

An Audit

Universal Service Fund

Public Service Commission

2009-2010 Joint Legislative Audit Committee Members

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Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards

Appendix

Universal Service Fund Programs



STATE OF WISCONSIN
Legislative Audit Bureau

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Janice Mueller
State Auditor

November 10, 2009

Senator Kathleen Vinehout and
Representative Peter Barca, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Vinehout and Representative Barca:

As requested by the Public Service Commission (PSC), we have completed a financial audit of the Universal Service Fund (USF), which was established to ensure that all Wisconsin residents receive essential telecommunications services and have access to advanced telecommunications capabilities. The USF is funded primarily through assessments the PSC levies on providers of telecommunications services, which may be fully recovered from consumers. In fiscal year (FY) 2007-08, provider assessments totaled \$31.6 million.

Eight of 14 programs supported by the USF during the period we audited are operated by the PSC. However, the largest program supported by the USF in FY 2007-08 was the Educational Telecommunications Access Program, which is administered by the Department of Administration. That program subsidizes data lines and video links for eligible educational institutions and entities such as public libraries and had expenditures of \$14.6 million. The USF also provided \$14.0 million in FY 2007-08 to fund Aid to Public Library Systems, a program administered by the Department of Public Instruction; funded three other programs administered by that agency; and helped to fund access to voice, data, and video services for four-year University of Wisconsin System campuses.

In past audits, we noted that the USF's fund balance had increased steadily because revenue from provider assessments exceeded program expenditures. In contrast, FY 2007-08 expenditures exceeded revenues by \$5.6 million. The resulting decline in the fund balance is largely attributable to increased reliance on the USF as a funding source for public libraries. In FY 2008-09 the USF became the sole funding source for Aid to Public Library Systems, and the current biennial budget requires it to provide \$16.2 million in funding for that program in FY 2009-10 and \$16.7 million in FY 2010-11.

Our audit report contains our unqualified opinion on the USF's financial statements for the fiscal years ending June 30, 2008, and June 30, 2007. Our Report on Internal Control and Compliance includes a recommendation for the Department of Administration to ensure the accuracy of copayment billings for institutions participating in the Educational Telecommunications Access Program.

We appreciate the courtesy and cooperation extended to us by staff at the PSC, the Department of Administration, the Department of Public Instruction, the University of Wisconsin System, and the USF's administrator, Wipfli LLP.

Respectfully submitted,

Janice Mueller
State Auditor

JM/BN/ss

Report Highlights ■

The USF supports 14 programs managed by 4 state agencies.

Providers of telecommunications services pay assessments that fund the USF and are allowed to recover their costs from consumers.

Program expenditures exceeded revenues from provider assessments in FY 2007-08.

The USF became the sole funding source for state aid to public libraries in FY 2008-09.

Providers of cell phone services will be assessed to help fund the USF in FY 2009-10.

The Universal Service Fund (USF) was established under 1993 Wisconsin Act 496 to ensure that all Wisconsin residents receive essential telecommunications services and have access to advanced telecommunications capabilities. It supports programs that are managed by four state agencies: the Department of Administration (DOA), the University of Wisconsin (UW) System, the Department of Public Instruction (DPI), and the Public Service Commission (PSC), which is also responsible for overseeing the USF. As required by statute, a private firm provides administrative services under a contract with the PSC.

At the request of the PSC, we completed a financial audit of the USF to fulfill audit requirements under s. 196.218(2)(d), Wis. Stats. Our audit report contains our unqualified opinion on financial statements and related notes for the fiscal years ending June 30, 2008, and June 30, 2007.

To fund the USF, the PSC levies assessments on telecommunications providers. Providers are allowed by statute to fully recover their costs of the assessments from consumers of their telecommunications services. During the two-year period we audited, only providers of landline telecommunications services were assessed for USF funding. 2009 Wisconsin Act 28, the 2009-11 Biennial Budget Act, directs the PSC to also assess cell phone and other commercial mobile radio service providers for USF funding. The PSC will begin doing so in fiscal year (FY) 2009-10. Assessment amounts in that year are estimated to total \$53.5 million.

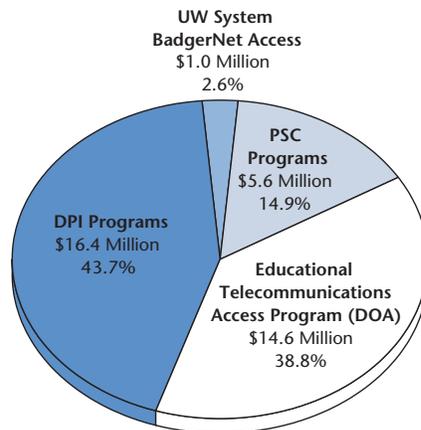
Revenue and Expenditures

Revenues from provider assessments were \$31.6 million and represented 98.0 percent of the USF’s total revenues in FY 2007-08. Interest income was \$658,000. Expenditures for the 14 programs the USF supported in FY 2007-08 were \$37.6 million and represented 99.1 percent of total expenditures.

The Educational Telecommunications Access Program, which is operated by DOA, was the largest single program funded by the USF during the period we audited. As shown in Figure 1, it accounted for 38.8 percent of FY 2007-08 program expenditures.

Figure 1

Universal Service Fund Program Expenditures¹ FY 2007-08



¹ Program expenditures were \$37.6 million, and PSC administrative expenditures were \$326,000, for a total of \$37.9 million in FY 2007-08 expenditures.

The USF also provided \$16.4 million, or 43.7 percent of FY 2007-08 program expenditures, for four programs administered by DPI. The largest of these is Aid to Public Library Systems, for which FY 2007-08 expenditures were \$14.0 million. In addition, the PSC expended \$5.6 million for eight programs it operated in FY 2007-08, and the USF provided almost \$1.0 million to UW System to help fund access to voice, data, and video services for its four-year campuses through the BadgerNet Converged Network, which is the State’s voice, data, and video telecommunications network.

USF Programs

The Educational Telecommunications Access Program subsidizes data lines and video links for more than 900 public and private entities, including K-12 schools, technical colleges, public libraries, juvenile correctional facilities, cooperative educational service agencies, and public museums, as well as the Wisconsin School for the Deaf and the Wisconsin Center for the Blind and Visually Impaired. The program pays for equipment, installation costs, and a portion of monthly service costs. Copayments are based on the number and speed of participating institutions' data lines and video links.

A consortium of telecommunications providers delivers services to participating institutions through the BadgerNet Converged Network. That statewide data line and video link network was completed in September 2006 and also serves the State of Wisconsin and other public users. DOA entered into a \$116.7 million, multi-year agreement with the consortium in March 2005. The agreement will expire in November 2011 but may be extended for up to five additional years.

