

**Report 19-13
August 2019**

Universal Service Fund

FY 2017-18 and FY 2016-17

Public Service Commission

STATE OF WISCONSIN



Legislative Audit Bureau ■

Universal Service Fund

FY 2017-18 and FY 2016-17

Public Service Commission

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CONTENTS

Letter of Transmittal	1
Introduction	3
USF Programs	4
Broadband Expansion	6
Program Funding and Fund Balance	7
Internal Control Concerns	9
Audit Opinion	11
Management's Discussion and Analysis	17
Financial Statements	23
Balance Sheet as of June 30, 2018, and June 30, 2017	24
Statement of Revenues, Expenditures, and Changes in Fund Balance for the Years Ended June 30, 2018, and June 30, 2017	25
Notes to the Financial Statements	27
Auditor's Report	35
Schedule of Findings and Responses	39
Finding 1: Educational Telecommunications Access Program Co-payment Revenue	39
Finding 2: Educational Telecommunications Access Program Invoice Process	41
Response	
From the Chairperson of the Public Service Commission	



STATE OF WISCONSIN | Legislative Audit Bureau

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Joe Chrisman
State Auditor

August 23, 2019

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As requested by the Public Service Commission (PSC), we have completed a financial audit of the Universal Service Fund (USF). We have provided an unmodified opinion on the USF's financial statements for the fiscal years ended June 30, 2018, and June 30, 2017.

The USF funds a variety of telecommunications and other programs. It is funded by assessments on telecommunications providers that providers typically recover from consumers. In fiscal year (FY) 2017-18, revenues from providers' assessments totaled \$41.5 million. USF expenditures of \$37.2 million supported 13 programs managed by four state agencies.

The PSC annually determines the monthly rates to assess providers based on the funding needed to support USF programs. In our last audit (report 17-11), we reported that the PSC did not consistently consider unspent revenue from prior years when establishing assessment rates, and a balance accumulated. During our current audit, we found that the PSC did consider the balance when determining the FY 2017-18 rates. The balance continued to increase and was \$35.3 million as of June 30, 2018. This increase was due, in part, to the \$12.5 million transfer required by 2017 Wisconsin Act 59, the 2017-2019 Biennial Budget Act, from the Department of Administration's (DOA's) federal E-rate appropriation. As of June 30, 2018, the fund balance included \$21.2 million in commitments to make future payments for existing awards made to participants in various USF programs, including the Educational Telecommunications Access Program (TEACH) and the Broadband Expansion Grant Program.

We report a significant deficiency with internal controls related to TEACH co-payment revenue collected by DOA. We also found DOA did not have documentation to support its review of the TEACH invoice process and the amounts it invoiced educational institutions. Therefore, we report a significant deficiency with internal controls related to the TEACH invoice process. These issues are included in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is on page 37. A response from the PSC chairperson follows the report.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Joe Chrisman".

Joe Chrisman
State Auditor

JC/ES/ss

Introduction ■

The Universal Service Fund (USF) was originally established in 1993 to ensure that all Wisconsin residents receive essential telecommunications services and have access to advanced telecommunications service capabilities. Since then, legislation has authorized USF funds for other purposes. Providing access to advanced telecommunications service capabilities was eliminated as a purpose of the USF by 2011 Wisconsin Act 22.

The USF is funded by assessments on telecommunications providers that the providers are permitted to recover from consumers.

In fiscal year (FY) 2017-18 and FY 2016-17, USF-funded programs were managed by four state agencies: the Department of Administration (DOA), the Department of Public Instruction (DPI), the University of Wisconsin (UW) System, and the Public Service Commission (PSC). The PSC also establishes policies and procedures for the USF and is responsible for levying assessments on telecommunications providers to fund the USF. Statutes permit providers to recover from consumers the amounts providers are assessed. The PSC contracts with a private third-party administrator to perform administrative services for the USF, as required by statute.

At the request of the PSC, we completed an independent financial audit to fulfill the requirements of s. 196.218 (2) (d), Wis. Stats. We have provided an unmodified opinion on the financial statements and related notes prepared by the PSC for the fiscal years ended June 30, 2018, and June 30, 2017.

