



Audit Committee

Briefing Book

Monday, January 29, 2024

2:15 p.m. - 3:35 p.m. Eastern Time

Available for Public Use

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, January 29, 2024 2:15 p.m. – 3:35 p.m. Eastern Time USAC Offices 700 12th Street, N.W., Suite 900 Washington, D.C. 20005</p>
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OPEN SESSION		<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 October 30, 2023</p> <p style="padding-left: 20px;">B. Approval of moving all <i>Executive Session</i> items into <i>Executive Session</i></p>	5
Chair	a2. Recommendation for Election of Committee Chair and Vice Chair	5
Chair	a3. Review of the 2024 Audit Committee Charter	5
Teleshia	<p>i1. Audit and Assurance Business Update</p> <ul style="list-style-type: none"> • 2023 Year in Review • Fiscal Year 2023 Operational Scorecard • Audit Aging Analysis • 2024 Audit Objectives • Roadmap 	30

EXECUTIVE SESSION Confidential – Executive Session Recommended		<i>Estimated Duration in Minutes</i>
Teleshia	a4. Action on One USAC Audit and Assurance Division Strategic Audit Report	15
Teleshia	a5. Approval of the 2024 Strategic Audit Plan	10
Teleshia	i2. Audit Committee Executive Session with USAC’s Vice President of Audit and Assurance	10

Next Scheduled USAC Audit Committee Meeting

<p>Monday, April 29, 2024 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 October 30, 2023 (*see Attachment A-1*).
- B. Approval of moving all *Executive Session* items into *Executive Session*:
 - (1) **a4** – Action on one USAC Audit and Assurance Division Strategic Audit Report. USAC management recommends that this matter be discussed in *Executive Session* because these reports relate to *specific internal controls or confidential company data* that would constitute a discussion of internal rules and procedures.
 - (2) **a5** – Approval of the 2024 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** – Audit Committee *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 Audit Committee of the USAC Board of Directors hereby approves: (1) the Committee meeting minutes of October 30, 2023; (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, October 30, 2023

(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, October 30, 2023. Mr. Geoff Feiss, Committee Chair, called the meeting to order at 2:16 p.m. Eastern Time, with a quorum of four of the five Committee members present:

Feiss, Geoff – Chair	Gillan, Joe
Fontana, Brent – <i>by telephone</i>	Schell, Julie Tritt

Members of the Committee not present:

Polk, Stephanie – Vice Chair

Other Board members and officers of the corporation present:

Beyerhelm, Chris – Vice President and Chief Administrative Officer
Butler, Stephen – Vice President of Shared Services
Buzacott, Alan – Member of the Board
Chalk, Indra – Member of the Board
Delmar, Teleshia – Vice President of Audit and Assurance
Gaither, Victor – Vice President of High Cost
Garber, Michelle – Vice President of Finance, Chief Financial Officer, and
Assistant Treasurer
Gregory, Amber – Member of the Board
O'Brien, Tim – Vice President of Lifeline
Sekar, Radha – Chief Executive Officer
Skriwan, Michael – Member of the Board
Sweeney, Mark – Vice President of Rural Health Care
Wein, Olivia – Member of the Board
Wibberly, Dr. Kathy – Member of the Board
Williams, Erin – Vice President, General Counsel, and Assistant Secretary

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.

Others present:

<u>NAME</u>	<u>COMPANY</u>
Boakye-Gyan, Carol	USAC
Brady, Jair	USAC
Claxton, Naomi	USAC
Goode, Vernell	USAC
Joiner, Chelsea	USAC
King, Ryan	USAC
Morgan, Meredith	USAC
Nuzzo, Patsy	USAC
Oliver, Lindsay	USAC
Robinson, Crystal	USAC
Santana-Gonzalez, Jeanette	USAC
Sauls, Lucas – <i>by telephone</i>	Maximus
Schrader, Theresa – <i>by telephone</i>	Broadband Legal Strategies
Ward, Rashonda	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.** Approval of Committee meeting minutes of July 24, 2023.
 - 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, and may also include discussion of *investigatory records or pending or contemplated enforcement action* against participants in the universal service support mechanisms.
 - (2) **a2** – Review of the Audit and Assurance Division Charter. USAC management recommends that this matter be discussed in *Executive Session* because the basis to support the changes relate to *specific internal controls and/or confidential company data* that would constitute a discussion of internal rules and procedures.
 - (3) **i3** – Audit Committee *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.

