



Audit Committee

Briefing Book

Monday, July 24, 2017

8:00 a.m. - 10:00 a.m. Eastern Time

Univesal Service Administrative Offices

700 12th Street, NW, Suite 900

Washington, DC 20005

**Universal Service Administrative Company
Audit Committee Quarterly Meeting
Agenda**

<p>Monday, July 24, 2017 8:00 a.m. – 10:00 a.m. Eastern Time USAC Offices 700 12th Street, N.W., Suite 900 Washington, D.C. 20005</p>
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<p><u>OPEN SESSION</u></p>
<p>a1. Consent Items (each available for discussion upon request):</p> <ul style="list-style-type: none">A. Approval of Audit Committee Meeting Minutes of April 24, 2017, May 2, 2017 and June 9, 2017, June 23, 2017, and June 30, 2017.B. Approval of moving all <i>Executive Session</i> items into <i>Executive Session</i>.
<p>i1. USAC Internal Audit Division Business Update.</p>

<p><u>EXECUTIVE SESSION</u></p>
<p>a2. Acceptance of USAC’s 2016 Annual Financial Audit and Agreed-Upon Procedures Review – Confidential – <i>Executive Session Recommended.</i> <i>Same as iBOD02cf</i></p>
<p>a3. Action on Five USAC Internal Audit Division Operational Audit Reports – Confidential – <i>Executive Session Recommended.</i> <i>Same as aEC03cf</i></p>
<p>i2. Audit Committee Executive Session with USAC’s Independent Audit Firm – PricewaterhouseCoopers LLP – Confidential – <i>Executive Session Recommended.</i></p>
<p>i3. Annual Executive Session with USAC’s Vice President of Internal Audit – Confidential – <i>Executive Session Recommended.</i></p>

Next Scheduled USAC Audit Committee Meeting

<p>Monday, October 23, 2017 8:00 a.m. – 9:30 a.m. USAC Offices, Washington, D.C.</p>

Universal Service Administrative Company Audit Committee Meeting

ACTION ITEM

Consent Items

Action Requested

The Audit Committee (Committee) is requested to approve the consent items listed below.

Discussion

The Committee is requested to approve the following items using the consent resolution below:

- A. Committee meeting minutes of April 24, 2017, May 2, 2017, June 9, 2017, June 23, 2017, and June 30, 2017 (*see Attachments A through E*).
- B. Approval for discussing in *Executive Session* agenda items:
 - (1) **a2** – Acceptance of USAC’s 2016 Annual Financial Audit and Agreed-Upon Procedures Review. USAC management recommends that this matter be discussed in *Executive Session* because this report includes *confidential company data*. *47 C.F.R. § 54.711(b) requires USAC to keep all data obtained from contributors confidential*.
 - (2) **a3** – Action on Four USAC Internal Audit Division Operational Audit Reports. USAC management recommends that this matter be discussed in *Executive Session* because these reports relate to *specific internal controls, and/or confidential company data* that would constitute a discussion of internal rules and procedures.
 - (3) **i2** – Audit Committee Executive Session with USAC’s Independent Audit Firm. USAC management recommends that this matter be discussed in *Executive Session* pursuant to the guidelines in the approved Audit Committee Charter.
 - (4) **i3** – Annual Executive Session with USAC’s Vice President of Internal Audit. USAC management recommends that this matter be discussed in *Executive Session* consistent with the requirements of the Audit Committee Charter that the Committee meet annually with the Vice President of Internal Audit in *Executive Session*.

Upon request of a Committee member any one or more of the above items are available for discussion by the Committee.

Recommended USAC Executive Committee Action

APPROVAL OF THE FOLLOWING RESOLUTIONS:

RESOLVED, that the USAC Audit Committee hereby approves the Committee meeting minutes of April 24, 2017, May 2, 2017, June 9, 2017, June 23, 2017, and June 30, 2017, and discussion in *Executive Session* of the Audit Committee Executive Session with USAC's Independent Audit Firm, and the Annual Executive Session with USAC's Vice President of Internal Audit.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

AUDIT COMMITTEE MEETING
Monday, April 24, 2017

(DRAFT) MINUTES

The quarterly meeting of the USAC Board of Directors (Board) Audit Committee (Committee) was held at USAC's offices in Washington, D.C. on Monday, April 24, 2017. At the request of Mr. Gillan, Committee Chair, Mr. Feiss, Vice Chair, called the meeting to order at 8:30 a.m. Eastern Time, with all five of the Committee members present:

Feiss, Geoff
Gillan, Joe – Chair – *by telephone*
Talbott, Dr. Brian
Tinic, Atilla
Wibberly, Dr. Kathy – *by telephone*

Other Board members and officers of the corporation present:

Bocher, Bob – Member of the Board
Choroser, Beth – Member of the Board
Hayes, Kate – Vice President of Stakeholder Engagement
Henderson, Chris – Chief Executive Officer
Hernandez, Mike – Member of the Board
Kinser, Cynthia – Member of the Board
Lee, Karen – Vice President of Rural Health Care
Robinson, Vickie – Vice President, General Counsel and Assistant Secretary
Salvator, Charles – Vice President, Chief Financial Officer and Assistant Treasurer
Scott, Wayne – Vice President of Internal Audit
Sweeney, Mark – Chief Operating Officer
Taylor, Peter – Vice President of Information Technology and Chief Information Officer
Wein, Olivia – Member of the Board

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
Anderson, Jarnice	USAC
Anderson, Latoya	USAC
Braxton-Johnson, Kianna	USAC
Carpenter, Nikki-Blair	USAC

<u>NAME</u>	<u>COMPANY</u>
Delmar, Teleshia	USAC
Fischer, Dennis	USAC
Gelman, Sheryl	USAC
Goode, Vernell	USAC
Gsell, Leah	USAC
Hughet, Pamela	USAC
King, Lauren	USAC
Lutz, Corey	USAC
Lutz, Kevin	USAC
Mattey, Carol	Mattey Consulting
Miller, Arielle	USAC
Nuzzo, Patsy	USAC
Schecker, Laurence	USAC
Voth, Cara	FCC

OPEN SESSION

a1. Consent Items. Mr. Feiss presented these items to the Committee.

A. Approval of Committee meeting minutes of January 30, 2017.

B. Approval for discussing in *Executive Session* agenda item:

(1) i2 – Executive Session with USAC’s Vice President of Internal Audit. USAC management recommends that this matter be discussed in Executive Session consistent with the requirements of the Audit Committee Charter that the Committee meet annually with the Vice President of Internal Audit in Executive Session.

C. Review of USAC’s Processes to Assess Compliance with Applicable Laws and Regulations.

D. Review of the Integrity of USAC’s Financial Reporting Processes.

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

RESOLVED, that the USAC Audit Committee hereby approves the Committee meeting minutes of January 30 2017, and *Executive Session* with USAC’s Vice President of Internal Audit; and

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

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

- i1. Business Update.** Mr. Scott introduced this item to the Committee.
- Operational Update.
 - Beneficiary and Contributor Audit Plans.
 - Payment Quality Assurance.
 - Corporate Assurance.
 - Post Audit Surveys.
 - Strategic Initiatives
 - Data Driven Audits.
 - 2017 Program Integrity Dashboard.

At 9:10 a.m. Eastern Time, on a motion duly made and seconded, with only members of the Board and Mr. Scott present, the Committee moved into *Executive Session* for the purpose of discussing the confidential items noted above.

EXECUTIVE SESSION

- i2. Executive Session with USAC's Vice President of Internal Audit.** Mr. Scott presented this item for discussion.

At 9:55 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Mr. Feiss reported that in *Executive Session*, the Committee discussed item i2.

On a motion duly made and seconded, the Committee adjourned at 9:55 a.m. Eastern Time.

/s/ Vickie Robinson
Assistant Secretary

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AUDIT COMMITTEE MEETING
Tuesday, May 2, 2017

(DRAFT) MINUTES

A meeting of the USAC Board of Directors (Board) Audit Committee (Committee) was held at USAC's offices in Washington, D.C. on Tuesday, May 2, 2017. Mr. Joe Gillan, Committee Chair, called the meeting to order at 11:02 a.m. Eastern Time, with three of the five Committee members present:

Gillan, Joe – Chair – *by telephone*
Talbot, Dr. Brian – *by telephone*

Wibberly, Dr. Kathy – *by telephone*

Mr. Geoff Feiss, Vice Chair, joined the call by telephone at 11:19 a.m. Eastern Time.

