



Audit Committee

Briefing Book

Monday, July 29, 2019

8:00 a.m. - 9:30 p.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>Monday, July 29, 2019 8:00 a.m. – 9:30 a.m. Eastern Time USAC Offices 700 12th Street, N.W., Suite 900 Washington, D.C. 20005</p>

<u>OPEN SESSION</u>		<i>Estimated Duration in Minutes</i>
Chair	<p>a1. Consent Items (each item is available for discussion upon request):</p> <p style="padding-left: 20px;">A. Approval of Audit Committee Meeting Minutes of April 29, 2019.</p> <p style="padding-left: 20px;">B. Approval of moving all <i>Executive Session</i> items into <i>Executive Session</i>.</p>	5
Teleshia	<p>i1. Audit and Assurance Division Business Update</p> <ul style="list-style-type: none"> • Beneficiary and Contributor Audit Program (BCAP) • Payment Quality Assurance (PQA) • Strategic Audit (SA) • AAD Operational Results 	25

<u>EXECUTIVE SESSION</u>		
Confidential – Executive Session Recommended		
Carol	a2. Approval of the Strategic Audit Plan	10
Charlie/PwC	<p>a3. Acceptance of USAC’s 2018 Annual Financial Statement Audit and Agreed-Upon Procedures Review</p> <p style="text-align: center;"><i>Same as iBOD02cf</i></p>	20
PwC	i2. Audit Committee Executive Session with USAC’s Independent Audit Firm	20
Teleshia	i3. Executive Session with USAC’s Vice President of Audit and Assurance	10

Next Scheduled USAC Audit Committee Meeting

<p>Monday, October 28, 2019 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) 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 resolution below:

- A. Committee meeting minutes of April 29, 2019 (*see Attachment A*).

- B. Approval of moving all *Executive Session* items into *Executive Session*:
 - (1) **a2** – Approval of the Strategic Audit Plan. USAC management recommends that this matter be discussed in Executive Session because it relates to *specific internal controls, or confidential company data* that would constitute a discussion of internal rules and procedures.
 - (2) **a3** – Acceptance of USAC’s 2018 Annual Financial Statement Audit and Agreed-Upon Procedures Review. USAC management recommends that this matter be discussed in Executive Session because it relates to *specific internal controls, or confidential company data* that would constitute a discussion of internal rules and procedures.
 - (3) **i2** – 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** – 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 items are 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 April 29, 2019; and (2) discussion in *Executive Session* of the items noted above.

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

AUDIT COMMITTEE MEETING
Monday, April 29, 2019

(DRAFT) MINUTES¹

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, April 29, 2019. Mr. Atilla Tinic, Committee Vice Chair, called the meeting to order at 8:00 a.m. Eastern Time, with a quorum of four of the five Committee members present:

Choroser, Beth
Gillan, Joe

Kinser, Cynthia – *by telephone*
Tinic, Atilla – Vice Chair

Members of the Committee not present:

Feiss, Geoff – Chair

Other Board members and officers of the corporation present:

Ayer, Catriona – Vice President of Schools and Libraries
Beckford, Ernesto – Vice President, General Counsel, and Assistant Secretary
Beyerhelm, Chris – Vice President of Enterprise Portfolio Management
Bocher, Bob – Member of the Board
Davis, Craig – Vice President of Procurement and Strategic Sourcing
Delmar, Teleshia – Vice President of Audit and Assurance
Domenech, Dr. Dan – Member of the Board
Lubin, Joel – Member of the Board
Salvator, Charles – Vice President, Chief Financial Officer, and Assistant Treasurer
Schell, Julie Tritt – Member of the Board
Sekar, Radha – Chief Executive Officer
Sweeney, Mark – Vice President of Rural Health Care
Wein, Olivia – Member of the Board

Others present:

NAME
Anderson, Latoya

COMPANY
USAC

¹ 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>
Baer, Michael	USAC
Barrett, Henry	USAC
Boakye-Gyan, Carol	USAC
Boden, Jerry	USAC
Braxton-Johnson, Kianna	USAC
Carpenter, Nikki-Blair	USAC
Crowe, Jen	USAC
Daniels, Joel	USAC
Gelman, Sheryl	USAC
Hughet, Pamela	USAC
Hutchinson, Kyle	USAC
Kriete, Debra	SECA & South Dakota DOE
Lawson, Suzanne	USAC
Luton, Smith	Avitecture
Lutz, Corey	USAC
Lutz, Kevin	USAC
Medlock, David	USAC
Mihalsky, Anna	USAC
Mitchell, Tamika	USAC
Nuzzo, Patsy	USAC
Santana-Gonzalez, Jeanette	USAC
Schwetz, Tori	USAC
Smith, Chris	USAC
Stephenson, Karen	USAC
Tiwari, Tanya	USAC

