



# Audit Committee

## Briefing Book

Monday, July 29, 2024

1:00 p.m. - 2:55 p.m. ET

Available for Public Use

Universal Service Administrative Company

700 12th Street, NW, Suite 900

Washington, DC 20005

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

<p><b>Monday, July 29, 2024</b>  <b>1:00 p.m. – 2:55 p.m. Eastern Time</b>  <b>USAC Offices</b>  <b>700 12th Street, N.W., Suite 900</b>  <b>Washington, D.C. 20005</b></p>
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<b>OPEN SESSION</b>		<i>Estimated Duration in Minutes</i>
Chair	<p><b>a1.</b> Consent Items (each item is available for discussion upon request):</p> <ul style="list-style-type: none"> <li><b>A.</b> Approval of Audit Committee Meeting Minutes of April 29, 2024</li> <li><b>B.</b> Approval of moving all <i>Executive Session</i> items into <i>Executive Session</i></li> <li><b>C.</b> Annual Review of USAC’s System of Internal Controls (See AC03cf)</li> <li><b>D.</b> Annual Review of USAC’s Financial Reporting Process (See aAC04cf)</li> </ul>	5
Teleshia	<p><b>i1.</b> Audit and Assurance Division Business Update</p> <ul style="list-style-type: none"> <li>• Q2 2024 Accomplishments and Plans for Q3 2024</li> <li>• Audit Assessments in Progress</li> <li>• Summary of Updates to Audit Standards</li> <li>• Roadmap</li> <li>• Appendix A: Glossary of Terms</li> </ul>	40

<b>EXECUTIVE SESSION</b> <b>Confidential – Executive Session Recommended</b>		<i>Estimated Duration in Minutes</i>
Teleshia	<p><b>i2.</b> Audit and Assurance Division Business Update (<i>Continued</i>)</p> <ul style="list-style-type: none"> <li>• Fiscal Year 2023 Improper Payment Audit Results</li> </ul>	10
Teleshia	<b>a2.</b> Action on Two USAC Audit and Assurance Division Strategic Audit Reports	10
Teleshia	<b>a3.</b> Annual Review of USAC’s System of Internal Controls	–
Teleshia	<b>a4.</b> Annual Review of USAC’s Financial Reporting Process	–
Michelle Tom Leonard Andrew Weidinger	<b>a5.</b> Acceptance of USAC’s Restated 2022 Financial Statements and the 2023 Annual Financial Statement Audit and Agreed-Upon Procedures Review ( <i>Same as iBOD05cf</i> )	20
PwC	<b>i3.</b> Audit Committee Executive Session with USAC’s Independent	15

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	Audit Firm	
Chair	<b>i4.</b> Audit Committee Executive Session with USAC's Vice President of Audit and Assurance	15

**Next Scheduled USAC Audit Committee Meeting**

<b>Monday, October 28, 2024</b> <b>USAC Offices, Washington, D.C.</b>
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**Universal Service Administrative Company  
Audit Committee Meeting**

<b>ACTION ITEM</b>
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**Consent Items**

**Action Requested**

The Audit Committee (Committee) of the USAC Board of Directors (Board) is requested to approve the consent items listed below.

**Discussion**

The Committee is requested to approve the following items using the consent resolution below:

- A. Committee meeting minutes of April 29, 2024 (see **Attachment A**)
- B. Approval of moving all *Executive Session* items into *Executive Session*:
  - (1) **i2.** Audit and Assurance Division Business Update. USAC management recommends that this item be discussed in *Executive Session* because it may involve discussion of *specific internal controls or confidential company data* or *internal rules and procedures* concerning the administration of the universal service support mechanisms, where discussion of the matter in open session would result in *disclosure of confidential techniques and procedures* that would compromise program integrity and *relates to pre-decisional matters pending before the FCC*.
  - (2) **a2.** Action on Two USAC Audit and Assurance Division Strategic Audit Reports. 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.
  - (3) **a3.** Annual Review of USAC's System of Internal Controls. USAC management recommends that this matter be discussed in *Executive Session* because it relates to *specific internal controls or confidential company data* that would result in *disclosure of confidential techniques and procedures* that would compromise program integrity.
  - (4) **a4.** Annual Review of USAC's Financial Reporting Process. USAC management recommends that this matter be conducted in *Executive Session* because this matter relates to *specific internal controls, or confidential company data* that would constitute a discussion of internal rules and procedures.