In addition to providing \$14.0 million in FY 2007-08 funding for Aid to Public Library Systems, the USF also supported three other DPI programs:

- BadgerLink, which offers statewide public access to online information resources, including magazines, journals, newspapers, and reference materials;
- Newline for the Blind, which provides sight-impaired individuals with telephone access to national and local newspapers and is operated by the National Federation of the Blind; and
- a one-time grant to La Causa Charter School in Milwaukee for library, science, and technology improvements.

The eight USF-funded programs operated by the PSC:

- provide access to basic telephone and information services for individuals with low incomes or disabilities;
- lessen the financial effect of rate increases on low-income users; and

- assist nonprofit medical clinics and public health agencies in purchasing medical telecommunications equipment.

Fund Balance

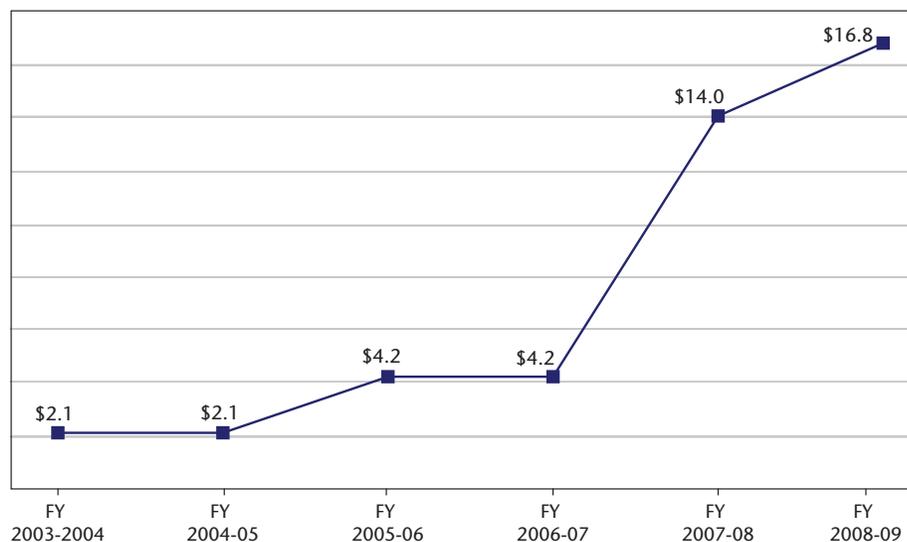
In past audits, we noted that the USF’s fund balance had increased steadily because revenue from provider assessments exceeded program expenditures. In contrast, expenditures exceeded revenues by \$5.6 million in FY 2007-08. As a result, the fund balance declined by \$5.6 million and was \$12.2 million as of June 30, 2008.

The decline in the fund balance is largely attributable to increased reliance on the USF as a funding source for the Aid to Public Library Systems program operated by DPI.

Until FY 2003-04, state aid to public libraries was funded entirely through general purpose revenue (GPR). In an effort to address General Fund budget shortfalls, 2003 Wisconsin Act 33 required the USF to provide \$2.1 million in aid to public libraries in each year of the 2003-05 biennium. USF funding for state aid to public libraries increased under subsequent biennial budgets, as shown in Figure 2.

Figure 2

Universal Service Fund Aid to Public Libraries¹ (in millions)



¹ FY 2008-09 amount is unaudited.

The USF became the sole funding source for the Aid to Public Library Systems program in FY 2008-09. The current biennial budget requires it to provide \$16.2 million in funding for that program in FY 2009-10 and \$16.7 million in FY 2010-11.

Fiscal Management Issues

In 2008, we reported that DOA did not have adequate procedures in place to ensure that FY 2006-07 copayment billings for the Educational Telecommunications Access Program were accurate (report 08-9).

Our current Report on Internal Control and Compliance notes that DOA failed to take the necessary steps to correct these copayment billings and identifies additional errors for FY 2007-08. We also found that DOA paid almost \$25,000 more than it had awarded for a grant under the Educational Telecommunications Access Program. Our Report on Internal Control and Compliance includes a recommendation that DOA give priority to addressing these errors and seek recovery of the overpayment.

■ ■ ■ ■

Program Expenditures and Funding Changes ■

Descriptions and cumulative expenditure information for the 14 programs supported by the USF during our audit period are provided in the appendix. As noted, the Educational Telecommunications Access Program was the largest single program funded by the USF in FY 2007-08. USF funding for another program—Aid to Public Library Systems—increased significantly under 2009 Wisconsin Act 28, the 2009-11 Biennial Budget Act, which also increased the number of telecommunications providers assessed for USF funding.

Educational Telecommunications Access Program

Through FY 2007-08, expenditures for the Educational Telecommunications Access Program exceeded \$134.3 million.

Table 1 shows USF expenditures for the Educational Telecommunications Access Program since its inception. FY 2006-07 expenditures were relatively high because of payments on three separate master leases and on equipment purchases related to the BadgerNet Converged Network. Since the completion of that network, program expenditures decreased to \$14.6 million for FY 2007-08. Unaudited figures indicate that FY 2008-09 expenditures were \$15.7 million.

Table 1

Educational Telecommunications Access Program Expenditures
 FY 1998-99 through FY 2007-08

Fiscal Year	Expenditures
1998-99	\$ 12,232,143
1999-2000	8,750,186
2000-01	10,480,498
2001-02	11,704,793
2002-03	18,014,975
2003-04	12,686,709
2004-05	16,846,105
2005-06	11,613,304
2006-07	17,395,356
2007-08	14,562,213
Total	\$134,286,282

The federal E-rate program also funds some telecommunications costs of school districts, public libraries, and other entities.

In addition to funding from the USF, \$211,000 in federal E-rate funding was made available in FY 2007-08 to school districts, libraries, and other entities with video links and data lines provided through the Educational Telecommunications Access Program. DOA applies for and receives federal E-rate funds on their behalf. Federal E-rate funds reduce recipients' costs for basic and long-distance telephone services, Internet access, and equipment to provide internal telecommunications connections.

Changes in Library Funding and Provider Assessments

As noted, state aid to public libraries was funded entirely through GPR until FY 2003-04, when the USF was first required by 2003 Wisconsin Act 33 to begin providing funding for public libraries. As shown in Table 2, the USF provided \$2.1 million in state aid to public libraries in each year of the 2003-05 biennium, and increasing amounts over the next two biennia. Beginning in FY 2008-09, the Aid to Public Library Systems program was funded entirely by the USF.

