

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

USAC Offices 700 12th Street, N.W., Suite 900 Washington, D.C. 20005

JULY 27, 2020		<i>Estimated Duration in Minutes</i>
<u>OPEN SESSION</u>		
Chair	a1. Consent Items (each item is available for discussion upon request): A. Approval of Audit Committee Meeting Minutes of April 28, 2020 C. Annual Review of USAC’s Systems of Internal Control (<i>See aAC04cf</i>) D. Annual Review of USAC’s Financial Reporting Process (<i>See aAC05cf</i>)	3
Teleshia	i1. Audit and Assurance Business Update <ul style="list-style-type: none"> • Administrative Scorecard for Audit and Assurance Activities • Q2 2020 Update on Audit and Assurance Administration (<i>For Information Only</i>) 	15

JULY 28, 2020		<i>Estimated Duration in Minutes</i>
<u>OPEN SESSION</u>		
Chair	a1. Consent Items (each item is available for discussion upon request): B. Approval of moving all <i>Executive Session</i> items into <i>Executive Session</i>	2

<u>EXECUTIVE SESSION</u>		<i>Estimated Duration in Minutes</i>
Confidential – Executive Session Recommended		
Charlie/ PwC	a2. Acceptance of USAC’s 2019 Annual Financial Statement Audit and Agreed-Upon Procedures Review	30
Teleshia	a3. Approval of Revised Strategic Audit Plan	10
Teleshia	i2. Audit and Assurance Division Business Update (<i>Continued</i>) <ul style="list-style-type: none"> • Impact of COVID-19 on Audits and Assessments • Lifeline Non-Usage Audit • High Cost Modernized Audits • Strategic Audits 	15
Teleshia	a4. Annual Review of USAC’s Systems of Internal Controls	-
Teleshia	a5. Annual Review of USAC’s Financial Reporting	-

Next Scheduled USAC Audit Committee Meeting

Monday, October 26, 2020 8:30 a.m. – 9:45 a.m. USAC Offices, Washington, D.C.
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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 resolution below:

- A. Committee meeting minutes of April 28, 2020 (*see Attachment A*).

- C. Annual Review of USAC's Systems of Internal Control. In accordance with Section III.F of the Committee's Charter, the Committee is required to review the adequacy of USAC's system of internal controls (*See aAC04cf*; if discussion is needed, it will be conducted in *Executive Session*).

- D. Annual Review of USAC's Financial Reporting Process. In accordance with Section III.C of the Committee's Charter, the Committee, is required to review the integrity of USAC's financial reporting process (*See aAC05cf*; if discussion is needed it will be conducted in *Executive Session*).

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 RESOLUTIONS:

RESOLVED, that the USAC Audit Committee hereby approves the Committee meeting minutes of April 28, 2020; and

RESOLVED FURTHER, that the USAC Audit Committee accepts the review of the adequacy of USAC's system of internal controls; and

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

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

AUDIT COMMITTEE MEETING
Tuesday, April 28, 2020

(DRAFT) MINUTES¹

Due to the temporary closure of USAC's offices in Washington, D.C. in response to the COVID-19 pandemic, the quarterly meeting of the Audit Committee (Committee) of the USAC Board of Directors (Board) was conducted by web conference on Tuesday, April 28, 2020. Mr. Geoff Feiss, Committee Chair, called the meeting to order at 10:07 a.m. Eastern Time, with a quorum of all five Committee members present:

Choroser, Beth – Vice Chair	Gillan, Joe
Feiss, Geoff – Chair	Tinic, Atilla
Fontana, Brent	

Other Board members and officers of the corporation present:

Ayer, Catriona – Vice President of Shared Services
Beckford, Ernesto – Vice President, General Counsel, and Assistant Secretary
Beyerhelm, Chris – Vice President of Enterprise Portfolio Management
Buzacott, Alan – Member of the Board
Davis, Craig – Vice President of Schools and Libraries
Delmar, Teleshia – Vice President of Audit and Assurance
Domenech, Dr. Daniel – Member of the Board
Freeman, Sarah – Member of the Board
Gaither, Vic – Vice President of High Cost
Garber, Michelle – Vice President of Enterprise Resource Program
Gerst, Matthew – Member of the Board
Gregory, Amber – Member of the Board
Hutchinson, Kyle – Vice President of IT and Chief Information Officer
Mason, Ken – Member of the Board
Polk, Stephanie – 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
Wade, Dr. Joan – Member of the Board
Waller, Jeff – Member of the Board

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.