USF Programs

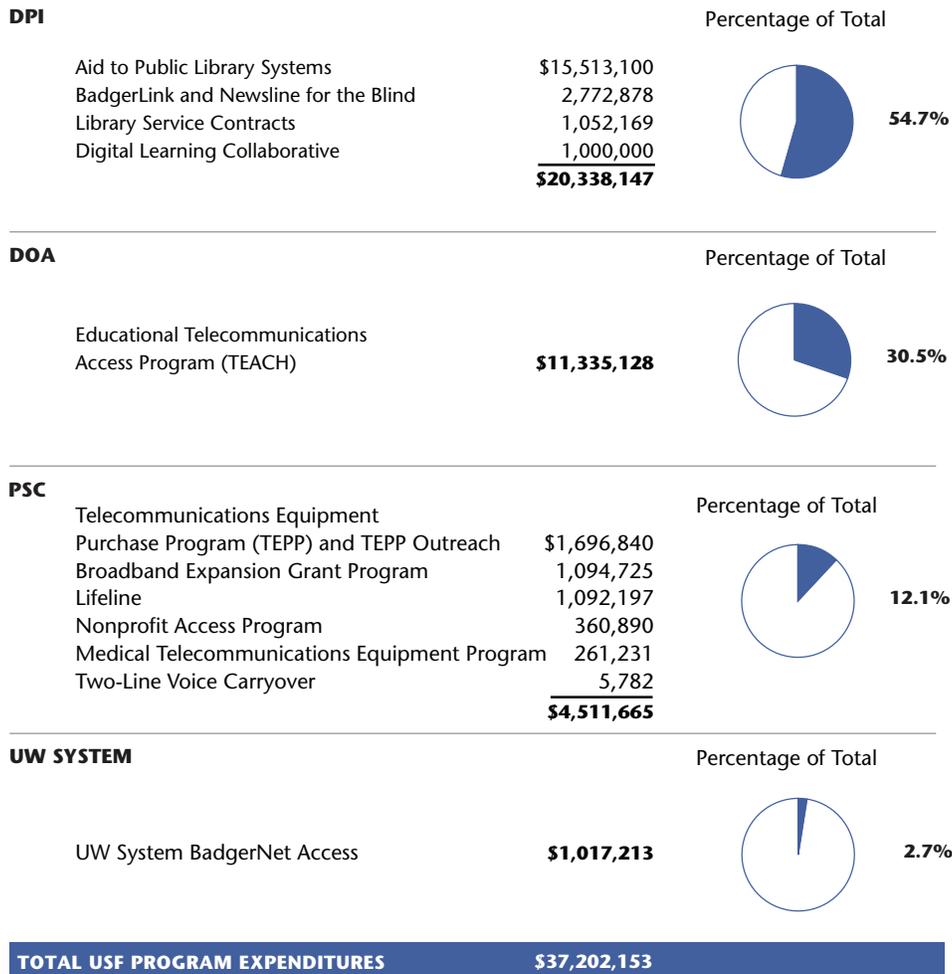
In FY 2017-18, the USF expended \$37.2 million in funding for 13 programs managed by four state agencies.

In FY 2017-18, total USF expenditures were \$37.4 million. Of this amount, \$37.2 million, or 99.5 percent, supported 13 programs managed by DPI, DOA, the PSC, and UW System. In FY 2016-17, total expenditures were \$38.6 million, including \$37.9 million in program expenditures.

As shown in Figure 1, programs managed by DPI totaled \$20.3 million and were 54.7 percent of the USF’s FY 2017-18 program expenditures. Programs managed by DPI include the Aid to Public Library Systems program, which is the largest program funded by the USF, with expenditures totaling \$15.5 million in FY 2017-18. The USF was the sole funding source for Aid to Public Library Systems from FY 2008-09 through FY 2016-17. 2017 Wisconsin Act 59, the 2017-19 Biennial Budget Act, provided \$0.5 million in FY 2017-18 and \$1.0 million in FY 2018-19 in funding from DOA’s federal E-rate appropriation for this program.

Figure 1

USF Program Expenditures FY 2017-18



Expenditures for the other USF programs managed by DPI totaled \$4.8 million. BadgerLink funds statewide public access to information resources available in Wisconsin's public, school, academic, and special libraries. These resources include online access to the full text of numerous magazines, journals, newspapers, reference publications, and other licensed material. BadgerLink also connects users to WISCAT, the online catalog of Wisconsin library holdings, and to other information resources. Newline for the Blind funds a contract with the National Federation of the Blind to provide telephone and online access to audio versions of certain national and local newspapers for sight-impaired individuals.

Library Service Contracts funds contracts for specialized library materials and information provided by the Milwaukee Public Library, Wisconsin Library Services, the Wisconsin Regional Library for the Blind and Physically Handicapped, and the Cooperative Children's Book Center. Prior to FY 2009-10, the contracts were funded by general purpose revenue.

Digital Learning Collaborative funds access to online courses for Cooperative Educational Service Agencies (CESAs) and students of public school districts, private schools, and charter schools.

DOA managed one USF program. Expenditures for the Educational Telecommunications Access Program, also referred to as the Technology for Educational Achievement (TEACH) program, totaled \$11.3 million and were 30.5 percent of the USF's FY 2017-18 program expenditures. TEACH subsidizes the cost of access to BadgerNet for approximately 900 educational institutions, including K-12 schools; technical colleges; public libraries; CESAs; and other public and private institutions statewide. BadgerNet is a broadband voice and data network operated by a consortium of telecommunications providers under a contract with DOA.

TEACH funds three grant programs in addition to subsidizing the cost of access to BadgerNet.

Three grant programs are also funded under TEACH. The Curriculum Grant program funds the development and implementation of a technology-enhanced high school curriculum, the Educational Technology Teacher Training Grants program funds training for teachers on the use of educational technology, and the Information Technology Block Grants program funds technology infrastructure for school districts in order to better use technology for instruction.

Both the Educational Technology Teacher Training Grants program and the Information Technology Block Grants program were established by 2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act. Act 55 allowed grants under the Information Technology Block Grants program to be awarded only in FY 2015-16 and FY 2016-17. 2017 Wisconsin Act 59 extended the award period for the Information Technology Block Grants program to July 1, 2019. Act 59 also

transferred \$6.0 million from DOA's federal E-rate appropriation into the USF to fund TEACH in FY 2017-18.

2019 Wisconsin Act 9, the 2019-21 Biennial Budget Act, extended the award period for the Information Technology Block Grants program to June 30, 2021, and limited the amount awarded for the program to \$3.0 million annually. Under Act 9, the Educational Technology Teacher Training Grants and Curriculum Grant programs will be eliminated in FY 2019-20.

The PSC managed six USF programs that expended \$4.5 million, or 12.1 percent, of program expenditures in FY 2017-18. The Telecommunications Equipment Purchase Program (TEPP), Broadband Expansion Grant Program, Lifeline, Nonprofit Access Program, Medical Telecommunications Equipment Program, and Two-Line Voice Carryover either provide access to basic telephone, information services, and equipment for individuals with low incomes or disabilities; provide reimbursement for expenses incurred to expand broadband telecommunications infrastructure; or assist nonprofit medical clinics and public health agencies in purchasing medical telecommunications equipment.