Table 2

State Aid to Public Libraries

Fiscal Year	Universal Service Fund	GPR	Total
2002-03	–	\$14,196,700	\$14,196,700
2003-04	\$ 2,111,900	12,084,800	14,196,700
2004-05	2,111,900	12,084,800	14,196,700
2005-06	4,223,800	10,684,800	14,908,600
2006-07	4,223,800	11,297,400	15,521,200
2007-08	14,040,600	2,097,400	16,138,000
2008-09 ¹	16,783,500	–	16,783,500
2009-10 ²	16,165,400	–	16,165,400
2010-11 ²	16,681,200	–	16,681,200

¹ Unaudited.

² Amount appropriated.

The Universal Service Fund now funds 100 percent of state aid to public libraries.

The \$9.8 million increase in USF funding for state aid to public libraries from FY 2006-07 to FY 2007-08 was possible because of the one-time use of funds that had accumulated in the USF over a number of years. Subsequent funding levels reflect provisions of 2009 Wisconsin Act 28, the 2009-11 Biennial Budget Act, that:

- reduced the FY 2008-09 GPR appropriation for the Aid to Public Library Systems program from \$11.3 million to \$0, increased the USF’s FY 2008-09 appropriation from \$5.5 million to \$16.8 million, and required the PSC to fund that \$11.3 million increase through FY 2009-10 provider assessments; and
- repealed the GPR appropriation for state aid to public libraries in each year of the 2009-11 biennium and required the PSC to adjust provider assessments so that the USF can fully fund the Aid to Public Library Systems program during the 2009-11 biennium.

Cell phone providers will begin paying USF assessments in FY 2009-10.

2009 Wisconsin Act 28 also amended s. 196.202(2), Wis. Stats., so that cell phone and other commercial mobile radio service providers, as well as providers of landline telecommunications services, will be assessed for USF funding by the PSC. The PSC remains responsible for establishing provider assessment levels, which are based on program expenditures and appropriation levels and are affected by any excess balances that accumulate in the USF when revenues exceed expenditures.

Fund Balance

The fund balance decreased by \$5.6 million and was \$12.2 million as of June 30, 2008.

As shown in Table 3, the USF had accumulated a fund balance of \$17.8 million as of June 30, 2007. During FY 2007-08, expenditures exceeded revenues by \$5.6 million, primarily because of increased expenditures for the Aid to Public Library Systems program. As a result, the USF fund balance was reduced to \$12.2 million as of June 30, 2008.

Table 3

Fund Balance (in millions)

Date	Fund Balance
June 30, 2003	\$ 4.2
June 30, 2004	6.4
June 30, 2005	6.9
June 30, 2006	15.8
June 30, 2007	17.8
June 30, 2008	12.2
June 30, 2009 ¹	0.5

¹ Unaudited.

As of June 30, 2009, the unaudited balance had declined to approximately \$0.5 million because of the additional aid to public libraries funded by the USF during FY 2008-09. The fund balance is expected to increase during FY 2009-10 with the collection of provider assessments to replenish the USF for the FY 2008-09 increase in funding it provided for the Aid to Public Library Systems program.

It should be noted that 2009 Wisconsin Act 28 also requires the USF to provide \$2.3 million during the 2009-11 biennium to fund four library services contracts that had previously been funded with GPR.



Audit Opinion ■

Independent Auditor's Report on the Financial Statements of the State of Wisconsin Universal Service Fund

We have audited the accompanying financial statements of the Universal Service Fund of the State of Wisconsin as of and for the years ended June 30, 2008 and 2007. These financial statements are the responsibility of the management of the Universal Service Fund. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2A, the financial statements referred to in the first paragraph present only the Universal Service Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin and the changes in its financial position in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Universal Service Fund as of June 30, 2008 and 2007, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Universal Service Fund. The supplementary information included as Management's Discussion and Analysis on pages 15 through 19 and as Schedules 1 and 2 on pages 34 and 35 is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 18, 2009, on our consideration of the Universal Service Fund's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

September 18, 2009

LEGISLATIVE AUDIT BUREAU
by 
Bryan Naab
Deputy State Auditor for Financial Audit

Management's Discussion and Analysis ■

Prepared by Public Service Commission Management

Management's discussion and analysis (MD&A) is prepared by PSC management, with assistance from staff at the Department of Administration and UW System, to provide general information on the financial activities of the Universal Service Fund (USF). The MD&A should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of PSC management.

The PSC is an independent regulatory agency of the State of Wisconsin that is responsible for the regulation of public utilities, including electric, natural gas, telephone, water, and combined water and sewer facilities. The PSC receives its authority and responsibilities from the Wisconsin Legislature. One of the PSC's responsibilities is to administer the USF. The USF was established to further the goal of providing both basic essential telecommunications services and access to advanced service capabilities to telecommunications service customers in Wisconsin.

Overview of the Financial Statements

The USF is accounted for as a special revenue fund, which is a governmental fund that uses the flow of current financial resources and the modified accrual basis of accounting. The financial statements provide a detailed short-term view of the USF's finances that assists in determining whether there will be adequate resources available to meet the current needs of the USF. They include two statements:

- The Balance Sheet presents only assets expected to be used and liabilities that come due during the upcoming year. The difference between assets and liabilities is reported as the fund balance.
- The Statement of Revenues, Expenditures, and Changes in Fund Balance presents a comparison of revenues for which cash is received during or soon after the end of the year; expenditures for which payment is due during the year or soon thereafter; and other financing sources and uses. The net of these categories increases or decreases the fund balance.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Noteworthy Financial Activity

Condensed financial statements as of and for the fiscal years ended June 30, 2008 and 2007, are shown in the following tables.

Table A

A Comparison of Condensed Financial Information for FY 2007-08 and FY 2006-07

	June 30, 2008	June 30, 2007	Dollar Change	Percentage Change
Total Assets	\$14,082,028	\$20,202,166	\$(6,120,138)	(30)%
Total Liabilities	1,888,299	2,370,658	(482,359)	(20)
Fund Balance	\$12,193,729	\$17,831,508	\$(5,637,779)	

	FY 2007-08	FY 2006-07	Dollar Change	Percentage Change
Total Revenues	\$32,248,133	\$30,908,883	\$ 1,339,250	4%
Total Expenditures	37,885,912	28,856,874	9,029,038	31
Excess of Revenues over Expenditures	\$ (5,637,779)	\$ 2,052,009	\$(7,689,788)	

Table B

A Comparison of Condensed Financial Information for FY 2006-07 and FY 2005-06

	June 30, 2007	June 30, 2006	Dollar Change	Percentage Change
Total Assets	\$20,202,166	\$17,343,309	\$2,858,857	16%
Total Liabilities	2,370,658	1,563,810	806,848	52
Fund Balance	\$17,831,508	\$15,779,499	\$2,052,009	

	FY 2006-07	FY 2005-06	Dollar Change	Percentage Change
Total Revenues	\$30,908,883	\$30,771,234	\$ 137,649	<1%
Total Expenditures	28,856,874	23,045,538	5,811,336	25
Excess of Revenues over Expenditures	2,052,009	7,725,696	(5,673,687)	
Capital Lease Acquisitions	0	1,116,000	(1,116,000)	(100)
Excess of Revenues over Expenditures and Other Uses	\$ 2,052,009	\$ 8,841,696	\$(6,789,687)	

The USF's total revenues of \$32.2 million in FY 2007-08 and \$30.9 million in FY 2006-07 consisted of assessed revenue plus interest income. The PSC assesses telecommunications providers, as required by statute and administrative rule, over a 12-month period to fund amounts appropriated from the USF.

