



Audit Committee

Briefing Book

January 29, 2018

8:00 a.m. - 9:30 p.m. Eastern Time

Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, DC, 20005

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

<p>Monday, January 29, 2018 8:00 a.m. – 9:30 a.m. Eastern Time USAC Offices 700 12th Street, N.W., Suite 900 Washington, D.C. 20005</p>
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<u>OPEN SESSION</u>		<i>Estimated Duration in Minutes</i>
Chair	<p>a1. Consent Items (each available for discussion upon request):</p> <p style="padding-left: 20px;">A. Approval of Audit Committee Meeting Minutes of October 23, 2017.</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
Wayne	<p>a3. Approval of 2018 Audit Committee Charter.</p> <p style="text-align: center;"><i>Same as aBOD04</i></p>	5
Wayne	<p>i1. Business Update.</p> <ul style="list-style-type: none"> • Operational Update. <ul style="list-style-type: none"> ○ Beneficiary and Contributor Audit Program (BCAP). ○ Payment Quality Assurance (PQA). ○ Corporate Assurance. ○ Common Audit Findings and Corrective Action Plans. 	15

<u>EXECUTIVE SESSION</u>		
Wayne	<p>a4. Annual Review of the Adequacy of USAC’s System of Internal Controls by the USAC Internal Audit Division. – Confidential – <i>Executive Session Recommended.</i></p>	10
Wayne	<p>a5. Approval of the 2018 Internal Audit Plan – Confidential – <i>Executive Session Recommended.</i></p>	10
Jarnice	<p>a6. Action on One USAC Internal Audit Division Operational Audit Report – Confidential – <i>Executive Session Recommended.</i></p>	10
Wayne	<p>i2. Executive Session with USAC’s Vice President of Internal Audit – Confidential – <i>Executive Session Recommended.</i></p>	30

Next Scheduled USAC Audit Committee Meeting

<p>Monday, April 23, 2018 8:00 a.m. – 9:30 a.m. Eastern Time USAC Offices, Washington, D.C.</p>
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Universal Service Administrative Company Audit Committee Meeting

ACTION ITEM

Consent Items

Action Requested

The Audit Committee (Committee) 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 23, 2017 (*see Attachment A*).
- B. Approval for discussing in *Executive Session* agenda items:
 - (1) **a4** – Annual Review of the Adequacy of USAC’s System of Internal Controls by the USAC Internal Audit Division. USAC management recommends that this item be discussed in *Executive Session* because this matter relates to *specific internal controls, and /or confidential company data* that would constitute a discussion of internal rules and procedures. In addition, the attachment to this issue paper involves a personnel matter; and, therefore, USAC management recommends that this item be discussed in *Executive Session* for this reason as well consistent with USAC’s long-standing practice and to preserve privacy.
 - (2) **a5** – Approval of the 2018 Internal Audit Plan. USAC management recommends that discussion of the Audit Plan contained in the attachments to this issue paper be conducted in *Executive Session* because discussion of *specific audit plans, internal controls, and/or confidential company data* constitutes a discussion of *internal rules and procedures*.
 - (3) **a6** – Action on One USAC Internal Audit Division Operational Audit Report. USAC management recommends that this matter be discussed in *Executive Session* because the report relates to *specific internal controls, and/or confidential company data* that would constitute a discussion of internal rules and procedures.
 - (4) **i2** – Executive Session with USAC’s Vice President of Internal Audit. 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 any one or more of the above items are available for discussion by the Committee.

Recommended USAC Rural Health Care Committee Action

APPROVAL OF THE FOLLOWING RESOLUTION:

RESOLVED, that the USAC Audit Committee hereby approves:
(1) the Committee meeting minutes of October 23, 2017, and (2) discussion in *Executive Session* of the agenda items noted above.

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

AUDIT COMMITTEE MEETING
Monday, October 23, 2017

(DRAFT) MINUTES¹

The quarterly meeting of the USAC Board of Directors (Board) Audit Committee (Committee) was held at USAC's offices in Washington, D.C. on Monday, October 23, 2017. Mr. Gillan, Committee Chair, called the meeting to order at 8:00 a.m. Eastern Time, with four of the five Committee members present:

Feiss, Geoff – Vice Chair
Gillan, Joe – Chair
Talbot, Dr. Brian
Tinic, Atilla

Members of the Committee not present:

Wibberly, Dr. Kathy

Other Board members and officers of the corporation present:

Bocher, Bob – Member of the Board
Garber, Michelle – Vice President of Lifeline
Kinser, Cynthia – Member of the Board
Lee, Karen – Vice President of Rural Health Care
Robinson, Vickie – Acting Chief Executive Officer, General Counsel and Assistant Secretary
Salvator, Charles – Vice President of Finance, Chief Financial Officer and Assistant Treasurer
Scott, Wayne – Vice President of Internal Audit
Sweeney, Mark – Chief Operating Officer
Wein, Olivia – Member of the Board

Others present:

<u>NAME</u>	<u>COMPANY</u>
Anderson, Jarnice	USAC
Braxton-Johnson, Kianna	USAC

¹ Draft resolutions were presented to the Committee prior to the Committee meeting. Where appropriate, non-substantive changes have been made to the resolutions set forth herein to clarify language where necessary or to correct grammatical or spelling errors.