Members of the Committee not present:

Tinic, Atilla

Other Board members and officers of the corporation present:

Scott, Wayne – Vice President of Internal Audit

Others present for the meeting:

NAME
None

COMPANY
Not applicable

OPEN SESSION

- i1. Update Regarding Ongoing Audits and Procurement Matters.** Mr. Gillan recommended that discussion of this item be conducted in *Executive Session* because this matter relates to *specific internal controls and/or confidential company data* that would constitute a discussion of internal rules and procedures.

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

RESOLVED, that the USAC Audit Committee hereby approves the Committee discussing this item in *Executive Session*.

At 11:05 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential item listed above.

EXECUTIVE SESSION

- i1. **Update Regarding Ongoing Audit and Procurement Matters.** Mr. Gillan discussed the status of the Audit Committee's role in ongoing audits and the planning for an audit of USAC's procurement process. Mr. Scott responded to various questions regarding audit and other observations noted with existing USAC procurements. Mr. Talbot also provided a status on the expansion of USAC's office space.

At 11:58 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Mr. Gillan reported that in *Executive Session*, the Committee discussed item i1. On a motion duly made and seconded, the Committee adjourned at 12:00 p.m. Eastern Time.

/s/ Vickie Robinson
Assistant Secretary

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AUDIT COMMITTEE MEETING
Friday, June 9, 2017

(DRAFT) MINUTES

A meeting of the USAC Board of Directors (Board) Audit Committee (Committee) was held at USAC's offices in Washington, D.C. on Friday, June 9, 2017. Mr. Joe Gillan, Committee Chair, called the meeting to order at 11:03 a.m. Eastern Time, with four of the five Committee members present:

Gillan, Joe – Chair – *by telephone*
Talbot, Dr. Brian – *by telephone*

Tinic, Atilla – *by telephone*
Wibberly, Dr. Kathy – *by telephone*

Mr. Geoff Feiss, Vice Chair, joined the call by telephone at 11:05 a.m. Eastern Time.

Other Board members and officers of the corporation present:

Scott, Wayne – Vice President of Internal Audit
Robinson, Vickie – USAC Acting CEO, General Counsel, and Assistant Secretary
(joined at 11:20am)

Others present for the meeting:

NAME
None

COMPANY
Not applicable

OPEN SESSION

- i1. Update Regarding Ongoing Audits and Procurement Matters.** Mr. Gillan recommended that discussion of this item be conducted in *Executive Session* because this matter relates to *specific internal controls and/or confidential company data* that would constitute a discussion of internal rules and procedures.

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

RESOLVED, that the USAC Audit Committee hereby approves the Committee discussing this item in *Executive Session*.

At 11:06 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential item listed above.

EXECUTIVE SESSION

- i1. Update Regarding Ongoing Audit and Procurement Matters.** Mr. Gillan discussed the status of the Audit Committee's role with respect to USAC's external financial audit and planning for an audit of USAC's procurement process. Mr. Scott responded to various questions regarding the audit and other observations noted with existing USAC procurements. Ms. Robinson also provided an update on various meetings with the Federal Communications Commission (FCC) and Congressional staff.

At 11:26 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Mr. Gillan reported that in *Executive Session*, the Committee discussed item i1. On a motion duly made and seconded, the Committee adjourned at 11:30 a.m. Eastern Time.

/s/ Vickie Robinson
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
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AUDIT COMMITTEE MEETING
Friday, June 23, 2017

(DRAFT) MINUTES

A meeting of the USAC Board of Directors (Board) Audit Committee (Committee) was held at USAC's offices in Washington, D.C. on Friday, June 23, 2017. Mr. Joe Gillan, Committee Chair, called the meeting to order at 11:02 a. m. Eastern Time, with three of the five Committee members present:

Feiss, Geoff – Vice Chair – *by telephone*
Gillan, Joe – Chair – *by telephone*
Wibberly, Dr. Kathy – *by telephone*

Mr. Atilla Tinic join the call by telephone at 11:11 a.m. and Dr. Brian Talbot joined the call by telephone at 11:15 a .m. Eastern Time.

