

National Supply Chain

Overview of USAC's Audit Process



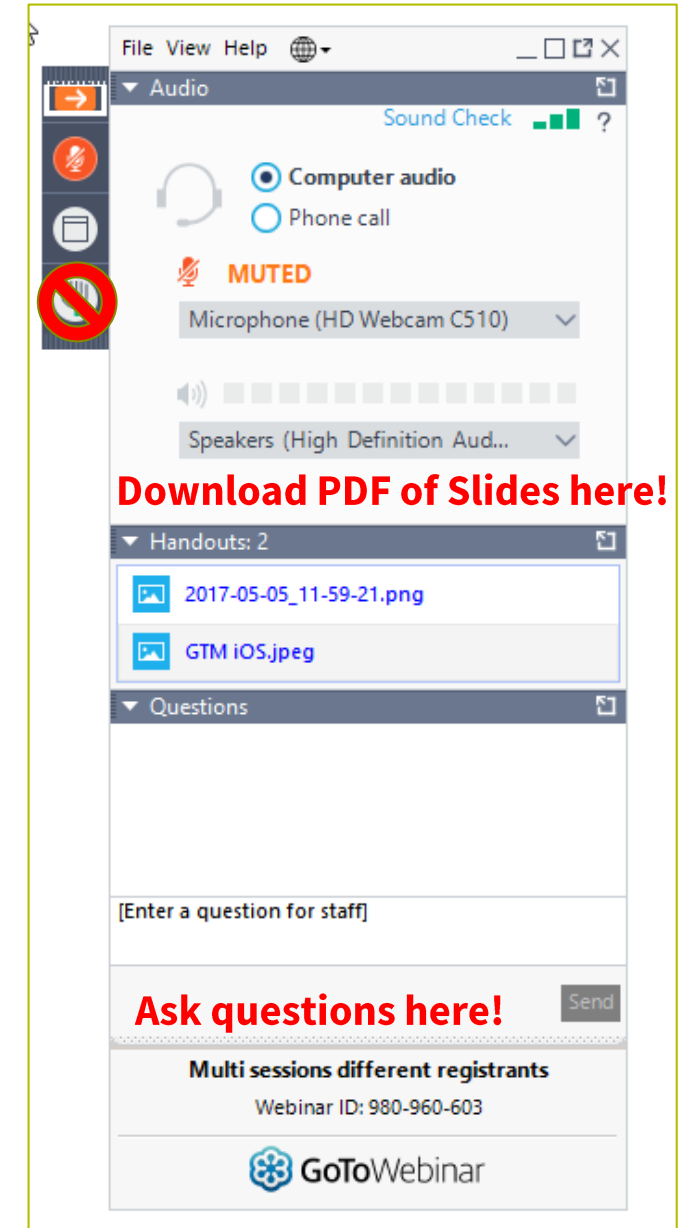
**Universal Service
Administrative Co.**

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Meet Our Team

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Agenda

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Introduction

- Effective January 3, 2020, [47 C.F.R. § 54.9](#) states, “No universal service support may be used to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services produced or provided by any company posing a national security threat to the integrity of communications networks or the communications supply chain.”
- On June 30, 2020, the FCC’s Public Safety and Homeland Security Bureau designated Huawei Technologies Company and ZTE Corporation, as well as their parents, affiliates, and subsidiaries, as covered companies.

Introduction (Continued)

- On March 12, 2021, the FCC placed Huawei, ZTE, Hytera, Hangzhou Hikvision, and Dahua on a list of covered equipment or services (“covered list”). The covered list is published by the FCC to designate of specific equipment and services through the covered list process outlined in section 2 of the Secure Networks Act.
- Recipients of universal service support may not use federal subsidies, including universal service funds, for telecommunications equipment or video surveillance equipment produced by Huawei, ZTE, Hytera, Hangzhou Hikvision, and Dahua.
- Section 54.10(a) became effective May 12, 2021, i.e. 60 days after the FCC released the covered list.

USAC's Role and Responsibilities

- As part of the new requirements in the National Security Supply Chain Order (FCC 19-121, released Nov. 26, 2019), the FCC directed USAC to implement audit procedures consistent with the adopted rules.
- In its role as the auditor, USAC will be responsible for determining compliance with the requirements of the report and order as indicated by the certifications made by USF recipients.

Audit Approach

- To determine compliance, USAC's audit objective will be to evaluate whether program participants have used USF funds and federal subsidies to purchase, obtain, maintain, improve, modify, or otherwise support, rent, lease or obtain any equipment or services provided or manufactured by companies on the covered list ("covered companies").
- The audits will cover a selected sample of USF recipients, including both program beneficiaries and service providers/carriers.
- If selected for an audit, all of the USF funds received during the audit period across all programs will come under review.

Highlights of Audit Approach

Criteria	Description
Audit Standards	Audits will be conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS).
Audit Team	<ul style="list-style-type: none">• USAC Auditors• USAC contracted audit firms• Telecom engineers
Audit Phases	<ul style="list-style-type: none">• Planning Phase – Announce audit, request documentation, hold entrance conference• Fieldwork Phase – Obtain documentation, perform testing• Reporting Phase – Discuss potential exceptions, draft audit report, hold exit conference
Audit Schedule	Audits will be announced on a rolling basis as resources are available.

Program Participant Responsibilities

- USF recipients are required to **affirmatively demonstrate** that no universal service funds were used to purchase, obtain, maintain, improve, modify, or otherwise support any equipment or services provided or manufactured by covered companies.
- This requirement includes the purchase of, rent, lease, maintained or otherwise obtained equipment of covered companies with federal subsidies made available through programs administered by the FCC.

How to Prepare

- Maintain documentation to affirmatively demonstrate compliance with FCC rules. Requested documentation in the audit may include, but is not limited to:
 - Network architecture diagrams;
 - Telecommunication asset listing;
 - USF expenditure details;
 - Details of transactions with providers of telecom equipment and services; and
 - Bookkeeping and other financial records to verify the flow of USF funds and certain federal subsidies received as well as USF funds and federal subsidies spent.

How to Prepare (Continued)

- USAC may conduct site visits to validate information reviewed. To adequately prepare:
 - Reconcile telecommunication asset list to physical equipment verification, including network assessment;
 - Identify assets funded with USF support and certain federal subsidies including manufacturer, serial numbers or any unique identifier;
 - Designate points of contact to support in-person and virtual site visits as appropriate.

Additional Information

- Complete the National Supply Chain certifications on applicable USF forms.
- Attend USAC and FCC webinars as scheduled, and review [Supply Chain FAQs](#).
- Send supply chain audit questions to outreach@usac.org.

Conclusion

- USAC recognizes that this is new terrain for all parties involved. We will work closely with the FCC to minimize audit related issues and ensure a smooth process.
- USAC will hold office hours to address audit specific questions later in 2022.

Questions?

Thank You!



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