<u>NAME</u>	<u>COMPANY</u>
Beckford, Ernesto	USAC
Carpenter, Nikki-Blair	USAC
Crowe, Jennifer	USAC
Delmar, Teleshia	USAC
Gonzalez, Veronica	USAC
Goode, Vernell	USAC
Guinan, Gabriela Gross	USAC
Hughet, Pamela	USAC
Hutchinson, Kyle	USAC
Joiner, Chelsea	USAC
Kimi, AJ	USAC
Lechter, Jonathan	FCC
Leonard, Tom	PricewaterhouseCoopers
Lutz, Corey	USAC
Maraccini, Mark	Crowe Horwath LLP
Nuzzo, Patsy	USAC
Tawes, Pauline	USAC
Tuinstra, Jason	PricewaterhouseCoopers

OPEN SESSION

a1. Consent Items. Mr. Gillan presented these items to the Committee.

- A. Approval of Committee meeting minutes of July 24, 2017, September 6, 2017 and September 22, 2017.
- B. Approval for discussing in *Executive Session* agenda items:
 - (1) **i1** – USAC Internal Audit Division Business Update. USAC management recommends that this item be discussed in *Executive Session* because this matter relates to *specific internal controls, and/or confidential company data* that would constitute a discussion of internal rules and procedures.
 - (2) **a2** – Annual Review of the Internal Audit Charter, the Organizational Structure, Budget, and Activities of the Internal Audit Division; and Significant Changes to the Internal Audit Plan. 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) **a3** – Action on Two USAC Internal Audit Division Operational Audit Reports. USAC management recommends that this matter be discussed in Executive Session because these reports relate to

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

- (4) **i2** – Executive Session with USAC’s Vice President of Internal Audit. USAC management recommends that this matter be discussed in *Executive Session* pursuant to the guidelines in the approved Audit Committee Charter.

- C. Acceptance of the Annual Assessment by the USAC Internal Audit Division of the Independence and Financial Literacy of USAC Audit Committee Members.

In accordance with USAC’s Audit Committee Charter (Charter), the Committee is required to assess the independence and financial literacy of its members to ensure the Committee can adequately fulfill its roles and responsibilities.

- D. Annual Review of the Effectiveness of the Company’s Process for Assessing Significant Risks and Exposures and the Steps Management Has Taken to Minimize Such Risks and Exposures.

In accordance with the Charter, the Committee is required to annually review the effectiveness of USAC’s process for assessing significant risks and exposures (collectively, risks), and the steps management has taken to minimize such risks. Management presented an issue paper documenting the review performed by USAC’s Internal Audit Division (IAD), and discussing the process by which risks are assessed and managed. Based on its review, IAD has concluded that management has established and maintains an effective process for assessing significant risks and taking steps to minimize such risks. IAD recommends that the Committee accept its review and associated conclusion.

- E. Annual Review of the Adequacy of USAC’s System of Internal Controls. At the request of Mr. Gillan, this item was moved to *Executive Session*. Ms. Robinson recommended that this matter be discussed in *Executive Session* because these reports relate to *specific internal controls, and/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 the Committee meeting minutes of July 24, 2017, September 6, 2017 and September 22, 2017 and discussion in *Executive Session* of the items noted above (including the Annual Review of the Adequacy of USAC’s System of Internal Controls);

RESOLVED FURTHER, that the USAC Audit Committee accepts the assessment made by the USAC Internal Audit Division and agrees that the Audit Committee is adequately staffed with independent members and has a sufficient level of financial expertise; and

RESOLVED FURTHER, that the USAC Audit Committee accepts the USAC Internal Audit Division's review of the effectiveness of the Company's process for assessing significant risks and exposures, and the steps management has taken to minimize such risks and exposures; and

At 8:03 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential items noted above.

EXECUTIVE SESSION

- i1. USAC Internal Audit Division Business Update.** Mr. Scott, Ms. Carpenter, Director of Internal Audit, and Ms. Tawes, Manager of Internal Audit, presented an update on the status of audit activities performed under the Beneficiary and Contributor Audit Program (BCAP), the Payment Quality Assurance (PQA) Program's improper payment results, and USAC Corporate Assurance audits. Mr. Leonard and Mr. Tuinstra of PricewaterhouseCoopers reported on their audit plan for USAC's financial statements for the year ending December 31, 2017 and Agreed Upon audits.

- a3. Action on Two USAC Internal Audit Division Operational Audit Reports.** Ms. Anderson presented these items for consideration. The audits pertained to the National Verifier Project Management process and an audit of Tribal Mobility Fund Phase 1. USAC's Internal Audit Division (IAD) provided a briefing paper.

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

RESOLVED, that the USAC Audit Committee, having reviewed the USAC Internal Audit Division (IAD) operational audit reports as listed in Exhibit I of IAD's briefing paper, accepts the recommendations of USAC management and hereby deems the reports final.

- a1 E. Annual Review of the Adequacy of USAC's System of Internal Controls.** Mr. Gillan recommended that this action item be tabled and moved to the January 2018 quarterly meeting. Therefore, no action was taken on this item.

At 8:48 a.m. Eastern Time, the meeting continued in *Executive Session* with only members of the Board, Ms. Robinson, and Mr. Scott present for the purpose of discussing item a2.

- a2. Annual Review of the Internal Audit Charter; the Organizational Structure, Budget, and Activities of the Internal Audit Division; and Significant Changes to the Internal Audit Plan.** Mr. Scott presented this item for consideration. Changes to the Internal Audit Charter were discussed to improve the overall independence of Internal Audit and governance structure.

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

RESOLVED, that the USAC Audit Committee, having reviewed the proposed Internal Audit Charter, as presented by USAC Internal Audit Division staff, approves the recommended changes to the Internal Audit Charter.