Other Board members and officers of the corporation present:

Scott, Wayne – Vice President of Internal Audit

OPEN SESSION

- i1. Update Regarding Ongoing Audit and Procurement Matters.** Mr. Gillan recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration, internal controls, and/or confidential company data, and may also include pre-decisional matters pending before the FCC.*

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

RESOLVED, that the USAC Audit Committee hereby approves the Committee discussing this item in *Executive Session*.

At 11:03 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential item listed above.

EXECUTIVE SESSION

- i1. Update Regarding Ongoing Audit and Procurement Matters.** Mr. Gillan provided a brief discussion on the status of the annual financial audit and Agreed-Upon Procedures (AUP) review performed by PricewaterhouseCoopers LLP. Mr. Scott provided a status of the Procurement Process Request for Proposal with the Committee. Also, Mr. Scott briefed the Committee on an analysis completed by the Finance Division of cost and expenses related to the Schools and Libraries E-rate Productivity Center system. The Committee will be provided with a review of this analysis at the next Audit Committee Meeting.

At 11:17 a. m. Eastern Time, on a motion duly made and seconded, the Committee moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Mr. Gillan reported that in *Executive Session*, the Committee discussed item i1. On a motion duly made and seconded, the Committee adjourned at 11:18 a. m. Eastern Time.

/s/ Vickie Robinson
Assistant Secretary

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AUDIT COMMITTEE MEETING
Friday, June 30, 2017

(DRAFT) MINUTES

A meeting of the USAC Board of Directors (Board) Audit Committee (Committee) was held at USAC's offices in Washington, D.C. on Friday, June 30, 2017. Mr. Joe Gillan, Committee Chair, called the meeting to order at 11:04 a.m. Eastern Time, with three of the five Committee members present:

Gillan, Joe – Chair – *by telephone*
Talbot, Dr. Brian – *by telephone*
Wibberly, Dr. Kathy – *by telephone*

Mr. Geoff Feiss joined the call by telephone at 11:30 a.m. Eastern Time. He participated in the discussion.

Members of the Committee not present:

Tinic, Atilla

Other Board members and officers of the corporation present:

Scott, Wayne – Vice President of Internal Audit
Robinson, Vickie – Acting Chief Executive Officer, General Counsel and
Assistant Secretary
Salvator, Charlie – Vice President, Chief Financial Officer and Assistant
Treasurer

Others present for the meeting:

<u>NAME</u>	<u>COMPANY</u>
Dennis Fischer	USAC

OPEN SESSION

- i1. Update Regarding Procurement Matters.** Mr. Gillan recommended that discussion of this item be conducted in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration, internal*

controls, and/or confidential company data, and may also include pre-decisional matters pending before the FCC.

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

RESOLVED, that the USAC Audit Committee hereby approves the Committee discussing this item in *Executive Session*.

At 11:07 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential item listed above.

EXECUTIVE SESSION

- i1. Update Regarding Procurement Matters.** Mr. Salvator introduced this item by providing some background on a recent procurement analysis prepare by his team to the Committee for discussion. Mr. Dennis Fischer, Manager of Financial Planning and Analysis, presented the procurement analysis performed on spending related to E-rate Productivity system and responded to questions. The Committee requested that a similar presentation is shared with the USAC Board of Directors at the July quarterly meeting.

At 11:57 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Mr. Gillan reported that in *Executive Session*, the Committee discussed item i1.

On a motion duly made and seconded, the Committee adjourned at 11:58 a.m. Eastern Time.

/s/ Vickie Robinson
Assistant Secretary

Universal Service Administrative Company Audit Committee Meeting

INFORMATION ITEM – *Executive Session Option*

USAC Internal Audit Division Business Update

Information Presented

This information paper provides an update on the status of audits conducted by the USAC Internal Audit Division (IAD) and audit activities managed by IAD staff. Audit activities reported in this paper include the Beneficiary and Contributor Audit Program (BCAP), the USAC Payment Quality Assurance (PQA) Program, and USAC audits of company operations referred to as Corporate Assurance.

Background – Analysis – Justification

A general discussion of the status of the programs and procurements described in this information paper is appropriately held in open session. To the extent the USAC Board of Directors (Board) or committees wish to discuss specific details of a procurement or audit, or any pre-decisional matters concerning the audits or programs, USAC management recommends that, in accordance with the approved criteria and procedures for conducting Board and committee business in *Executive Session*, this discussion be conducted in *Executive Session* because such matters relate to USAC's *procurement strategy and contract administration* as well as *investigatory records*, and also may relate to *pre-decisional matters pending before the FCC*. It is also possible that discussion of specific audit plans, targets and/or techniques would constitute a *discussion of internal rules and procedures*.