Approximately 81 percent of total assessed revenues for FY 2007-08 and 80 percent of total assessed revenues for FY 2006-07 were intended for four programs the PSC does not manage: the Educational Telecommunications Access Program, which is managed by the Department of Administration; library system aid, BadgerLink and Newslines for the Blind, which are managed by the Department of Public Instruction; and the UW System BadgerNet Access program for University of Wisconsin campuses. In addition, FY 2007-08 assessments for the Department of Public Instruction included one-time funding of \$250,000 for the La Causa Charter School grant, as required by 2007 Wisconsin Act 20. The remaining revenues were used to support PSC-operated programs, which include the Telecommunications Equipment Purchase Program (TEPP), the Link-Up and Lifeline programs, the Medical Telecommunications Equipment program, the Nonprofit Access Program, the Public Interest Pay Telephone program, the High Rate Assistance Credit program, and the Two-Line Voice Carryover program.

USF appropriations increased by 33 percent from FY 2006-07 to FY 2007-08, after remaining relatively constant between FY 2005-06 and FY 2006-07. Appropriations for the Educational Telecommunications Access Program, the UW System

BadgerNet Access program, and the PSC-operated programs for FY 2007-08 totaled \$24.3 million, an increase of only \$10,600 from FY 2006-07.

However, appropriations for the DPI programs were \$16.5 million for FY 2007-08, which was an increase of \$10.2 million, or 163 percent, from FY 2006-07. The increase in FY 2007-08 was largely due to the Legislature's enactment of 2007 Wisconsin Act 20, which continued the trend of using the USF for funding the public library system aid program in place of general purpose revenue of the General Fund. USF appropriations for aid to public libraries began in FY 2003-04 at \$2,111,900 and have increased in the intervening years to \$14,040,600 in FY 2007-08, which includes the one-time use of \$9,200,000 in carry-over balance as authorized in 2007 Wisconsin Act 20. Other increases in DPI's appropriations from the USF include the one-time funding of \$250,000 for La Causa Charter School, \$106,000 in funding for Newsline for the Blind that was previously included in a PSC appropriation, and \$31,200 for BadgerLink. As a result of these increases, DPI's USF expenditures increased from \$6,216,263 in FY 2005-06 to \$6,254,300 in FY 2006-07, and to \$16,406,461 in FY 2007-08.

Total Educational Telecommunications Access Program expenditures declined \$2,833,143, from \$17,395,356 in FY 2006-07 to \$14,562,213 in FY 2007-08. In FY 2006-07, the Educational Telecommunications Access Program was in the process of finalizing the conversion from the "legacy" BadgerNet system to the newer BadgerNet Converged Network. Many of the higher FY 2006-07 expenditures are related to the costs for conversion of various legacy sites. For example, during FY 2006-07 the Educational Telecommunications Access Program made payments totaling \$1,942,702 on three separate master leases obtained during FY 2005-06 and FY 2006-07. Also, funds were expended for equipment, software, and other supplies to facilitate the conversion of K-12 legacy video classrooms. Educational Telecommunications Access Program expenditures increased from \$11,613,304 during FY 2005-06 to \$17,395,356 during FY 2006-07 for the same reasons.

Although 2007 Wisconsin Act 20 removed the annual \$6.0 million assessment cap that was previously in place for the PSC-operated programs, the PSC is still required to stay within the limits of the amounts appropriated, which was \$6.0 million for FY 2007-08.

Actual expenditure levels for the PSC-operated programs, including administrative costs, increased by \$800,861, or 16 percent, during FY 2007-08 to a total of \$5.9 million. This followed an increase of \$641,478, or 14 percent, during FY 2006-07. Several of the larger PSC-operated programs had expenditure increases of more than 10 percent for FY 2006-07 and FY 2007-08, including TEPP, Medical Telecommunications Equipment, and the Nonprofit Access Program, which awards grants that fund access programs or projects facilitated by nonprofit groups. Expenditures for TEPP increased by \$375,980, or 26 percent, to reach \$1.8 million during FY 2007-08. Expenditures for TEPP vary from year to year due to the variation in outreach done by equipment vendors as part of their marketing plans. Also, there appears to be a trend of increased expenditures every third year because of the cyclical nature of this program. Applicants are eligible for a voucher every three years, which may explain the increase in expenditures for FY 2007-08. Expenditures for TEPP were also relatively high at \$2.4 million in FY 2004-05.

Expenditures for Link-Up increased by \$188,625, or 15 percent, in FY 2007-08 because of the entrance of new, competitive local exchange carriers that primarily focus on serving low-income customers. This increase was a continuation of what began in the previous fiscal year. Expenditures increased by \$441,708, or 54 percent, in FY 2006-07. Two new providers that focused on low-income customers expanded marketing of their services in 2006. This resulted in an increase in the number of low-income participants who switched providers, which contributed to the increase in Link-Up expenditures. In addition, the new providers charged higher connection fees that increased reimbursement amounts and corresponding expenditure levels for Link-Up. The PSC took action in early 2008 by limiting Link-Up reimbursements to one per year per customer per provider at the same address. Also, the PSC capped the amount a provider may receive per customer at \$30. The two providers subsequently reduced their reimbursement requests from the USF to stay within this cap. This slowed the increase in Link-Up expenditures, and by late in FY 2007-08 monthly expenditures for this program were beginning to decline, indicating the program changes were having the intended effect.

Expenditures in FY 2007-08 increased 41 percent for the Medical Telecommunications Equipment program and 141 percent for the Nonprofit Access Program. These increases followed a FY 2006-07 increase of 869 percent for the Medical Telecommunications Equipment program and a decrease of 58 percent for the Nonprofit Access Program. Expenditures for these programs have varied significantly from year to year based on the timing of grant awards and grantee reimbursements. There have also been a number of years in which grants were not awarded for one of the programs due to budget constraints. However, grants were awarded for both FY 2006-07 and FY 2007-08. In FY 2007-08, the PSC awarded grants of \$422,427 for the Medical Telecommunications Equipment program and \$450,820 for the Nonprofit Access Program.