Expenditures for UW System BadgerNet Access, which is managed by UW System, totaled \$1.0 million and were 2.7 percent of the USF's program expenditures in FY 2017-18. UW System BadgerNet Access helps to fund access to the BadgerNet network for UW institutions.

Broadband Expansion

2013 Wisconsin Act 20, the 2013-15 Biennial Budget Act, appropriated \$500,000 of non-USF funding in both FY 2013-14 and FY 2014-15 for the PSC to provide broadband expansion grants. Since then, legislation has continued to fund the expansion of broadband access in rural areas. For example, 2015 Wisconsin Act 55, directed that \$6.0 million of USF funding be used for the Broadband Expansion Grant Program. 2017 Wisconsin Act 59 directed an additional \$6.0 million of USF funding and a transfer of \$5.0 million from DOA's federal E-rate appropriation into the USF to fund the Broadband Expansion Grant Program in FY 2017-18. Act 59 also established a \$2.0 million annual funding requirement for the program from the USF fund balance. 2019 Wisconsin Act 9 requires a transfer of \$22.0 million from DOA's federal E-rate appropriation to the USF for this program in both FY 2019-20 and FY 2020-21.

From July 1, 2013, through June 30, 2018, the PSC made 101 grant awards under the program totaling \$13.1 million, of which \$3.8 million was spent, and \$61,730 of unspent grant funds was lapsed back to the program, as shown in Table 1. As of June 30, 2018, \$9.3 million that

was awarded remained to be disbursed, almost all from the FY 2017-18 award period.

Table 1

Broadband Expansion Grant Program¹

Fiscal Year	Number of Awards	Amount Awarded	Program Expenditures	Amount Lapsed	Amount Remaining to Be Disbursed
2013-14	7	\$ 500,000	\$ 468,371	\$ 31,629	\$ 0
2014-15	7	452,579	452,579	0	0
2015-16	11	1,500,000	1,469,899	30,101	0
2016-17	17	1,500,000	1,122,195	0	377,805
2017-18	59	9,188,982	239,951	0	8,949,031
Total	101	\$13,141,561	\$3,752,995	\$61,730	\$9,326,836

¹ As of June 30, 2018.

Subsequent to June 30, 2018, the PSC awarded an additional \$7.1 million in broadband expansion grants.

Program Funding and Fund Balance

Statutes require most telecommunications providers in Wisconsin to contribute to the USF through monthly assessments.

During FY 2017-18, the PSC levied monthly assessments on 175 telecommunications providers. Section 196.218 (3) (e) and (f), Wis. Stats., permits telecommunications providers to recover these assessments from consumers. PSC staff indicated that the PSC generally does not maintain information on consumers charged by telecommunications providers.

Annually in October, the PSC determines the monthly rates to assess telecommunications providers based on the funding needed to support USF programs. In report 17-11, we found the PSC did not consistently consider unspent revenue when establishing the assessment rates, and a balance accumulated in the USF. We recommended that the PSC develop a minimum fund balance policy for the USF and consider the fund balance when setting rates. During our current audit, we found the PSC developed a policy in October 2017. This policy states that assessment rates will be based on each agency's anticipated funding needs, as opposed to

appropriated amounts. The policy further states that, prior to setting assessment rates, the PSC will estimate the available fund balance by taking into consideration encumbrances, commitments, and broadband expansion grant award cycles. If the estimated available fund balance is less than \$2.0 million or more than \$10.0 million, the PSC would consider adjusting the assessment rate methodology to ensure an appropriate amount of funding is available.

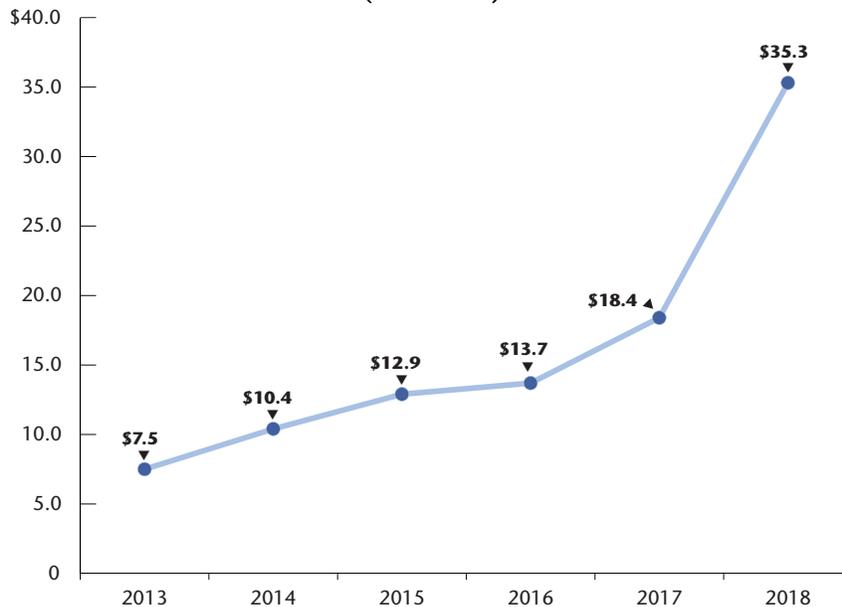
This policy was used by the PSC when setting assessment rates for FY 2017-18. PSC staff considered the anticipated funding needs for the USF programs and used an amount to determine the assessments that was less than the appropriated amount for the PSC programs. DOA, UW, and DPI anticipated the funding needs for their programs to be the appropriated amount, less transfers. For FY 2017-18, this change decreased assessment revenue by \$1.6 million, or 3.8 percent.