At 9:15 a.m. Eastern Time, the meeting continued in *Executive Session* with only members of the Committee, Mr. Maraccini, of Crowe Horwath, Mr. Scott, and Ms. Anderson, Director of Internal Audit present for the purpose of continuing to discuss item a2.

At 9:25 a.m. Eastern time, the meeting continued in *Executive Session* with only members of the Committee and Mr. Scott present.

- i2. Annual Executive Session with USAC's Vice President of Internal Audit.** Mr. Scott and the Audit Committee discussed this item.

At 9:34 a.m. Eastern Time, on a motion duly made and seconded, the Committee moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Mr. Gillan reported that in *Executive Session*, the Committee took action on items a2 and a3 and discussed items i1 and i2. Mr. Gillan noted that item a1 – E was tabled and would be considered at the January 2018 quarterly Audit Committee meeting.

On a motion duly made and seconded, the Committee adjourned at 9:34 a.m. Eastern Time.

/s/ Ellis Jacobs
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, 2018.

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 31, 2017, the Board elected Joe Gillan as Chair and Geoff Feiss as Vice Chair of the Audit Committee.

At their January 29, 2018 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, 2018.

Recommended USAC Audit Committee Action

APPROVAL OF THE FOLLOWING RESOLUTION:

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

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 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

Approval of 2018 Audit Committee Charter

Same as aBOD04

Action Requested

In accordance with USAC's Audit Committee Charter (Charter), Section III.A.1, the Audit Committee (Committee) is required to review the adequacy of the Charter annually and recommend changes, if any, to the USAC Board of Directors (Board).

Discussion

USAC Internal Audit Division (IAD) staff reviewed the Charter to determine if any changes should be recommended to the Committee and the Board of Directors for consideration. IAD proposes including enterprise risk management as part of the Committee's oversight responsibilities and clarifying that the Committee shall review the integrity of the financial reporting process with the Vice President and Chief Financial Officer and Chief Executive Officer at least annually. In addition, IAD proposes adding language to the Charter to make clear that the Committee shall receive reports of whistleblower complaints received by the Vice President of IAD; such reports shall be prepared jointly by the Vice President of IAD and USAC's Office of General Counsel. Further, IAD proposes making minor revisions to the procedures for discussing matters in executive session. **Attachment A** provides a copy of the Charter with the recommended changes; and **Attachment B** provides a copy of the existing Charter marked to show the recommended changes.

The Committee recommends 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 current Audit Committee Charter and the proposed changes presented by the USAC Internal Audit Division, recommends that the USAC Board of Directors approve the revised Audit Committee Charter.

Recommended USAC Board of Directors Action

APPROVAL OF THE FOLLOWING RESOLUTION:

RESOLVED, that the USAC Board of Directors, having reviewed the current Audit Committee Charter and the proposed changes presented by the USAC Internal Audit Division, hereby accepts the recommendation of the Audit Committee and approves the revised Audit Committee Charter.

ATTACHMENT A

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY AUDIT COMMITTEE CHARTER

January 2018

- 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, Universal Service Fund program integrity, enterprise risk management, 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 and Universal Service Fund Beneficiary and Contributor 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. 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 Internal Audit, and the Board.
 5. Provide insight and recommendations to establish cost effective Universal Service Fund strategic audit plans that are focused on high risk areas as identified through audit results and data analytics. Also, assist USAC by providing solutions to mitigate common audit findings and suggestions to build a more collaborative audit experience for Universal Service Fund participants.

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 Internal Audit, 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. Review and approve, in conjunction with management and the Vice President of Internal Audit, the USAC Corporate Internal Audit Plan and assess the adequacy of the audit coverage outlined in the USAC Corporate Internal Audit Plan.
4. Review USAC financial, operational and compliance audit reports prepared by the independent auditors or the Internal Audit 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 risks for consideration in developing future Universal Service Fund audit plans, FCC rules that may require revision to improve compliance among beneficiaries and contributors, and suggestions for improving audit efficiency among beneficiaries and contributors.
 - b. Provide insight to the Internal Audit 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 Internal Audit 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 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 Internal Audit.
 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 the 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 Internal Audit.
 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 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 Internal Audit 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 Internal Audit, 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 as suggested by an independent auditing firm retained by USAC, management, or the Vice President of Internal Audit.
 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 Internal Audit in connection with the preparation of USAC's agreed upon procedures report and management's response thereto.
- E. Oversight of Internal Audit Division

1. Review the Internal Audit Charter, organizational structure, budget, activities, and significant changes to the Internal Audit Plan, as needed.
 2. Review and approve the appointment, replacement, or reassignment of the Vice President of Internal Audit.
 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 (2011 revision) and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.
 4. Receive reports of whistleblower complaints received by the Vice President of Internal Audit. Such reports shall be prepared jointly by the Vice President of Internal Audit and USAC's Office of General Counsel.
- F. Assessment of Internal Controls, Annual Report on Internal Controls
1. Review with management, the independent auditors, and the Vice President of Internal Audit 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 Internal Audit 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. 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.

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 Internal Audit, 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.

ATTACHMENT B

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY AUDIT COMMITTEE CHARTER

TRACKED TO SHOW CHANGES FROM 2017

January 2017/2018

- 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, Universal Service Fund program integrity, enterprise risk management, 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 and Universal Service Fund Beneficiary and Contributor 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. 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 Internal Audit, and the Board.
 5. Provide insight and recommendations to establish cost effective Universal Service Fund strategic audit plans that are focused on high risk areas as identified through audit results and data analytics. Also, assist USAC by providing solutions to mitigate common audit findings and suggestions to build a more collaborative audit experience for Universal Service Fund participants.