Expenditures for the UW System BadgerNet Access program had significantly decreased in FY 2006-07 because UW System did not charge the USF appropriation for expenditures during several months of FY 2006-07 while it assessed whether its new payment process complied within statute guidelines. UW System concluded that its payment process was, in fact, in compliance and resumed charging the USF in FY 2007-08. Expenditures for the program increased to \$998,827 during FY 2007-08. Passage of 2007 Wisconsin Act 20 expanded use of the USF to fund access to the BadgerNet Converged Network at any four-year UW System campus beginning in FY 2007-08. As in FY 2007-08, UW System expects to continue to expend close to what it is appropriated each fiscal year from the USF for the program.

This financial report is designed to provide an overview of the USF's finances. Questions concerning any of the information it provides, or requests for additional information, should be addressed to:

Public Service Commission of Wisconsin
 c/o Universal Service Fund Manager
 P.O. Box 7854
 Madison, WI 53707-7854

Financial Statements ■

Balance Sheet

June 30, 2008 and 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
ASSETS		
Cash and Cash Equivalents (Notes 2C and 3)	\$ 11,858,410	\$ 18,720,875
Assessments Receivable (Note 2D)	2,036,163	1,471,707
Other Receivables	186,494	9,570
Prepays	<u>961</u>	<u>14</u>
Total Assets	<u>\$ 14,082,028</u>	<u>\$ 20,202,166</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Program liabilities:		
UW System BadgerNet Access	\$ 735,538	\$ 0
BadgerLink and Newslines for the Blind	311,157	0
Lifeline	299,432	336,022
Telecommunications Equipment Purchase Program (TEPP)	185,656	144,008
Link-Up	121,132	222,522
Medical Telecommunications Equipment	95,720	57,850
Nonprofit Access Program	49,343	11,355
Educational Telecommunications Access Program	19,475	1,540,806
Public Interest Pay Telephone	11,345	14,278
Two-Line Voice Carryover	971	663
High Rate Assistance Credit	0	12,263
Accounts payable	<u>58,530</u>	<u>30,891</u>
Total Liabilities	<u>1,888,299</u>	<u>2,370,658</u>
Fund Balance:		
Reserved for Encumbrances (Note 7)	2,102,153	1,859,102
Reserved for Prepays	961	14
Unreserved	<u>10,090,615</u>	<u>15,972,392</u>
Total Fund Balance	<u>12,193,729</u>	<u>17,831,508</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 14,082,028</u>	<u>\$ 20,202,166</u>

The accompanying notes are an integral part of this statement

**Statement of Revenues, Expenditures, and Changes in Fund Balance
for the Years Ended June 30, 2008 and 2007**

	Year Ended June 30, 2008	Year Ended June 30, 2007
REVENUES		
Telecommunications Providers' Assessments (Note 2D) for:		
Educational Telecommunications Access Program	\$ 17,276,975	\$ 16,923,900
Department of Public Instruction Programs	7,257,702	6,142,936
Public Service Commission Programs (Note 8)	6,001,173	5,862,791
UW System BadgerNet Access	<u>1,054,769</u>	<u>1,035,083</u>
Total Telecommunications Providers' Assessments	\$ 31,590,619	\$ 29,964,710
Interest Income	<u>657,514</u>	<u>944,173</u>
Total Revenues	<u>32,248,133</u>	<u>30,908,883</u>
EXPENDITURES		
Program Expenditures:		
Educational Telecommunications Access Program	14,562,213	17,395,356
Aid to Public Library Systems (Note 5)	14,040,600	4,223,800
BadgerLink and Newslines for the Blind (Note 4)	2,115,861	2,030,500
Telecommunications Equipment Purchase Program (TEPP)	1,835,648	1,459,668
Link-Up	1,448,293	1,259,807
Lifeline	1,390,380	1,457,231
UW System BadgerNet Access	998,827	89,668
Medical Telecommunications Equipment	495,170	351,644
Nonprofit Access Program	327,197	136,027
Local educational aids (Note 5)	250,000	0
Public Interest Pay Telephone	53,252	87,918
High Rate Assistance Credit	37,276	74,224
Two-Line Voice Carryover	<u>5,283</u>	<u>3,431</u>
Total Program Expenditures	37,560,000	28,569,274
Administrative Expenditures	<u>325,912</u>	<u>287,600</u>
Total Expenditures	<u>37,885,912</u>	<u>28,856,874</u>
EXCESS OF REVENUES OVER EXPENDITURES	(5,637,779)	2,052,009
OTHER FINANCING SOURCES (USES)		
Capital Lease Acquisitions (Note 6)	<u>0</u>	<u>0</u>
Excess of Revenues and Other Sources over Expenditures and Other Uses	(5,637,779)	2,052,009
FUND BALANCE		
Fund Balance—Beginning of the Year	<u>17,831,508</u>	<u>15,779,499</u>
Fund Balance—End of the Year	<u>\$ 12,193,729</u>	<u>\$ 17,831,508</u>

The accompanying notes are an integral part of this statement

Notes to the Financial Statements ■

1. DESCRIPTION OF THE UNIVERSAL SERVICE FUND

The Wisconsin Public Service Commission established the State of Wisconsin Universal Service Fund (USF), as directed by 1993 Wisconsin Act 496, to ensure that all residents of Wisconsin receive essential telecommunications services and have access to advanced telecommunications service capabilities. Act 496 directed the PSC to create and appoint the members of the Universal Service Fund Council, the majority of whom are to be representatives of consumers of telecommunications services, to advise the PSC concerning the administration of the USF. Act 496 also directed the PSC to contract with a private firm to administer the USF. The PSC has contracted with Wipfli LLP, an accounting firm, for these services.

The USF is established as a trust fund in s. 25.95, Wis. Stats. As allowed by statute, the PSC requires telecommunications providers to contribute to the USF in amounts sufficient to support the USF's programs and operations. The USF supports funding for telecommunications services and access provided through several state agencies, including the PSC, the University of Wisconsin (UW) System, the Department of Public Instruction (DPI), and the Department of Administration (DOA).

A description of each of the programs under which the USF incurred expenditures during FYs 2007-08 and 2006-07 follows.

A. Educational Telecommunications Access Program

This program, which is administered by DOA, was implemented in February 1998 to provide educational institutions and other entities with subsidized access to data lines for direct Internet or Intranet access, and video links that provide for two-way interactive video that allows participants to view and respond to instructional presentations from off-site locations.