From June 30, 2017, to June 30, 2018, the USF fund balance increased by \$16.9 million.

As shown in Figure 2, the fund balance has continued to increase each year since FY 2012-13. From June 30, 2017, to June 30, 2018, the fund balance increased by \$16.9 million and was \$35.3 million as of June 30, 2018. This increase was due, in part, to the \$12.5 million transfer required by Act 59 from DOA’s federal E-rate appropriation to the USF for Aid to Public Library Systems, the Broadband Expansion Grant Program, and TEACH.

Figure 2

USF Fund Balance¹
As of June 30
(in millions)



¹ On the basis of generally accepted accounting principles.

The USF's fund balance includes commitments to make future payments for existing awards made to participants in various USF programs. After the grantee submits the required invoices and supporting documentation for reimbursement, the payments are made and expenditures are recorded. The commitments for future payments totaled \$21.2 million as of June 30, 2018, including \$10.1 million for TEACH, \$9.3 million for the Broadband Expansion Grant Program, and \$1.8 million for three PSC programs. PSC staff indicated that the remaining fund balance of \$14.1 million will be used to fund the annual \$2.0 million broadband funding requirement, upcoming broadband grant awards, and any unexpected activity. In October 2018, the PSC awarded an additional \$7.1 million in broadband expansion grants.

We note that when setting FY 2018-19 assessment rates in October 2018, PSC staff stated that they considered the available fund balance, upcoming broadband grant award cycle, the required annual broadband funding requirement, and funds reserved for future TEACH expenditures. PSC staff determined that they would use the appropriated amounts for all USF programs to ensure that a sufficient fund balance exists for future broadband funding and any unexpected expenditure and revenue activity. This resulted in assessment rates increasing for FY 2018-19.

Internal Control Concerns

Our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which begins on page 37, includes two concerns. First, we report a significant deficiency related to DOA's internal controls over TEACH co-payment revenue. During our current audit, we identified that DOA did not record FY 2017-18 TEACH co-payment revenue in the USF, and did not communicate this to the PSC staff who were responsible for preparing the USF financial statements. If PSC staff had been informed, they could have made the necessary adjusting journal entry to the USF financial statements. We recommend DOA ensure all information necessary for financial reporting is communicated to the PSC.

Second, we report a significant deficiency related to the TEACH invoice process. We found DOA did not have documentation to support its review of the TEACH invoice process and the amounts it invoiced educational institutions. In addition, DOA did not invoice any educational institution for the period from July through December 2017, although it was required by statute to do so. We recommend that DOA review its process, comply with statutes, and report to the Joint Legislative Audit Committee by February 21, 2020, on its progress in implementing these recommendations.

Audit Opinion ■



Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Ms. Rebecca Cameron Valcq, Chairperson
Public Service Commission

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the Universal Service Fund (USF) of the State of Wisconsin as of and for the years ended June 30, 2018, and June 30, 2017, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management of the USF is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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*, which is 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on these financial statements.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the USF as of June 30, 2018, and June 30, 2017, and the respective changes in its financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2A to the financial statements, the financial statements referred to in the first paragraph present only the USF and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2018, and June 30, 2017, the changes in its financial position, or where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information—Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 17 through 22 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be essential for placing the financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or to provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated August 15, 2019, on our consideration of the USF'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 solely 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 effectiveness of the USF's 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 used when considering the USF's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

A handwritten signature in black ink, appearing to read "Joe Chrisman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Joe Chrisman
State Auditor

August 15, 2019

Management's Discussion and Analysis ■

Prepared by Public Service Commission Management

Management's Discussion and Analysis (MD&A) is prepared by Public Service Commission (PSC) management 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 those that are municipally owned. One of the PSC's responsibilities is to administer the USF. The purpose of the fund is to promote access to essential and advanced telecommunications services through discounted rates for service and targeted grant programs. USF assessments also fund programs managed by the Department of Administration (DOA), the Department of Public Instruction (DPI) and the University of Wisconsin (UW) System. 2015 Wisconsin Act 55 transferred the Broadband Expansion Grant Program, which is administered by the PSC, to the USF. Unlike other USF programs, this grant program is funded by the USF fund balance as well as a transfer from DOA's federal E-Rate appropriation. Currently, it is not directly funded by USF assessments.

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. The financial statements include:

- the Balance Sheet, which presents only assets expected to be used and liabilities that come due during the next fiscal year and reports the difference between assets and liabilities as the fund balance; and
- the Statement of Revenues, Expenditures, and Changes in Fund Balance, which presents a comparison of revenues for which cash is received during or soon after the end of the year; and expenditures for which payment is due during the year or soon thereafter. 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 information as of and for the fiscal years (FY) ended June 30, 2018, June 30, 2017, and June 30, 2016 is shown in Table A.