Beneficiary and Contributor Audit Program (BCAP)

Audits occurring under this program, known as BCAP, are performed using USAC IAD internal staff, audit firms working under USAC IAD supervision either in co-source arrangement (staff augmentation), or performing audits outside of USAC IAD direct supervision. The audit plans summarized below were developed in coordination with the Federal Communications Commission (FCC) Office of Managing Director (OMD) and, more recently, with the FCC Wireline Competition Bureau (WCB).

BCAP Audits – 2014/2015 (Random)

In mid-2013, IAD and FCC OMD staff began discussions on the development of an audit plan that would address fiscal years 2014 and 2015 (audits announced beginning October 1, 2013 through September 30, 2015). This audit plan was developed by selecting entities at random with the goal of concentrating on entities receiving larger Universal Service Fund (USF) disbursements. After an extensive competitive bidding process, USAC signed contracts with eight audit firms to perform 229 of the 371 audits included

in the table below. The status of ongoing and completed audits for this program as of 2nd Quarter 2017 is as follows:

**BCAP Audits
2014-2015 Plan**

Program	Planned*	Completed	% Complete	In Process	Not Announced*
Contributor Revenue	43	33	77%	10	8
High Cost	93	80	86%	13	7
Lifeline	77	76	99%	1	3
Schools & Libraries	130	129	99%	1	15
Rural Health Care	28	27	99%	1	3
Total	371	345	93%	26	36

* The audit plan number was revised from 407 audits to 371. Five audits in Contributor Revenue required additional time that delayed our ability to announce eight audits. IAD staff was redirected to support the FCC with two High Cost investigations that impacted our ability to announce seven audits. Staff attrition within IAD impacted our ability to announce the audits of Schools and Libraries and Rural Health Care programs.

BCAP Audits – 2016 and 2017 (Risks)

In early 2015, USAC IAD, in consultation with the FCC OMD and the WCB, jointly developed a new audit program that is designed to focus audit resources on Universal Service Fund (USF) participants with the highest risk of noncompliance with FCC rules. Starting with the 2016 audit plan and all subsequent plans, these audit plans are now centered on the following key principles:

- Detect and deter noncompliance;
- Promote and enhance compliance;
- Reduce burden on lower risk carriers; and
- Advance the audit selection process and procedures.

USF participants selected for audit after October 1, 2015 were selected using the risk based principles noted above. Each year USAC IAD, OMD, and WCB will meet to discuss updates to the risks methodologies and to make updates to audit procedures and sampling plans. The status of ongoing and completed audits for the 2016 plan as of 2nd Quarter 2017 is as follows:

FY 2016 Plan

Program	Planned*	Completed	% Complete	In Process	Not Announced*
Contributor Revenue	22	8	36%	14	0
High Cost	41	17	41%	24	10
Lifeline	36	14	21%	22	1
Schools & Libraries	68	51	39%	17	6
Rural Health Care	25	20	80%	5	0
Total	192	110	57%	82	17

* Audit Plan number was revised from 209 audits to 192. The 10 High Cost audits related to the *Connect America Fund Order*¹ will be performed by the USAC IAD Corporate Assurance audit function focusing on various fund components of the Order. The one carrier for the Lifeline audit is no longer in business and the audit was not replaced. One of the six audits for Schools and Libraries was not announced due to flooding in Louisiana and the remaining five audits carried forward to the Fiscal Year 2017 audit plan.

The status of ongoing audits for the 2017 audit plan as of 2nd Quarter 2017 is as follows:

FY 2017 Plan

Program	Planned	Completed	% Complete	In Process	To Be Announced
Contributor Revenue	20	0	0	9	11
High Cost	35	0	0	15	20
Low Income	42	0	0	7	35
Schools & Libraries	60	0	0	35	25
Rural Health Care	3	0	0	0	3
Total	160	0	0	66	94

Task Orders for external audit firms were issued to two audit firms in June 2017 for 47 audits (Lifeline and Schools and Libraries) and audit announcements will be before September 30, 2017.

