



Audit Committee Briefing Book

Open Session

Available For Public Use

October 26, 2020

Virtual Meeting

Universal Service Administrative Company Offices

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

Washington, D.C. 20005

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

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

OCTOBER 26, 2020 <u>OPEN SESSION</u>		<i>Estimated Duration in Minutes</i>
Chair	a1. Consent Items (each item is available for discussion upon request): A. Approval of Audit Committee Meeting Minutes of July 27 and July 28, 2020. B. Approval of moving all <i>Executive Session</i> items into <i>Executive Session</i> C. Annual Assessment of the Independence and Financial Literacy of USAC Audit Committee Members	5
Teleshia	i1. Audit and Assurance Business Update <ul style="list-style-type: none"> • Update on Audit and Assurance Division Administration 	10

OCTOBER 27, 2020 <u>EXECUTIVE SESSION</u> Confidential – <i>Executive Session Recommended</i>		<i>Estimated Duration in Minutes</i>
Teleshia	i2. Audit and Assurance Business Update (<i>Continued</i>) <ul style="list-style-type: none"> • Supply Chain Audit Strategy • Payment Quality Assurance (PQA) 	30
Teleshia	a2. Review of the Audit and Assurance Division Charter	5
Teleshia	a3. Review of Revised Strategic Audit Plan	10

Next Scheduled USAC Audit Committee Meeting

January 25-26, 2021 Virtual Meeting
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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 July 27 and July 28, 2020 (*see Attachment A-1 and A-2*).

- B. Approval of moving all *Executive Session* items into *Executive Session*:
 - (1) **i2** – 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** – Review of USAC’s Audit and Assurance Division Charter. USAC management recommends that this matter be discussed in *Executive Session* because it relates to *specific internal controls, and/or confidential company data* that would constitute a discussion of internal rules and procedures.
 - (3) **a3** – Review of the Revised 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.

- C. Acceptance of the Annual Assessment of the Independence and Financial Literacy of USAC Audit Committee Members. In accordance with Section II.A of the Committee’s Charter, the Committee members are required to meet established independence requirements (*see Attachment C*).

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:
(1) the Committee meeting minutes of July 27 and July 28, 2020; and (2) discussion in *Executive Session* of the items noted above; and

RESOLVED 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.

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

AUDIT COMMITTEE MEETING
Monday, July 27, 2020

(DRAFT) MINUTES¹

Due to the COVID-19 pandemic, USAC continued mandatory telework; therefore the quarterly *Open Session* meeting of the Audit Committee (Committee) of the USAC Board of Directors (Board) was conducted by web conference on Monday, July 27, 2020. Mr. Geoff Feiss, Committee Chair, called the meeting to order at 10:00 a.m. Eastern Time, with a quorum of three of the five Committee members present:

Choroser, Beth – Vice Chair Gillan, Joe
Feiss, Geoff – Chair

Members of the Committee not present:

Fontana, Brent
Tinic, Atilla

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 – Chief Administrative Officer
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
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
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

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.

Wade, Dr. Joan – Member of the Board
Waller, Jeff – Member of the Board
Wein, Olivia – Member of the Board
Wibberly, Dr. Kathy – Member of the Board

Others present:

<u>NAME</u>	<u>COMPANY</u>
Augustino, Steve	Kelley Drye & Warren LLP
Benham, Cathy	CMS Consulting Inc.
Campos, Rosy	CMS Consulting Inc.
DiVo, Victor	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
LeNard, Dave	E-Rate Elite Services, Inc.
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 April 28, 2020.
 - C.** Annual Review of USAC’s Systems of Internal Controls. 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*).
 - 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*).

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

RESOLVED, that the USAC Audit Committee hereby approves the Committee meeting minutes of 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.

- i1. Audit and Assurance Division Business Update.** Ms. Delmar presented PowerPoint slides covering the operational results from the Beneficiary and Contributor Audit Program to the Committee. A Q2 2020 Update on Audit and Assurance Administration report was provided for *information only*. The report was publically posted on the USAC's website. No discussion was held.

On a motion duly made and seconded, the Committee adjourned at 10:24 a.m. Eastern Time, with Mr. Feiss noting that an *Executive Session* meeting of the Audit Committee would be held on July 28, 2020.

/s/ Ernesto Beckford
Assistant Secretary

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

AUDIT COMMITTEE MEETING
Tuesday, July 28, 2020

(DRAFT) MINUTES¹

Due to the COVID-19 pandemic, USAC continued mandatory telework; therefore the quarterly *Executive Session* meeting of the Audit Committee (Committee) of the USAC Board of Directors (Board) was conducted by web conference on Tuesday, July 28, 2020. Mr. Geoff Feiss, Committee Chair, called the meeting to order at 10:00 a.m. Eastern Time, with a quorum of four of the five Committee members present:

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

Member of the Committee not present:

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 – Chief Administrative Officer
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
Jacobs, Ellis – Member of the Board
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

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.

