



# Audit Committee Briefing Book

Monday, January 28, 2019

8:00 a.m. - 9:30 a.m. Eastern Time

Universal Service Administrative Company Offices

700 12th Street, NW, Suite 900

Washington, DC, 20005

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

<p><b>Monday, January 28, 2019</b>  <b>8:00 a.m. – 9:30 a.m. Eastern Time</b>  <b>USAC Offices</b>  <b>700 12th Street, N.W., Suite 900</b>  <b>Washington, D.C. 20005</b></p>
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<u><b>OPEN SESSION</b></u>		<i>Estimated Duration in Minutes</i>
Chair	<b>a1.</b> Consent Items (each available for discussion upon request): <b>A.</b> Approval of Audit Committee Meeting Minutes of October 29, 2018. <b>B.</b> Approval of moving all <i>Executive Session</i> items into <i>Executive Session</i> .	5
Chair	<b>a2.</b> Recommendation for Election of Committee Chair and Vice Chair	5
Teleshia	<b>a3.</b> Approval of 2019 Audit Committee Charter	25
Teleshia	<b>i1.</b> USAC Audit and Assurance Division Business Update <ul style="list-style-type: none"> <li>• 2018 Accomplishments</li> <li>• 2019 Goals</li> <li>• BCAP and PQA Activities</li> </ul>	30
Dale Francisco	<b>i2.</b> Information on FY2018 FCC Agency Financial Report: USF Audit Summary	10

<u><b>EXECUTIVE SESSION</b></u>		
<b>Confidential – Executive Session Recommended</b>		
Teleshia	<b>i3.</b> Executive Session with USAC’s Vice President of Audit and Assurance	15

**Next Scheduled USAC Audit Committee Meeting**

<p><b>Monday, April 29, 2019</b>  <b>8:00 a.m. – 9:30 a.m.</b>  <b>USAC Offices, Washington, D.C.</b></p>
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**Universal Service Administrative Company  
Audit Committee Meeting**

**ACTION ITEM**

**Consent Items**

**Action Requested**

The Audit Committee (Committee) of the USAC Board of Directors (Board) is requested to approve the consent items listed below.

**Discussion**

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

- A. Committee meeting minutes of October 29, 2018 (*see Attachment A*).
- B. Approval of moving all *Executive Session* items into *Executive Session*:
  - (1) **i3** – Executive Session with USAC’s Vice President of Audit and Assurance. USAC management recommends that this matter be discussed in *Executive Session* pursuant to the guidelines in the approved Audit Committee Charter.

Upon request of a Committee member, the above item is available for discussion by the Committee.

**Recommended USAC Audit Committee Action**

APPROVAL OF THE FOLLOWING RESOLUTION:

**RESOLVED**, that the USAC Audit Committee hereby approves:  
(1) the Committee meeting minutes of October 29, 2018; and (2) discussion in *Executive Session* of the item noted above.

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

**700 12th Street, N.W., Suite 900**

**Washington, D.C. 20005**

**AUDIT COMMITTEE MEETING**

**Monday, October 29, 2018**

**(DRAFT) MINUTES<sup>1</sup>**

The quarterly meeting of the Audit Committee (Committee) of the USAC Board of Directors (Board) was held at USAC's offices in Washington, D.C. on Monday, October 29, 2018. Mr. Geoff Feiss, Committee Chair, called the meeting to order at 8:00 a.m. Eastern Time, with all five Committee members present:

Choroser, Beth

Feiss, Geoff – Chair

Gillan, Joe

Tinic, Atilla – Vice Chair

Wibberly, Dr. Kathy

Other Board members and officers of the corporation present:

Beckford, Ernesto – Vice President, General Counsel, and Assistant Secretary

Beyerhelm, Chris – Vice President of Enterprise Portfolio Management

Bocher, Bob – Member of the Board

Delmar, Teleshia – Vice President of Audit and Assurance

Fontana, Brent – Member of the Board

Garber, Michelle – Vice President of Lifeline

Gaither, Victor – Vice President of High Cost

Holstein, Bob – Vice President and Chief Information Officer

Kinser, Cynthia – Member of the Board – *by telephone*

Lubin, Joel – Member of the Board

Salvator, Charles – Vice President of Finance, Chief Financial Officer, and Assistant Treasurer

Sekar, Radha – Chief Executive Officer

Sweeney, Mark – Vice President of Rural Health Care

Others present:

**NAME**

Anderson, Latoya

Boler, Natasha

Carpenter, Nikki-Blair

Crowe, Jen

**COMPANY**

USAC

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USAC

USAC

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<sup>1</sup> Draft resolutions were presented to the Committee prior to the Committee meeting. Where appropriate, non-substantive changes have been made to the resolutions set forth herein to clarify language, where necessary, or to correct grammatical or spelling errors.

<u>NAME</u>	<u>COMPANY</u>
Augustino, Steve	Kelley Drye & Warren, LLP
Bonuccelli, Marge	Maximus
Gelman, Sheryl	USAC
Goode, Vernell	USAC
Hughet, Pamela	USAC
Jaruboon, Jetshada	Maximus
Nuzzo, Patsy	USAC
Richardson, Rashonda	USAC
Riley, Adam	USAC
Santana-Gonzalez, Jeanette	USAC
Smith, Chris	USAC
Smith, Denise	Kelley Drye & Warren, LLP
Tawes, Pauline	USAC
Tiwari, Tanya	USAC
Tomlin, Nicole	USAC

### OPEN SESSION

All materials from Open Session can be found on the [USAC website](#).