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 Internal Audit, 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. Review and approve, in conjunction with management and the Vice President of Internal Audit, the USAC Corporate Internal Audit Plan and assess the adequacy of the audit coverage outlined in the USAC Corporate Internal Audit Plan.
4. Review USAC financial, operational and compliance audit reports prepared by the independent auditors or the Internal Audit 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 risks for consideration in developing future Universal Service Fund audit plans, FCC rules that may require revision to improve compliance among beneficiaries and contributors, and suggestions for improving audit efficiency among beneficiaries and contributors.
 - b. Provide insight to the Internal Audit 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 Internal Audit 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 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 Internal Audit.
 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 the USAC's financial reporting process, at least annually, in~~ consultation with: (i) the independent auditing firm(s) retained by USAC ~~and, (ii) the Vice President of Internal Audit, review the integrity of~~

~~the USAC's financial reporting process at least annually.~~ 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, ~~management~~ the Vice President of Finance and Chief Financial Officer, or the Vice President of Internal Audit.
 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 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 Internal Audit 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 Internal Audit, 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 as suggested by an independent auditing firm retained by USAC, management, or the Vice President of Internal Audit.
 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 Internal Audit in connection with the preparation of USAC's agreed upon procedures report and management's response thereto.

E. Oversight of Internal Audit Division

1. Review the Internal Audit Charter, organizational structure, budget, activities, and significant changes to the Internal Audit Plan, as needed.
2. Review and approve the appointment, replacement, or reassignment of the Vice President of Internal Audit.
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 (2011 revision) and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.
4. Receive reports of whistleblower complaints received by the Vice President of Internal Audit. Such reports shall be prepared jointly by the Vice President of Internal Audit and USAC's Office of General Counsel.

F. Assessment of Internal Controls, Annual Report on Internal Controls

1. Review with management, the independent auditors, and the Vice President of Internal Audit 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 Internal Audit 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 ~~are~~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. 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.

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 Internal Audit, 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 ~~other~~ 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 Meeting**

INFORMATION ITEM

USAC Internal Audit Division Business Update

Information Presented

This information paper provides an update on the status of audits conducted by the USAC Internal Audit Division (IAD), and audit activities managed by IAD staff. Audit activities reported in this paper include the Beneficiary and Contributor Audit Program (BCAP), the USAC Payment Quality Assurance (PQA) Program, and USAC audits of company operations referred to as Corporate Assurance.

Beneficiary and Contributor Audit Program (BCAP)

Audits occurring under BCAP are performed using USAC IAD internal staff and outside audit firms that either: (i) work under USAC IAD supervision in co-source arrangement (staff augmentation) arrangement or (ii) perform audits outside of USAC IAD direct supervision. The audit plans summarized below were developed in coordination with the Federal Communications Commission (FCC) Office of Managing Director (OMD) and, more recently, with the FCC Wireline Competition Bureau (WCB).

BCAP Audits – 2014/2015 (Random)

As a reminder, in mid-2013 IAD and FCC OMD staff began discussions on the development of an audit plan that would address fiscal years 2014 and 2015 (audits announced beginning October 1, 2013 through September 30, 2015). This audit plan was developed by selecting entities at random with the goal of concentrating on entities receiving larger federal Universal Service Fund (USF) disbursements. After an extensive competitive bidding process, USAC signed contracts with eight audit firms to perform 229 of the 371 audits included in the table below.

The status of ongoing and completed audits for this program as of 4th Quarter 2017 is as follows:

**BCAP Audits
2014-2015 Plan**

Program	Planned*	Completed	% Complete	In Process	Not Announced*
Contributor Revenue	43	42	95%	1	8
High Cost	93	89	91%	4	7

Lifeline	77	76	99%	1	3
Schools & Libraries	130	130	100%	0	15
Rural Health Care	28	27	96%	1	3
Total	371	364	98%	7	36

* The audit plan number was revised from 407 audits to 371. Five audits in Contributor Revenue required additional time that delayed our ability to announce eight audits. IAD staff was redirected to support the FCC with two High Cost investigations that impacted our ability to announce seven audits. Staff attrition within IAD impacted our ability to announce the audits of Schools and Libraries and Rural Health Care programs.

BCAP Audits – 2016 and 2017 (Risks)

In early 2015, USAC IAD, in consultation with the FCC OMD and the WCB, jointly developed a new audit program methodology that is designed to focus audit resources on USF participants with the highest risk of noncompliance with FCC rules. Starting with the 2016 audit plan and all subsequent plans, these audit plans are now centered on the following key principles:

- Detect and deter noncompliance;
- Promote and enhance compliance;
- Reduce burden on lower risk carriers; and
- Advance the audit selection process and procedures.

USF participants selected for audit after October 1, 2015, were selected using the risk-based principles noted above. Each year, USAC IAD, OMD, and WCB will meet to discuss updates to the risk methodologies and to make updates to audit procedures and sampling plans.

The status of ongoing and completed audits for the 2016 plan as of 4th Quarter 2017 is as follows:

Funding Year (FY) 2016 Plan

Program	Planned*	Completed	% Complete	In Process	Not Announced**
Contributor Revenue	21	16	76%	5	1
High Cost	41	28	66%	13	10
Lifeline	36	25	69%	11	1
Schools & Libraries	68	63	93%	5	6
Rural Health Care	25	20	80%	5	0

Total	191	152	80%	39	18
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* Audit Plan number was revised from 209 audits to 197.

