiating strategy to the detriment of the corporation. Finally, this matter relates to the detail of USAC's audit program, the disclosure of which could *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 Memorandum of Understanding between USAC, the FCC Inspector General, and the Department of the Interior Inspector General Regarding Schools and Libraries Support Mechanism Beneficiaries Audits shall be conducted in *Executive Session*.

The Board and the Audit and Schools & Libraries Committees each voted to move into *Executive Session*. (See the respective meeting minutes for the Schools & Libraries Committee and the Board.)

Ms. Parrino reviewed the progress of the audits being performed by the Department of the Interior's Office of Inspector General of schools under its jurisdiction that have received Schools and Libraries Support Mechanism funds. She said that by September 30, 2003, at which time the Memorandum of Understanding is scheduled to expire, the budgeted funds would be exhausted. Ms. Parrino reported that the FCC Office of Inspector General has requested a one-year extension of the Memorandum of Understanding. The directors expressed their strong support for taking aggressive steps to deter, detect, and disclose waste, fraud, and abuse in the Schools and Libraries Support Mechanism and reiterated that audits are critical to the overall ability to protect against waste, fraud, and abuse as evidenced by the large budgetary commitment USAC continues to make to auditing beneficiaries. However, certain directors again raised several concerns about this arrangement, including the perception that the proposed agreement could be viewed as disproportionately targeting Native American beneficiaries.

The Chair of the Audit Committee called for a roll call vote of the Committee and on a motion duly made and seconded, the Committee unanimously approved the resolution as set forth in these minutes. Directors in support of the resolution reiterated the concern that the audits appear to be targeted to certain beneficiaries but expressed the view that cooperation with the FCC in this matter was in the overall best interest of the corporation.

RESOLVED, that the USAC Audit Committee recommends to the USAC Board of Directors to authorize USAC management to continue the Memorandum of Understanding between USAC, the Department of Interior Inspector General, and the FCC Inspector General to conduct reviews of certain Schools and Libraries Support Mechanism beneficiaries for federal fiscal year 2004.

The Board and the Audit and Schools & Libraries Committees adjourned from ***Executive Session*** and reconvened in open session at 4:16 p.m. to report the discussion and action of the Board and Committees during ***Executive Session***.

Information Items

- i1. Miscellaneous.** Ms. Parrino reported that the FCC would be issuing an order soon directing USAC to prepare financial statements for the Universal Service Fund consistent with generally accepted accounting principles for federal agencies (Federal GAAP) and to keep the Funds in accordance with the United States Government Standard General Ledger (USGSL). She said that the order would also require USAC to conduct audits of the Fund pursuant to generally accepted government auditing standards (GAGAS).

There being no further business to attend to, Mr. Gumper adjourned the joint meeting of the Board and the Audit and Schools & Libraries Committees at 4:20 p.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**AUDIT COMMITTEE MEETING**

October 16, 2003

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, October 16, 2003. Mr. Eichler, Chair of the Committee, called the meeting to order at 1:35 p.m. Eastern Time. Ms. Bayona, Administrative Assistant for USAC, called the roll.

| | |
|---------------------------------------------------------------------------------------|--------------------------------------|
| Four of the five members of the Committee were present, representing a quorum: | |
| Campbell, Anne – Vice Chair – <i>by telephone</i> | Hess, Kevin – <i>by telephone</i> |
| Eichler, Ed – Chair – <i>by telephone</i> | Hughes, Alison – <i>by telephone</i> |
| One member was absent:: | |
| Sanford, Jo Anne | |
| Other Board members and Officers of the Corporation present: | |
| Parrino, Cheryl – USAC Board Member and CEO – <i>by telephone</i> | |
| | |
| Barash, D. Scott - Vice President and General Counsel | |
| Carmichael, Mark – Assistant Treasurer; VP, Finance and Financial Operations | |
| Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations | |
| Others present for the meeting: | |
| Name | Company |
| 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 | USAC |
| Okudaira, Nobuko | USAC |
| Scott, Wayne | USAC |

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, July 17, 2003, and of Monday, July 21, 2003.
- a2. Approval of Board Member Annual Disclosure of Corporate or Entity Affiliations and Approval of Identification of Audited Entities to Board Members in Order to Mitigate Any Actual or Potential Conflict of Interest Issues.** Mr. Barash introduced this item and briefed the Committee on two specific measures that would assist USAC management in identifying potential conflicts of interest of board members. The first recommendation is to have Board members submit an annual disclosure form listing all employment, consulting, or director-level relationships with entities that do business with USAC or that have an interest in the Universal Service Support Mechanisms. The second recommendation is to have USAC management disclose immediately prior to a meeting a list of the corporations and other entities that are named in the draft audit reports that would be presented for review at a Committee or Board meeting. This would enable Board members to identify more readily any potential conflict of interest issues regarding the draft audit reports.