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

**A.** Approval of Committee Meeting Minutes of July 23, 2018.

**B.** Approval of Moving all *Executive Session* Items to *Executive Session*:

- (1) **i2** – USAC Audit and Assurance Division Business Update (*Continued*). USAC management recommended that this matter be discussed 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.
- (2) **a3** – Annual Review of the Audit and Assurance Division Charter and Operations of the Audit and Assurance Division. USAC management recommended that this matter be discussed 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.
- (3) **a4** – Action on One Rural Health Care Office of Management and Budget (OMB) Circular A-123 Internal Controls Review Report. USAC management recommended that this matter be discussed 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.

- (4) **i3** – Audit Committee Executive Session with USAC’s Vice President of Audit and Assurance. USAC management recommended that this matter be discussed in *Executive Session* pursuant to the guidelines in the approved Audit Committee Charter.
- (5) **i4** – Executive Session with Audit Committee (only). USAC management recommended that this matter be discussed in *Executive Session* pursuant to the guidelines in the approved Audit Committee Charter.

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

**RESOLVED**, that the USAC Audit Committee hereby approves: (1) the Committee meeting minutes of July 23, 2018; and (2) discussion in *Executive Session* of the items noted above.

**a2. Cadence of Annual Audit Committee Reports and 4<sup>th</sup> Quarter 2018 Audit Committee Reports.** Ms. Delmar introduced this item for discussion.

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

**RESOLVED**, that the USAC Audit Committee, having reviewed the cadence for annual Committee reports as required by the Committee Charter, accepts the recommendation of USAC management to present said reports to the Committee in accordance with the frequency noted in the table above.

**A. Acceptance of the Annual Assessment of the Independence and Financial Literacy of USAC Audit Committee Members.** Ms. Delmar introduced this item for discussion.

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

**RESOLVED FURTHER**, that the USAC Audit Committee accepts the assessment and agrees that the Audit Committee consists of independent members and that there is a sufficient level of financial expertise.

**B. Annual Review of the Effectiveness of USAC’s Process to Assess and Minimize Significant Risks.** Mr. Beyerhelm presented this to the Committee for discussion. The Committee discussed at length Corporate Assurance and Financials audits to determine how the risks would be identified, audited, and reported back to the Committee. At the request of Mr. Feiss, the discussion was deferred for additional discussion during

item i3, the Executive Session with USAC's Vice President of Audit and Assurance.

C. USAC's Financial Reporting Process. Mr. Salvator presented this item to the Committee for consideration.

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

**RESOLVED FURTHER**, that the USAC Audit Committee accepts the effectiveness of USAC's financial reporting process.

- i1. **USAC Audit and Assurance Division Business Update.** Ms. Delmar presented this item to the Committee for discussion. She provided an update on the Beneficiary and Contributor Audit Program (BCAP) and Payment Quality Assurance (PQA) audits and noted that both Corporate Assurance audits reports were with the FCC for review of management's corrective actions. Ms. Delmar stated that an internal controls review of the Rural Health Care Program would be discussed in *Executive Session* and that the follow-up review of the High Cost modernization funds was complete. Ms. Delmar reviewed with the Committee the Audit and Assurance Division's activities, including forensic audits and audits requested by FCC Chairman Pai. She concluded with an overview of the status of the Corporate Assurance audits for Rural Health Care, High Cost, and Human Resources.

At 8:53 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential items noted above.

### **EXECUTIVE SESSION**

- i2. **USAC Audit and Assurance Division Business Update (Continued).** Ms. Tawes provided overview of the PQA Improper Payment Results.
- a3. **Annual Review of the Audit and Assurance Division Charter and Operations of the Audit and Assurance Division.** Ms. Delmar presented this item for discussion.

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

**RESOLVED**, that the USAC Audit Committee, approves the recommended changes to the Audit and Assurance Division Charter.

**RESOLVED FURTHER**, that the USAC Audit Committee, approves the appointment of Ms. Teleshia Delmar as the Vice President of Audit and Assurance.

- a4. Action on One Rural Health Care Office of Management and Budget (OMB) Circular A-123 Internal Controls Review Report.** Ms. Lee presented this item to the Committee for consideration.

On a motion duly made and seconded and after discussion, with Mr. Gillan voting in opposition, the Committee adopted the following resolution:

**RESOLVED**, that the USAC Audit Committee, having reviewed the Rural Health Care OMB Circular A-123 Internal Controls Review Report, accepts the recommendation of USAC management and hereby deems the report final.

At 9:38 a.m. Eastern Time, the meeting continued in *Executive Session* with only members of the Board and Ms. Delmar present for the purpose of discussing item i3.

- i3. Executive Session with USAC's Vice President of Audit and Assurance.** Mr. Feiss and the Audit Committee discussed this item.

- i4. Executive Session – Audit Committee Only.** This item was deferred.

At 10:05 a.m. Eastern Time, 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 took action on items a3 and a4 and discussed items i2 i3, and i4.

On a motion duly made and seconded, the Committee adjourned at 10:05 a.m. Eastern Time.

