



Audit Committee

Briefing Book

Monday, October 28, 2024

4:00 p.m.-5:15 p.m. Eastern Time

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>Monday, October 28, 2024 4:00 p.m. – 5:15 p.m. Eastern Time USAC Offices 700 12th Street, N.W., Suite 900 Washington, D.C. 20005</p>
--

OPEN SESSION		<i>Estimated Duration in Minutes</i>
Chair	<p>a1. Consent Items (each item is available for discussion upon request):</p> <ul style="list-style-type: none"> A. Approval of Audit Committee Meeting Minutes of July 29, 2024 B. Approval of moving all <i>Executive Session</i> items into <i>Executive Session</i> C. Annual Assessment of the Independence and Financial Literacy of USAC Audit Committee Members D. Review of the Audit and Assurance Division Charter (<i>See aAC03cf</i>) 	5
Teleshia	<p>ii. Audit and Assurance Division Business Update</p> <ul style="list-style-type: none"> • Q3 2024 Accomplishments and Plans for Q4 2024 • Audit and Assessments in Progress • Roadmap • Appendix A: Glossary of Terms 	25

EXECUTIVE SESSION Confidential – Executive Session Recommended		<i>Estimated Duration in Minutes</i>
Teleshia	<p>ii2. Audit and Assurance Division Business Update (<i>Continued</i>)</p> <ul style="list-style-type: none"> • Improper Payment Results 	20
Teleshia	<p>a2. Action on One USAC Audit and Assurance Division Strategic Audit Report</p>	10
Teleshia	<p>a3. Review of the Audit and Assurance Division Charter</p>	–
Chair	<p>i3. Audit Committee Executive Session with USAC’s Vice President of Audit and Assurance</p>	15

Next Scheduled USAC Audit Committee Meeting

<p>Monday, January 27, 2025 USAC Offices, Washington, D.C.</p>

**Universal Service Administrative Company
Audit Committee Meeting**

ACTION ITEM

Consent Items

Action Requested

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

Discussion

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

- A. Committee meeting minutes of July 29, 2024 (see **Attachment A**)

- 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 and *relates to pre-decisional matters pending before the FCC*.
 - (2) **a2.** Action on One USAC Audit and Assurance Division Strategic Audit Report. USAC management recommends that this matter be discussed in *Executive Session* because these reports relate to *specific internal controls or confidential company data* that would constitute a discussion of internal rules and procedures.
 - (3) **a3.** Review of the Audit and Assurance Division Charter. USAC management recommends that this matter be discussed in *Executive Session* because discussion of the charter would relate to *specific internal controls and/or confidential company data* that could constitute a discussion of internal rules and procedures.
 - (4) **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. Annual Assessment of the Independence and Financial Literacy of USAC Audit Committee Members. In accordance with Section II.A.1 of the Committee's Charter, the Committee members are required to meet established independence requirements (*See Attachment C*).
- D. Review of the Audit and Assurance Division Charter. In accordance with Section III.E.1 of the Committee's Charter, the Committee, is required to review and approve the Audit and Assurance Division Charter (*See aAC03cf*; 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 July 29, 2024; (2) discussion in *Executive Session* of the items noted above; (3) the annual assessment of the independence and financial literacy of the USAC Audit Committee Members; and (4) the Audit and Assurance Division Charter.

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

AUDIT COMMITTEE MEETING
Monday, July 29, 2024

MINUTES¹

The quarterly meeting of the Audit Committee (Committee) of the USAC Board of Directors (Board) was held at USAC's offices in Washington, D.C. on Monday, July 29, 2024. Ms. Julie Tritt Schell, Committee Chair, called the meeting to order at 1:02 p.m. Eastern Time, with a quorum of all five Committee members present:

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

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
Hutchinson, Kyle – Vice President and Chief Information Officer
Mason, Ken – Member of the Board
O'Brien, Tim – Vice President of Lifeline
Sekar, Radha – Chief Executive Officer
Semmler, Kara – Member of the Board
Skrivan, Michael – Member of the Board
Sweeney, Mark – Vice President of Rural Health Care
Thompson, Mona – Member of the Board
Wade, Joan – Member of the Board
Wein, Olivia – Member of the Board

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

Wibberly, Dr. Kathy – Member of the Board

Williams, Erin – Vice President, General Counsel, and Assistant Secretary

Others present:

<u>NAME</u>	<u>COMPANY</u>
Bailey, Macey	USAC
Boakye-Gyan, Carol	USAC
Braxton-Johnson, Kianna	USAC
Burgess, Melody – <i>by telephone</i>	USAC
Claxton, Naomi	USAC
Estrella, Giulianna – <i>by telephone</i>	USAC.
Francisco, Dale	USAC
Goode, Vernell	USAC
King, Ryan	USAC
Kriete, Debra	South Dakota Department of Education
Kurisch, Bill	USAC
Leonard, Tom	PwC
Morgan, Meredith	USAC
Morning, Kimberly – <i>by telephone</i>	Morgan Lewis
Nuzzo, Patsy	USAC
Robinson, Crystal	USAC
Rodwich, Denise – <i>by telephone</i>	Espy Services
Sadirkhanova, Sabina	USAC
Santana-Gonzalez, Jeanette	USAC
Schrader, Theresa – <i>by telephone</i>	Broadband Legal Strategies
Truong, Linh	USAC
Weidinger, Andrew	PwC

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 April 29, 2024.

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*).

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 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.

- i1. Audit and Assurance Business Update.** Ms. Delmar presented PowerPoint slides to the Committee for discussion covering the following topics:
- Q2 2024 Accomplishments and Q3 2024 Plans
 - Audit Assessments in Progress
 - Summary of Updates to Audit Standards
 - Roadmap
 - Appendix: Glossary of Terms

At 1:47 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 discussed the Fiscal Year 2023 Improper Payment Results with the Committee.
- a2. Action on Two USAC Audit and Assurance Division Strategic Audit Reports.** Ms. Delmar presented the results of the USAC's Supply Chain Compliance and the follow-up audits of E-Rate and Rural Health Care program 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 Supply Chain Compliance and the follow-up audits of E-Rate and Rural Health Care programs, accepts the recommendation of USAC management and hereby deems the reports final.

- a3. Annual Review of USAC's System of Internal Controls.** This item was approved in the consent items, no additional discussion was conducted.

RESOLVED, that the USAC Audit Committee accepts the review of USAC's system of internal controls.

- a4. **Annual Review of USAC’s Financial Reporting Process.** This item was approved in the consent items and no discussion was conducted.

RESOLVED, that the USAC Audit Committee accepts the review of USAC’s financial reporting process.

- a5. **Acceptance of USAC’s Restated 2022 Financial Statements and the 2023 Annual Financial Statement Audit and Agreed-Upon Procedures Review.** Ms. Garber introduced Mr. Tom Leonard and Mr. Andrew Weidinger of PricewaterhouseCoopers LLP who presented this item to the Committee. After discussion, it was determined that the financial statement letter would need to be altered. The Committee agreed to approve the resolution as written and receive a final copy of the letter as a matter of record. The Committee recognized and agreed that the final letter would be amended, as discussed.

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 Report to the Audit Committee, as submitted by PricewaterhouseCoopers LLP, hereby accepts the Report to the Audit Committee, including the restated 2022 Financial Statements and the 2023 Financial Statement Audit and Agreed-Upon Procedures Review reports and hereby directs PricewaterhouseCoopers LLP to issue the final signed reports to USAC.

At 2:30 p.m. Eastern Time the meeting continued in Executive Session with USAC’s independent auditor and non-staff Board members present.

- i3. **Audit Committee Executive Session with USAC’s Independent Audit Firm.** Ms. Schell facilitated discussion with Committee and the auditors.

At 2:38 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.

- i4. **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 3:02 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 acted on item a2 and a5 and discussed items i2, i3, and i4.

On a motion duly made and seconded, the Committee adjourned at 3:02 p.m. Eastern Time.

/s/ Erin Williams

Assistant Secretary

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

Action Requested

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

Discussion

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

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

Audit Committee Charter (Section II, A1c, 2a-c)	Julie Tritt Schell	Stephanie Polk	Brent Fontana	Amber Gregory	Sheba Chacko
[The member] is not and has not been employed in an executive capacity by the Company for at least five years prior to appointment to the Audit Committee.	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
[The member] is not an advisor or consultant to the Company and does not have a personal services contract or other business relationship with the Company.*	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>

Audit Committee Charter (Section II, A1c, 2a-c)	Julie Tritt Schell	Stephanie Polk	Brent Fontana	Amber Gregory	Sheba Chacko
[The member] 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 the management of the Company.	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
At least one member shall have a background in financial reporting, accounting, or auditing, or other financial expertise.	<i>No</i>	<i>No</i>	<i>Yes</i>	<i>No</i>	<i>No</i>
<i>*NOTE: None of the members of the Audit Committee has a consulting arrangement or contractual business relationship with USAC. Members may be employees of entities that contribute to and/or receive funds from the Universal Service Fund (USF).</i>					

The financial proficiency shown by Mr. Fontana is experience acquired during his professional career.