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

Others present:

<u>NAME</u>	<u>COMPANY</u>
Curtis, Shaun	USAC
DiVo, Victor	USAC
Goode, Vernell	USAC
Hamm, Aaron	USAC
James, Christine	USAC
Lee, James	USAC
Leonard, Tom	PricewaterhouseCoopers LLP
Little, Chris	USAC
Mitchell, Tamika	USAC
Nelbach Nick	USAC
Nuzzo, Patsy	USAC
Samuels, Victoria	USAC
Tiwari, Tanya	USAC
Tuinstra, Jason	PricewaterhouseCoopers LLP

OPEN SESSION

a1. Consent Items. Mr. Feiss presented this item to the Committee.

- 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

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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.

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

RESOLVED, that the USAC Audit Committee hereby approves discussion in *Executive Session* of the items noted above.

At 10:04 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 listed above. Only members of the Board, USAC staff, Mr. Leonard, and Mr. Tuinstra were present.

EXECUTIVE SESSION

- a2. Acceptance of USAC's 2019 Annual Financial Statement Audit and Agreed-Upon Procedures Review.** Mr. Salvator introduced Mr. Leonard and Mr. Tuinstra to present the results of the 2019 Annual Financial Statement Audit and Agreed-Upon Procedures Review to the Committee.

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

RESOLVED, that the USAC Audit Committee, having reviewed the USAC 2019 Financial Statement Audit Report, as submitted by PricewaterhouseCoopers LLP, hereby accepts the final report;

RESOLVED FURTHER, that the USAC Audit Committee, having reviewed the USAC 2019 Agreed-Upon Procedures Review Report, as submitted by PricewaterhouseCoopers LLP, hereby accepts the final report.

At 10:30 a.m. Eastern Time, the meeting continued with members of the Board and USAC staff present.

- a3. Approval of Revised Strategic Audit Plan.** Ms. Delmar presented a report to the Committee suggesting revisions to the July 2019 – December 2020 Strategic Audit Plan. After discussion, the Committee tabled approval of the revised Strategic Audit Plan.
- i2. Audit and Assurance Business Update (*Continued*).** Ms. Delmar presented PowerPoint slides covering the following to the Committee:
- Impact of COVID-10 on Audits and Assessments
 - Lifeline Non-Usage Audit
 - High Cost Modernization Audits
 - Strategic Audits

OPEN SESSION

At 11:04 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 item a2 discussed item i2, and after discussion, tabled item a3.

On a motion duly made and seconded, the Committee adjourned at 11:04 a.m. Eastern Time.

/s/ Ernesto Beckford
Assistant Secretary

Attachment C
Annual Assessment of the Independence and Financial Literacy
of USAC Audit Committee Members

Action Requested

In accordance with the Audit Committee Charter (Charter), the Audit Committee (Committee) of the USAC Board of Directors is required to assess the independence and financial literacy of its members to ensure that the Committee can adequately fulfill its roles and responsibilities. This issue paper documents the assessment of the Committee made by the USAC Audit and Assurance Division (AAD).

Discussion

The Charter requires that the Committee assess the independence and financial literacy of its members at least annually to verify that the Committee is independent and has a sufficient level of financial expertise to perform its duties.

The following is a summary of the Charter’s independence and financial literacy requirements and an assessment of each Committee member’s compliance with specific sections:

Audit Committee Charter (Section II, A1c, 2a-c)	Joseph Gillan	Geoff Feiss	Beth Choroser	Atilla Tinic	Brent Fontana
[The member] is not and has not been employed in an executive capacity by the Company for at least five years prior to appointment to the Audit Committee.	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
[The member] is not an advisor or consultant to the Company, and does not have a personal services contract or other business relationship with the Company.*	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>

strategies. Mr. Fontana received his Bachelor of Arts in Economics encompassing business, general economic theory, managerial accounting, legal communications, resource allocation, advanced statistical analysis, labor and international economics.

- Mr. Tinic is Senior Vice President and Chief Information Officer of DISH Network where he leads IT strategy and operations for the DISH TV, Sling TV and Wireless Groups. His focus is on delivering best-in-class customer, employee and partner experiences across the company's brands and businesses by delivering innovative technology services and solutions. Prior to his current role, he was Senior Vice President within Information Technology (IT) for CenturyLink, where he held leadership roles in Technology Transformation, Enterprise Business Support Systems and oversight of IT for the international regions. During his tenure at Level 3 Communications, Inc., he was Chief Information Officer, responsible for all global information technology functions. This included system architecture, application development and support, IT Operations and program management. While at tw telecom, inc. (tw telecom), Mr. Tinic was Vice President of IT where he lead all functions around business support systems. Mr. Tinic was also responsible for revenue assurance and billing operations for 10 years while at tw telecom. In this role, he worked closely with the Controller and Chief Accounting Officer by managing internal controls that were subject to Sarbanes-Oxley (SOX) testing and reporting in conjunction with internal and external auditors. His significant experience in billing and financial systems provides a solid basis for understanding financial reporting and accounting controls.

The professional backgrounds noted above provide the Committee with adequate financial, telecommunications, and regulatory experience to sufficiently fulfill Committee roles and responsibilities. AAD has concluded that the members of the Committee as a whole fulfill the requirements for independence and financial literacy required by the Charter and recommends that the Committee accept this assessment.