Table A

A Comparison of Condensed Financial Information for FY 2017-18, FY 2016-17, and FY 2015-16 (in millions)

	June 30, 2018	Change	June 30, 2017	Change	Restated June 30, 2016
Total Assets	\$40.0	\$20.1	\$19.9	\$2.4	\$17.5
Total Liabilities	4.7	3.2	1.5	(2.3)	3.8
Fund Balance	\$35.3	\$16.9	\$18.4	\$4.7	\$13.7

	FY 2017-18	Change	FY 2016-17	Change	Restated FY 2015-16
Total Revenues	\$41.8	\$(1.4)	\$43.2	\$2.1	\$41.1
Total Expenditures	37.4	(1.2)	38.6	(1.8)	40.4
Excess of Revenues over Expenditures	4.4	(0.2)	4.6	3.9	0.7
Total Other Financing Sources (uses)	12.5	12.5	0.0	0.0	0.0
Net Change in Fund Balance	\$16.9	\$12.3	\$ 4.6	\$3.9	\$ 0.7

The USF's total assets increased from \$17.5 million as of June 30, 2016, to \$19.9 million as of June 30, 2017. Total assets increased \$20.1 million, or 101.0 percent, to \$40.0 million as of June 30, 2018. 2017 Wisconsin Act 59, the 2017-2019 Biennial Budget Act, transferred \$12.5 million from DOA's federal E-Rate appropriation into the USF. This accounts for the majority of the increase in assets in FY 2017-18. The remaining increase is largely related to the fluctuations in revenues and expenditures and timing of cash disbursements for grant programs.

The USF's total liabilities decreased from \$3.8 million as of June 30, 2016, to \$1.5 million as of June 30, 2017. Total liabilities increased \$3.2 million, or 213.3 percent, to \$4.7 million as of June 30, 2018. The fluctuations generally occurred because of the timing of typical operating activities of DOA's Educational Telecommunications Access Program (TEACH), and DPI's Library Service Contracts program.

The combination of the factors discussed above caused the fund balance to increase from \$13.7 million as of June 30, 2016, to \$18.4 million as of June 30, 2017, and to further increase to \$35.3 million as of June 30, 2018. However, as discussed in Note 4, a significant portion of the fund balance is committed to future payments, primarily related to grant programs, that have not been disbursed because reimbursement requests, including supporting documentation, have not been submitted by the grantees. As of June 30, 2017, \$6.8 million of the \$18.4 million fund balance was committed to future reimbursements. As of June 30, 2018, \$21.2 million of the \$35.3 million fund balance was committed to future reimbursements. In October 2018, the PSC awarded an additional \$7.1 million in broadband expansion grants. This is expected to have an effect on the fund balance.

The USF's total revenues increased from \$41.1 million in FY 2015-16, to \$43.2 million in FY 2016-17, before decreasing to \$41.8 million in FY 2017-18. Total revenues primarily consist of assessments. The PSC assesses telecommunications providers, as required by statute and administrative rule, over a 12-month period to fund USF program expenditures. The revenue fluctuations reflect changing program needs as well as a change in the assessment approach for FY 2017-18.

Act 59 established a \$2.0 million annual funding requirement for the Broadband Expansion Grant Program. The funding will come from the existing USF fund balance. Given this funding requirement, the PSC must carefully manage assessment revenues and the fund balance to ensure that sufficient funds are available. In October 2017, the PSC developed a policy stating that assessment amounts would be limited to funding needs, as opposed to appropriated amounts, to ensure that the fund balance did not grow. The policy indicates that special attention will be paid to the assessment calculation if the fund balance was less than \$2.0 million or more than \$10.0 million. This change in approach decreased assessment revenue for FY 2017-18 by \$1.4 million.

Approximately 87.4 percent of total expenditures for FY 2017-18, as well as 85.5 percent of total expenditures for FY 2016-17, related to the six programs administered by DPI, DOA, and UW System. Expenditure information for these programs is shown in Table B.

Table B

**DPI, DOA, and UW System Program Expenditures for FY 2017-18,
FY 2016-17, and FY 2015-16**
(in millions)

	FY 2017-18	Change	FY 2016-17	Change	FY 2015-16
DPI:					
Aid to Public Library Systems	\$15.5	\$0.5	\$15.0	\$0.0	\$15.0
BadgerLink and Newsline for the Blind	2.8	0.1	2.7	(0.1)	2.8
Digital Learning Collaborative	1.0	0.0	1.0	(1.0)	2.0
Library Service Contracts	1.1	0.1	1.0	(0.1)	1.1
DPI Total	20.4	0.7	19.7	(1.2)	20.9
DOA:					
Educational Telecommunications Access Program (TEACH)	11.3	(0.9)	12.2	(2.0)	14.2
UW System:					
UW System BadgerNet Access	1.0	(0.1)	1.1	0.0	1.1
Total	\$32.7	\$(0.3)	\$33.0	\$(3.2)	\$36.2

Total expenditures for DPI programs were \$20.9 million in FY 2015-16, \$19.7 million in FY 2016-17 and \$20.4 million in FY 2017-18. Overall, there was little fluctuation in DPI program expenditures over the years. The most significant fluctuations related to Digital Learning Collaborative and Aid to Public Library Systems expenditures. Digital Learning Collaborative expenditures decreased by \$1.0 million, or 50.0 percent, in FY 2016-17 and Aid to Public Library Systems expenditures increased by \$0.5 million, or 3.3 percent, in FY 2017-18. Both fluctuations are due to changes in amounts appropriated for these programs.

Total expenditures for TEACH decreased from \$14.2 million in FY 2015-16 to \$12.2 million in FY 2016-17. In FY 2017-18, program expenditures decreased to \$11.3 million. The decrease in expenditures can be partially attributed to a decrease in the cost of BadgerNet services, which were negotiated in a new service contract that went into effect for FY 2016-17, as well as a decrease in the number of TEACH customers. As discussed below, the decrease is also due to the timing of grant program disbursements.