/s/ Ernesto Beckford  
Assistant Secretary

**Universal Service Administrative Company  
Audit Committee Meeting**

**ACTION ITEM**

**Recommendation for Election of  
Committee Chair and Vice Chair**

**Action Requested**

The USAC Audit Committee (Committee) is taking action to bring its Chair and Vice Chair nominations for consideration by the full Board of Directors (Board) at the Board meeting to be held on January 29, 2019.

**Discussion**

The pertinent resolution related to the election of committee chair and vice chair positions was adopted by the Board on January 25, 2000 and reads as follows:

**RESOLVED**, that the USAC Board of Directors accepts the recommendations of the USAC Nominating Committee that: (1) in addition to the annual election of officers, all Committee chairs and vice chairs shall also be elected annually; (2) the first election for Committee chairs and vice chairs shall occur at the election of officers at the January 2001 Board of Directors meeting; (3) there shall be no term limits imposed on officer and Committee chair and vice-chair positions; and (4) there shall be no automatic succession of positions....<sup>1</sup>

On January 30, 2018, the Board elected Geoff Feiss as Chair and Atilla Tinic as Vice Chair of the Audit Committee.

At their January 28, 2019 quarterly meetings, each committee of the Board (including the Audit Committee and each of the programmatic committees) will nominate Board members to serve as chair and vice chair of their respective committees. Those recommendations will be submitted to the Board at the Board meeting to be held on January 29, 2019.

**Recommended USAC Audit Committee Action**

APPROVAL OF THE FOLLOWING RESOLUTION:

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<sup>1</sup> USAC Board of Directors Meeting Minutes, at 4 (Jan. 25, 2000), available at <http://usac.org/about/about/leadership/board-minutes/bod.aspx>.

**RESOLVED**, that the USAC Audit Committee recommends that the USAC Board of Directors elect \_\_\_\_\_ as Chair and \_\_\_\_\_ as Vice Chair of the Committee. The term for each position begins immediately upon the election to such position by the Board and ends at such time as the Chair or Vice Chair (as the case may be): (i) is replaced by a successor selected by the Board, (ii) resigns from the Committee or the Board, (iii) is removed by resolution of the Board, or (iv) is no longer a member of the Board (whichever comes first).

**Universal Service Administrative Company  
Audit Committee Meeting**

**ACTION ITEM**

**Approval of 2019 Audit Committee Charter**

*Same as aBOD04*

**Action Requested**

In accordance with USAC's Audit Committee Charter (Charter), Section III.A.1, the Audit Committee (Committee) of the USAC Board of Directors (Board) is required to review and reassess the adequacy of the Charter at least annually, and recommend changes, as deemed necessary, to the Board.

**Discussion**

USAC Audit and Assurance Division (AAD) staff and Committee members reviewed the Charter to determine if any changes should be recommended to the Committee and the Board of Directors for consideration.

AAD proposes updating the Charter to reflect the division name change from Internal Audit Division to AAD. High level changes to the Charter recommended by the Committee for discussion at the January quarterly meeting include: 1) providing that the Committee's duties and responsibilities include the annual development of an Audit Plan (to be named at the meeting), in consultation with the Vice President of AAD, to verify USAC's financial and operational integrity; 2) providing that the Committee may request additional operational or financial audits from time to time; 3) providing for Committee review and approval of the AAD Charter, as well as any significant changes to the Audit Plan, as needed; 4) providing for Committee review and approval of material changes to the role and/or responsibilities of the Vice President of AAD; and 5) providing for Committee review of reports of whistleblower complaints received by the Vice President of AAD.

**Attachment A** provides a clean copy of the Charter with the recommended changes; and **Attachment B** provides a redline copy of the existing Charter marked to show the recommended changes.

The Committee recommends that the Board approve the revised Charter.

**Recommended USAC Audit Committee Action**

APPROVAL OF THE FOLLOWING RESOLUTION:

**RESOLVED**, that the USAC Audit Committee, having reviewed the current Audit Committee Charter and the proposed changes presented by the USAC Audit and Assurance Division, recommends that the USAC Board of Directors approve the revised Audit Committee Charter.

**Recommended USAC Board of Directors Action**

APPROVAL OF THE FOLLOWING RESOLUTION:

**RESOLVED**, that the USAC Board of Directors, having reviewed the current Audit Committee Charter and the proposed changes presented by the USAC Audit and Assurance Division, hereby accepts the recommendation of the Audit Committee and approves the revised Audit Committee Charter.

## ATTACHMENT A

### UNIVERSAL SERVICE ADMINISTRATIVE COMPANY AUDIT COMMITTEE CHARTER

January 2019

- 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 [REDACTED] 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 [REDACTED] Audit Plan in consultation with the Vice President of Audit and Assurance. In addition to projects outlined in the [REDACTED] 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.



- 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 [ ] 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 (2011 revision) 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.