Wein, Olivia – Member of the Board
Wibberly, Dr. Kathy – Member of the Board

Others present:

<u>NAME</u>	<u>COMPANY</u>
Anderson, Sharman	Hewlett Packard Enterprise
Augustine, Steve	Kelley Drye & Warren LLP
Beach, Cyndi	USAC
Benham, Cathy	CMS Consulting Inc.
Butler, Stephen	USAC
Campos, Rosy	CMS Consulting Inc.
Carroll, Kathy	CMS Consulting Inc.
Cruzan, Cathy	Funds For Learning
D'Aguiar, J'amie	USAC
Goode, Vernell	USAC
Hall, Candice	CMS Consulting Inc.
Hamm, Aaron	USAC
James, Christine	USAC
Kaplan, Peter	Hewlett Packard Enterprise
Kriete, Debra	SECA
Lee, James	USAC
Lock, Sean	Funds For Learning
Mitchell, Tamika	USAC
Nelbach Nick	USAC
Nuzzo, Patsy	USAC
Samuels, Victoria	USAC
Tiwari, Tanya	USAC

OPEN SESSION

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

- a1. Consent Items.** Mr. Feiss presented this item to the Committee.
- A.** Committee meeting minutes of January 27, 2020.
 - B.** Approval of moving all *Executive Session* items into *Executive Session*:
 - (1) **i2** – USAC Audit and Assurance Division Business Update (*Continued*). 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) **a2** – Action on Two Audit and Assurance Division Strategic Audit Reports. USAC management recommends that this matter be discussed in *Executive Session* because it relates to *specific internal*

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

- (3) **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.

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

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 27, 2020; (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.** The Committee received a report on the work performed in the Beneficiary and Contributor Audit Program and the Payment Quality Assurance program. Mr. Feiss noted that the report was provided for *information only* and would be publically posted on the USAC’s website. No discussion was held.

At 10:10 a.m. Eastern Time, on a motion duly made and seconded, the Committee recessed and reconvened in *Executive Session* at 11:17 a.m. Eastern Time for the purpose of discussing the confidential items noted above. Only members of the Board and USAC staff were present.

EXECUTIVE SESSION

- i2. Audit and Assurance Division Business Update.** Ms. Delmar presented a report to the Committee covering the following:
- Supply Chain Audits
 - Lifeline Non-usage Audits
 - Impact of COVID-19 on Audit Operations
 - Strategic Audits
- a2. Action on Two USAC Audit and Assurance Division Strategic Audit Reports.** Ms. Delmar presented this item for consideration, providing an overview and responding to questions regarding the strategic audits.

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

RESOLVED, that the USAC Audit Committee, having reviewed the two USAC Audit and Assurance Division strategic audit reports of USAC's Service Level Agreements with Sutherland and Conduent, accepts the recommendation of USAC management and hereby deems the reports final.

- i3. **Audit Committee *Executive Session* with USAC's Vice President of Audit and Assurance.** Mr. Feiss noted that this item would be omitted until the next in-person meeting.

OPEN SESSION

At 11:52 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 discussed item i2 and took action on item a2.

On a motion duly made and seconded, the Committee adjourned at 11:53 a.m. Eastern Time.

