

An Audit:

## Universal Service Fund

Public Service Commission

September 2005

# Report Highlights ■

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***The Fund reported a balance of \$6.4 million as of June 30, 2004.***

***Recent growth in program expenditures is resulting in budgetary challenges for the PSC-operated programs.***

***The Fund began providing a portion of aid to the State's public library systems in FY 2003-04.***

***A balance of almost \$165,000 has accumulated in the Newline Program.***

***A new statewide data and video network will provide higher-capacity data capabilities beginning in January 2006.***

The Universal Service Fund was established under 1993 Wisconsin Act 496 to ensure that all state residents receive essential telecommunications services and have access to advanced telecommunications capabilities. It supports telecommunications services and access programs that are provided by several state agencies, including the Public Service Commission (PSC), the Department of Administration (DOA), the University of Wisconsin System, and the Department of Public Instruction (DPI).

The PSC is responsible for developing the overall policies and procedures related to the Universal Service Fund but is directed by statute to contract with a private firm to administer the Fund. At the request of the PSC, we completed a financial audit of the Universal Service Fund to fulfill audit requirements under s. 196.218(2)(d), Wis. Stats. Our audit report contains our unqualified opinion on the Fund's financial statements and related notes for the fiscal years ending June 30, 2003 and 2004.

As part of our financial audit, we also reviewed different aspects of the Universal Service Fund's programs, including growth in expenditures in PSC-operated programs, accumulation of a balance in the Newline program, and planned implementation of a statewide data and video network that will affect the Educational Telecommunications Access Program.

## Key Facts and Findings

*Telecommunications providers paid a total of \$25.5 million in assessments in FY 2003-04 to support Universal Service Fund programs.*

*We have issued an unqualified opinion on the Fund's FY 2003-04 financial statements.*

*Fund expenditures and transfers totaled \$23.4 million in FY 2003-04.*

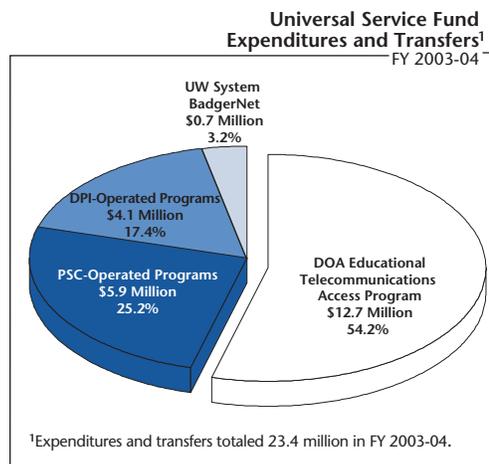
*The Fund had a balance of \$6.4 million as of June 30, 2004.*

## Fund Finances

The Universal Service Fund is funded primarily through assessments paid by telecommunications providers, which totaled \$25.5 million in fiscal year (FY) 2003-04. It also received \$106,000 in interest income and other revenues.

Almost \$23.4 million was expended during FY 2003-04 on 13 programs supported by the Fund. The \$2.2 million by which revenues exceeded expenditures increased the Fund's balance at June 30, 2004, to \$6.4 million.

Eight of the 13 programs currently supported by the Universal Service Fund are operated by the PSC, with expenditures totaling \$5.9 million in FY 2003-04. However the largest program, the Educational Telecommunications Access Program, is operated by DOA. This program subsidizes data lines and video links to eligible educational institutions. Its expenditures of \$12.7 million represented 54.2 percent of the Fund's total expenditures and transfers in FY 2003-04.



During FY 2003-04, the Universal Service Fund also provided \$4.1 million for three programs administered by DPI, and it paid more than \$700,000 to the University of Wisconsin System to provide four campuses access to voice, data, and video services through BadgerNet, the State's current voice, data, and video telecommunications infrastructure.

## PSC-Operated Programs

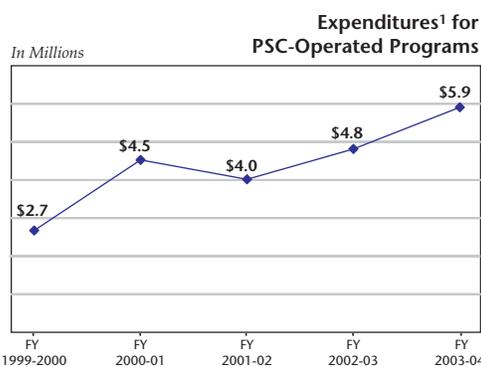
The eight programs operated by the PSC include programs that:

- provide low-income or disabled individuals affordable access to basic telephone and information services;
- lessen the financial effect of high rate increases on users in some parts of the state; and
- assist nonprofit medical clinics or public health agencies in the purchase of medical telecommunications equipment.

For several years after the first PSC-operated programs were established in 1996, expenditures were significantly less than budgeted. In 2001, the Legislature limited the amount that telecommunications providers could be assessed to support the PSC-operated programs to \$5.0 million in FY 2003-04 and \$6.0 million in FY 2004-05 and thereafter.