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- 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*).

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

RESOLVED, that the Audit Committee of the USAC Board of Directors hereby approves: (1) the Committee meeting minutes of July 24, 2023; (2) discussion in *Executive Session* of the items noted above; and

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.

- i1. **Audit and Assurance Business Update.** Ms. Delmar presented PowerPoint slides to the Committee for discussion covering the following topics:
- Q3 2023 Accomplishments
 - Plans for Q4 2023
 - Audit Aging Analysis
 - Roadmap

At 2:32 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing confidential items. Only members of the Board and USAC staff were present.

EXECUTIVE SESSION

- i2. **Audit and Assurance Business Update (Continued).** Ms. Delmar presented PowerPoint slides to the Committee for discussion covering the following topics:
- Improper Payment Results
 - Update on High Cost Modernized Audits
- a2. **Review of the Audit and Assurance Division Charter.** Ms. Delmar presented this item to the committee.

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

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

At 3:02 p.m. Eastern Time, on a motion duly made and seconded, the Committee continued in Executive Session with only members of the Board and Ms. Delmar present.

- i3. Audit Committee *Executive Session* with USAC’s Vice President of Audit and Assurance.** Per the guidelines in the approved Audit Committee Charter, Ms. Delmar met with members of the Audit Committee and Board of Directors in a confidential *Executive Session*.

OPEN SESSION

At 3:22 p.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 items i2 and i3 and took action on item a2.

On a motion duly made and seconded, the Committee adjourned at 3:22 p.m. Eastern Time.

/s/ Erin Williams
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 30, 2024.

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....¹

On January 30, 2023 the Board elected Geoff Feiss as Chair and Stephanie Polk as Vice Chair of the Audit Committee.

At their January 29, 2024 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 30, 2024.

Recommended USAC Audit Committee Action

APPROVAL OF THE FOLLOWING RESOLUTION:

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 _____

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

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

**Review of the 2024 Audit Committee Charter
(Same as aBOD01D-1)**

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 reviewed the current Charter to determine if any changes should be recommended to the Committee and the Board of Directors for consideration. AAD does not recommend any substantive changes to the Charter, only very minor formatting, or grammatical changes.

Attachment A provides the existing Charter with recommended changes in redline, and **Attachment B** provides a clean version of the revised Charter.

The Committee is requested to recommend 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 revised Audit Committee Charter presented by the USAC Audit and Assurance Division, recommends that the USAC Board of Directors approve the revised Audit Committee Charter.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
AUDIT COMMITTEE CHARTER

January 2024

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 over operations (internal controls), Universal Service Fund (USF) program integrity, 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, Universal Service Fund Beneficiary and Contributor audits, Payment Quality Assessments; Supply Chain Audit Program 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 Strategic 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 USF strategic audit plans that include a focus on high-risk areas as identified through past audit results, ongoing organizational projects, risk management trends, and data analytics. Also, assist USAC by recommending solutions to mitigate common audit findings and suggestions to build a more collaborative audit experience for USF Universal Service Fund participants.~~

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.

7.6.

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 Strategic Audit Plan in consultation with the Vice President of Audit and Assurance. In addition to projects outlined in the Strategic Audit Plan, the Committee may from time to time request and / or approve 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.
 - b. Provide insight to the 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 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 [Statement Audit](#) 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 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 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 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 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 Strategic 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 (as amended) 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, the Vice President of Audit and Assurance and the USAC Board of Directors, 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 and for Supply Chain audits. 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.

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
AUDIT COMMITTEE CHARTER**

January 2024

- 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 over operations (internal controls), Universal Service Fund (USF) program integrity, 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, Universal Service Fund Beneficiary and Contributor audits, Payment Quality Assessments; Supply Chain Audit Program 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 Strategic Audit Plan to verify USAC's financial and operational integrity.
 5. Provide insight and recommendations to establish cost effective USF audit plans that include a focus on high-risk areas as identified through past audit results, ongoing organizational projects, risk management trends, and data analytics. Also, assist USAC by recommending solutions to mitigate common audit findings and suggestions to build a more collaborative audit experience for USF participants.
 6. 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.