/s/ Ernesto Beckford
Assistant Secretary



Audit & Assurance Business Update

Audit Committee Meeting

July 27, 2020

Agenda

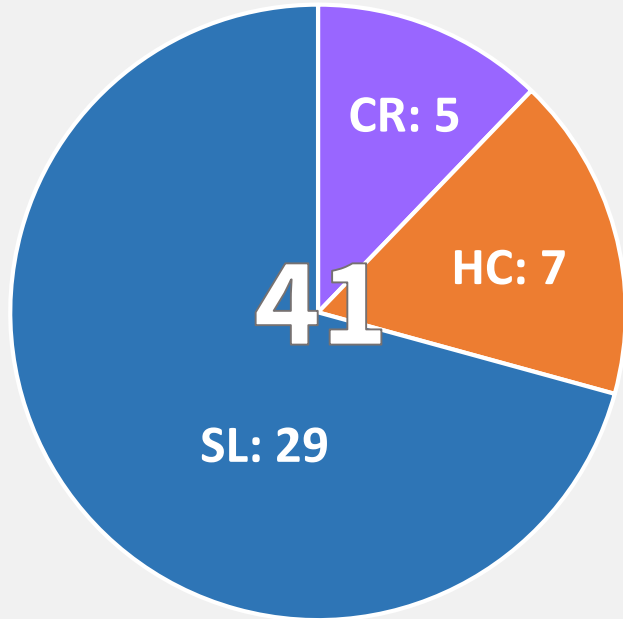
Audit and Assurance

Topic	Description	Purpose	Presenter	Length
Operational Results	Key outcomes from BCAP audits	Informational	Teleshia	10 min
Appendix	Glossary	Informational		

Operational Results

October 1, 2019 – June 30, 2020

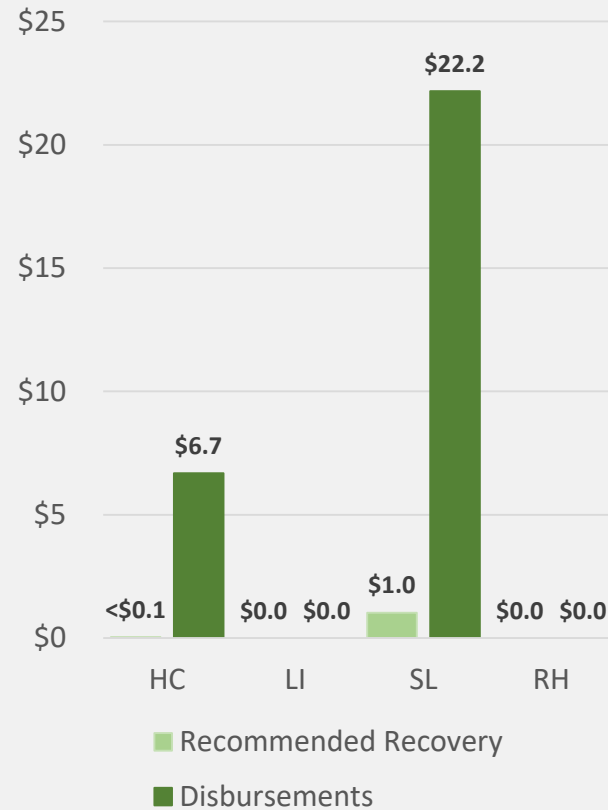
AUDITS RELEASED



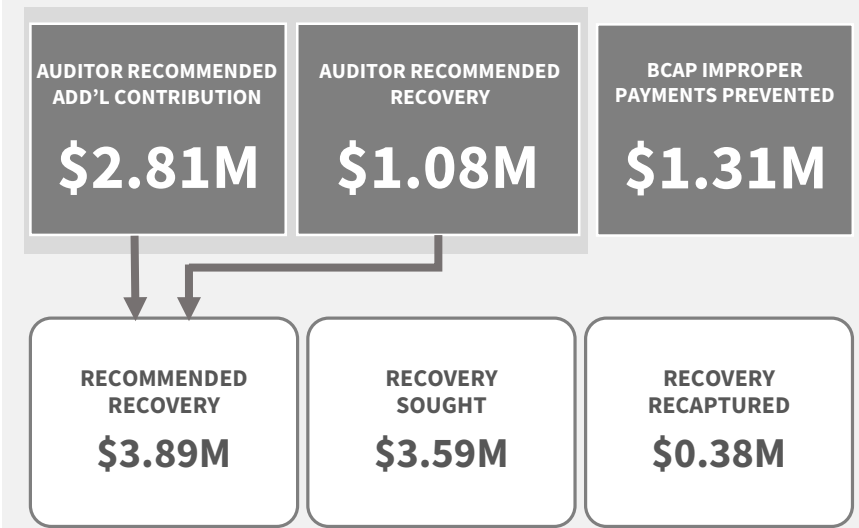
KEY AUDIT OBSERVATIONS



AUDITOR RECOMMENDED RECOVERY vs DISBURSEMENT AMOUNT (\$ MIL)