- (5) **a5.** Acceptance of USAC's Restated 2022 Financial Statements and the 2023 Annual Financial Statement Audit and Agreed-Upon Procedures Review (*Same as iBOD05cf*). 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.
- (6) **i3.** Audit Committee *Executive Session* with USAC's Independent Audit Firm. USAC management recommends that this matter be discussed in *Executive Session* pursuant to the guidelines in the approved Audit Committee Charter.
- (7) **i4.** 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.

**C.** Annual Review of USAC's Systems of Internal Controls. In accordance with Section III.F of the Committee's Charter, the Committee is required to review the adequacy of USAC's system of internal controls (*See aAC03cf*; if discussion is needed, it will be conducted in *Executive Session*).

**D.** Annual Review of USAC's Financial Reporting Process. In accordance with Section III.C of the Committee's Charter, the Committee, is required to review the integrity of USAC's financial reporting process (*See aAC04cf*; if discussion is needed, it will be conducted in *Executive Session*).

Upon request of a Committee member, the above items are available for discussion by the Committee.

### **Recommended USAC Audit Committee Action**

APPROVAL OF THE FOLLOWING RESOLUTIONS:

**RESOLVED**, that the Audit Committee of the USAC Board of Directors hereby approves: (1) the Committee meeting minutes of April 29, 2024; (2) discussion in *Executive Session* of the items noted above; (3) the annual review of USAC's system of internal controls; and (4) the annual review of USAC's financial reporting process.

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

**AUDIT COMMITTEE MEETING**  
**Monday, April 29, 2024**

**(DRAFT) MINUTES<sup>1</sup>**

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, April 29, 2024. Ms. Julie Tritt Schell, Committee Chair, called the meeting to order at 2:05 p.m. Eastern Time, with a quorum of four of the five Committee members present:

Gregory, Amber  
Fontana, Brent  
Polk, Stephanie – Vice Chair – *by telephone*  
Schell, Julie Tritt – Chair

Members of the Committee not present:

Chacko, Sheba

Other Board members and officers of the corporation present:

Buzacott, Alan – Member of the Board  
Beyerhelm, Chris – Vice President and Chief Administrative Officer – *by telephone*  
Butler, Stephen – Vice President of Shared Services  
Chalk, Indra – Member of the Board  
Davis, Craig – Vice President of Schools and Libraries  
Delmar, Teleshia – Vice President of Audit and Assurance  
Freeman, Sarah – Member of the Board  
Gaither, Victor – Vice President of High Cost  
Garber, Michelle – Vice President of Finance, Chief Financial Officer, and  
Assistant Treasurer  
Mason, Ken – 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  
Thompson, Mona – *by telephone*

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

Wein, Olivia – Member of the Board  
Wibberly, Dr. Kathy – Member of the Board  
Williams, Erin – Vice President, General Counsel, and Assistant Secretary

Others present:

<u>NAME</u>	<u>COMPANY</u>
Ayer, Catriona – <i>by telephone</i>	USAC
Boakye-Gyan, Carol	USAC
Brady, Jair	USAC
Campbell, Jo-Ann	USAC
Claxton, Naomi	USAC
Estrella, Giulianna – <i>by telephone</i>	USAC.
Goode, Vernell	USAC
Green, Kevin	USAC
Hung, Jennifer	USAC
King, Ryan	USAC
Krueger, Katie	KPMG
Lawmaster-Morris, Rachel – <i>by telephone</i>	Espy Services
Mitchell, Katherine – <i>by telephone</i>	USAC
Morgan, Meredith	USAC
Nuzzo, Patsy	USAC
Sadirkhanova, Sabina	USAC
Santana-Gonzalez, Jeanette	USAC
Schrader, Theresa – <i>by telephone</i>	Broadband Legal Strategies
Smith, Christopher	USAC
Steptoe, Carolyn	USAC
Sutherland, Beverly – <i>by telephone</i>	Sutherland Consulting Group, Inc.
Truong, Linh	USAC
Ward, Rashonda	USAC
Williams, Jameka	Merit Network

