

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
AUDIT COMMITTEE CHARTER**

January 2020

- I. Audit Committee Purpose, Duties, and Responsibilities.
- A. The Audit Committee (Committee) of the Board of Directors of the Universal Service Administrative Company (USAC) shall provide assistance to the Board of Directors (Board) in fulfilling the Board's oversight responsibilities relating to corporate accounting, financial reporting practices, internal control, Universal Service Fund program integrity, enterprise risk management, and all aspects of corporate compliance with applicable law.
- B. The Committee's primary duties and responsibilities shall be as follows:
1. Oversee management's efforts to maintain the reliability and integrity of USAC's accounting policies and financial reporting practices.
 2. Oversee management's efforts to establish, maintain, and review processes that assure that an adequate system of internal control is functioning within USAC through the execution of operational and Universal Service Fund Beneficiary and Contributor audits and the required annual financial statement audit and agreed upon procedures review.
 3. Oversee management's efforts to establish, maintain, and review processes that assure compliance by USAC with all applicable laws.
 4. Develop and oversee a Strategic Audit Plan to verify USAC's financial and operational integrity.
 5. Provide an avenue of communication between USAC's independent financial statement auditors, USAC management (including but not limited to the Chief Executive Officer, the Vice President of Finance and Chief Financial Officer, the Vice President and General Counsel, and the Vice President of each USAC programmatic division), the Vice President of Audit and Assurance, and the Board.
 6. Provide insight and recommendations to establish cost effective Universal Service Fund strategic audit plans that include a focus on high risk areas as identified through audit results and data analytics. Also, assist USAC by providing solutions to mitigate common audit findings and suggestions to build a more collaborative audit experience for Universal Service Fund participants.

II. Audit Committee Composition, Appointment, and Meetings.

A. Composition

1. The Committee shall consist of five Board members:
 - a. At least one representative from each of the three programmatic committees of the Board (the High Cost & Low Income Committee, the Rural Health Care Committee, and the Schools & Libraries Committee). The Chairperson of the Audit Committee will serve as a member of the Executive Committee.
 - b. Two at-large Board members.
 - c. At least one Committee member shall have a background in financial reporting, accounting, or auditing, or other financial expertise.
2. Each member of the Committee shall meet each of the following independence requirements:
 - a. Is not and has not been employed in an executive capacity by USAC for at least five years prior to appointment to the Committee.
 - b. Is not an advisor or consultant to USAC, and does not have a personal services contract or other business relationship with USAC.
 - c. Is not a spouse, parent, sibling, child, or in-law of any person described in the preceding two clauses of this paragraph or of any member of USAC management.

B. Appointment

1. The members of the Committee shall be appointed annually by the Board. Each member shall hold office until he/she resigns, is removed or until a successor is appointed by the Board.
2. The Board shall appoint one of the members of the Committee as Chair and another as Vice Chair.

C. Meetings

1. The Committee shall meet at least quarterly and at such other times as the Committee deems necessary.
2. 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 Audit and Assurance, and representatives of the independent financial auditing firm retained by USAC to discuss any matters that either the Committee or any of these groups believes should be discussed privately.

3. The Committee may direct any member of the Board, officer, or employee of USAC or advisor to USAC, including outside counsel or independent auditors, to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Committee shall advise the Board of all such special meetings either prior to the meeting or promptly thereafter.

III. Responsibilities and Duties

A. Review of Documents, Reports, and Assessments

1. Review and reassess, at least annually, the adequacy of the Committee Charter and make recommendations to the Board, as deemed necessary.
2. Review, in conjunction with management and representatives of the independent auditing firm retained by USAC, the annual financial statements and the audit reports included with those statements and the annual agreed upon procedures review report.
 - a. Discuss with management and the independent auditors significant issues regarding accounting principles, practices, and judgments.
 - b. Discuss any significant judgments made in management's preparation of the financial statements and any significant difficulties encountered during the course of the review or audit, including any restrictions on the scope of work or access to required information.
 - c. Discuss any significant exceptions in the agreed upon procedures review report.
3. Annually develop and approve a Strategic Audit Plan in consultation with the Vice President of Audit and Assurance. In addition to projects outlined in the Strategic Audit Plan, the Committee may from time to time request additional specific operational and/or financial audits.
4. Review USAC financial, operational and compliance audit reports prepared by the independent auditors or the Audit and Assurance Division and management's response thereto.
5. Review, at least annually, a summary report of common audit findings concerning Universal Service Fund beneficiary and contributor audits performed under the Universal Service Fund Beneficiary and Contributor Audit Program.
 - a. Discuss audit results to highlight areas of high risk for consideration in developing future Universal Service Fund audit plans; identify FCC rules that may require revision to improve compliance among beneficiaries and contributors; and propose suggestions for improving audit efficiency among beneficiaries and contributors.