OPEN SESSION

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

- a1. Consent Items.** Mr. Tinic presented this item to the Committee.
- A.** Approval of Committee Meeting Minutes of January 28, 2019.
 - B.** Approval of moving all *Executive Session* items into *Executive Session*:
 - (1) **a2** – Action on Two Operational Audit Reports. USAC management recommends that this matter be discussed in Executive Session because this matter relates to *specific internal controls, or confidential company data* that would constitute a discussion of internal rules and procedures.
 - (2) **a3** – Action on One Performance Audit Report. USAC management recommends that this matter be discussed in Executive Session because this matter relates to *specific internal controls, or*

confidential company data that would constitute a discussion of internal rules and procedures.

- (3) **i2 – 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.

- C. Review of USAC’s Processes to Assess Compliance with Applicable Laws and Regulations. In accordance with Section III.G of the Committee’s Charter, the Committee, in consultation with USAC’s General Counsel, is required to review the processes established to assure compliance by USAC with all applicable laws.

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 January 28, 2019; (2) discussion in *Executive Session* of the items noted above; and (3) USAC’s Processes to Assess Compliance with Applicable Laws and Regulations.

- i1. Audit and Assurance Division Business Update.** Ms. Delmar and Ms. Carpenter presented PowerPoint slides covering the following to the Committee:

1. Action item and updates from the January 2019 Audit Committee meeting
2. Overview of activities for 2019
3. Discussion Topics:
 - a. Beneficiary and Contributor Audit Program (BCAP), Payment Quality Assurance (PQA), and Strategic Audit (SA) activities
 - b. Audit duration analysis

During the discussion, Mr. Tinic requested a comparison of the new blended audit methodology and a solely risk-based audit methodology to assess the validity of the risk factors used. Ms. Delmar noted that, with the various types of audits being conducted, there would be some overlap, and wanted to level set to avoid companies participating in multiple audits simultaneously.

At 9:01 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. The meeting continued with only members of the Board, Ms. Delmar, Mr. Beyerhelm, Mr. Beckford, Ms. Boakye-Gyan, and Ms. Carpenter present.

EXECUTIVE SESSION

- a2. Action on Two Operational Audit Reports.** Ms. Boakye-Gyan presented both audit reports to the Committee for consideration.

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

RESOLVED, that the USAC Audit Committee, having reviewed two USAC Operational Audit Reports, accepts the recommendation of USAC management and hereby deems the reports final.

At 9:20 a.m. Eastern Time, on a motion duly made and seconded, the Committee continued in *Executive Session* with only members of the Board, Ms. Delmar, Mr. Beckford, and Mr. Davis present.

- a3. Action on One Performance Audit Reports.** Ms. Delmar and Mr. Davis presented the audit report and USAC management's response to the Committee for discussion.

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

RESOLVED, that the USAC Audit Committee, having reviewed one Performance Audit Report, accepts the recommendation of USAC management and hereby deems the report, including USAC management's response to the report, as final.

At 9:53 a.m. Eastern Time on a motion duly made and seconded, the Committee continued in *Executive Session* with only non-staff members of the Board and Ms. Delmar present.

- i2. Executive Session with USAC's Vice President of Audit and Assurance.** The Committee met with USAC's Vice President of Audit and Assurance, pursuant to the requirements set forth in USAC's Audit Committee Charter.

At 10:06 a.m. Eastern Time, the Committee moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Mr. Tinic reported that, in *Executive Session*, the Committee took action on items a2 and a3 and discussed item i2.

On a motion duly made and seconded, the Committee adjourned at 10:06 a.m. Eastern Time.

/s/ Ernesto Beckford
Assistant Secretary

Audit and Assurance Business Update

Audit Committee

July 29, 2019



Universal Service
Administrative Co.