During both FY 2016-17 and FY 2017-18, DOA continued to provide awards from the Information Technology Block Grants program to provide technology infrastructure to improve the capacity of school districts to utilize technology for instruction. DOA awarded \$5.0 million in FY 2016-17 and \$7.8 million in FY 2017-18. DOA also continued to award Educational Technology Teacher Training Grants for the purpose of training teachers on the use of educational technology. DOA awarded \$1.5 million in Education Technology Teacher Training

Grants in both FY 2016-17 and FY 2017-18. Expenditures for these grant programs are recognized on the financial statements when the grant recipient is reimbursed for grant expenditures. Since there is a time lag between the awarding of the grants and the reimbursement requests, the majority of the expenditures related to the FY 2016-17 and FY 2017-18 grant awards are not included on the financial statements. The amounts that have been awarded but not yet paid to the grant recipients are identified as committed in Note 4.

Actual expenditure levels for the PSC-operated programs, including administrative costs and the Broadband Expansion Grant Program, increased from \$4.3 million in FY 2015-16 to \$5.6 million in FY 2016-17 before decreasing to \$4.7 million in FY 2017-18. Table C shows the year-over-year changes in expenditures for the PSC-operated programs for FY 2015-16, FY 2016-17, and FY 2017-18.

Table C

**PSC Expenditures for FY 2017-18,
FY 2016-17, and FY 2015-16**

	FY 2017-18	Change	FY 2016-17	Change	Restated FY 2015-16
TEPP	\$1,351,715	\$136,973	\$1,214,742	\$(113,521)	\$1,328,263
Lifeline	1,092,197	(42,059)	1,134,256	72,975	1,061,281
Nonprofit Access Program	360,890	(112,622)	473,512	(38,773)	512,285
Medical Telecommunications Equipment Program	261,231	(375,087)	636,318	223,682	412,636
TEPP Outreach	345,125	345,125	0	0	0
Two-Line Voice Carryover	5,782	(340)	6,122	292	5,830
Administrative Costs	200,267	(496,422)	696,689	104,903	591,786
Broadband Expansion Grant Program	1,094,725	(296,948)	1,391,673	1,045,612	346,061
Total	\$4,711,932	\$(841,380)	\$5,553,312	\$1,295,170	\$4,258,142

TEPP expenditures decreased by \$113,521 or 8.5 percent in FY 2016-17 and increased by \$136,973 or 11.3 percent in FY 2017-18. In general, TEPP expenditures vary from year to year based on the disability category of voucher recipients as well as equipment selections. In FY 2017-18, the PSC spent \$345,125 on TEPP outreach, which was distributed to Independent Living Centers via a memorandum of agreement with the Wisconsin Department of Health Services (DHS).

Expenditures for the Medical Telecommunications Equipment Program increased by \$223,682, or 54.2 percent in FY 2016-17, but decreased \$375,087, or 58.9 percent in FY 2017-18. Expenditures for the Nonprofit Access Program decreased by \$38,773 or 7.6 percent in FY 2016-17 and decreased \$112,622 or 23.8 percent in FY 2017-18. Similar to the TEACH grants discussed above, fluctuations in expenditures for the Medical Telecommunications Equipment Program and the Nonprofit Access Program occurred largely because of the timing of grant awards and grantee reimbursements. The amounts that have been awarded but not yet paid to the grant recipients are identified as committed in Note 4.

The PSC administrative costs for the USF increased by \$104,903, or 17.7 percent, in FY 2016-17 due to additional invoices from DHS for work performed to upgrade the CALER Lifeline eligibility verification system. Administrative costs in FY 2017-18 decreased \$496,422, or 71.3 percent, because there were no additional CALER upgrade costs. In addition, the PSC's contract with a new third-party administrator, beginning in FY 2016-17, reduced monthly administrator fees in both FY 2016-17 and FY 2017-18.

Broadband Expansion Grant Program expenditures increased \$1,045,612, or 302.1 percent in FY 2016-17 before decreasing by \$296,948, or 21.3 percent in FY 2017-18. In FY 2016-17, the PSC awarded \$1.5 million and \$9.2 million in FY 2017-18 to the program. Similar to the other grant programs discussed above, expenditures are not recognized on the financial statements until grant recipients are reimbursed. Therefore, there is a time lag between the grant award and the expenditure activity. The amounts that have been awarded but not yet paid to the grant recipients are identified as committed in Note 4.

These financial statements are designed to provide the Legislature and the executive branch of government, the public, and other interested parties with an overview of the financial results of the USF's activities and to show the USF's accountability for the money it receives. 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 Director
P.O. Box 7854
Madison, WI 53707-7854

■ ■ ■ ■

Financial Statements ■

Balance Sheet

June 30, 2018, and June 30, 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
ASSETS		
Cash and Cash Equivalents (Notes 2C and 3)	\$ 24,391,470	\$ 17,299,964
Assessments Receivable (Note 2D)	2,502,723	2,546,585
Due from Other Funds	<u>13,110,300</u>	<u>9,900</u>
TOTAL ASSETS	<u>\$ 40,004,493</u>	<u>\$ 19,856,449</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Program Liabilities:		
Educational Telecommunications Access Program	\$ 2,527,757	\$ 73,829
BadgerLink and Newslines for the Blind	55,660	0
Telecommunications Equipment Purchase Program (TEPP)	98,467	0
Lifeline	110,801	97,194
Library Service Contracts	925,899	427,288
UW System BadgerNet Access	7,465	0
Nonprofit Access Program	68,394	95,183
Medical Telecommunications Equipment Program	0	155,596
Two-Line Voice Carryover	449	449
Digital Learning Collaborative	370,465	82,438
TEPP Outreach	29,209	0
Broadband Expansion Grant Program	<u>87,096</u>	<u>143,955</u>
Total Program Liabilities	<u>4,281,662</u>	<u>1,075,932</u>
Accounts Payable	88,389	83,940
Unearned Revenue (Note 2D)	<u>326,898</u>	<u>325,368</u>
Total Liabilities	<u>4,696,949</u>	<u>1,485,240</u>
Fund Balance:		
Committed	<u>35,307,544</u>	<u>18,371,209</u>
Total Fund Balance	<u>35,307,544</u>	<u>18,371,209</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 40,004,493</u>	<u>\$ 19,856,449</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, 2018, and June 30, 2017**