Recommended USAC Audit Committee Action

APPROVAL OF THE FOLLOWING RESOLUTION:

RESOLVED 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.

Universal Service Administrative Company Audit Committee Meeting

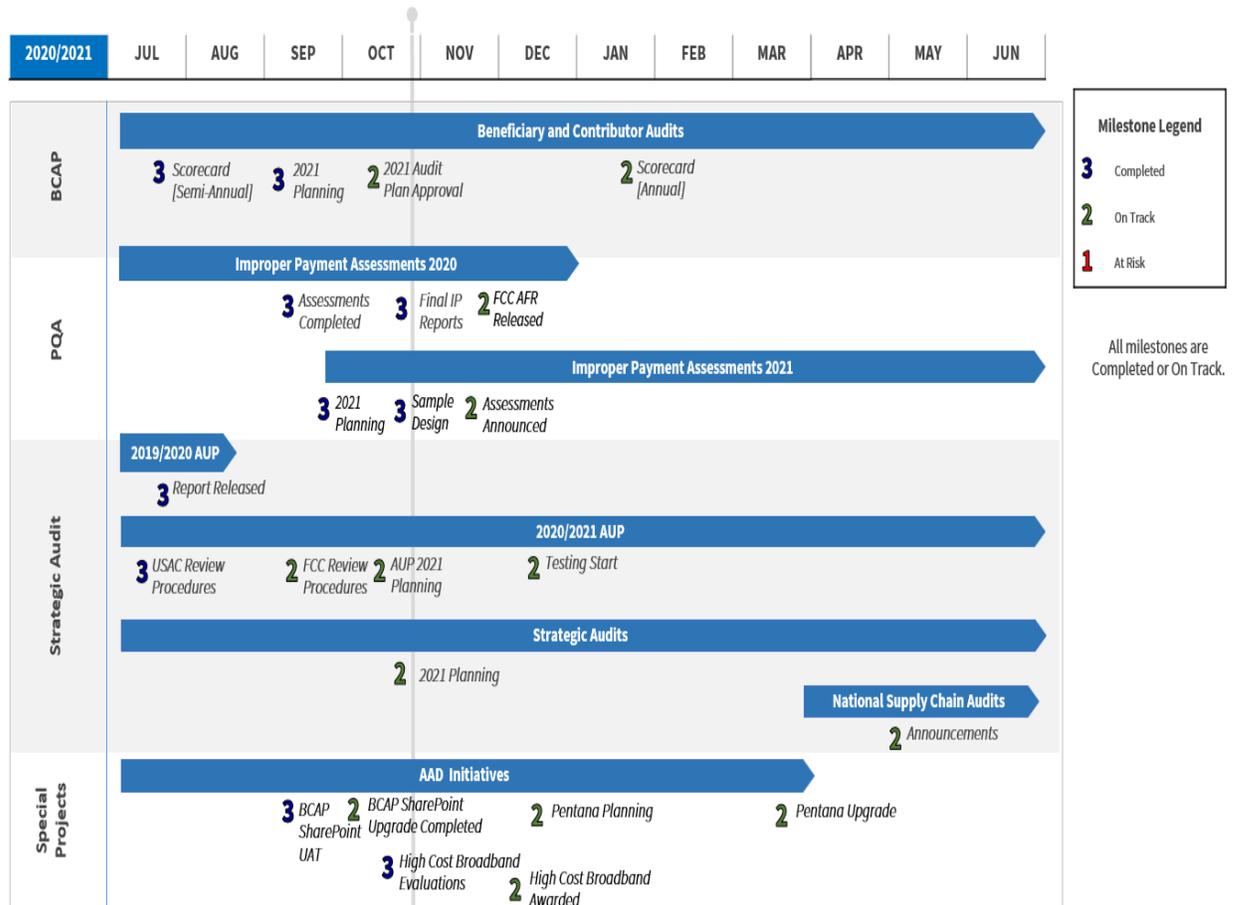
INFORMATION ITEM

Update on Audit and Assurance Division Administration

Information Presented

This information provides an update on the status of activities performed by the USAC Audit and Assurance Division (AAD). The activities 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 assesses beneficiary and contributor compliance with the Federal Communications Commission (FCC) rules. The combined status of all BCAP audits in process is in the table below.

**Audits in Process
As of September 14, 2020**

Audit Status				
Program	Announced	Fieldwork	Reporting	Total
CR	1	6	1	8
HC	0	6	20	26
LI	0	13	10	23
SL	4	8	46	58
RHC	0	18	6	24
Total	5	51	83	139

Payment Quality Assurance (PQA) Program

The PQA Program assesses the accuracy of Universal Service Fund (USF) disbursements and determines 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). The table below shows the number of Fiscal Year 2020 PQA assessments completed.

**Assessments Completed
As of September 14, 2020**

Program	Sample Size
High Cost	180
Lifeline	250
Schools & Libraries	375
Rural Health Care	400
Total	1,205

AAD is planning for the Fiscal Year 2021 PQA assessments. This work includes compiling disbursement data, working with the independent statistician to select samples, and updating the procedures to address any changes to the FCC's Rules and Orders and USAC's processes.

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