**ATTACHMENT B**

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY  
AUDIT COMMITTEE CHARTER**

January 2018

- 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.
  - ~~3-4.~~ Develop and oversee a [REDACTED] Audit Plan to verify USAC's financial and operational integrity.
  - ~~4-5.~~ 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 ~~Internal Audit~~ and Assurance, and the Board.
  - ~~5-6.~~ Provide insight and recommendations to establish cost effective Universal Service Fund strategic audit plans that ~~are include a focused~~ 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 ~~Internal~~ 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. ~~Review Annually develop and approve a [ ] Audit Plan in consultation with the Vice President of Audit and Assurance. In addition to projects outlined in the [ ] Audit Plan, the Committee may from time to time request additional specific operational and/or financial audits, and approve, in conjunction with management and the Vice President of Internal Audit and Assurance, the USAC Corporate Internal Assurance Audit Plan and assess the adequacy of the audit coverage outlined in the USAC Corporate Internal Audit Assurance Plan that will be presented to the Committee for approval.~~
4. Review USAC financial, operational and compliance audit reports prepared by the independent auditors or the ~~Internal 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 risks for consideration in developing future Universal Service Fund audit plans; identify; FCC rules

**Commented [GF1]:** Joe: I believe that we need to think about the Corporate Assurance Audit (are things working as intended) as a distinct area of responsibility from the consideration of enterprise risks. It is unclear to me that the enterprise risk oversight is best assigned to the Committee or assigned to the Board overall. But how Enterprise Risk is addressed (a topic that I have not formed a strong opinion about), my principal goal with this edit is to make it clear that the Committee has a clearly defined and independent investigatory/audit oversight role.

Beth: How are key areas for Cte. consideration in the [Plan] identified and by whom?

Geoff: I'd like to include a process by which the Committee may invite senior management to identify or suggest key areas that the Committee may consider when it develops its annual Plan.

- 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 ~~Internal~~-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 ~~Internal~~-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 ~~Internal~~-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 ~~the~~-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 ~~Internal-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 ~~Internal-Audit~~ and Assurance in connection with the preparation of the USAC financial statements, and management's response thereto.

Commented [GF2]: Beth: added for consistency with the second part of the paragraph

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 ~~Internal-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 as suggested by for consistency with suggestions of an independent auditing firm retained by USAC, management, or the Vice President of ~~Internal-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 ~~Internal-Audit~~ and Assurance in connection with the preparation of USAC's agreed upon procedures report and management's response thereto.

Commented [GF3]: Beth

E. Oversight of ~~Internal-Audit~~ and Assurance Division

1. Review and approve the ~~Internal-Audit~~ and Assurance Division Charter, organizational structure, budget, activities, and significant changes to the ~~Internal-Audit~~ Corporate Assurance | Audit Plan, as needed.

Commented [GF4]: Geoff: Should we refer to both the Corporate Assurance Plan and to the Committee's [Plan]?

2. Review and approve the appointment, replacement, ~~or~~ reassignment or material changes in the role and/or responsibility of the Vice President of ~~Internal-Audit and Assurance Division~~.

**Commented [GF5]:** Joe. This edit is probably unnecessary as (to me) it is included in the "appointment, replacement or reassignment," but given the unique relationship between the Audit and Assurance VP and the Committee it seemed worth adding.

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 (2011 revision) and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

**Commented [GF6]:** Beth: Latest version?

4. ~~Receive-Review~~ reports of whistleblower complaints received by the Vice President of ~~Internal-Audit and Assurance~~. Such reports shall be prepared jointly by the Vice President of ~~Internal-Audit and Assurance~~ and USAC's Office of General Counsel.

**Commented [GF7]:** Joe. Separate from the discussion here, we need to address the process for whistleblower complaints received by OGC. At the time this Charter was first written, all whistleblower complaints were lodged with Audit. As such, there was a mechanism to inform the Board (or at least somebody on the Board). We no longer have a process (that I am aware of) and the Board needs to establish one. I will raise with Joel and this is (by definition) beyond Audit alone.

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

1. Review with management, the independent auditors, and the Vice President of ~~Internal-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 ~~Internal-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.

**Commented [GF8]:** Beth: How are high risk areas identified and analyzed for potential impacts to the programs, USAC generally and its reputation?

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.

Commented [GF9]: Should there be a provision for oversight of contributor audits?

Commented [AAD10R9]: Yes. Good catch!

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 ~~Internal 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.

# Audit and Assurance Business Update

Audit Committee

January 28, 2019



## Agenda: Audit and Assurance

Topic	Description	Purpose	Presenter	Length
Recap	Action items and updates from previous Audit Committee meetings	Informational	Teleshia	1 min
2018 Accomplishments	Significant quantitative & qualitative accomplishments	Informational	Teleshia	5 min
2018 Operational Results	Key outcomes from BCAP audits and PQA assessments	Informational	Teleshia	5 min
2019 Goals & Objectives	Primary goal and objective for the division	Informational	Teleshia	1 min
2019 Look Ahead	Upcoming key milestones	Informational	Teleshia	2 min
Discussion Topics	2019 Audit Plan <ul style="list-style-type: none"> <li>Beneficiary and Contributor Audit Program (BCAP)</li> <li>Payment Quality Assurance (PQA)</li> </ul>	Informational	Teleshia	4 min
Audit and Assurance Division at a Glance	Overview of activities for next 12 months	Informational	Teleshia	2 min
Appendix	Glossary	Informational	-	-