	For the Year Ended June 30, 2018	For the Year Ended June 30, 2017
REVENUES		
Telecommunications Providers' Assessments (Note 2D) for:		
Department of Public Instruction Programs	\$ 20,232,243	\$ 20,117,574
Educational Telecommunications Access Program	16,086,582	16,011,628
Public Service Commission Programs	4,133,024	5,950,823
UW System BadgerNet Access	1,062,204	1,057,098
Total Telecommunications Providers' Assessments	<u>41,514,053</u>	<u>43,137,123</u>
Interest Income	<u>324,702</u>	<u>93,816</u>
Total Revenues	<u>41,838,755</u>	<u>43,230,939</u>
EXPENDITURES		
Program Expenditures:		
Educational Telecommunications Access Program	11,335,128	12,212,503
Aid to Public Library Systems	15,513,100	15,003,368
BadgerLink and Newsline for the Blind	2,772,878	2,716,947
Telecommunications Equipment Purchase Program (TEPP)	1,351,715	1,214,742
Digital Learning Collaborative	1,000,000	1,000,000
Lifeline	1,092,197	1,134,256
Library Service Contracts	1,052,169	1,048,736
UW System BadgerNet Access	1,017,213	1,054,800
Nonprofit Access Program	360,890	473,512
Medical Telecommunications Equipment Program	261,231	636,318
Broadband Expansion Grant Program	1,094,725	1,391,673
Two-Line Voice Carryover	5,782	6,122
TEPP Outreach	345,125	0
Total Program Expenditures	<u>37,202,153</u>	<u>37,892,977</u>
PSC Administrative Expenditures	<u>200,267</u>	<u>696,689</u>
Total Expenditures	<u>37,402,420</u>	<u>38,589,666</u>
EXCESS OF REVENUES OVER EXPENDITURES	4,436,335	4,641,273
OTHER FINANCING SOURCES (USES)		
Transfers from the General Fund (Note 5)	<u>12,500,000</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>12,500,000</u>	<u>0</u>
NET CHANGE IN FUND BALANCE	16,936,335	4,641,273
FUND BALANCE		
Fund Balance—Beginning of the Year (Note 6)	<u>18,371,209</u>	<u>13,729,936</u>
Fund Balance—End of the Year	<u>\$ 35,307,544</u>	<u>\$ 18,371,209</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 (PSC) 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. In fiscal year (FY) 2016-17, the PSC began contracting with Solix, Inc., for these services.

The USF is established as a trust fund in s. 25.95, Wis. Stats. As allowed by statute, the PSC levies assessments on telecommunications providers to fund 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 FY 2017-18 and FY 2016-17 follows.

A. Educational Telecommunications Access Program

The Educational Telecommunications Access Program, known as TEACH, is managed by DOA. The program subsidizes equipment

purchases, installation, and a portion of the monthly service costs for access to BadgerNet for more than 900 K-12 schools, technical colleges, public libraries, Cooperative Educational Service Agencies (CESAs), and other public and private institutions statewide. BadgerNet is a broadband voice and data network operated by a consortium of telecommunications providers under a contract with DOA. The funds were also used for three grant programs: the Educational Technology Teacher Training Grants program, which funds training for teachers on the use of educational technology; the Information Technology Block Grants program, which funds technology infrastructure for school districts to better use technology for instruction; and the Curriculum Grant program, which funds the development and implementation of a technology-enhanced high school curriculum.

B. Aid to Public Library Systems

2003 Wisconsin Act 33 included statutory language providing that the payment of public library system aid is an authorized use of the USF. DPI is responsible for distributing the aid payments to 16 Wisconsin public library systems according to a statutory formula. These funds go directly to public library systems annually and are intended to promote development and improvement of public libraries through library systems and to provide opportunities for cooperation among all types of libraries. Required services include sharing of books and other resources among libraries through technology and delivery, reference referral, continuing education, services to users with special needs, resource library services, collection development, and consulting services.

C. BadgerLink and Newslines for the Blind

DPI manages the BadgerLink and Newslines for the Blind programs. BadgerLink funds contracts with vendors to provide online materials that support lifelong learning. The BadgerLink sources include local and national newspapers; job skill building and test preparation workbooks; business news and market data; various reference works; encyclopedias; auto repair resources; general interest and academic magazines; multimedia collections about children's literature; and local history and genealogy sources. BadgerLink databases can be accessed from any computer, tablet, or smartphone connected to the Internet.

Newslines fund a contract with the National Federation of the Blind (NFB) to provide Wisconsin residents access to the Newslines service. NFB-NEWSLINE is a free audio news service for anyone who is blind, low-vision, or otherwise print-disabled that offers access to more than 500 publications, emergency weather alerts, job listings, and more. The Newslines appropriation also funds a contract with the Wisconsin Talking Book and Braille Library to act as the mandatory Newslines state service hub.

D. Telecommunications Equipment Purchase Program (TEPP)

This program, which was implemented in May 1996, is administered by the PSC. TEPP assists persons with disabilities in acquiring special telecommunications equipment. Vouchers are given to the qualifying individuals, and these vouchers are used to pay approved vendors for a portion of the cost of the necessary telecommunications equipment.