** The ten High Cost audits related to the *Connect America Fund Order*¹ were performed by the USAC IAD Corporate Assurance audit function as one operational audit. The one carrier for the Lifeline audit is no longer in business and the audit was not replaced. One Schools and Libraries audit was not announced due to flooding in Louisiana, and the remaining five audits were carried forward to the Fiscal Year 2017 audit plan. One Contributor Revenue audit was moved to the FY18 audit plan.

The status of ongoing audits for the 2017 audit plan as of 4th Quarter 2017 is as follows:

FY 2017 Plan

Program	Planned	Completed	% Complete	In Process	To Be Announced
Contributor Revenue	20	0	0	18	2
High Cost	35	0	0	17	18
Low Income	42	0	0	38	4
Schools & Libraries	60	2	3%	57	1
Rural Health Care	3	0	0	1	2
Total	160	2	1%	131	27

Two Task Orders were issued to external audit firms in June 2017 for 47 audits (Lifeline and Schools and Libraries).

BCAP Audits – Connect America Fund

In 1Q2017, USAC IAD began performing audits of the fund components created as a result of various High Cost orders. The objective of these audits is to independently confirm whether High Cost disbursements are accurate and in alignment with the associated FCC requirements. Substantive audit testing for Connect America Fund (CAF) Phase1 Round 2 and Rural Broadband Experiments remain in progress.

BCAP Audit Plan Analysis and Common Audit Findings

As noted above, with the implementation of risk-based audit plans, IAD recently performed an analysis comparing the risk-based approach to the former random approach. Based on this analysis, IAD continues to find that there are benefits to the risk-based approach and auditing more current activity. We also identified common audit

¹ *Connect America Fund et al., WC Docket No 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663 (2011) (Connect America Fund Order).*

findings in the 2016 audit plan and compared those to common audit findings in the prior year.

Payment Quality Assurance (PQA) Program

The PQA Program collects information from program beneficiaries for the purpose of verifying the accuracy of program disbursements requested and received by beneficiaries. PQA also assists the FCC in meeting its reporting obligations under the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).² The PQA team performs payment verification on randomly selected beneficiaries over a calendar year. Testing calendar year 2017 payments began mid 4Q2017.

The table below provides the number of payments tested for calendar year 2017 (January – December).

PQA 2018 Testing (Calendar Disbursements 2017)

Program	Sample Size	Cases Completed	% Complete	Cases In Progress
High Cost	309	15	4%	191
Lifeline	365	1	<1%	211
Schools & Libraries	443	0	0%	295
Total	1117	16	1%	697

With the completion of fiscal year 2017 testing, IAD has now established baseline error rates for all three tested programs. As previously shared with the Committee at the October 2017 quarterly Committee meeting,³ the final 2017 results were supplied to the FCC for inclusion in the FCC's Agency Financial Report for fiscal year 2017, which was released November 15, 2017.

PQA Assessments

Calendar Year	FY2017		2016	
Program	Improper Payment Rate	Estimated Improper Payment Amount (millions)	Improper Payment Rate	Estimated Improper Payment Amount (millions)

² See The Improper Payments Elimination and Recovery Act of 2012, Pub L. No. 112 -248 (Jan. 10, 2013).

³ See iAC01cf 102317 IAD Business Update.

High Cost	0.05%	\$2.5	0.026%	\$1.1
Low Income	21.93%	\$336.4	2.64%	\$36.6
Schools and Libraries	4.34%	\$103.5	5.7%	\$119.3

The error rate for Lifeline increased from 2.93% to 21.93%. The increase in rate is mainly attributable to missing required disclosures on certification forms (19.55% of the 21.93% improper payment rate (IPR)). To achieve the goal of establishing a baseline, the testing of certification disclosures was a new procedure in FY17. A similar error rate is likely for FY18 (testing calendar year 2017 disbursements); however, we expect that this error will decrease significantly in FY19 once the certification template is in use.

Corporate Audits

Financial Audits

1. *FCC Audit of the USF for Fiscal Year Ending September 30, 2017.* The FCC Office of Inspector General (OIG) and its external auditors, Kearney & Company LLP (Kearney), completed the audit and issued the final audit report in November 2017. The FCC received a clean financial statement audit opinion. Two significant deficiencies were noted this year, both of which were reported from the prior years. The first significant deficiency was related to information technology controls at FCC and USAC, and the second was related to USF Budgetary Accounting. The FCC's full Agency Financial Report can be found on the FCC's website.
2. *Independent Audit of USAC's 2017 Financial Statements and Agreed-Upon Procedures Review.* As required by 47 C.F.R. § 54.717, a financial statement audit must be conducted by an independent accounting firm to express an opinion on USAC's financial statements as of December 31, 2017. PricewaterhouseCoopers LLP (PwC) has commenced testing. PwC is scheduled to file the draft report as required by April 15, 2018.