- Mr. Fontana has extensive experience in managing networks and acquisitions. He has held key positions with the responsibility of managing cross-functional execution across product management and development, sales, operations, finance, marketing, and business development. In his current capacity as the Global Principal of Fiber Network Development for Amazon Web Services, Mr. Fontana is defining cross-functional fiber network design and development strategies. Mr. Fontana received his Bachelor of Arts in Economics encompassing business, general economic theory, managerial accounting, legal communications, resource allocation, advanced statistical analysis, labor, and international economics.

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

Recommended USAC Audit Committee Action

APPROVAL OF THE FOLLOWING RESOLUTION:

RESOLVED, that the USAC Audit Committee accepts the assessment and agrees that the Audit Committee consists of independent members and that there is a sufficient level of financial expertise.



Audit Committee

Audit and Assurance Business Update

Open Session

October 28, 2024

Agenda

- Q3 2024 Accomplishments and Plans for Q4 2024
- Audits and Assessments in Process
 - BCAP Audits Aging Analysis
 - SCAP Audits
 - PQA Assessments
- Roadmap
- Appendix A: Glossary of Terms

Q3 2024 Accomplishments and Q4 2024 Plans

Function	Q3 2024 Accomplishments	Q4 2024 Plans
Beneficiary and Contributor Audit Program (BCAP)	<ul style="list-style-type: none"> Released 32 audits (5 CR, 4 HC, 4 LI, 14 E-Rate, and 5 RHC). Commenced 7 audits (7 LI). Conducted 77 site visits for CAF II Model audits. Conducted Lifeline audit training. Submitted Fiscal Year 2025 Audit Plan and Audit Procedures for FCC approval. 	<ul style="list-style-type: none"> Announce 20 audits and complete 30 audits. Conduct audit training for internal staff and outsourced audit firms.
Payment Quality Assurance (PQA)	<ul style="list-style-type: none"> Completed FY 2024 Quality Assurance Review process. Completed Q1 2024 Lifeline and ACP non-usage program integrity testing. 	<ul style="list-style-type: none"> Commence closure activities for FY 2024 and planning activities for FY 2025 assessments. Direct a statistician to calculate FY 2024 IPR (presented in Executive Session). Complete Q2 2024 Lifeline and ACP non-usage program integrity testing.
Supply Chain Audit Program (SCAP)	<ul style="list-style-type: none"> Released 6 audits. Onboarded and trained new audit firm. 	<ul style="list-style-type: none"> Announce 12 audits and complete 4 audits.
Strategic Audit (SA)	<ul style="list-style-type: none"> Submitted AUP for FCC approval. Completed one audit (presented in Executive Session). Commenced the last audit on the 2024 plan. 	<ul style="list-style-type: none"> Complete the last audit on the 2024 plan. Begin AUP preliminary fieldwork support activities for 2024/2025. Develop audit procedures for internal Supply Chain audits.

BCAP Audits in Process

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

Program	Announced	Fieldwork	Reporting	Total
Contributor Revenue	3	16	4	23
High Cost	2	24	38	64
Lifeline	0	24	18	42
E-Rate	0	19	55	74
Rural Health Care	1	5	26	32
Total	6	88	141	235

BCAP Audits Aging Analysis

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

Program	< 6 months	> 6 months	> 12 months	> 18 months	Total	Change from 7/01/2024
Contributor Revenue	9	5	6	3	23	(4)
High Cost	3	33	9	19	64	(6)
Lifeline	10	7	11	14	42	6
E-Rate	9	16	15	34	74	(14)
Rural Health Care	7	7	4	14	32	(7)
Total #	38	68	45	84	235	(25)
Total %	16.2%	28.9%	19.1%	35.7%	100.0%	N/A
Reporting Phase	3	28	34	76	141	10

Note: For the 129 audits > 12 months, 4 are with the audited entity, 73 are with USAC, 45 are with the FCC, and 7 are ready for the next release.