**OPEN SESSION**

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

- a1. **Consent Items.** Ms. Polk presented this item to the Committee.
  - A. Committee meeting minutes of January 29, 2024.
  - 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 item be discussed in *Executive Session* because it may involve discussion of *specific internal controls or confidential company data* or *internal rules*

*and procedures* concerning the administration of the universal service support mechanisms, where discussion of the matter in open session would result in *disclosure of confidential techniques and procedures* that would compromise program integrity.

- (2) **a2.** Action on Two USAC Audit and Assurance Division Strategic Audit Reports. 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.
- (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.

**C.** Review of USAC's Processes to Assess Compliance with Applicable Laws and Regulations (see **Attachment C**).

In accordance with Section III.G of the Committee's Charter, the Committee, in consultation with USAC's General Counsel and Vice President of Audit and Assurance, is required to review the processes established to assure compliance by USAC with all applicable laws. Attachment C documents the assessment and briefly discusses the controls in place to assure compliance. Compliance processes for administration of the Universal Service Fund and the Universal Service Support Mechanisms by each programmatic division and USAC's financial operations are based on Section 254 of the Communications Act of 1934, as amended, Part 54 of the Commission's rules, Commission orders, and FCC staff directives. Additionally, through the combined efforts of USAC's Office of General Counsel, Audit and Assurance Division, and Human Resources division, ongoing compliance with laws and regulations is monitored and assessed.

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 January 29, 2024; and (2) discussion in *Executive Session* of the items noted above; and (3) USAC's Processes to Assess Compliance with Applicable Laws and Regulations.

- i1. Audit and Assurance Business Update.** Ms. Delmar presented PowerPoint slides to the Committee for discussion covering the following topics:
  - Q1 2024 Accomplishments and Plans for Q2 2024
  - Audit Aging Analysis
  - Post Audit and Assessment Survey Results



- Audit Aging Analysis
- Roadmap

At 2:49 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 Division Business Update (*Continued*). Ms. Delmar and Mr. Hutchinson presented PowerPoint slides that provided the Committee with updates on the High Cost Modernization Audits, and the Enterprise Audit and Compliance System Modernization.
- a2. **Action on Two USAC Audit and Assurance Division Strategic Audit Reports.** 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 USAC Audit Committee, having reviewed the USAC Audit and Assurance Division's strategic audit reports of USAC's Information Security Vendor Management Practices and the User Experience of High Cost, E-Rate, and Rural Health Care programs, accepts the recommendation of USAC management and hereby deems the reports final.

At 3:25 p.m. Eastern Time, on a motion duly made and seconded, the Committee continued in Executive Session with only non-staff 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 3:51 p.m. Eastern Time, the Committee moved out of ***Executive Session*** and immediately reconvened in ***Open Session***, at which time Ms. Schell reported that, in ***Executive Session***, the Committee took action on item a2 and discussed items i2 and i3.

On a motion duly made and seconded, the Committee adjourned at 3:51 p.m. Eastern Time.

/s/ Erin Williams  
Assistant Secretary



## **Audit Committee**

Audit and Assurance Business Update

*Open Session*

July 29, 2024

# Agenda

- Q2 2024 Accomplishments and Plans for Q3 2024
- Audits and Assessments in Process
  - Audits Aging Analysis
- Summary of Updates to Audit Standards
- Roadmap
- Appendix A: Glossary of Terms