Mr. Eichler requested that each Committee member comment on the draft questionnaire form. All comments were positive and in support of the recommendations.

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

RESOLVED, That the USAC Audit Committee recommends to the USAC Board of Directors to adopt a policy requiring members of the USAC Board of Directors to disclose, on an annual basis, corporate or other affiliations with entities that do business with USAC in order to identify actual and/or potential conflict of interest issues; and

RESOLVED FURTHER, That the USAC Audit Committee recommends to the USAC Board of Directors to direct the Director of Internal Audit to distribute a list of audit reports that includes the identities of the entities referred to in such reports, to the USAC Board of Directors prior to the distribution of any meeting materials for the meetings of the Committee or Board at which the audit reports will be reviewed.

- a3. Acceptance of the Assessment by the USAC Internal Audit Division of the Independence and Financial Literacy of the USAC Audit Committee Members.** Mr. Scott, USAC Director of Internal Audit, introduced this item and noted the assessments made by the Internal Audit Division (IAD) of the USAC Audit Committee. 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 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.

Before taking up the next action item, Mr. Eichler announced that the USAC Executive Committee is recommending to the USAC Board of Directors at its October 21, 2003, quarterly meeting to promote Mr. Scott from Director of Internal Audit Division to Vice

President of Internal Audit Division and congratulated Mr. Scott on this anticipated promotion.

- a4. 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 and briefly noted the recommended changes to the Internal Audit Charter. He pointed out that some of the revisions include updating the charter to reflect the creation of the Audit Committee, changing reporting responsibility to USAC's Chief Executive Officer, writing the charter so it is more consistent with the Audit Committee Charter, changing the title of the Audit Director if approved by the Board, and inserting additional language pertaining to governmental auditing standards.

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; and

RESOLVED FURTHER, That the USAC Audit Committee, having reviewed the USAC 2003 audit plan, authorizes the Internal Audit Division to carry forward any incomplete audits to the 2004 audit plan.

- a5. 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 introduced this item. He provided an overview of the risk assessment process followed by the USAC IAD and USAC management teams. He explained that this was not a full list of the company's risk assessment process, because disclosing all aspects of risks or exposures could compromise program integrity and improperly disclose confidential and proprietary information. He announced that IAD would soon commence another risk assessment process in which the Audit Committee would be involved by completing questionnaires and evaluating risk assessment results.

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.

- a6. Review of the Adequacy of USAC's System of Internal Controls.** Mr. Scott introduced this item by providing a general overview of various internal controls and citing examples of internal controls. He indicated that the internal controls provide reasonable assurance that there are adequate systems in place to ensure compliance with policies, procedures, and FCC regulations. He explained that this was not a full list of all controls because disclosing all such internal controls would compromise USAC's internal controls and the integrity 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 accepts the review of the adequacy of USAC's system of internal controls.

- a7. Miscellaneous.** Mr. Eichler notified the Committee that the Schools & Libraries and Audit Committees would need to meet (by conference call) probably sometime in

November to review and deem final 42 of the Schools and Libraries support mechanism audit reports. He noted that Mr. Scott would elaborate further at Part II of the quarterly Audit Committee meeting on Monday, October 20, 2003.

Information Items

No information agenda items were presented.