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 Strategic Audit Plan in consultation with the Vice President of Audit and Assurance. In addition to projects outlined in the Strategic Audit Plan, the Committee may from time to time request and / or approve 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.
 - b. Provide insight to the 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 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 Statement Audit 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 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 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 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 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 Strategic 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 (as amended) 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, the Vice President of Audit and Assurance and the USAC Board of Directors, 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 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 and for Supply Chain audits. 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.



Audit Committee

Audit and Assurance Business Update

Open Session

January 29, 2024



Agenda

- 2023 Year in Review
- Fiscal Year 2023 Operational Scorecard
- Audits and Assessments in Process
- 2024 Plans
- 2024 Audit Objectives
- Roadmap

2023 Year in Review

Function	2023 Accomplishments
Beneficiary and Contributor Audit Program (BCAP)	<ul style="list-style-type: none">• Announced 120 audits (10 CR, 38 HC, 15 LI, 40 E-Rate, and 17 RHC).• Completed 99 audits (6 CR, 41 HC, 14 LI, 21 E-Rate, and 17 RHC).<ul style="list-style-type: none">• 27 clean audits, 72 audits with findings (201 findings in total)• \$17.9M Monetary Effect, \$13.4M Recommended Recovery• Continued site visits for CAF II Model and RBE audits (approx. 5,500 site visits).• Submitted the Fiscal Year 2024 BCAP audit plan and updated audit procedures to the FCC.• Developed risk factors, updated procedures and provided training for Lifeline biennial audits.• Attended WTA and NECA Conferences to share key information about our BCAP and PQA processes, answer questions, and solicit feedback.• Conducted Top Common Findings webinars and provided key audit information for programmatic outreach initiatives.
Payment Quality Assurance (PQA)	<ul style="list-style-type: none">• Completed the Fiscal Year 2023 E-Rate and Lifeline improper payment testing; both programs showed improvement.• Initiated the Fiscal Year 2023 High Cost assessments.• Completed four quarters of Lifeline and ACP Program Integrity reviews.

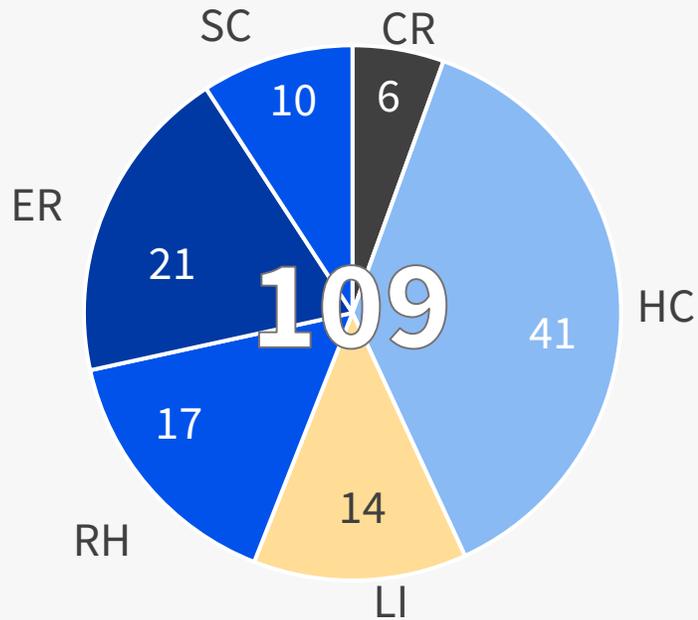
2023 Year in Review

Function	2023 Accomplishments
Supply Chain Audit Program (SCAP)	<ul style="list-style-type: none">Announced and completed 10 audits.<ul style="list-style-type: none">No audit findingsCompleted sample selection and obtained FCC approval for next batch of audits.
Strategic Audit (SA)	<ul style="list-style-type: none">Completed the Assurance of Expense Payment Audit.Completed the User Experience audit for Lifeline.<ul style="list-style-type: none">The audit results will be presented at the January 2024 Audit Committee meeting.PwC completed the 2022 Agreed Upon Procedures (AUP) and Financial Statement audit and kicked off the process for 2023 to be completed in 2024.