Operational Audits and Reviews

1. *USAC Procurement Process Audit.* USAC engaged the audit firm of Crowe Horwath LLP (Crowe Horwath) to perform an audit of USAC's procurement process. The objective of the audit is to audit documentation and evaluate all related processes and internal controls, including all procurement activities from the request for services through payment of invoices for products and services. As an extension of major vendor contracts and, as previously shared with the Committee, IAD announced an audit of USAC's vendor management process. The objective of this audit will be to assess the policies, procedures and related controls associated with the vendor management process. Specifically, our assessment will address:

- Vendor on-boarding / off-boarding;
- Alignment of vendor activity with contract requirements;
- Management oversight of vendor performance / service level agreements;
- Contract change management practices;
- Cost management / resource management practices;
- Vendor access to USAC systems / data; and
- Vendor compliance with applicable USAC policies (including Ethics and Information Security policies).

Fieldwork testing is complete and a draft report has been provided to USAC management for review and comment.

2. *USAC Compensation Audit.* In addition to the procurement audit, Crowe Horwath has also performed an audit of USAC's compensation policies and procedures. The audit objective was to audit USAC's compensation policies, procedures and practices for officers and employees of the company, including both traditional and non-traditional employees, associated with the activities reflected below.

- The audit was conducted pursuant to the Code of Federal Regulations (CFR) § 54.715 (b), and the Executive Schedule of United States Code (U.S.C.) Title 5, section 5312, as applicable.
- Assessment of the policies, procedures, and practices used to determine the annual rate of pay for officers and employees (traditional and non-traditional), including:
 - Non-regular payments;
 - Bonuses (e.g., cash, stock certificates, or other non-cash negotiable instruments);
 - Severance (final compensation) payments/benefits;
 - Retirement payments; and
 - Other sources of monetary or non-monetary compensation not specifically excluded under the CFR § 54.715 (b).
- Assessment of the policies, procedures and practices used in the hiring, onboarding, promotion, and termination of officers and employees (traditional and non-traditional).

Fieldwork testing is complete and a draft report has been provided to USAC management for review and comment.

3. *Information Technology Audits/ Reviews.* The following audits were announced in 4Q2017:
 - *Business Continuity/ Disaster Recovery* - To assess controls and processes in place to adequately manage an unplanned outage and fully restore essential business operations as required.
 - *Malware and Anti-Virus Protection* - To perform a limited scope assessment of malware and anti-virus protection activities.

- Configuration and Change Management - To perform a limited scope assessment of the process for managing baseline, approved configurations and system inventories (including hardware, software, etc.).

Consultative Activities

1. *A-123 Controls Testing*. In coordination with OGC, IAD is performing an independent assessment of key controls with respect to A-123 compliance requirements. Testing of key controls for fixed assets and financial reporting (USAC and USF) is underway. The purpose of our procedures will be to test the operating effectiveness of the key controls identified within each of the previously-mentioned business areas. Testing efforts will be focused on controls classified as Medium to High risk as determined through the risk assessment process. Sample sizes will be driven by the risk classification and frequency of the control activity per year. Further, at management's request and in consideration of large scale system implementation projects that are currently underway, A-123 controls testing for Lifeline (including the National Verifier) and for Schools and Libraries will commence in 1Q2018.

Audit Committee Meeting

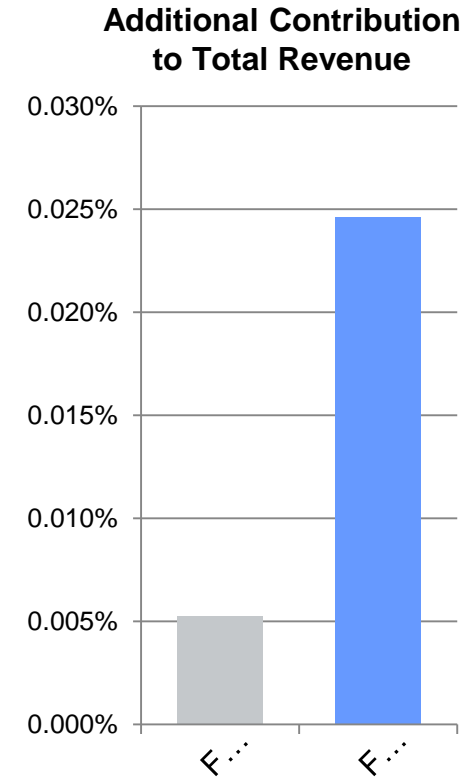
iAC01 Attachment A

Audit Plan Comparison and Common
Audit Findings

HIGHLIGHTS OF THE FY16 AUDIT PLAN

CONTRIBUTOR REVENUE FY14-FY15 TO FY16 PLAN COMPARISON

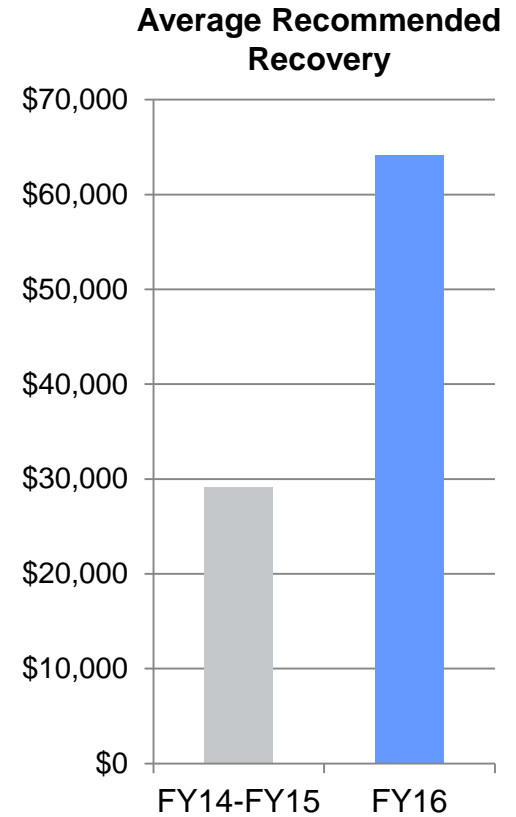
	FY14-FY15	FY16	% Change
Released Audits	42	16	-62%
Average Line 419A	\$4,409,104,209	\$680,013,227	-85%
Average # of Monetary Findings	3.43	1.88	-45%
Average Additional Contribution	\$232,199	\$167,407	-28%
Additional Contribution %	0.005266%	0.024618%	367%