# October Board Recap

## Action items and updates from previous Audit Committee meetings

Activity	Status
<p><u>Corporate Assurance:</u> Provide additional information on USAC's procedures to assess and minimize risks, and how these risks are reported to the Board.</p>	<p>Additional information on USAC's processes to assess and minimize risks may be found at agenda item iAC03.</p>
<p><u>Audit Committee Charter:</u> Include confirmation that the Audit Committee will have oversight of all corporate assurance activities, even if such activities are not supervised by AAD anymore.</p>	<p>The full USAC Board of Directors will have insight into the enterprise risk management function, including all corporate assurance activities. The Audit Committee Charter has been revised to remove references related to the review and approval of the Corporate Assurance Plan. Please see the Audit Committee Charter presented at agenda item aAC03.</p>
<p><u>PQA – Improper Payment Results:</u> Provide two calculations for the Lifeline improper payment rate to see how the changes in the use of universal forms are helping to reduce the risk of improper payments.</p>	<p>This item will be addressed once the Fiscal Year 2019 PQA results are complete and presented during the October 2019 Audit Committee meeting.</p>

# 2018 Accomplishments

## BCAP

- 99 audits completed during Fiscal Year 2018 (19 CR, 10 HC, 28 LI, 40 SL, 2 RH).
- In coordination with Finance, developed a reseller template to assist FCC Form 499 filers.
- Developed the Fiscal Year 2019 BCAP plan.

## PQA

- 1,117 assessments completed for Fiscal Year 2018 by planned milestone date (309 HC, 365 LI, 443 SL).
- Implemented a strategy to phase PQA Lifeline case announcements to reduce the impact for carriers that were also selected for other program integrity-related reviews.

## Other Activity

- 11 Lifeline forensic and Chairman Pai audits were announced; analysis of carrier information is in progress.
- AAD presented audit-related topics at the E-Rate Fall Applicant and E-Rate Service Provider trainings.
- **Cost effectiveness: \$49 million in recoveries/revenues compared to the 2018 AAD budget of \$19 million.**

# 2018 Accomplishments – Cont’d

Identified the following key findings by Program:

Program	Key Findings	Corrective Actions
Contributor Revenue	<ul style="list-style-type: none"> <li>• Non-Telecommunications and Information Service Revenues (BCAP)</li> <li>• Customer Category - End User vs. Reseller (BCAP)</li> </ul>	<ul style="list-style-type: none"> <li>• Developed and delivered educational materials regarding non-telecom and informational service revenues: training webinars; newsletters, content on webpages.</li> <li>• Developed a wholesaler/reseller certification template to assist contributor filers with revenue reporting.</li> </ul>
High Cost	<ul style="list-style-type: none"> <li>• Lack of/Inadequate Documentation (BCAP)</li> <li>• Misclassified Assets, Expenses, and/or Liabilities (BCAP)</li> <li>• Inaccurate Data (PQA)</li> </ul>	<ul style="list-style-type: none"> <li>• Develop and deliver webinars to educate carriers on best practices related to documentation and provide guidance to avoid the top key findings:                             <ul style="list-style-type: none"> <li>➢ Retention of documentation necessary to support audit investigations</li> <li>➢ Ineligible items as listed in FCC Orders</li> <li>➢ Data inaccuracy due to inadequate/inaccurate documentation and inaccurate depreciation calculation.</li> </ul> </li> </ul>
Lifeline	<ul style="list-style-type: none"> <li>• Improper Certification and/or Recertification Documentation Disclosures (BCAP)</li> <li>• Inaccurate Form 497 Reporting (BCAP)</li> <li>• Lack of/Inadequate Documentation (PQA)</li> <li>• Ineligible Subscriber (PQA)</li> </ul>	<ul style="list-style-type: none"> <li>• Implemented Universal Forms to ensure the same approved language is used for certification and recertification disclosures.</li> <li>• Implemented Lifeline Claims System to limit claims of subscribers to only those in NLAD.</li> <li>• Delivered webinars to instruct service providers to check and retain proof of program eligibility.</li> </ul>

## 2018 Accomplishments – Cont’d

Identified the following key findings by Program:

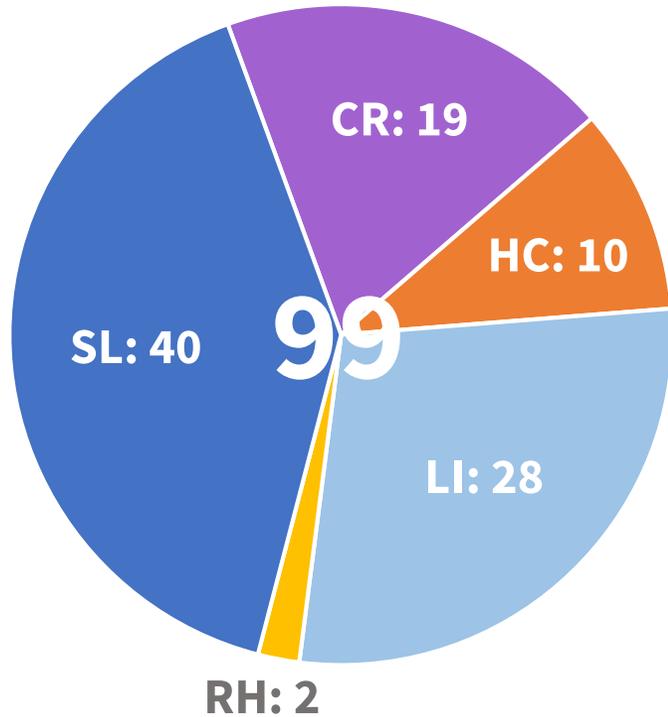
Program	Key Findings	Corrective Actions
Schools and Libraries	<ul style="list-style-type: none"> <li>• Service Provider or Beneficiary Over-Invoiced SLP (BCAP &amp; PQA)</li> <li>• Lack of/Inadequate Documentation (BCAP)</li> <li>• Recipient of Service Error (PQA)</li> </ul>	<ul style="list-style-type: none"> <li>• Conducted training for applicants and service providers and included topics related to over-invoicing and lack of documentation.</li> <li>• Developing on-line training program related to invoicing</li> <li>• Developing targeted outreach program for entities with significant audit findings.</li> </ul>
Rural Health Care	<ul style="list-style-type: none"> <li>• Ineligible Sites (BCAP)</li> </ul>	<ul style="list-style-type: none"> <li>• Developed form guides to assist applicants with the proper submission of their data and provided webinars to educate applicants on eligibility.</li> </ul>