¹ *Connect America Fund et. al.*, WC Docket No 10-90 et. al., Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663 (2011) (*Connect America Fund Order*).

Observations of Random versus Risk Audit Plans

As the methodology shifted from the random approach to risk, IAD is continuing to perform analysis to compare results of audits of each methodology to determine which approach adds more value to the USF. Below are some preliminary observations and data.

- 100% of the High Cost audits resulted in findings that were aligned with the projected risks.
 - Majority of the audits had two or more projected risks confirmed.
- 67% of the Schools and Libraries audits resulted in findings that were aligned with the projected risks.
 - The majority of the audits had one or two projected risks confirmed.
- Collection of risk to findings data is in the preliminary stages for Contributor, Lifeline and Rural Health Care; there is insufficient data to provide an accurate conclusion or make inferences at this time.

Below is additional information related to High Cost and Schools and Libraries.

1. *High Cost* – Risk based audits are averaging:
 - More audit findings per report than random; and
 - Average monetary impacts and recommended recovery are significantly higher.

See data as listed in **Exhibit 1** to this briefing paper.

2. *Schools and Libraries* – In addition to selecting entities for audit based on risks, we also select entities for audit at the post-commitment stage or soon after an entity has received initial disbursements. This revision to our selection methodology has resulted in discovering noncompliance with rules sooner in the invoicing process and in some cases has avoided rule violations from increasing to a larger magnitude. Below are some example observations noted on completed risk audits:
 - a. The beneficiary incorrectly calculated their Category 2 budget resulting in an overstatement of \$86,550. The budget has since been corrected, but this could have resulted in over funding by the beneficiary of that amount. Also, we identified that the beneficiary did not maintain sufficient asset and inventory records and the beneficiary was unable to provide documentation to support the locations of cabling drops across 37 schools

district-wide. The beneficiary has not paid the vendor for the equipment, and has not invoiced USAC, therefore no disbursements have been paid on associated Funding Request Number (FRN) by USAC. The audit team explained to the beneficiary how to use an asset tracking tool for cable drops, the beneficiary agreed to work with their consultant to establish the records. The records will be established prior to seeking reimbursement from the Schools and Libraries Program (SLP). Costs associated with the cable drops are just over \$1,865,000.

- b. A beneficiary did not accurately identify eligible costs on its FCC Form 471 for 20 schools for internal connections. The error resulted in overstating the funding request by \$488,107. A funding commitment adjustment will be issued to reduce committed dollars by the \$488,107. No disbursements occurred and the early detection deterred improper payments that may have been requested for future years.
- c. We identified an error between the quantity of equipment that the beneficiary reported on FCC Form 471 and the quantity of equipment actually installed. Beneficiary was able to submit a corrective service substitution form for \$26,155. This would have resulted in a finding if it was discovered at the end of the audit period. In addition, an error was found in the number of months of service reported on the Billed Entity Applicant Reimbursement (BEAR) form. A potential improper payment of one month of Wide Area Network (WAN) service would have been \$88,200.
- d. Equipment invoiced by a service provider differed from the approved substituted services; the service provider has since reimbursed USAC and the beneficiary \$5,595 in excess of contract prices. The beneficiary also submitted a service substitution form for \$65,368. If the audit would have occurred under our legacy audit approach (conducting audits after the invoicing deadline), the error would have escalated resulting in an improper payment of \$70,963.
- e. Beneficiary did not fully understand the Rules related to extensions and service substitutions. Beneficiary requested its entire 5-year budget for all of its entities in one year², even though it only installed equipment at 1 of its 57 schools in FY2015. USAC committed more than \$4,895,511 in Internal Connections support and the beneficiary incurred \$121,125 in installations for one school in Funding Year 2015. The beneficiary received a service delivery extension to September 30, 2018 and USAC will request they submit a new service substitution request.

² 47 C.F.R. §.54.502 b (5) (2015).

By selecting entities earlier in the disbursement process, risk based audits will report lower recommended recoveries because rule noncompliance is noted before disbursement of funds. This earlier detection will result with lower improper payments for the SLP and will shift audits from being a detective control for payment errors to a preventative control.