There being no further business, Mr. Eichler adjourned the meeting at 1:52 p.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**AUDIT COMMITTEE MEETING**

October 20, 2003

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 Westin Grand, 2350 M Street, NW, Washington, DC, on Monday, October 20, 2003. Mr. Eichler, Chair of the Committee, called the meeting to order at 3:16 p.m. Eastern Time. Ms. Bayona, Administrative Assistant for USAC, called the roll.

| All five members of the Committee were present, representing a quorum: | |
|--------------------------------------------------------------------------------|---------------------------------------------|
| 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: | |
| Gumper, Frank – 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 | |
| Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations | |
| Others present for the meeting: | |
| Name | Company |
| Bayona, Janet | USAC |
| Delmar, Teleshia | USAC |
| Dunn, Amanda | USAC |
| Lenhardt, Chris | USAC |
| McCrone, Tina | USAC |
| Miller, Linda | USAC |
| Murphy, Kristin | USAC |
| Okudaira, Nobuko | USAC |
| Scott, Wayne | USAC |
| Stephens, Mark | FCC |

ACTION ITEMS

Mr. Parrino announced that the USAC Executive Committee is recommending to the USAC Board of Directors at its October 21, 2003, quarterly meeting to promote Mr. Scott from Director of Internal Audit Division to Vice President of Internal Audit Division (IAD). Both Ms. Parrino and Mr. Eichler congratulated Mr. Scott on the anticipated promotion.

Mr. Scott thanked the Committee and announced two promotions that had occurred within IAD: Ms. Delmar is now the Manager of IAD and Ms. Okudaira is now a Senior Internal Auditor. Mr. Scott then introduced Ms. Christina McCrone, USAC Senior Internal Auditor, the newest member to join the team

a1. Action on Three Low Income Support Mechanism Beneficiary Audit Reports.

Ms. Delmar introduced this item and reported to the Committee the status of three 2003 beneficiary audit reports of the Low Income Support Mechanism. In response to a question, Mr. Scott reported that the findings for the generally compliant audits were either not material or reflected unintentional errors; therefore, did not appear to involve misconduct.

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 LI2003BE004, LI2003BE005, and LI2003BE006 be deemed final.

a2. Action on One High Cost Support Mechanism Beneficiary Audit Report. Ms. Delmar introduced this item and recommended that the 2003 beneficiary audit report of the High Cost Support Mechanism be deemed final. There were no questions or further discussion.

On a motion duly made and seconded, the Committee adopted the following resolution. Mr. Hess explained to the Committee that he has a potential conflict with the audited beneficiary because it is affiliated with the parent company for which he works, and thus he abstained from voting.

RESOLVED, That the USAC Audit Committee accepts the recommendation of the USAC High Cost & Low Income Committee and directs that the Audit Report labeled HC2003BE003 be deemed final.

Mr. Hess abstained from voting on this item.

a3. Action on Three Schools and Libraries Support Mechanism Beneficiary Audit Reports. Mr. Scott presented this item and reported on three 2003 beneficiary audit reports of the Schools and Libraries Support Mechanism. The Committee **DIRECTED** USAC staff to strike the last sentence of the audit report labeled SL2003BE015.

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 SL2003BE008, SL2003BE015, and SL2003BE018 be deemed final.

a4. 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, Mr. Scott, or Ms. Parrino between quarterly meetings.

Information Items

- i1. Status Report of USAC Audits.** Mr. Scott reviewed the status of various ongoing and planned audits of USAC and the Universal Service Support Mechanisms. He indicated that 42 of the 79 Schools and Libraries (SL) beneficiary audits conducted by KPMG, LLP, USAC's independent auditor, are nearly completed and reports should be ready for the Committee to review sometime in mid-November 2003. In response to a question, Mr. Scott indicated that it is not likely all 79 SL beneficiary audit reports would be completed in time for the next quarterly meeting in January 2004.
- i2. Status Report on Actions Taken on Final Audits.** Mr. Scott presented a brief overview on the disposition of the final audit reports of USAC and the Universal Service Support Mechanism.

i3. Miscellaneous.

- In response to a Committee member's request to discuss the beneficiary audits conducted by the Department of Interior's Office of Inspector General, Mr. Eichler, Ms. Parrino, and Mr. Barash agreed that this issue would be discussed further at tomorrow's full Board of Directors meeting.

There being no further business, Mr. Eichler adjourned the meeting at 3:39 p.m.