# Q2 2024 Accomplishments and Q3 2024 Plans

Function	Q2 2024 Accomplishments	Q3 2024 Plans
Beneficiary and Contributor Audit Program (BCAP)	<ul style="list-style-type: none"> <li>Released 35 audits (2 CR, 12 HC, 2 LI, 11 E-Rate, and 8 RHC).</li> <li>Commenced 30 audits (9 CR, 3 HC, 2 LI, 9 E-Rate, and 7 RHC).</li> <li>Conducted 225 site visits for CAF II Model and RBE audits.</li> <li>Conducted CR audit trainings.</li> </ul>	<ul style="list-style-type: none"> <li>Announce 7 audits and complete 35 audits.</li> <li>Conduct Lifeline audit training.</li> </ul>
Payment Quality Assurance (PQA)	<ul style="list-style-type: none"> <li>Commenced quality assurance reviews.</li> <li>Completed 15 assessments.</li> <li>Conducted E-Rate site visits.</li> <li>Completed Q4 2023 Lifeline and ACP non-usage program integrity testing.</li> </ul>	<ul style="list-style-type: none"> <li>Complete all funding year (FY) 2024 PQA assessments.</li> <li>Statistician to calculate FY2024 IPR.</li> <li>Complete Q1 2024 testing.</li> </ul>
Supply Chain Audit Program (SCAP)	<ul style="list-style-type: none"> <li>Released 7 audits.</li> <li>Onboarded and trained new audit firm.</li> </ul>	<ul style="list-style-type: none"> <li>Announce 12 audits and complete 3 audits.</li> </ul>
Strategic Audit (SA)	<ul style="list-style-type: none"> <li>Completed 2 audits (presented in Executive Session).</li> <li>Announced 3 audits.</li> </ul>	<ul style="list-style-type: none"> <li>Complete 3 audits.</li> <li>Begin AUP planning activities for 2024/2025.</li> </ul>

# BCAP Audits in Process

The status of BCAP audits in process as of July 1, 2024:

Program	Announced	Fieldwork	Reporting	<b>Total</b>
Contributor Revenue	3	17	7	<b>27</b>
High Cost	5	28	37	<b>70</b>
Lifeline	0	21	15	<b>36</b>
E-Rate	2	35	51	<b>88</b>
Rural Health Care	3	10	26	<b>39</b>
<b>Total</b>	<b>13</b>	<b>111</b>	<b>136</b>	<b>260</b>

# BCAP Audits Aging Analysis

The aging analysis of BCAP audits in process as of July 1, 2024:

Program	< 6 months	> 6 months	> 12 months	> 18 months	Total	Change from 4/01/2024
Contributor Revenue	14	3	5	5	<b>27</b>	8
High Cost	31	12	12	18	<b>70</b>	8
Lifeline	7	7	10	12	<b>36</b>	3
E-Rate	25	3	29	31	<b>88</b>	7
Rural Health Care	11	5	11	12	<b>39</b>	7
<b>Total #</b>	<b>88</b>	<b>30</b>	<b>73</b>	<b>69</b>	<b>260</b>	33
<b>Total %</b>	<b>33.8%</b>	<b>11.5%</b>	<b>28.1%</b>	<b>26.5%</b>	<b>100%</b>	<b>N/A</b>
<b>Reporting Phase</b>	4	18	51	63	<b>136</b>	15

**Note:** For the 142 audits > 12 months, 3 are with the audited entity, 85 are with USAC, 49 are with the FCC, and 5 are ready for the next release.

# PQA Assessments in Process

The status of PQA assessments in process as of July 1, 2024:

Program	Announced	Fieldwork	Reporting	<b>Total</b>
High Cost	0	84	46	<b>130</b>
Lifeline	0	128	92	<b>220</b>
E-Rate	0	74	276	<b>350</b>
<b>Total</b>	<b>0</b>	<b>286</b>	<b>414</b>	<b>700</b>

# SCAP Audits in Process

The status of SCAP audits in process as of July 1, 2024:

	Announced	Fieldwork	Reporting	<b>Total</b>
	0	0	3	<b>3</b>
<b>Total</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>3</b>

**Note:** Of the 3 entities under audit, 2 received HC funds, 2 received E-Rate funds, and 2 received RHC funds.



# High-Level Summary of GAGAS Updates

Effective for performance audits beginning on or after December 15, 2025.