January 29, 2018

HIGH COST FY14-FY15 TO FY16 PLAN COMPARISON

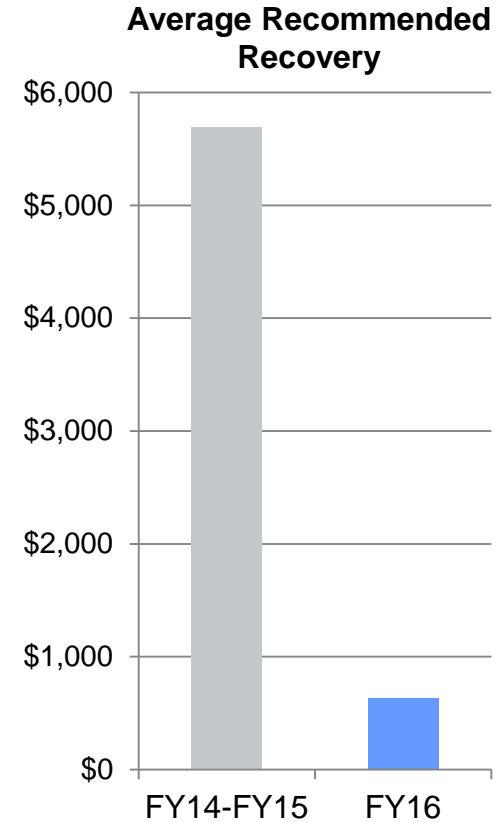
	FY14-FY15	FY16	% Change
Audits Released	89	28	-69%
Average Disbursement	\$6,836,251	\$5,124,363	-25%
Average # of Monetary Findings	2.39	3.39	42%
Average Recovery	\$29,161	\$64,142	120%
Recovery %	0.43%	1.25%	193%



LIFELINE FY14-FY15 TO FY16 PLAN COMPARISON

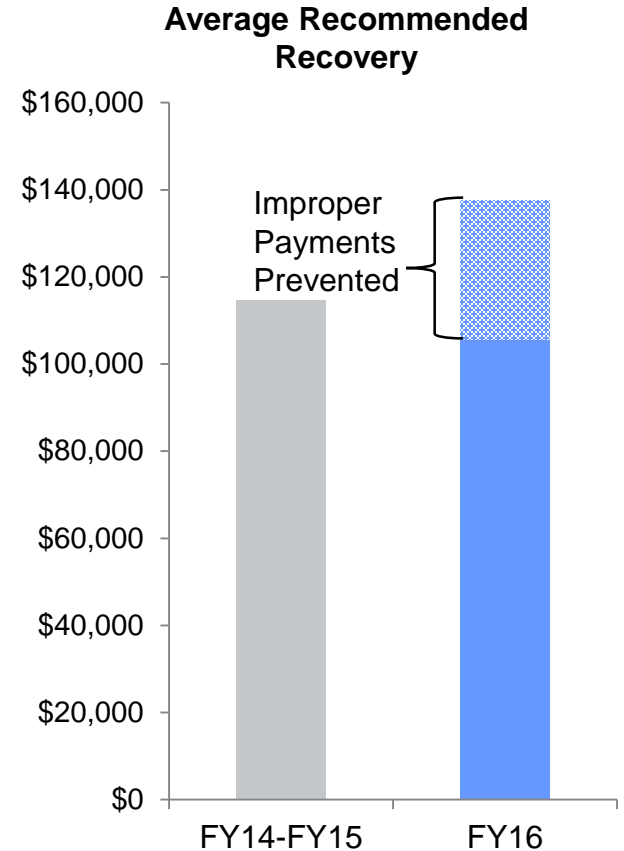
- Why a decrease in findings with the risk-based model?
 - Focus of FY14-FY15 plan was new carriers.
 - NLAD was introduced and increased controls were implemented.
 - 2012 & 2015 Reform Orders went into effect.
 - Program improved outreach to ensure better compliance.

	FY14-FY15	FY16	% Change
Audits Released	76	25	-67%
Average Disbursement	\$93,558	\$343,605	267%
Average # of Monetary Findings	0.97	0.80	-18%
Average Recovery	\$5,691	\$629	-89%
Recovery %	6.08%	0.18%	-97%



SCHOOLS AND LIBRARIES FY14-FY15 TO FY16 PLAN COMPARISON

	FY14-FY15	FY16	% Change
Audits Released	130	63	-52%
Average Disbursement	\$5,377,519	\$4,435,421	-18%
Average # of Monetary Findings	\$4,053,016	\$1,640,343	-60%
Average Recovery	1.11	0.81	-27%
Recovery %	\$114,755	\$105,661	-8%
Average Recovery with Improper Payment Prevention	\$114,755	\$137,640	20%