SCAP Audits in Process

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

	Announced	Fieldwork	Reporting	Total
	2	11	3	16
Total	2	11	3	16

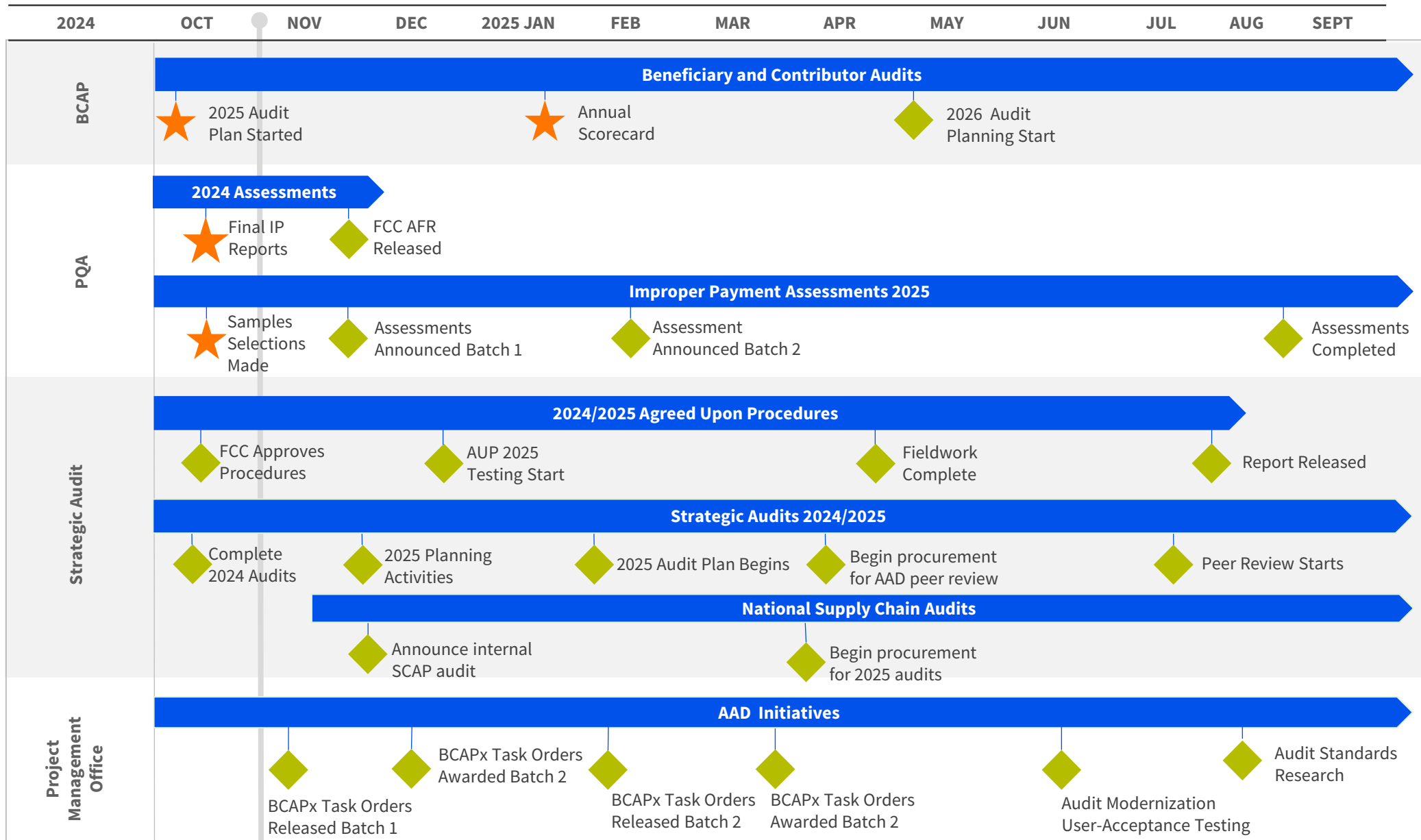
Note: Of the 16 entities under audit, 14 received HC funds, 11 received E-Rate funds, and 9 received RHC funds. (An entity may have received one or all three types of USF funds.)

PQA Assessments in Process

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

Program	Announced	Fieldwork	Reporting	Total
High Cost	0	0	130	130
Lifeline	0	0	220	220
E-Rate	0	0	350	350
Total	0	0	700	700

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 the universal service fund 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 Outsourced Audits: BCAP audits performed by outsourced 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
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, internal 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.**