BCAP Audits – Connect America Fund

In 1Q 2017, USAC IAD began performing audits of the fund components created as a result of the various High Cost Orders. The objective of these audits is to independently confirm whether High Cost disbursements are accurate and in alignment with the associated FCC requirements. IAD has completed two of these audits (Mobility Phase 1 and Connect America Fund (CAF) Phase 1 Round 1) and the final reports are located under agenda item *aAC03cf 072417*. An audit of CAF Phase 2 (Connect America Cost Model) is underway. CAF Phase 1 Round 2, Rural Broadband Experiments, and Tribal Mobility Phase 1 are scheduled for later this year.

Payment Quality Assurance (PQA) Program

The Payment Quality Assurance (PQA) Program collects information from program beneficiaries for the purpose of verifying the accuracy of program disbursements requested and received by beneficiaries. PQA also assists the FCC in meeting its reporting obligations under the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).³ The PQA team performs payment verification on randomly selected beneficiaries over a calendar year. The table below provides a status of calendar year 2016 (January – December) disbursements. Testing is underway and final results will be reported to the Committee at the October 2017 quarterly meeting.

PQA 2017 Testing (Calendar Disbursements 2016)

Program	Sample Size	Cases Completed	% Complete	Cases In Progress
High Cost	384	203	53%	181
Lifeline	384	148	39%	236
Schools & Libraries	478	164	34%	314
Total	1246	515	41%	731

³ See The Improper Payments Elimination and Recovery Act of 2012, Pub L. No. 112 -248, Jan. 10, 2013.

Corporate Audits

Financial Audits

1. *FCC Audit of the USF for Fiscal Year Ending September 30, 2017.* The FCC Office of Inspector General (OIG) and its external auditors, Kearney & Company LLP (KC), audit the USF as part of the Commission's overall annual financial audit. Audit fieldwork remains ongoing by KC with completion targeted for November 2017.
2. *Independent Audit of USAC's 2016 Financial Statements and Agreed-Upon Procedures Review.* As required by 47 C.F.R. § 54.717, a financial statement audit must be conducted by an independent accounting firm to express an opinion on USAC's financial statements as of December 31, 2016. PricewaterhouseCoopers LLP (PwC) has completed the audit and the final report is presented under Audit Committee agenda item *aAC02cf 072417*.

Operational Audits and Reviews

1. *Mobility Phase 1.* The audit objective is to independently confirm whether High Cost disbursements are accurate and in alignment with the associated modernization order(s). The audit is complete and the final report is presented under agenda item number *aAC03cf 072417*.
2. *CAF Phase 1 Round 1 (Incremental Support).* The audit objective is to independently confirm whether High Cost disbursements are accurate and in alignment with the associated modernization order(s). The audit is complete and the final report is presented under agenda item number *aAC03cf 072417*.
3. *High Cost HUBB Broadband Portal.* The audit objective is to assess the design and operation of the HUBB and the functionality, integrity, confidentiality and availability required under the *Rate-of-Return Reform Order*.⁴ The audit is complete and the final report is presented under agenda item number *aAC03cf 072417*.
4. *Payroll Limited Scope Audit.* The objective of this audit is to perform an independent assessment of the improper payment to a terminated employee that occurred in the first quarter of 2017. The audit is complete and the final report is presented under agenda item number *aAC03cf 072417*.
5. *Active Directory – Limited Review.* The purpose of this review was to determine whether only valid, current USAC employees and contractors have USAC network

⁴ *Connect America Fund et al.*, WC Docket Nos. 10-90 et al., CC Docket No. 01-92, Report and Order, Order and Order on Reconsideration, and Further Notice of Proposed Rulemaking, 31 FCC Rcd 3087, 3117, para. 79 (2016) (*Rate-of-Return Reform Order*) (directing the Bureau to work with USAC to develop an online portal).

access. Employees active of February 15, 2017 and contractors as of February 17, 2017 were included in the review. Our observations centered around the following themes:

- a. Inconsistency with disabling user accounts;
- b. Generic accounts (e.g. test, test user) were active within the application;
- c. Active Directory does not contain a unique identifier for each employee to ease the reconciliation process; and
- d. Contractor profiles are not updated to ease in review or identification.

USAC management agreed with the observations and immediately corrected the observations noted. The observation noted with the unique identifier for each employee will be corrected by July 31, 2017.