B. Public Library Aids

2003 Wisconsin Act 33 included statutory language providing that the payment of public library system aid is an authorized use of the USF. General purpose revenue provided additional funding for public library aid during FY 2006-07 and FY 2007-08. DPI is responsible for distributing the aid payments to 17 Wisconsin public library systems according to a statutory formula.

C. BadgerLink and Newsline for the Blind

Since FY 1999-2000, the USF has paid for contracts with vendors that provide statewide access to reference databases of magazines and newspapers through BadgerLink, which is a program administered by DPI to provide access to information resources using existing telecommunications networks and Internet connections.

A contract exists between DPI and the National Federation of the Blind to provide the Newsline for the Blind, which is an electronic information service that provides telephone access for sight-impaired individuals to audio versions of major national newspapers and several local newspapers.

D. Telecommunications Equipment Purchase Program (TEPP)

This program, which was implemented in May 1996, assists persons with disabilities in acquiring special telecommunications equipment. Six categories of disabilities qualify for the program: hard of hearing, deaf, speech impaired, mobility/motion impaired, deaf and low vision, and deaf and blind. For each disability, the PSC has established a maximum dollar amount that the USF will pay toward the purchase of special telecommunications equipment. Participants in this program, except for hard-of-hearing participants, are required to contribute \$100 toward the cost of the special equipment, plus any amount in excess of the maximum amount that the USF will pay. The USF issues vouchers to approved eligible disabled persons, who present them to vendors when equipment is purchased. Vendors subsequently submit the vouchers to the USF administrator for payment.

E. Lifeline and Link-Up Programs

Lifeline and Link-Up are separate but complementary programs administered by the State of Wisconsin and the federal government. Eligible low-income individuals may receive assistance from both the State of Wisconsin and the federal government. The state and federal Lifeline programs are based on a maximum rate of \$15 per month for certain basic services consisting of single-party residential touch-tone telephone service, including 911 emergency service. When the actual approved rate for these services exceeds \$15 per month, the difference is waived for eligible low-income customers. The state and federal Link-Up programs provide a waiver of certain regulated service charges when low-income residential customers initiate or move telephone service. For both programs, telecommunications providers establish eligibility and request reimbursement separately from the State of Wisconsin and the federal government for each entity's share of the waived costs.

F. UW System BadgerNet Access

The BadgerNet Converged Network is the State's telecommunications infrastructure of voice, data, and video networks and communications service provided by DOA to state agencies, local governments, UW campuses, technical colleges, public and private schools, and other eligible users. Beginning in FY 1997-98, the Legislature appropriated funds from the USF to provide access for UW-River Falls, UW-Stout, UW-Superior, and UW-Whitewater in a manner equivalent to the access provided through other funding sources for the other nine four-year campuses in UW System. Effective for FY 2007-08, the Legislature expanded the appropriation to all UW campuses.

G. Medical Telecommunications Equipment

This program, which was implemented in FY 2000-01, provides grants to nonprofit medical clinics and public health agencies to purchase medical telecommunications equipment that will promote technologically advanced medical services or will enhance access to medical care.

H. Nonprofit Access Program

This program, which was implemented in FY 2000-01, provides grants to nonprofit groups for partial funding of programs or projects that will facilitate affordable access to telecommunications and information services.

I. Public Interest Pay Telephone

This program, which was implemented in FY 2000-01, provides funding to ensure that pay telephones remain or are installed at locations where there is a public need, even though revenues generated by their use are not sufficient for providers to be willing to maintain or install these telephones.

J. High Rate Assistance Credit

This program was implemented in May 1996 to lessen the financial effects of rapid increases in approved telecommunications rates charged to users. Under the program, telecommunications providers issue credits to residential customers when telecommunications rates exceed certain levels that are based on the median household income level for which the rates apply. The USF reimburses telecommunications providers the value of the credits issued.

K. Two-Line Voice Carryover

This program, which was implemented in FY 2001-02, provides a second telephone line to certain hearing- or speech-impaired customers who use voice carryover service.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Basis of Presentation**

The USF's financial statements have been prepared in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASB). The USF is a special revenue fund of the State of Wisconsin. These statements present the financial position and results of operations of only the activity of the USF and are not intended to present the financial activity for the State of Wisconsin as a whole.

B. Basis of Accounting

The USF is accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the Balance Sheet. The operating statement presents revenues, expenditures, and other financing sources and uses that result in changes in net available financial resources.

The USF is accounted for on the modified accrual basis of accounting, which recognizes revenues when they become measurable and available to pay current reporting period liabilities. Revenues are considered to be available if received within one year after the fiscal year-end. Expenditures and related liabilities are recognized when obligations are incurred, with the exception that payments on master lease obligations are recorded as expenditures when due.

C. Cash and Cash Equivalents

Cash and cash equivalents reported on the Balance Sheet include a demand deposit account at a commercial financial institution and cash deposited with the State of Wisconsin, where available balances beyond immediate needs are pooled in the State Investment Fund

for short-term investment purposes. Balances pooled in the State Investment Fund are restricted to legally stipulated investments valued consistent with GASB Statement No. 31, *Accounting and Financial Reporting for Investments and for External Investment Pools*.

D. Telecommunications Providers' Assessments

Annually, the PSC estimates the revenues needed to pay for the year's program and administrative costs up to limits established by the Legislature. The PSC then assesses certain telecommunications providers their share of these costs based on intrastate revenues. Those telecommunications providers with intrastate gross telecommunications revenues of less than \$200,000 annually are exempt from this assessment. Commercial Mobile Radio Service (CMRS) providers, which include cell phone providers, were also exempt from assessment during FY 2006-07 and FY 2007-08. These providers will be assessed beginning in FY 2009-10. Telecommunications providers pay one-twelfth of the assessed amount each month. The USF recognizes telecommunications providers' assessments when due. Unpaid assessments as of June 30 are reported on the Balance Sheet as assessments receivable.

3. DEPOSITS

The USF's administrator established a bank account for the USF at a commercial financial institution to process payments under the telecommunications programs established by the PSC. Payments from the USF's bank account are funded by periodic transfers from the State's bank account. For the USF's bank account, the financial statements include cash in the bank, plus cash in transit to or from the bank.

Custodial credit risk is the risk that in the event of the failure of a financial institution, deposits may not be returned. The Federal Deposit Insurance Corporation (FDIC) insured the USF's deposits for losses up to \$100,000 resulting from the failure of a financial institution. The amount of the USF's bank account balance was \$294,696 as of June 30, 2008, and \$7,486 as of June 30, 2007. The amount exposed to custodial credit risk was \$194,696 as of June 30, 2008, and \$0 as of June 30, 2007. As of June 30, 2008, the USF does not have a deposit policy relating to custodial credit risk.