- b. Provide insight to the Audit and Assurance Division by providing suggested approaches to avoid common audit challenges and solutions to build a more collaborative audit experience for Universal Service Fund participants.
 - 6. Review with management, the independent or external auditors, and the Vice President of Audit and Assurance any significant findings of the reports, management's response thereto, and any significant difficulties encountered during the course of the review or audit, including any restrictions on the objectives or scope of work or access to required information.
- B. Oversight of Independent Auditing Firm(s) Retained by USAC for the Annual Financial and Agreed-Upon Procedures Review
 - 1. Initially select, periodically evaluate (at least annually), and replace as necessary the independent auditing firm(s) retained by USAC for the Annual Financial and Agree-Upon Procedures review, subject to the requirement to obtain the approval of the Board for expenditures in excess of the amount set forth in Section III.H.4. of this Audit Committee Charter, *provided*, however, that nothing herein shall affect the authority of the programmatic committees of the Board to select, evaluate, and replace independent auditing firms with respect to the audits of beneficiaries and contributors of the universal service support mechanisms when deemed necessary by the Committee or the Vice President of Audit and Assurance.
 - 2. Oversee the independence of the independent auditing firm(s) retained by USAC by reviewing and discussing with each auditor a formal written statement concerning their independence and the nature of the relationship, if any, between the auditor and the USAC.
 - 3. Approve any significant non-audit related services to be provided by an independent auditing firm retained by USAC.
- C. Review and Oversight of USAC's Financial Reporting Process, Financial Statement Audit
 - 1. Review the integrity of USAC's financial reporting process, at least annually, in consultation with: (i) the independent auditing firm(s) retained by USAC, (ii) the Vice President of Finance and Chief Financial Officer, and (iii) the Chief Executive Officer.
 - 2. Review significant changes to USAC's auditing and accounting principles and practices as suggested by an independent auditing firm retained by USAC, the Vice President of Finance and Chief Financial Officer, or the Vice President of Audit and Assurance.
 - 3. Require and timely review reports from the independent auditing firm(s) retained by USAC relating to the following:

- a. All significant accounting policies and practices to be used.
 - b. All alternative disclosures and treatments of financial information within generally accepted accounting principles that have been discussed with management, including the ramifications of such alternative disclosures and treatments and the treatment preferred by the independent auditing firm.
 - c. Other written communications between the independent auditors and management, such as any management letter or schedule of adjusted differences.
4. Review and evaluate significant disagreement among USAC management and the independent auditing firm(s) retained by USAC and/or the Vice President of Audit and Assurance in connection with the preparation of the USAC financial statements, and management's response thereto.
- D. Oversight of the Operational Reporting Process, Agreed-Upon Procedures Review
1. In consultation with the independent auditing firm(s) retained by USAC and the Vice President of Audit and Assurance, review the integrity of internal controls and operating procedures and any exceptions identified in the agreed-upon procedures reviews.
 2. Review changes to USAC's internal controls or operating procedures and practices for consistency with suggestions of an independent auditing firm retained by USAC, management, or the Vice President of Audit and Assurance.
 3. Ensure and oversee timely reports from the independent auditing firm(s) retained by USAC to the Audit Committee.
 4. Review and evaluate significant disagreement among USAC management and the independent auditing firm(s) retained by USAC and/or the Vice President of Audit and Assurance in connection with the preparation of USAC's agreed upon procedures report and management's response thereto.
- E. Oversight of Audit and Assurance Division
1. Review and approve the Audit and Assurance Division Charter, organizational structure, budget, activities, and significant changes to the Strategic Audit Plan, as needed.
 2. Review and approve the appointment, replacement, reassignment or material changes in the role and/or responsibility of the Vice President of Audit and Assurance Division.

3. Review the effectiveness of the internal audit activities, including compliance with Generally Accepted Government Auditing Standards (GAGAS) as issued by the Comptroller General of the United States (as amended) and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.
4. Review reports of whistleblower complaints received by the Vice President of Audit and Assurance. Such reports shall be prepared jointly by the Vice President of Audit and Assurance and USAC's Office of General Counsel.