6. *Employee Badge Integrity – Limited Review.* The purpose of this review was to determine whether the employee badges used to access USAC’s premises are appropriately deactivated upon termination. All active employees as of February 15, 2017 were included within the scope of this review. Three former employee badges remained active after the termination date. One of the three remained on USAC’s payroll through February 15, 2017 after terminating from USAC on December 30, 2016. As a result of this observation, IAD performed a limited scope audit of the payroll function. The results of that audit can be found under agenda item *aAC03cf 072417*.
7. *USAC Procurement Process Audit.* Proposals from interested firms were due to USAC on July 7, 2017. The selection review team is currently reviewing submitted proposals and expects to share the recommended selection with the Audit Committee in early August. In addition to the selecting a firm for to audit the procurement function, IAD announced an audit of USAC’s vendor management process. The objective will be to assess the policies, procedures and related controls associated with the vendor management process. Specifically, our assessment will address:
 - Vendor on-boarding / off-boarding;
 - Alignment of vendor activity with contract requirements;
 - Management oversight of vendor performance / service level agreements;
 - Contract change management practices;
 - Cost management / resource management practices;
 - Vendor access to USAC systems / data; and
 - Vendor compliance with applicable USAC policies (including Ethics and Information Security policies).

Consultative Activities

1. *Enterprise Risk Assessment.* Team is continuing to partner with USAC’s Director of Risk and Compliance in the Office of General Counsel (OGC) on various Enterprise

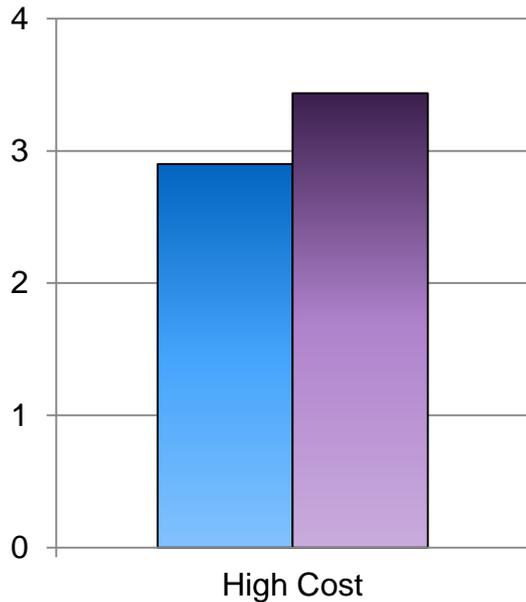
Risk Management (ERM) activities. IAD and OGC are working with IT to develop an action plan to address the areas requiring follow up noted in the Cyber Readiness Review completed earlier this year.

2. *A-123 Controls Testing.* In coordination with OGC, IAD is performing an independent assessment of key controls with respect to A-123 compliance requirements. We are currently testing key controls in the Rural Health Care program.

AUDIT PLAN COMPARISON – FY2014/FY2015 TO FY2016

High Cost – Early Read

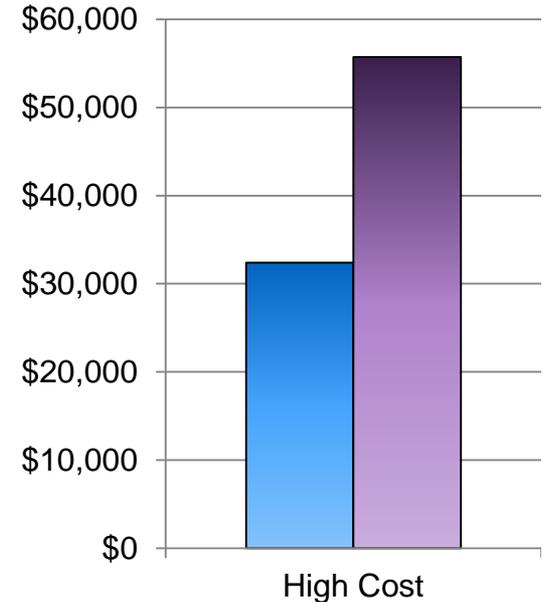
Average # of Findings



Average Monetary Impact



Average Recommended Recovery



Released Audit Counts	HC
FY14-FY15 Plan	80
FY16 Plan	17

■ FY2014/FY2015 Audit Plan
■ FY2016 Audit Plan