Fiscal Year 2023 Operational Results

October 1, 2022 – September 30, 2023

COMPLETED AUDITS



203 Open Audits in Process

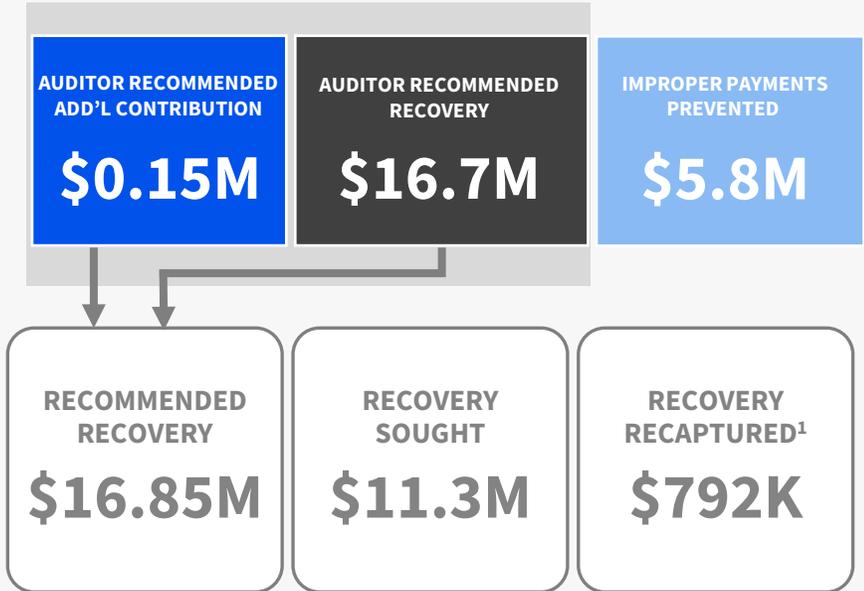
High Cost Modernized Audits:
4,380 site visits

AUDITOR RECOMMENDED RECOVERY (\$ MIL)



Audited \$ \$9B \$221M \$843M \$43M \$129M

FINANCIAL RESULTS



PQA IMPROPER PAYMENTS

Program	Disbursements Tested	Improper Payments
HC	\$73,547,785	TBD ²
LI	\$9,420,173	\$7,660
RH	N/A	N/A
E-Rate	\$130,621,215	\$2,336,695
Total	\$298,371,173	\$2,344,356

¹ \$7M collection in progress. \$3M is appeals

² Assessments remain in progress.

BCAP Audits in Process

The status of BCAP audits in process as of January 1, 2024

Program	Announced	Fieldwork	Reporting	Total
Contributor Revenue	1	10	6	17
High Cost	2	22	21	45
Lifeline	0	27	8	35
E-Rate	0	28	53	81
Rural Health Care	0	11	22	33
Total	3	98	110	211

BCAP Audits Aging Report

The aging report of BCAP audits in process as of January 1, 2024

Program	< 6 months	> 6 months	> 12 months	> 18 months	Total	Change from 10/01/2023
Contributor Revenue	3	7	1	6	17	(3)
High Cost	9	20	8	8	45	(17)
Lifeline	7	10	10	8	35	(6)
E-Rate	3	31	20	27	81	7
Rural Health Care	1	11	4	17	33	3
Total #	23	79	43	66	211	(36)
Total %	10.9%	37.4%	20.4%	31.3%	100%	N/A
Reporting Phase	3	19	29	62	113	(8)

Note: For the 109 audits > 12 months, 1 is with the audited entity, 68 are with USAC (AAD, Program, General Counsel), 39 are with the FCC, and one is ready for the next release.