Robert W. Haga
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**AUDIT COMMITTEE MEETING**

December 11, 2003

MINUTES

A joint meeting of the members of the Audit and Schools & Libraries Committees of the Board of Directors of the Universal Service Administrative Company (USAC) was held at the USAC office in Washington, DC on Thursday, December 11, 2003. Dr. Talbott, Chair of the Schools & Libraries Committee, called the meeting to order at 11:05 a.m. Eastern Time on behalf of Mr. Eichler, Chair of the Audit Committee. Ms. Howard, Executive Assistant to the USAC CEO, called the roll.

| Three of the five directors of the Audit Committee were present: | |
|--------------------------------------------------------------------------------|------------------------------------------|
| Campbell, Anne – Vice Chair – <i>by telephone</i> | Hess, Kevin – <i>by telephone</i> |
| Eichler, Ed – Chair – <i>by telephone</i> | |
| Two members joined during the meeting: | |
| Hughes, Alison – <i>by telephone</i> | Sanford, Jo Anne – <i>by telephone</i> |
| Other Directors of the Corporation present: | |
| Bryant, Anne – Vice Chair – <i>by telephone</i> | Jackson, Jimmy – <i>by telephone</i> |
| Buller, Karen – <i>by telephone</i> | Jortner, Wayne – <i>by telephone</i> |
| Coltharp, Jim – <i>by telephone</i> | Parrino, Cheryl – <i>by telephone</i> |
| Gumper, Frank | Talbott, Dr. Brian – <i>by telephone</i> |
| Other Directors of the Corporation present: | |
| Barash, D. Scott – Vice President and General Counsel | |
| Blackwell, Mel – VP, External Communications and Rural Health Care Division | |
| Haga, Robert – Assistant Secretary; VP, Strategic Planning and USAC Operations | |
| McDonald, George – VP, Schools and Libraries Division – <i>by telephone</i> | |
| Scott, Wayne – VP, Internal Audit Division | |
| Others present for the meeting: | |
| Name | Company |
| Crostic, Joe – <i>by telephone</i> | KPMG |
| Falkowitz, Ed | USAC |
| Fenstermaker, John | KPMG |
| Hill, Bill | FCC |
| Howard, Cathy – <i>by telephone</i> | USAC |
| Stephens, Mark | FCC |

ACTION ITEMS

Committee members Ms. Hughes and Ms. Sanford joined the meeting during the discussion and before the vote on the following agenda item.

- a1. Action on 40 Schools and Libraries Support Mechanism KPMG LLP Agreed-Upon Procedures Beneficiary Reports.** Mr. Scott introduced this item. He requested the Committee to refer to the numbers of each audit report when referencing any of the reports during discussion. He informed the Committee of corrections to three audit reports as follows: (1) #SL2003BE49 – should be “generally compliant”; (2) #SL2003BE51 – should be “not compliant”; and (3) #SL2003BE68 – should be “compliant.” He explained that the ratings for these three reports changed as a result of clarifying certain criteria that were used in the ratings rather than due to any additional audit findings. A committee member noted that some of the findings of “not compliant” are due to the applicant using a technology plan that does not meet program requirements even though the plan was approved by its state agency. It was further noted that the applicant is then penalized rather than the entity that approved the plan, which may not be fair to the applicant. Mr. Scott said that this was the case in two of the reports numbered SL2003BE25 and SL2003BE46. The Committee determined to revise the resolution so that audit reports that fall under this scenario are not deemed final. The Committee then **DIRECTED** USAC management to seek further guidance from the FCC with respect to this finding and report the Committee’s concerns, including the view that to penalize the applicant for another entity’s mistake could be detrimental to the success of the program and applicant participation.

In response to a question, Mr. Scott explained that once the Audit Committee deems the audit reports final, they would be available for public review, with the exception of the audit reports mentioned above, and audit report number SL2003BE78 will remain confidential due to pending law enforcement issues with the entity that were known by USAC before the audit began. Mr. McDonald said that Schools and Libraries Division (SLD) staff would post on the SLD web site a summary of the recurring issues found in this round of audits as well as steps applicants can take to avoid such problems in the future. Ms. Parrino noted that posting the problems on the web site is the minimum that USAC would do in response to the findings in these audit reports. She explained that USAC management is analyzing the audit findings to see what USAC should do differently in terms of outreach and operations to help avoid these issues in the future.

Mr. Eichler called for a roll call vote of the Audit Committee and on a motion duly made and seconded, all five members of the Committee approved the following resolution as *amended (in italics)*.

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, *with the exception of those audit reports numbered SL2003BE25 and SL2003BE46, which recommend seeking recovery of funds from applicants whose approved technology plans, upon audit, were found not to have met the FCC’s program rules and requirements for Universal Service support.*

There being no further business to attend to, Mr. Eichler adjourned the Audit Committee at 11:58 a.m.

Robert W. Haga
Assistant Secretary