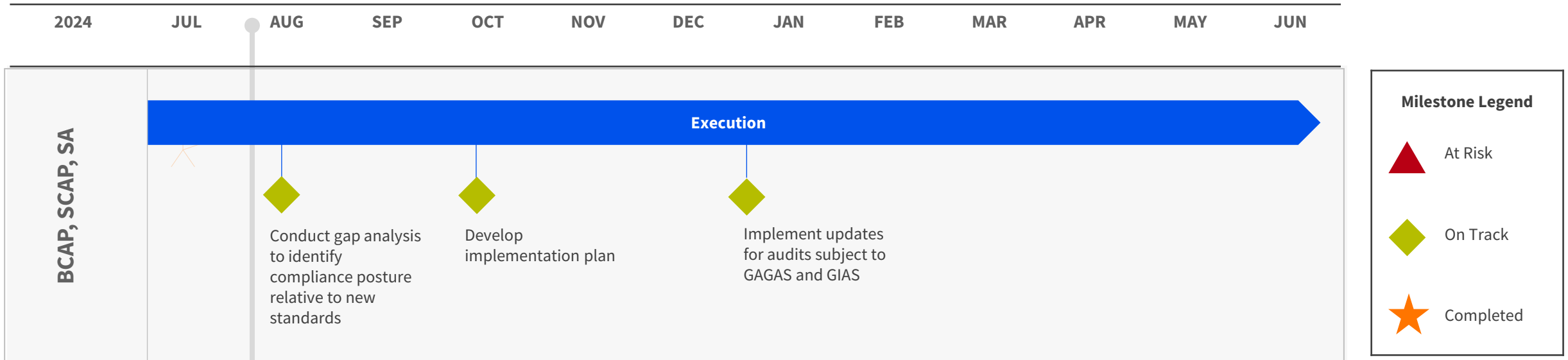
Key Update	Applicability	Current Compliance Posture	Compliance Gap
Design, implement, and operate a system of quality management	Yes	<p>AAD performs the quality control activities, such as:</p> <ul style="list-style-type: none"> <li>• Annual quality monitoring reviews</li> <li>• Quality assurance reviews during the audit</li> <li>• Surveys of audit stakeholders</li> <li>• Continuous feedback between AAD leadership and staff</li> <li>• Peer reviews</li> </ul>	<p>Current activities may not fully align with new quality management standards, which require:</p> <ul style="list-style-type: none"> <li>• Risk-based quality management risk assessment process</li> <li>• Formal identification of senior-level responsible party, and regular evaluation and documentation of their quality management assessment</li> </ul>
Perform quality reviews	Optional	<p>AAD implemented a multi-level quality assurance review process that includes at least two detailed reviews of audit workpapers, findings, and reports by experienced audit team members, as well as FCC review of the audit findings and reports.</p>	<p>Establish an engagement quality review process performed by a reviewer who is not a part of the audit engagement team.</p>