However, with the addition, expansion, and promotion of the

PSC-operated programs, expenditures for operations and administration have increased significantly since FY 1999-2000. Increasing expenditures have resulted in budgetary challenges. Because the PSC did not have sufficient spending authority, it deferred decisions to pay on more than \$544,000 in FY 2003-04 payment requests until FY 2004-05, and more than \$740,000 in FY 2004-05 payment requests until FY 2005-06.



<sup>1</sup>Expenditures reported in the financial statements.

The deferred payment requests were related to two programs for which administrative code permits, but does not require, the PSC to reimburse telecommunications providers for waiving telephone connection charges or reducing monthly telephone rates to lower-income individuals. The PSC believes it has the authority to not pay or to defer consideration of payment requests for these two programs if constrained by budgetary limits.

Based on expenditure trends in FY 2003-04, the PSC anticipated early in FY 2004-05 that spending authority would be insufficient to cover expected requests for payments during that year. In response, the PSC reduced benefits in the

program that helps people with disabilities acquire special telecommunications equipment and did not provide any medical telecommunications grants during FY 2004-05.

2005 Wisconsin Act 25 establishes annual appropriations of \$6.0 million for the PSC-operated programs in the 2005-07 biennium. The PSC believes it can limit FY 2005-06 expenditures to the \$6.0 million level. However, its ability to quickly respond to future cost increases without significantly affecting its programs may be limited.

Consequently, regular monitoring of future expenditure trends for the PSC-operated programs will be important. Furthermore, if growth in program demand and expenditures continues, the Legislature may be asked to reconsider statutory limits on the PSC's annual assessment levels.

## Library Aids

For several years, the Universal Service Fund supported two programs administered by DPI: BadgerLink, which provides state-wide on-line access to reference databases of magazines and newspapers, and the Newsline program, which is an electronic information program that allows sight-impaired individuals to listen to newspapers read over the telephone. Beginning in FY 2003-04, the Fund also helps to support the State's public library systems.

Until FY 2003-04, general purpose revenue (GPR) funded state aid

to the public library systems. 2003 Wisconsin Act 33 shifted \$2.1 million in funding for public library aid payments from GPR to the Universal Service Fund for each year of the 2003-05 biennium.

2005 Wisconsin Act 25 further reduces GPR for library systems aid by \$2.2 million and increases funding from the Universal Service Fund by another \$4.2 million over the 2005-07 biennium. Under Act 25, the Fund will pay 28.3 percent of library systems' state aid in FY 2005-06.

## Newsline Program

The PSC annually transfers funds from the Universal Service Fund to DPI for the Newsline program, which is operated by the National Federation of the Blind. Transfers in each of the last three years have been \$67,500. However, we found that in seven of eight years since the program's inception in FY 1997-98, the funds made available to DPI have exceeded Newsline program expenditures. As a result, a balance of almost \$165,000 has accumulated for the program.

DPI did not inform the PSC that these funds were not being fully spent, and the PSC did not monitor or require any reporting of program expenditure levels. In light of the accumulated balance we identified, the PSC has not budgeted any funding for the Newsline program in FY 2005-06, and it does not plan to provide any additional funds to DPI for the program until the balance has been substantially reduced.

## Educational Telecommunications Access Program

The Educational Telecommunications Access Program, which is administered by DOA, pays for the equipment and installation costs of data lines and video links, and for ongoing service costs in excess of monthly charges paid by eligible institutions. Data line or video link services are provided by a consortium of telecommunications providers under contract with DOA. Almost \$91.0 million has been expended for the program through FY 2004-05.

After completion of an assessment of the State's future educational technology needs and a competitive procurement process, the State entered into a five-year contract with the same consortium for a new statewide network, which will be known as the BadgerNet Converged Network. The new network is designed to provide higher data capability and video access on the same network to the State of Wisconsin and other public-sector users. It is expected to be available beginning January 1, 2006.

Monthly charges to participants in the Educational Telecommunications Access Program will remain the same: \$100 or \$250 per month,

depending on the speed of their Internet data line or video link. Monthly costs to the Universal Service Fund will be \$2,769 per video link and will range from \$500 to \$1,190 per data line.

## Recommendations

We include recommendations for the Public Service Commission to:

- ☑ change administrative code to require that telecommunications providers submit requests for payments for their services under the Lifeline, Link-Up America, and High Rate Assistance Credit programs by April 1 of the next fiscal year (*p. 13*);
- ☑ report to the Joint Legislative Audit Committee by March 31, 2006, on expenditure trends, cost projections, and its plans to address any projected payment requests that exceed spending authority in PSC-operated Universal Service Fund programs (*p. 13*); and
- ☑ work with DPI to establish formal procedures for transferring funds for the Newsline program based on actual program expenditures (*p. 16*).

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