BCAP FINANCIAL RESULTS



PQA CASES IN PROGRESS

Program	Cases	Disbursements Audited (\$ MIL)
HC	180	\$108,370,300
LI	250	\$79,332,485
SL	400	\$40,318,785
RH	375	\$111,103,728
Total	1,205	\$339,125,298

Operational Results

Key Audit Observations

October 1, 2019 – June 30, 2020

Contributor Revenue

- Filer incorrectly reported end user revenue as reseller revenue.

High Cost

- **Funds Not Used for High Cost Purposes**

- Beneficiary used High Cost support for unallowable activities that are not permitted by FCC Rules.

- **Improper Calculation of Exogenous Cost**

- Beneficiary did not use its data from the correct year and incorrectly reported its exogenous cost.

Operational Results

Key Audit Observations

October 1, 2019 – June 30, 2020

Schools & Libraries

- **Children’s Internet Protection Act (CIPA) Violations**

- Consortia lead did not collect FCC Forms 479 for its members.

- **Inadequate Competitive Bidding Process**

- Beneficiary considered non-price factors when awarding scores in the Price category during the bid evaluation.
- Beneficiary’s Consultant and Service Provider had relationship that compromised the outcome a competition.

Operational Results

Key Audit Observations

October 1, 2019 – June 30, 2020

Schools & Libraries *(Continued)*

- **Lack of/Inadequate Documentation**

- Beneficiary did not provide documentation for the audit.
- The state awarded contracts to four service providers but the Beneficiary did not conduct a mini-bid.

- **Service Provider or Beneficiary Over-Invoiced SLP**

- Beneficiary did not receive reimbursement from defunct Service Provider.
- Defunct Service Provider did not provide services during the funding year and did not reimburse the Beneficiary.

Operational Results

Key Audit Observations

October 1, 2019 – June 30, 2020

Rural Health Care

- Service Provider involvement in the Health Care Providers' application process, the method used for reasonableness of rural rates, and its billing and collection of urban rates.
- Service Provider and Consultant had relationship that compromised the outcome a competition.

Appendix A: Glossary of Terms

Term	Definition
AAD	Audit and Assurance Division. An organization within USAC with the mission to preserve the integrity of universal service funds and USAC's corporate resources by conducting objective audits, performing quality assessments and evaluating the efficiency and effectiveness of USAC's operations.
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).
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.
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).