# 2018 Operational Results

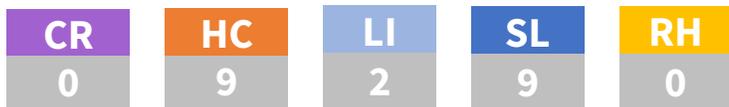
Briefing on the results of the 2018 Operational Results Session.

October 1, 2017 – September 30, 2018

## AUDITS RELEASED



## NEW/NOVEL FINDINGS



## AUDITOR RECOMMENDED ADD'L CONTRIBUTION

**\$29M**

## AUDITOR RECOMMENDED RECOVERY

**\$7.4M**

## BCAP IMPROPER PAYMENTS PREVENTED

**\$3.6M**

## USAC RECOVERIES

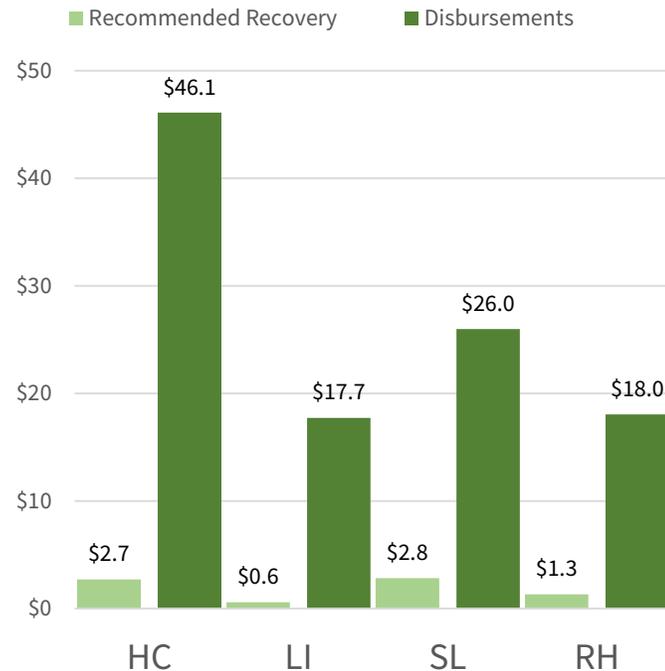
SOUGHT  
**\$36.9M**

RECAPTURED  
**\$34.5M**

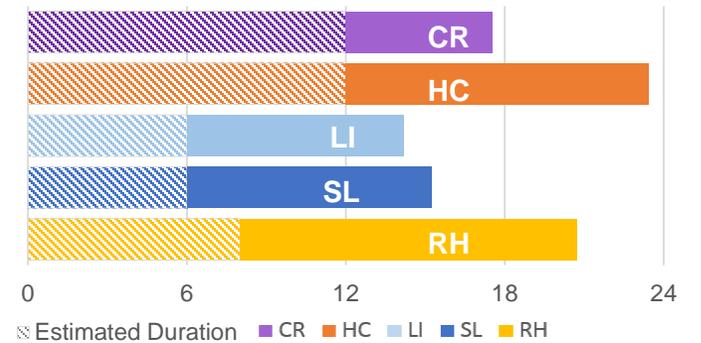
## TOTAL AUDITS REFERRED TO FCC

**31**

## AUDITOR RECOMMENDED RECOVERY VS DISBURSEMENT AMOUNT (\$ MIL)



## AVERAGE DURATION (MONTHS)



## PQA IMPROPER PAYMENTS

Program	Cases Completed	IPERIA \$
HC	309	\$61,077
LI	365	\$78,242
SL	443	\$8,718,711
<b>Total</b>		<b>\$8,858,030</b>

## 2019 Goals & Objectives

The primary goal and objective of the Audit and Assurance Division is to preserve the integrity of universal service funds and USAC's corporate resources by conducting independent and objective audits, performing quality assessments and evaluating the efficiency and effectiveness of USAC's operations.

# 2019 Look Ahead

## **BCAP**

- Procure firms for co-sourced and external BCAP work
- Begin planning for Fiscal Year 2020 BCAP plan
- Announce all audits under the Fiscal Year 2019 BCAP plan
- Complete Lifeline Chairman Pai and Forensic audits

## **PQA**

- Complete all Fiscal Year 2019 PQA assessments

## **Other Activity**

- Develop AAD Portal for performance monitoring and reporting
- Commence the 2019 Corporate Assurance Plan
- Develop audit surveys for Corporate Assurance audits and PQA reviews to obtain feedback from USAC and other entities under audits/assessments
- Procure and complete the Peer Review (an independent assessment of AAD's operations)
- Coordinate and complete the AUP
- Implement GAGAS revisions
- Implement Knowledge Management
- Implement the FCC Order In-Take initiative

# Discussion Topics – BCAP

## Fiscal Year 2019 BCAP Plan

- AAD, in consultation with FCC OMD and FCC WCB, have developed an audit plan for Fiscal Year 2019 that will incorporate a hybrid approach for selecting beneficiaries and contributors for audit.
- The selection methodology is based on a combination of random, targeted, high-dollar, and risk-based selections.