Agenda: Audit and Assurance

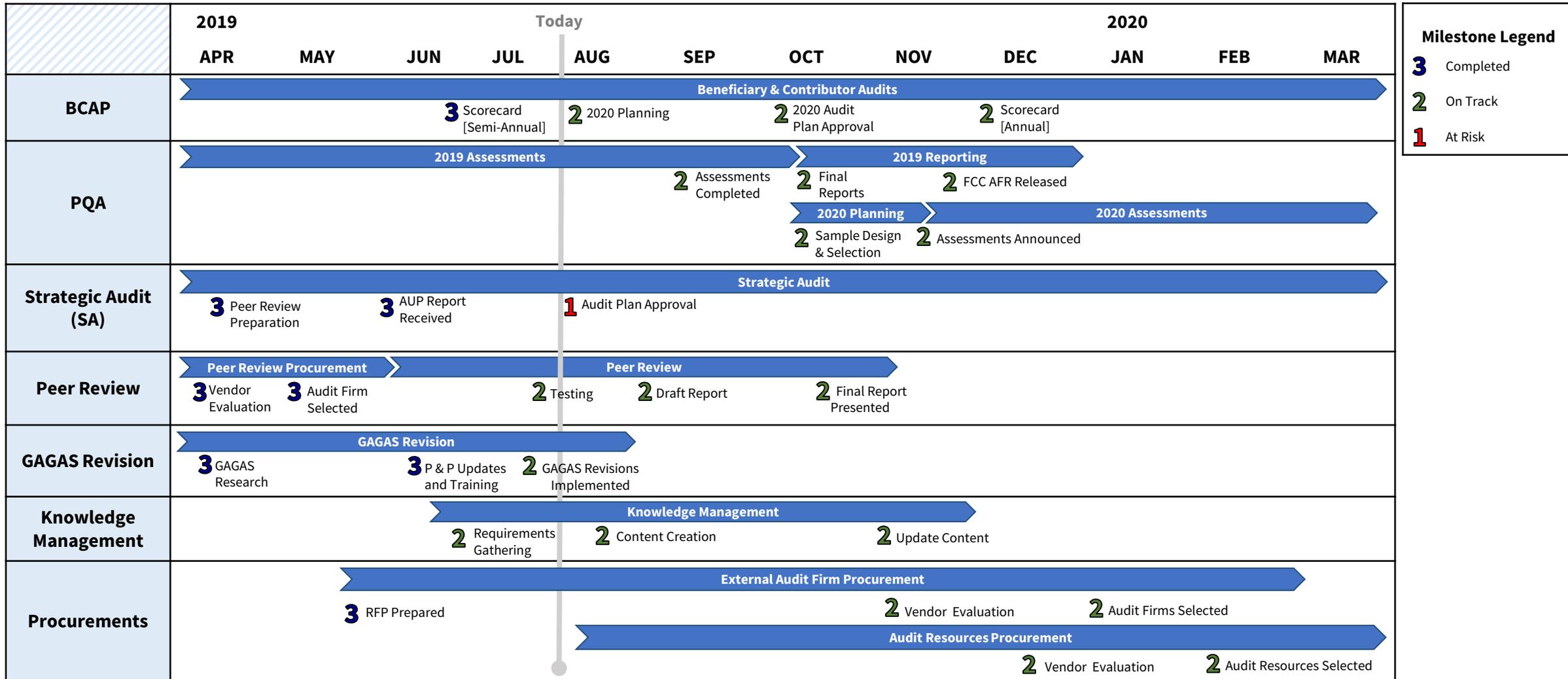
Topic	Description	Purpose	Presenter	Length
Recap	Action items and updates from the previous Audit Committee meeting	Informational	Teleshia	5 min
Audit and Assurance Division at a Glance	12-month overview of activities	Informational	Teleshia	5 min
Discussion Topics	<ul style="list-style-type: none"> Beneficiary and Contributor Audit Program (BCAP) Payment Quality Assurance (PQA) Strategic Audit (SA) AAD Operational Results 	Informational	Teleshia	15 min
Appendix	Glossary	Informational	-	-

April 2019 Audit Committee Recap

Action items and updates from the previous Audit Committee meeting

Activity	Status
<u>BCAP</u> : What was the number of BCAP audits planned for 2018 compared to the 117 audits planned for 2019?	With the additional administrative requirements to onboard a significant number of resources in 2017, there was less bandwidth to perform the audits planned for 2017. Therefore, AAD planned for 43 audits in 2018 given the number of 2017 audits that were still in progress in 2018. It may be better to compare the 2019 plan of 117 audits to the 2017 plan of 160 audits.
<u>BCAP</u> : When presenting information about the average time required to complete BCAP audits for the High Cost Programs, it would be helpful if AAD could provide a breakdown of average audit durations for each individual High Cost program.	Audit duration results will be presented next year. In doing so, AAD will present the High Cost audit duration by fund (i.e., legacy vs. modernized).
<u>BCAP</u> : For the audit survey results, present SLD audit response metrics by stakeholders.	AAD will present the survey results for the Schools and Libraries respondents by stakeholder group at the October 2019 Audit Committee meeting.
<u>PQA</u> : What is the PQA trend related to last year?	AAD will present the PQA trends at the October 2019 Audit Committee meeting in Executive Session.
<u>Strategic Audit</u> : Provide a grading scale for internal audits based on the significance of the audit findings.	AAD will examine how to best communicate the overall condition of the audit. This will be discussed in Executive Session.