January 29, 2018

CONTRIBUTOR REVENUE COMMON FINDINGS DISTRIBUTION SHIFT

Program	Common Finding**	Findings Distribution Shift*
<p>Contributor Revenue</p>	<p>Customer Category - End User vs. Reseller: Incorrect reporting of end-user revenue as carrier’s carrier (i.e., reseller) revenue in Block 3 of the FCC Form 499-A due to a lack of understanding with FCC rules for reporting reseller revenues, inadequate Process/Policies and Procedures/weak Internal Controls surrounding the form reporting of reseller revenues, and/or inadequate documentation to support definition of a reseller.</p>	<p>↑ 8%</p>
	<p>Private line Revenue(s): Incorrect line reporting of local, long distance, international and foreign private line revenues due to a lack of understanding with FCC Rules, specifically related to the application of the theoretical midpoint. Incorrect jurisdiction reporting of interstate private line revenues due to a lack of understanding with FCC Rules associated, specifically, failure to accurately apply the 10 Percent Traffic Rule. In addition, inaccurate line and jurisdiction reporting for private line revenues is also caused by inadequate documentation to support the accuracy of the reported private line revenues.</p>	<p>↑ 8%</p>
	<p>Fixed Local Service Revenues: Incorrect line and/or jurisdiction reporting of fixed local service (i.e., local calling) revenues due to a lack of understanding with FCC Rules, inadequate documentation to support the accuracy of the reported fixed local service revenues, and/or incorrect amounts from the books/billing system/supporting documentation were used for FCC Form 499-A reporting.</p>	<p>↓ -10%</p>
	<p>Toll Service Revenue(s): Incorrect line and/or jurisdiction reporting of toll service (i.e., ordinary long distance, operator and toll calls, and international calls) revenues due to either a lack of understanding with FCC Rules, inadequate Process/Policies and Procedures/weak Internal Controls surrounding the form reporting of toll service revenues, and/or incorrect amounts from the books/billing system/supporting documentation were used for FCC Form 499-A reporting.</p>	<p>↓ -8%</p>

HIGH COST COMMON FINDINGS DISTRIBUTION SHIFT

Program	Common Finding	Findings Distribution Shift*
<p>High Cost</p>	<p>Improper Allocation Methodology: The Beneficiaries operate companies that provide regulated and non-regulated services. Only the cost related to the regulated services must be reported for High Cost program purposes. It has been noted that the Beneficiaries are using revenues and other allocation factors not based on cost as the FCC rules require, which may allow the Beneficiaries to recover more from the USF inappropriately.</p>	<p>↑ 7%</p>
	<p>Improper Inclusion of Non-Regulated Amounts: The Beneficiaries operate companies that provided regulated and non-regulated services. It has been noted on several occasions that Beneficiaries did not remove the unregulated cost prior to reporting cost data for High Cost program purposes. The effect of not removing unregulated cost from the reported submissions inflates the Beneficiaries reported costs and allows them to recover more from the USF inappropriately.</p>	<p>↓ -9%</p>
	<p>Inaccuracies: It has been noted that the Beneficiaries have reported inaccurate data for revenues, line counts, expenses, etc. The use of inaccurate data has a monetary impact on ICLS, HCL, and CAF ICC support.</p>	<p>↓ -6%</p>

LIFELINE REVENUE COMMON FINDINGS DISTRIBUTION SHIFT

Program	Common Finding	Findings Distribution Shift*
Lifeline	Form 497 & NLAD Variance: Carriers should not submit for reimbursement through the Form 497 until those subscribers are enrolled in NLAD. In comparing NLAD and the Form 497, if the 497 count is greater we will seek monetary recovery for those customers that aren't in NLAD. If the NLAD count is higher we will take exception but we will not seek any monetary recovery.	↑ 10%
	Inaccurate Form 497 Reporting: Carriers build in an "error rates" to their 497 claim. Carriers are being conservative in their data due to expected errors in their Form 497 filings. This is an issue because an officer of the company has certified on the Form 497 that the numbers are correct to the best of their knowledge. The FCC does not generally direct carriers to follow the "error rate" approach.	↑ 7%
	Subscribers Outside of Service Area: An ETC may only receive USF support in the area where they have been designated. Typically this arises with wireless carriers.	↓ -12%
	Lack of Documentation: The carrier cannot produce documentation demonstrating a subscriber's eligibility, be that a certification form or documentation that the subscriber participates in an eligible program.	↓ -11%

SCHOOLS AND LIBRARIES COMMON FINDINGS DISTRIBUTION SHIFT

Program	Common Finding	Findings Distribution Shift*
<p style="text-align: center;">Schools and Libraries</p>	<p>Lack of Necessary Resources to Make Effective Use of Services and Equipment: The Beneficiary does not have what is necessary (i.e., end-user equipment, training, software, maintenance, etc.) to effectively use the Schools and Libraries Program funded equipment and services. This could indicate an abuse of funds in that the beneficiary purchased equipment or services that it did not need.</p>	<p>↑ 7%</p>
	<p>Service Provider Did Not Charge Beneficiary the Lowest Corresponding Price: The service provider charged the beneficiary more for the same services and equipment that were provided to similarly situated non-residential customers. If prices charged to beneficiaries are not the same or below prices charged to similarly situated non-residential customers, the service provider may not be in compliance with the Program rules.</p>	<p>↓ -8%</p>
	<p>Lack of Documentation: The audited entity was unable to provide documentation to demonstrate compliance with the Program rules. Applicants are required to retain all documents related to the application for, receipt, and delivery of discounted telecommunications and other supported services for at least 10 years after the last day of service delivered in a particular funding year.</p>	<p>↓ -6%</p>