## BCAP Challenges and Mitigation

- Challenge: Accomplishing the annual audit plans due to (1) entity delays, (2) resources, and (3) audit duration.
- Mitigation Plan: Root cause analysis in process (update to be provided during the April Board meeting).

Fiscal Year 2019 BCAP Plan Total Audits by Program	
Program	Total
Contributor Revenue	9
High Cost	22
Lifeline	5
Schools and Libraries	59
Rural Health Care	20
<b>Total</b>	<b>115</b>

# Discussion Topics – PQA

## PQA Program Testing

- Total sample size for Fiscal Year 2019 increased from 1,117 in the prior year to 1,255 as a result of adding Rural Health Care payments to the scope of testing.
- The team began announcing cases in November 2018.

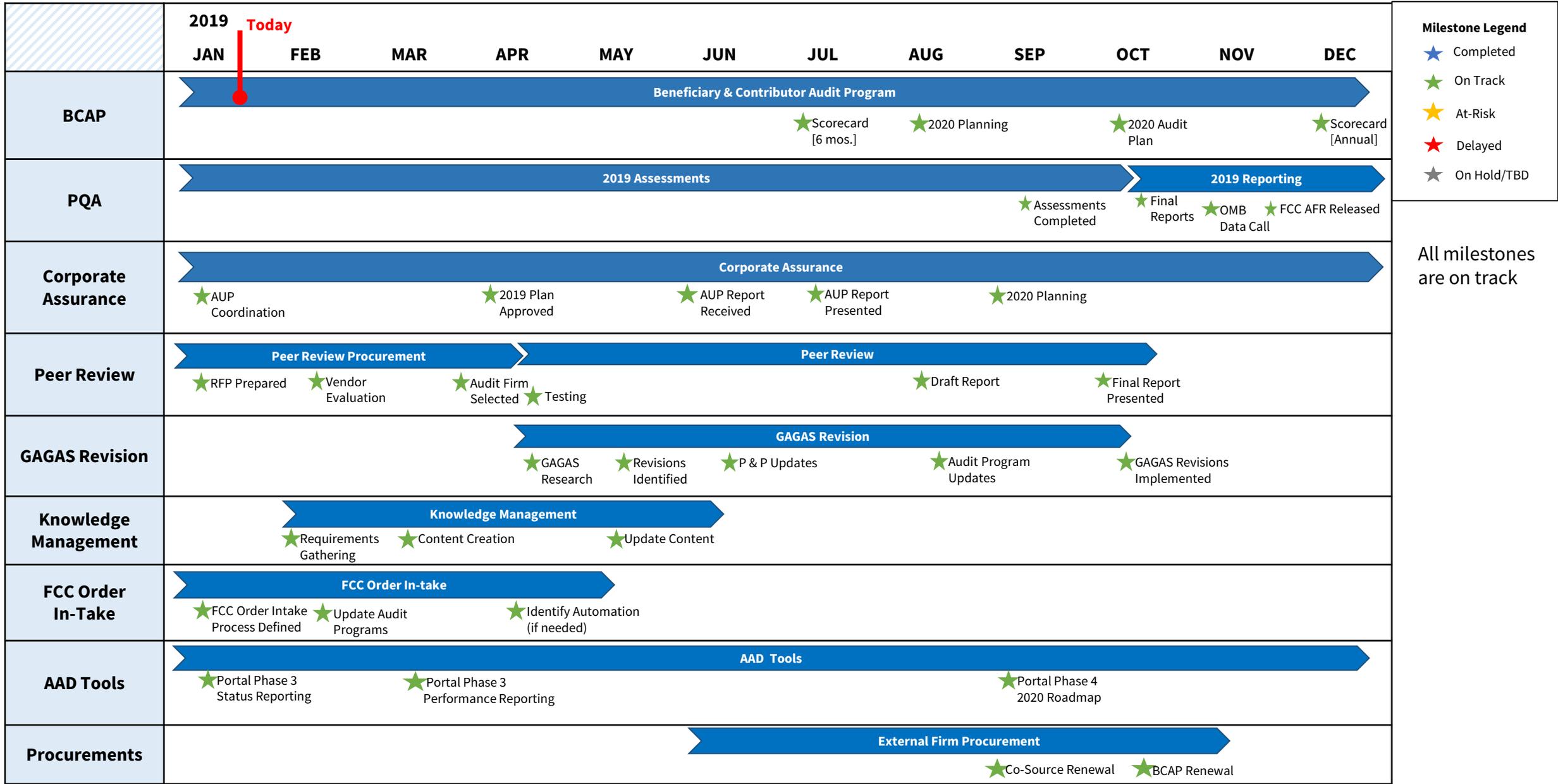
## PQA Challenges and Mitigation

- Challenge: Delays starting PQA Fiscal Year 2019 testing increases risk of delayed reporting.
- Mitigation Plan: Exploring options to begin announcements prior to finalizing procedures; additional resources, as needed.