# High-Level Summary of GIAS Updates

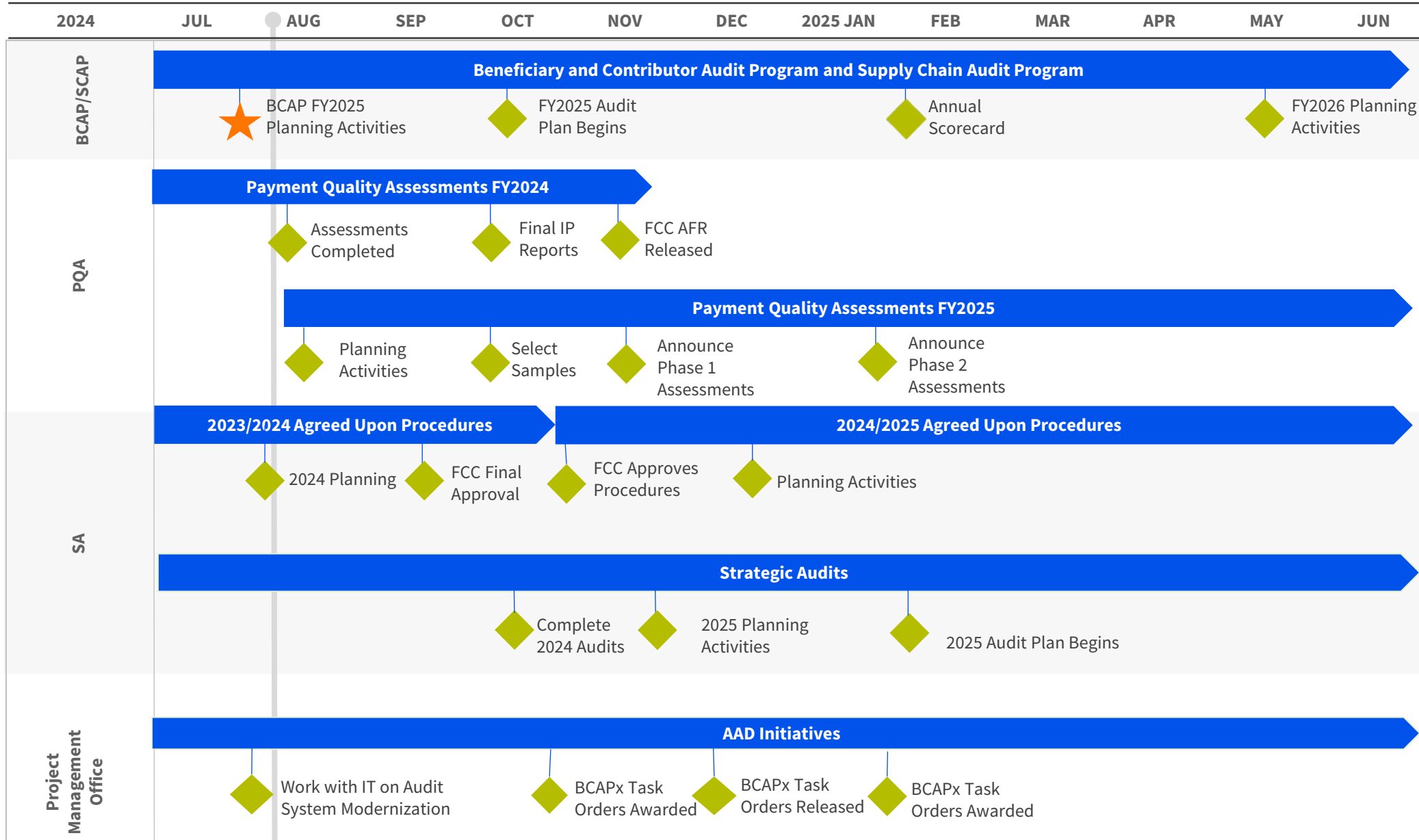
Effective beginning on or after January 9, 2025.

Key Update	Applicability	Current Compliance Posture	Compliance Gap
The mission and value of the Internal Audit function have been clarified to remove previous confusion.	No	The mission of AAD is established and conforms to new guidance.	Not applicable.
Greater emphasis on auditor independence, ethics, due care, and professionalism in day-to-day operations.	Yes	Auditors confirm independence via signing independence statements annually.	Independence needs to be reiterated on an ongoing basis.
Higher engagement and involvement of the audit committee in audit division operations.	Yes	The audit committee is involved and supports AAD audit activities.	Identify areas where audit committee members can increase engagement.
Roadmap for setting internal audits up for success, with specific guidance on performing internal audits.	Yes	Internal audits are conducted in alignment with existing internal audit standards, best practices, and USAC-specific operations.	Current internal audit approaches may not be fully aligned with new standards.

# Next Steps



# 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.
E-Rate	Audits of E-Rate program participants.

## Appendix A: Glossary of Terms (Continued)

Term	Definition
GAGAS	Generally Accepted Government Auditing Standards. Framework for performing high-quality audit work with competence, integrity, objectivity, and independence.
GIAS	Global Internal Audit Standards. Guidance for the professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function.
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.**