PQA Assessments in Process

The status of PQA assessments in process as of January 1, 2024

Program	Announced	Fieldwork	Completed	Total
High Cost	0	130	0	130
Lifeline	0	145	0	145
E-Rate	0	233	0	233
Total	0	508	0	508

2024 Plans

Function	2024 Plans
Beneficiary and Contributor Audit Program (BCAP)	<ul style="list-style-type: none">• Announce all audits from the Fiscal Year 2024 BCAP plan.• Develop audit plan and procedures for Connect America Fund – Broadband Loop Support deployment obligation audits.• Revise audit programs to address new FCC Orders and incorporate lessons learned.• Develop, train, and retain institutional knowledge.
Payment Quality Assurance (PQA)	<ul style="list-style-type: none">• Perform testing of the Fiscal Year 2024 Lifeline and E-Rate assessments.• Complete Fiscal Year 2023 High Cost assessments.• Continue Lifeline and ACP non-usage testing (currently testing Q2 2023 and Q3 2023).
Supply Chain Audit Program (SCAP)	<ul style="list-style-type: none">• Complete all 10 audits in the Fiscal Year 2024 Plan.• Initiate planning activities for next batch of 24 audits.
Strategic Audit (SA)	<ul style="list-style-type: none">• Develop and present the 2024 SA plan to the USAC Audit Committee for approval.• Complete audits on the approved SA plan.

2024 Audit 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.

Contributor Revenue

Increase focus on how filers properly separate between USF assessable and non-assessable revenues on the FCC Form 499-A.

High Cost

Calculate monetary effect for failed deployment obligations.
Develop audit plan for CAF BLS for deployment obligations.

Lifeline

Increase focus on how carriers are identifying, tracking, and reporting qualifying usage.

E-Rate

COVID Waivers lifted; increase focus on testing Category 2 services.

Rural Health Care

Increase focus on rural and urban rates testing.