PQA Status As of January 4, 2019				
Program	Estimated Sample Size	Announced	In Progress	Completed
High Cost	200	0	0	0
Lifeline	300	97	97	0
Schools and Libraries	360	220	217	3
Rural Health Care	395	114	114	0
<b>Total</b>	<b>1,255</b>	<b>431</b>	<b>428</b>	<b>3</b>

# Audit and Assurance Division at a Glance

Briefing book excludes all materials discussed in Executive Session.



All milestones are on track

Briefing book excludes all materials discussed in Executive Session.

# Appendix

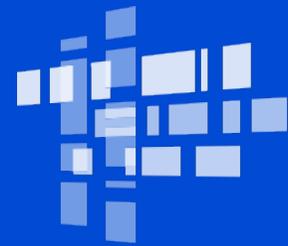
## Appendix: Glossary of Acronyms and Projects

Term	Definition
AAD	Audit and Assurance Division. An organization within USAC with the mission to preserve the integrity of the universal service fund and USAC’s corporate resources by conducting objective audits, performing quality assessments and evaluating the efficiency and effectiveness of USAC’s operations.
AAD Portal	A platform designed to centralize key data attributes across disparate applications used by AAD to plan, manage and report audit progress. Customized dashboards and reporting present data by program, audit and resource and deliver performance measurements at a click of the mouse.
AFR	Agency Financial Report. Federal government report that provides an overview of an agency’s performance and financial information to enable the President, Congress, and the public to assess accomplishments for each fiscal year.
AUP	Agreed Upon Procedures. An agreed-upon procedure engagement is a standard a company or client outlines when it hires an external party to perform an audit on a specific test or business process.
BCAP	Beneficiary and Contributor Audit Program (BCAP). The BCAP is designed to assess beneficiary and contributor compliance with the FCC rules and requirements (collectively, FCC Rules).
Chairman Pai Audit	FCC Chairman Pai directed USAC on August 8, 2017 to identify and audit the top ten eligible telecommunications carriers with the highest number of potentially ineligible subscribers based on the results of the Government Administrative Office (GAO) Report titled “FCC’s Lifeline Program: A Case Study of Government Waste and Mismanagement”.
Forensic Audit	The Chairman of the Committee on Homeland Security and Government Affairs directed USAC on September 15, 2017 to perform forensic audits of the top 30 eligible telecommunication carriers. This directive was the result of a study performed by the GAO Report. The FCC directed USAC to audit the top 30 Study Area Codes (SACS), which spanned across eight carriers.

## Appendix: Glossary of Acronyms and Projects

Term	Definition
GAGAS	Generally Accepted Government Auditing Standards. Also referred to as “Yellow Book.” The standards are used by auditors of government entities, entities that receive government awards, and other organizations performing Yellow Book audits as it provides a framework for conducting high-quality audits with competence, integrity, objectivity, and independence.
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012. Requires federal agencies to review and report on major programs that are susceptible to improper payments. The Universal Service Fund is subject to IPERIA.
OMB	Office of Management and Budget. OMB produces the President's Budget and also measures the quality of agency programs, policies, and procedures to see if they comply with the president's policies and coordinates inter-agency policy initiatives.
OMD	Office of Managing Director. OMD is a component of the FCC that administers and manages the Commission.
PQA	Payment Quality Assurance. PQA is designed to assess the accuracy of Universal Service Fund (USF) disbursements and determine whether improper payments exist, and assists the FCC in meeting its reporting obligations under the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).
Peer Review	As part of a formal and independent process of quality assurance, AAD undergoes a peer review. GAGAS requires that peer reviews are performed by an independent, qualified external reviewer at least once every three years.
RFP	Request for Proposal. A document that solicits proposal, often made through a bidding process, by a company interested in procurement of a commodity or service to potential suppliers to submit business proposals. It is submitted early in the procurement cycle.
WCB	Wireline Competition Bureau. WCB is a component of the FCC that works to ensure that all Americans have access to robust, affordable broadband and voice services. Its programs help ensure access to affordable communications for schools, libraries, health care providers, and rural and low-income consumers.

# Thank You!



**Universal Service  
Administrative Co.**

# Audit Committee Meeting

## Information on FY2018 FCC Agency Financial Report: USF Audit Summary

January 28, 2019

# FY2018 FCC Agency Financial Report (AFR): USF Audit Summary

Briefing book excludes all materials discussed in Executive Session.

## Overview

- Audit conducted by Kearney & Company on behalf of the FCC OIG
- Auditors concluded that the FCC's financial statements, which include the USF balances, were presented fairly, in all material respects, for the fiscal year ending September 30, 2018

## Internal Control Findings

- Material Weakness<sup>1</sup>
  - USF Budgetary Accounting related to Schools & Libraries obligations
- Significant Deficiency<sup>2</sup>
  - Management of IT system user accounts
- See full FY2018 FCC AFR here:
  - <https://docs.fcc.gov/public/attachments/DOC-355122A1.pdf>

<sup>1</sup> A material weakness is a deficiency in internal control where there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

<sup>2</sup> A significant deficiency is less severe than a material weakness, but important enough to merit attention by those charged with governance.