Audit and Assurance Division at a Glance



Milestone Legend	
3	Completed
2	On Track
1	At Risk

Discussion Topic – BCAP

Current Status

- Annual updates to audit procedures

Challenge and Mitigation Plan

- Challenge: Completing the annual audit plan timely due to turnover and the reallocation of resources to assist with other high-priority items.
- Mitigation Plan: Hired additional resources and filled existing vacancies.

BCAP Status As of June 30, 2019				
Program	Announced	Fieldwork	Reporting	Total
Contributor Revenue	1	8	2	11
High Cost	0	6	17	23
Lifeline	0	14	4	18
Schools and Libraries	0	8	28	36
Rural Health Care	0	2	3	5
Total	1	38	54	93

Discussion Topic – PQA

Current Status

- The PQA team has expanded the scope of its procedures.

Challenge and Mitigation Plan

- Challenge: The expansion of scope presents significant challenges with resources; thus, putting AAD at risk for missing the FCC required deadline for IPR reporting.
- Mitigation Plan: BCAP team members were reassigned to work on the expanded procedures for PQA testing.

PQA Status As of June 7, 2019				
Program	Sample Size	Announced	In Progress	Completed
High Cost	200	200	162	38
Lifeline	278	278	227	51
Schools and Libraries	360	360	306	54
Rural Health Care	410	410	400	10
Total	1,248	1,248	1,095	153

Discussion Topic – SA

Current Status

- The 18-month audit plan was developed and is presented for Audit Committee approval (*see Item a3*).
- Ongoing Audits
 - Corporate Credit Card
 - Corrective Action Plans of the Schools and Libraries Risk Assessment

Challenge and Mitigation Plan

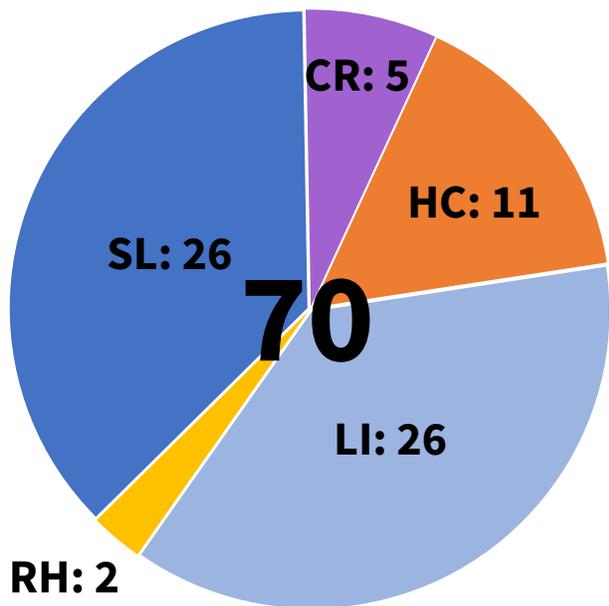
- None at this time.

Operational Results

Briefing book, executive summary materials, discussion in Executive Session.

October 1, 2018 – June 30, 2019

AUDITS RELEASED



NEW/NOVEL FINDINGS



AUDITS REFERRED TO FCC: 7

RECOMMENDED RECOVERY VS DISBURSEMENT AMOUNT (\$ MIL)



AUDIT RESULTS AND EXPENSES



PQA CASES IN PROGRESS

Program	Cases	Disbursements Audited (\$ MIL)
HC	200	\$114,915,092
LI	278	\$53,097,152
SL	360	\$153,858,092
RH	410	\$48,897,037
Total	1,248	\$370,767,373

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).
Holding Company Audit	FCC Chairman Pai directed USAC on July 11, 2017 to identify and audit the top ten eligible telecommunications carriers with the highest number of potentially ineligible subscribers based on the results of a Government Administrative Office (GAO) Report.
Forensic Audit	The Chairman of the Committee on Homeland Security and Governmental 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.
IPR	Improper Payment Rate. The estimated percentage of improper payments made to beneficiaries of the Universal Service Fund.
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.
SA	Strategic Audit. The internal audit team within AAD that performs audits of USAC’s operations (formerly known as Corporate Assurance).
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.