Cash deposited with the State of Wisconsin is invested in the State Investment Fund, which is a short-term pool of state and local funds managed by the State of Wisconsin Investment Board with oversight by its Board of Trustees. The carrying amount of shares in the State Investment Fund, which is presented as fair value, was \$11,832,000 as of June 30, 2008, and \$18,641,000 as of June 30, 2007. Holdings include certificates of deposit and investments consisting primarily of direct obligations of the federal government, and unsecured notes of qualifying financial and industrial issuers. The State Investment Fund is not registered with the Securities and Exchange Commission.

4. TRANSFERS FOR NEWSLINE FOR THE BLIND PROGRAM

During FY 2004-05, the USF transferred funds to the State of Wisconsin General Fund appropriation created under s. 20.255(1)(ke), Wis. Stats., to fund a contract between DPI and the National Federation of the Blind for the Newsline for the Blind, which is an electronic information service that provides telephone access to audio versions of major national newspapers for blind and visually impaired individuals. Based upon a memorandum of understanding between DPI and the PSC, a transfer was not completed in FY 2005-06 or FY 2006-07 because an unspent balance had accumulated in the appropriation. Beginning in FY 2007-08, funding for this program is directly appropriated for DPI under the appropriation authorized in s. 20.255(3)(q), Wis. Stats.

5. LOCAL EDUCATIONAL AIDS AND AID TO PUBLIC LIBRARY SYSTEMS

2007 Wisconsin Act 20 directed DPI to pay the appropriated amount of \$250,000 to La Causa Charter School during FY 2007-08 as local educational aids. The same Act funded an additional \$9.8 million in public library aid from the USF during FY 2007-08. The PSC assessed telecommunications providers for \$617,000 for the increase in public library aid. The remaining increase of \$9.2 million represents a one-time use of funds that had accumulated in the USF. As a result, the total amount appropriated from the USF for public library aid during FY 2007-08 was \$14.0 million.

6. MASTER LEASE COMMITMENTS

In FY 2005-06, equipment was purchased for some of the institutions using video link services under the Educational Telecommunications Access Program prior to the conversion to the BadgerNet Converged Network. This equipment, which was subsequently transferred to the institutions at the time of conversion, was financed through the State's master lease program. In FY 2006-07, the balance of the master lease commitment for the equipment in the amount \$1,062,283, which included \$49,751 for interest, was paid.

7. ENCUMBRANCE RESERVES

The USF is committed to making future payments related to TEPP and various other programs.

A. Telecommunications Equipment Purchase Program (TEPP)

Vouchers that have been issued to disabled persons for the purchase of special telecommunications equipment but have yet to be presented to the USF for payment are reported as reserved for encumbrances. As of June 30, 2008, and June 30, 2007, TEPP encumbrances were \$800,300 and \$684,700, respectively.

B. Other Encumbrances

As of June 30, 2008, and June 30, 2007, the following encumbrance balances were outstanding for the various programs in which awards had been made to participants or obligations had been incurred, but the appropriate invoices and supporting documentation had not yet been presented to the USF for the release of funding to the recipient or vendor:

<u>Program</u>	<u>Encumbrances at June 30, 2008</u>	<u>Encumbrances at June 30, 2007</u>
Medical Telecommunications Equipment	\$615,031	\$659,694
Nonprofit Access Program	636,822	514,708
Newsline for the Blind	50,000	0

8. ASSESSMENT LIMIT

2001 Wisconsin Act 16 limited the amount of assessments on telecommunications providers to support PSC-operated programs. Under 2001 Act 16, the PSC could not assess more than \$6.0 million for PSC-operated programs. 2007 Wisconsin Act 20 removed the \$6.0 million assessment cap beginning in FY 2007-08 and each year thereafter.

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Supplementary Information ■

**Budgetary Comparison Schedule
for the Years Ended June 30, 2008 and 2007**

	Year Ended June 30, 2008		Year Ended June 30, 2007	
	Budget	Actual	Budget	Actual
AVAILABLE FOR APPROPRIATION				
Unexpended Budgetary Fund Balance				
Beginning of the Year ¹		\$ 16,513,290		\$ 14,268,698
Revenues ²	\$ 31,685,978	<u>31,685,978</u>	\$ 31,066,613	<u>31,066,613</u>
Amount Available for Appropriation		48,199,268		45,335,311
APPROPRIATIONS AND TRANSFERS (OUTFLOWS)³				
Educational Telecommunications Access Program	17,278,500	14,562,213	24,153,973	17,514,015
PSC Programs	7,826,228	5,911,189	6,825,697	4,964,038
BadgerLink and Newslines for the Blind	2,167,700	2,115,861	2,030,500	2,030,500
Aid to Public Library Systems	14,040,600	14,040,600	4,223,800	4,223,800
Local Educational Aids	250,000	250,000	0	0
UW System BadgerNet Access	<u>1,054,800</u>	<u>998,827</u>	<u>1,054,800</u>	<u>89,668</u>
Total Appropriations and Transfers	42,617,828	37,878,690	38,288,770	28,822,021
FUND BALANCE				
Unexpended Budgetary Fund Balance—End of the Year		10,320,578		16,513,290
Less Encumbrances Outstanding at End of the Year		<u>(2,102,153)</u>		<u>(1,859,102)</u>
Unencumbered Fund Balance—End of the Year Budgetary Basis		<u>\$ 8,218,425</u>		<u>\$ 14,654,188</u>

¹ The ending fund balance with encumbrances carries forward because the previous year's encumbrances become expenditures in the next year or continue in the encumbrance line.

² Universal Service Fund revenues are not incorporated into the adopted state budget. Telecommunications providers are assessed a fee based on the appropriations approved in the biennial budget process. As a result, legally budgeted revenues are not available and, consequently, actual amounts are reported in the budget column of the Budgetary Comparison Schedule.

³ Appropriation amounts include encumbrances carried forward from the prior year.

Budgetary-GAAP Reporting Reconciliation as of June 30, 2008 and 2007

The following schedule reconciles the budgetary-based fund balance in Schedule 1 with the generally accepted accounting principles (GAAP)-based fund balance in the financial statements as of June 30, 2008 and 2007.

	June 30, 2008	June 30, 2007
Fund Balance (Budgetary Basis) as Reported on the Budgetary Comparison Schedule	\$ 8,218,425	\$ 14,654,188
Adjustments (Basis Differences):		
To eliminate the effect of encumbrances that reduce the unexpended budgetary fund balance under budgetary reporting ¹	2,102,153	1,859,102
To adjust revenues for cash deposits not recorded until after year-end ²	1,527,831	57,648
To accrue assessments and other receivables ³	514,232	1,422,259
To accrue payables ⁴	(168,912)	(161,689)
Fund Balance, End of the Year (GAAP Basis) as Reported in the Financial Statements	\$ 12,193,729	\$ 17,831,508

¹ Encumbrances may be carried over to the next fiscal year as a revision to the budgetary appropriation with the Department of Administration's approval. Under budgetary reporting, encumbrances are shown as a reduction of fund balance. Under GAAP reporting, encumbrances outstanding at year-end for purchase orders and contracts expected to be honored in the following year are reported as reservations of fund balance, since they do not constitute expenditures or liabilities.