F. Assessment of Internal Controls, Annual Report on Internal Controls

1. Review with management, the independent auditors, and the Vice President of Audit and Assurance 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 to the Company.
2. Review with management, the independent auditors, and the Vice President of Audit and Assurance the adequacy of the Company's system of internal controls as noted in the Annual Report on Internal Controls as issued by the independent auditing firm.
3. Establish and maintain procedures for the following activities:
 - a. The receipt, retention, and treatment of complaints received by USAC regarding accounting, internal controls, operating procedures, or auditing matters.
 - b. The confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

G. Compliance With Applicable Law

1. In consultation with the Vice President and General Counsel, review at least annually any legal matters that could have a significant effect on the USAC's operations, financial statements, and reports received from regulators.
2. In consultation with the Vice President and General Counsel, review the processes established to assure compliance by USAC with all applicable laws.
3. Review the results of any investigations concerning waste, fraud, abuse, and/or accounting irregularities and make recommendations for remedial action, if appropriate.

H. Other Responsibilities of the Audit Committee

1. Periodically report to the Board through the Committee Chair or pursuant to other means acceptable to the Board.
2. Maintain minutes or other records of meetings and activities of the Committee.
3. Perform any other activities consistent with the Committee Charter, USAC's By-laws, and applicable laws, as the Committee or the Board deems appropriate.
4. When deemed appropriate by the Committee, the Committee will retain outside legal, accounting, or other advisors or consultants to advise and assist the Committee, without needing to seek approval for the retention of such advisors or consultants from the Board, *provided* that the cost is less than \$250,000 in any single calendar year. If the cost for such purpose exceeds \$250,000 in a calendar year, the Committee shall obtain Board approval before engaging or continuing to engage an outside advisor or consultant.

IV. Limitations on Responsibilities and Duties of Audit Committee Members and Audit Committee

- A. The responsibility of the Committee is oversight. USAC management is responsible for the USAC financial statements as well as financial reporting processes, principles, and internal controls. The independent auditing firm(s) retained by USAC is/are responsible for performing audits of the annual financial statements, expressing an opinion as to the conformity of such annual financial statements with generally accepted accounting principles, and other procedures. The members of the Committee are not engaged in the accounting or auditing profession and, consequently, are not experts in matters involving auditing or accounting.
- B. Each member of the Committee shall be entitled reasonably to rely on the following:
 1. The integrity of those persons within USAC and of the professionals and experts (such as the independent auditors) who provide professional advice and information to the Committee and/or USAC.
 2. The accuracy of the financial and other information provided to the Committee by such persons, professionals, or experts, absent actual knowledge to the contrary.
- C. Pursuant to USAC By-Laws and FCC rules, the programmatic committees of the Board have the authority for the performance of audits of beneficiaries of the respective support mechanisms and the full Board has the authority for the performance of audits of contributors to the Universal Service Fund. The Audit

Committee shall provide advice and assistance to the programmatic committees in support of the primary role of the programmatic committees with respect to audits of beneficiaries and the Board with respect to audits of contributors.

V. Procedures for Discussing Matters in *Executive Session*

- A. In general, any USAC Board member may attend any meeting of the Committee, including *Executive Sessions*, as an observer, even though the person is not a member of the Audit Committee. The exceptions to this general rule are as follows:
1. Where the Board member is aware of an actual or potential conflict of interest with respect to a matter coming before the Committee in *Executive Session*, he/she shall bring the matter to the attention of the Committee or, if the Committee is aware of the conflict of interest, the Committee or any member thereof may raise the issue for consideration. The Board member may self-recuse from the meeting or, upon the vote of the Committee, be excluded from the relevant portion of the *Executive Session* of the Committee meeting.
 2. Where a Board member seeking to attend an *Executive Session* of the Committee is aware of an actual or potential conflict of interest with respect to a matter coming before the Committee in *Executive Session*, he/she shall bring the matter to the attention of the Committee or, if the Committee is aware of the actual or the potential conflict of interest, the Committee or any member thereof may raise the issue for consideration. Where disclosure and/or discussion of the specific issue or potential conflict of interest would compromise the integrity of the Universal Service Fund, the Committee shall exclude all persons other than Audit Committee members.
 3. Where the Committee wishes to meet with USAC's independent auditing firm, the Vice President of Audit and Assurance, the Vice President and General Counsel, the Vice President of Finance and Chief Financial Officer, and/or other representatives to discuss or seek assurances concerning any significant difficulties encountered during the course of a review or audit, including any restrictions on the scope of work or access to required information, or matters of a similar nature, and/or engaged in the preliminary assessment of any investigation, the Committee may exclude Board members who are not members of the Committee from attending the relevant portion of the *Executive Session* of the Committee meeting.