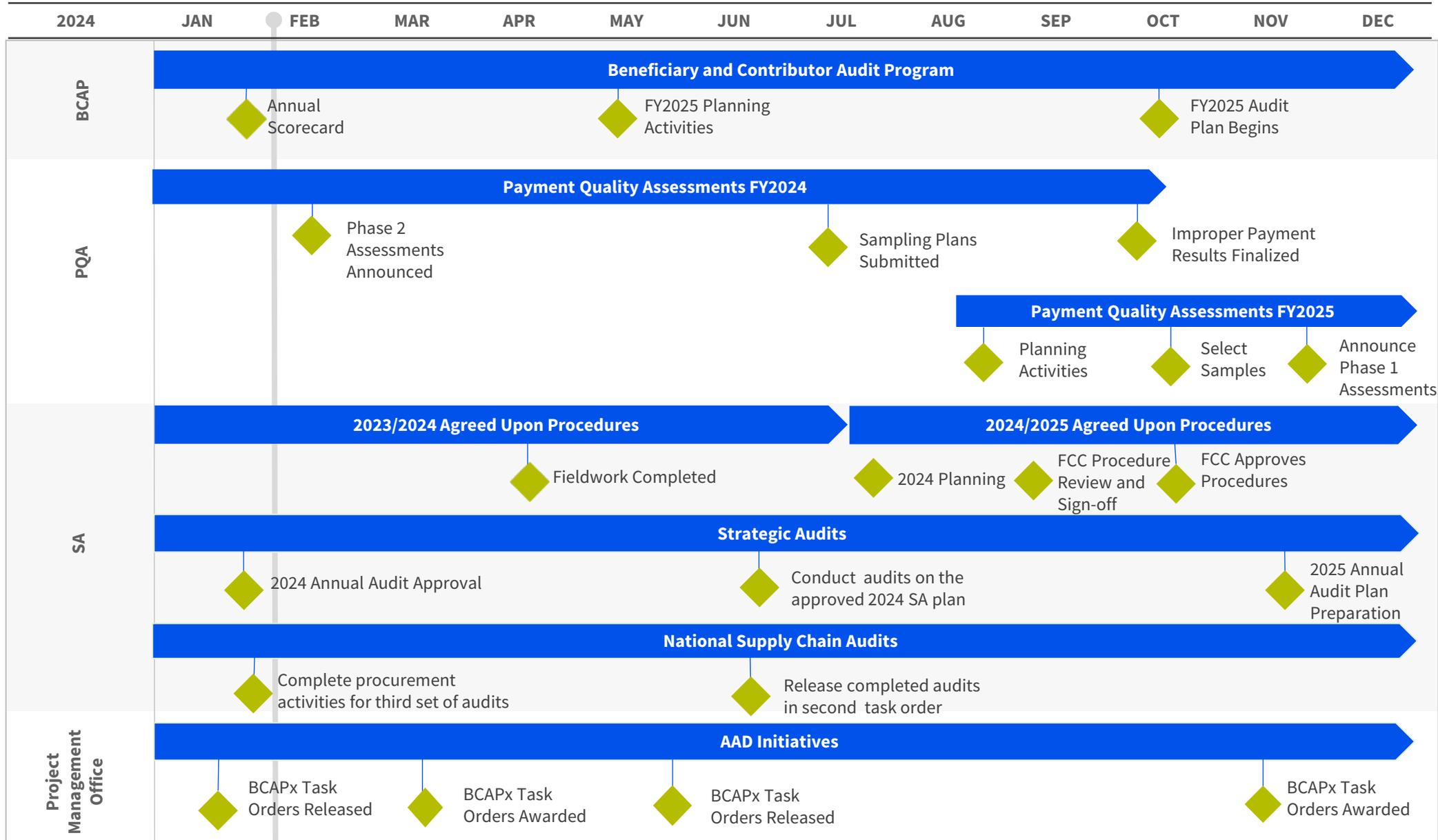
Supply Chain

Assess USF recipients' compliance with FCC requirements related to protecting the communications supply chain.

Audit Modernization Tool

Consolidate systems, eliminate manual processes, and support integrated data.

Roadmap



Milestone Legend

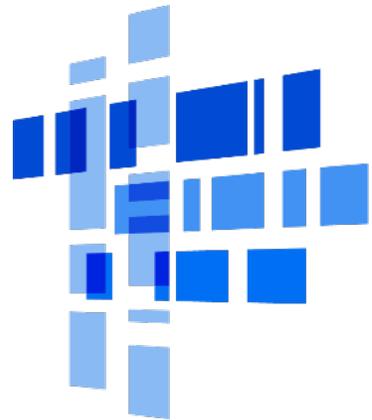
- At Risk
- On Track
- Completed

Appendix A: Glossary of Terms

Term	Definition
AAD	Audit and Assurance Division: An organization within USAC dedicated to preserving the integrity of universal service funds and USAC’s corporate resources by conducting objective audits, performing payment quality assessments, and evaluating the efficiency and effectiveness of USAC’s operations.
ACP	Affordable Connectivity Program: A \$14 billion federal program created through the Infrastructure Investment and Jobs Act to help low-income households pay for internet service and connected internet devices.
AUP	Agreed Upon Procedures: Annual review of USAC’s operations conducted by an external audit firm.
BCAP	Beneficiary and Contributor Audit Program: BCAP assesses beneficiary and contributor compliance with Federal Communications Commission (FCC) rules, orders, and program requirements (collectively, FCC Rules).
BCAPx	Beneficiary and Contributor Audit Program External Audits: BCAP audits performed by outsourced (outside) audit firms.
CR	Contributor Revenue: Audits of Contributor Revenue filers.

Appendix A: Glossary of Terms (Continued)

Term	Definition
E-Rate	Audits of E-Rate program participants.
HC	High Cost: Audits of High Cost program participants.
IP	Improper Payment.
LI	Lifeline: Audits of Lifeline program participants.
PQA	Payment Quality Assurance: PQA assesses the accuracy of Universal Service Fund disbursements and determines whether improper payments exist and assists the FCC in meeting its reporting obligations subject to the Payment Integrity Information Act.
RHC	Rural Health Care: Audits of Rural Health Care program participants.
SA	Strategic Audits: Strategic Audits assess USAC's compliance with FCC Rules, policies and procedures, and the effectiveness and efficiency of internal operations.
SCAP	Supply Chain Audit Program: SCAP assesses program participant compliance with FCC rules, orders, and program requirements (FCC Rules) related to protecting the communications supply chain.
USF	Universal Service Fund: The four universal service programs.



**Universal Service
Administrative Co.**