Universal Service Administrative Company Audit Committee Meeting

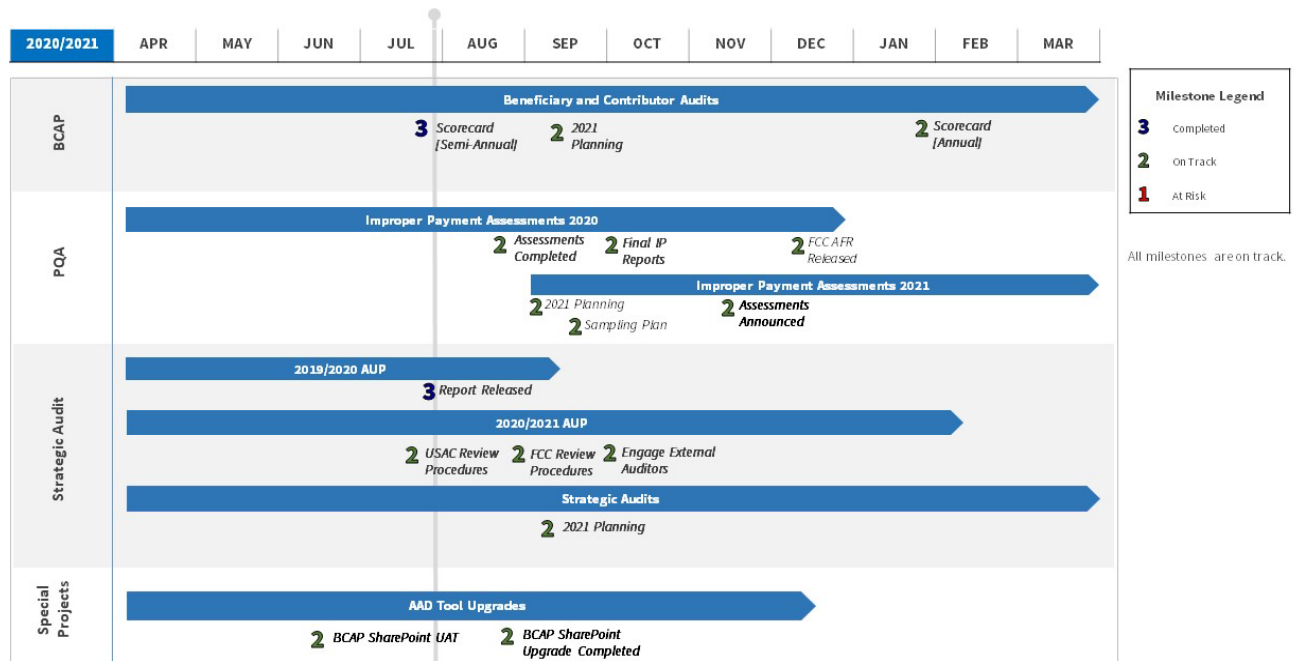
INFORMATION ITEM

Q2 2020 Update on Audit and Assurance Administration

Information Presented

This information paper provides an update on the status of activities performed by the USAC Audit and Assurance Division (AAD). The activities reported in this paper include the work performed in the Beneficiary and Contributor Audit Program (BCAP), the Payment Quality Assurance (PQA) program, and the Strategic Audit function within AAD.

Audit and Assurance Division at a Glance



Beneficiary and Contributor Audit Program (BCAP)

BCAP is designed to assess beneficiary and contributor compliance with the Federal Communications Commission (FCC) rules and requirements. The combined status of all BCAP audits in process is summarized in the table below.

**Audits in Process
As of June 25, 2020**

Audit Status				
Program	Announced	Fieldwork	Reporting	Total
CR	1	3	2	6
HC	0	13	20	33
LI	0	16	6	22
SL	0	12	50	62
RHC	0	12	4	16
Total	1	56	82	139

Payment Quality Assurance (PQA) Program

PQA is designed to assess the accuracy of Universal Service Fund (USF) disbursements and determine whether improper payments exist. The PQA program also assists the FCC in meeting its reporting obligations under the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).¹ The combined status of all PQA assessments in process is summarized in the table below.

**Assessments in Process
As of June 19, 2020**

PQA Status				
Program	Sample Size	Announced	In Progress	Completed
HC	180	180	43	137
LI	250	250	215	35
SL	375	375	369	6
RHC	400	400	341	59
Total	1,205	1,205	968	237

¹ See The Improper Payments Elimination and Recovery Act of 2012, Pub L. No. 112 -248 (Jan. 10, 2013).

**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:

- B.** Approval of moving all *Executive Session* items into *Executive Session*:
- (1) **a2** – Acceptance of USAC’s 2019 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.
 - (2) **a3** – Approval of the Revised July 2019 – December 2020 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.
 - (3) **i2** – USAC Audit and Assurance Division Business Update (*Continued*). 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 and may also include information about USAC’s *procurement strategy and contract administration*.
 - (4) **a4** – Annual Review of USAC’s System of Internal Controls. USAC management recommends that this matter be conducted 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.
 - (5) **a5** – Annual Review of USAC’s Financial Reporting Process. USAC management recommends that this matter be conducted 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.

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 discussion in *Executive Session* of the items noted above.