² Under budgetary reporting, cash recorded in the State's accounting system is reported. However, under GAAP reporting, cash received by the State's bank by June 30 but not yet recorded on the State's accounting system on June 30 is also reported.

³ Budgetary reporting recognizes only revenue actually received by the State. However, revenue due to the State must also be reported for GAAP reporting.

⁴ This entry adjusts the GAAP fund balance by additional payables that were not yet recorded on the State's accounting system as of June 30, but were obligations of the State as of June 30.

Report on Internal Control and Compliance ■

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the State of Wisconsin Universal Service Fund as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated September 18, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the Universal Service Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Universal Service Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Universal Service Fund's internal control over financial reporting.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal

control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or will not be detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined in the previous paragraph.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below to be significant deficiencies.

Errors in Copayment Billings for the Educational Telecommunications Access Program

We found during our FY 2006-07 audit that the Department of Administration did not have adequate procedures in place to ensure the accuracy of the copayment billings to educational institutions and other entities participating in the Educational Telecommunications Access Program. The Universal Service Fund subsidizes the cost of data line and video line access for over 900 educational institutions and other entities participating in the program. These entities are billed a copayment for the services they receive.

In response to our prior year's audit, the Department of Administration indicated it would change from an annual to a semiannual billing process, initiate an automated application and billing process, hire additional staff, and review and correct past billings since FY 2005-06.

During our current audit, we found that the Department of Administration had switched to a semiannual billing process during FY 2008-09, but budget restraints prevented the hiring of new staff who would be able to fully automate the application and billings process and review and correct past billings. In addition, we found additional billing errors during FY 2007-08. We reviewed the FY 2007-08 billings for 10 of the 45 educational agencies for which we identified errors in our prior audit. We found errors for eight of the ten educational agencies, including three that were overbilled by a total of \$5,400 and five that were underbilled by a total of \$16,200. The net effect of these errors was an understatement of \$10,800 in copayment billings for FY 2007-08.

The Department of Administration should ensure that all educational agencies were previously billed for their fair share of costs. In response to the errors we found, the Department of Administration plans to review all educational agency billings from the initial conversion date to the present to ensure they were billed correctly. However, the Department of Administration indicated that it does not plan to complete this process until additional staff can be hired.

In addition to the issue just discussed, two other issues were considered significant deficiencies during FY 2006-07 and were included in our Internal Control and Compliance Report dated September 4, 2008: controls over accounting for refunds, and controls over financial reporting. In order to address these weaknesses, we recommended that the Department of Administration follow accounting policy set by Wisconsin Statutes and the State Controller's Office to account for refunds, and that the PSC implement a more thorough review process over the Universal Service Fund's financial statements. During our FY 2007-08 audit, we found that these recommendations appear to have been implemented.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Universal Service Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The written response that the Department of Administration provided to the finding identified in our FY 2007-08 audit is described above. We did not audit the Department of Administration's response and, accordingly, express no opinion on it.

We noted certain additional matters pertaining to a \$24,532 overpayment that the Department of Administration made to a consortium of school districts for grants awarded under the Educational Telecommunications Access Program. We reported these concerns to management of the Department of Administration in a separate letter dated July 28, 2009. The Department of Administration informed us that it plans to seek reimbursement for the amounts it overpaid.

This independent auditor's report is intended solely for the information and use of the agencies responsible for management of the Universal Service Fund and the various programs it funds, and the Wisconsin Legislature. This independent auditor's report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. However, because we do not express an opinion on internal control over financial reporting or on compliance, this report is not intended to be used by anyone other than these specified parties.

September 18, 2009

LEGISLATIVE AUDIT BUREAU
 by 
 Bryan Naab
 Deputy State Auditor for Financial Audit

Appendix

Universal Service Fund Programs
(FY 2007-08)

Program Name	Description	Year Initiated	Expenditures through 6/30/08
DOA Program:			
Educational Telecommunications Access Program	Provides subsidized access to new data lines for direct Internet or Intranet access and two-way interactive video links, and provided grants through December 2005 for data lines and video link contracts in existence before or on October 14, 1997.	1998	\$134,286,282
DPI Programs:			
Aid to Public Library Systems	Funds aid payments to public library systems.	2004	26,712,000
BadgerLink	Funds a contract with vendors that provide statewide access to reference databases of magazines and newspapers through BadgerLink, which previously had been supported with federal funding.	1999	15,997,436
La Causa Charter School	Funds appropriated to DPI to be paid to La Causa Charter School in Milwaukee.	2007	250,000
Newsline for the Blind	Funds a contract with the National Federation of the Blind to provide the electronic information service that provides telephone access to audio versions of major national newspapers for sight-impaired individuals.	1997	560,124
PSC Programs:			
Telecommunications Equipment Purchase Program (TEPP)	Provides financial assistance to help persons with disabilities in acquiring special telecommunications equipment.	1996	15,548,803
Lifeline	Provides support to low-income individuals for rates in excess of \$15 per month for basic telephone services.	1997	11,538,868
Link-Up	Provides a waiver of certain regulated service charges when low-income residential customers establish or move their telephone service.	1997	7,880,482

Program Name	Description	Year Initiated	Expenditures through 6/30/08
PSC Programs (continued):			
High Rate Assistance Credit	Provides credits for a portion of local telephone service rates when the rate charged for service exceeds levels set in administrative rule for this program.	1996	\$ 7,713,156
Medical Telecommunications Equipment	Awards grants on a competitive basis to nonprofit medical clinics and public health agencies for the purchase of telecommunications equipment.	2000	2,800,248
Nonprofit Access Program	Provides funding for nonprofit groups that will facilitate the provision of affordable access to telecommunications and information services that are consistent with the uses of the USF.	2000	2,439,095
Public Interest Pay Telephone	Provides payments from the USF to pay telephone companies where it is determined that the public health, safety, and welfare will be jeopardized without the availability of public pay telephone services.	2000	815,972
Two-Line Voice Carryover	Waives any intrastate nonrecurring charge or monthly rate for a second telephone line used by hearing-impaired customers for teletype service.	2000	17,365
UW System Program:			
UW System BadgerNet Access	Provides support to provide BadgerNet Converged Network access for UW campuses.	1997	8,958,564