Voucher values vary for different types of disabilities because the prices vary for equipment based on the needs of persons in different disability categories. In most cases, the purchaser must make a \$100 co-payment when purchasing the equipment. If the co-payment and voucher are not sufficient to cover the equipment price, the purchaser pays the remaining amount.

E. Lifeline

The Lifeline program, which is administered by the PSC, makes essential telecommunications more affordable for low-income households by reducing monthly telephone charges. Most telephone companies that provide local residential service in Wisconsin offer this program to their residential customers. Eligible low-income individuals may receive assistance from both the State of Wisconsin and the federal government. The state and federal Lifeline programs for wireless and wireline customers are based on a standard discount that generally reduces the cost of monthly telephone service by \$10 for certain basic services consisting of single-party residential touch-tone telephone service, including 911 emergency service. However, when the telecommunications provider's actual approved rate for these services exceeds \$25 per month, the difference is waived for eligible low-income customers so that the monthly charge does not exceed \$15. Prepaid wireless Lifeline customers receive a set number of minutes each month equivalent to the \$10 standard discount. Telephone companies are reimbursed from the state and federal USF for rate credits or minutes given to Lifeline customers.

F. Library Service Contracts

DPI enters into annual contracts that allow Wisconsin residents to use materials from the UW-Madison and Milwaukee Public Library through interlibrary loan; and the libraries support the programs and services of the Cooperative Children's Book Center (CCBC) and the Wisconsin Talking Book and Braille Library (WTBBL). The CCBC is a non-circulating examination, study, and research library for children's and young adult literature. The WTBBL collaborates with the National Library Service for the Blind and Physically Handicapped to provide Wisconsin residents who cannot see regular print materials access to audio books and brailled materials.

G. UW System BadgerNet Access

This program, which is administered by UW System, provides funds to help offset the costs associated with access to BadgerNet as well as other telecommunications needs of the University of Wisconsin campuses.

H. Nonprofit Access Program

This program, which is administered by the PSC, provides grants to nonprofit groups for partial funding of programs or projects that will facilitate affordable access to telecommunications services for individuals with disabilities, low-income households, and those affected by the high costs of essential telecommunications services.

I. Medical Telecommunications Equipment Program

This program, which is administered by the PSC, provides grants to nonprofit medical clinics and public health agencies to purchase medical telecommunications equipment that will promote technologically advanced medical services, enhance access to medical care in rural or underserved areas or to underserved populations or to persons with disabilities.

J. Two-Line Voice Carryover

This program, which is administered by the PSC, provides payment for a second telephone line to certain hearing- or speech-impaired customers who use two lines for the voice and text components of voice or speech carryover service.

K. Digital Learning Collaborative

This program, which is administered by DPI, provides access to digital content, a learning management system, professional learning, and district planning support to school districts. The program provides services to public school districts, private schools, and charter schools.

L. Broadband Expansion Grant Program

This program, which is administered by the PSC, provides grants to offset the construction costs of extending broadband service to unserved or underserved areas of the state. The Broadband Expansion Grant Program is funded from the USF fund balance and, as noted in Note 5, a FY 2017-18 transfer from the DOA federal E-Rate appropriation.

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 (GAAP) 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 using 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.

C. Cash and Cash Equivalents

Cash and cash equivalents include cash deposited in the State's bank and the USF's pro-rata share of the State Investment Fund, which is a short-term pool of state and local funds managed by the State of Wisconsin Investment Board. Balances pooled in the State Investment Fund are restricted to legally stipulated investments valued consistent with GASB Statement Number 72, *Fair Value Measurement and Application*.

D. Telecommunications Providers' Assessments

Annually, the PSC estimates the revenues needed to pay for the fiscal year's program and administrative costs up to the amounts appropriated by the Legislature. The PSC then assesses certain telecommunications providers their share of these costs based on intrastate revenues.

Telecommunications providers with intrastate gross telecommunications revenues of less than \$200,000 annually are exempt from USF assessments. Commercial Mobile Radio Service (CMRS) providers, which include cell phone providers, were assessed beginning in FY 2009-10. Telecommunications providers generally 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. Beginning with FY 2016-17, prepaid assessments as of June 30 are reported on the Balance Sheet as unearned revenue.

E. Fund Balance

Fund balance represents the difference between the USF's assets and its liabilities. GASB Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes a hierarchy of five fund balance reporting classifications including non-spendable, restricted, committed, assigned, and unassigned. These classifications are based primarily on constraints placed on the use of the funds. Resources in the USF are restricted in use by s. 196.218(5), Wis. Stats. However, because restricted amounts can be transferred to the General Fund, the entire balance in the USF is reported as committed rather than restricted.

3. DEPOSITS

Cash and cash equivalents include cash deposited in the State's bank and the USF's shares in the State Investment Fund. GASB Statement Number 40, *Deposit and Investment Risk Disclosures—an Amendment of GASB Statement No. 3*, requires certain disclosures related to the USF's deposits and shares in the State Investment Fund.

A. Deposits

Custodial Credit Risk for Deposits—Custodial credit risk is the risk that in the event of the failure of a financial institution, deposits may not be returned. The USF does not have a deposit policy relating to custodial credit risk. The Federal Deposit Insurance Corporation (FDIC) insures the USF's deposits for losses up to \$250,000 resulting from the failure of a financial institution. A state appropriation for losses on public deposits (s. 34.08, Wis. Stats.) insures up to \$400,000 over the amount of federal insurance. As of June 30, 2018, and June 30, 2017, all of the USF's deposits were insured.

B. State Investment Fund

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 State Investment Fund is not registered with the Securities and Exchange Commission. The carrying amount of the USF's shares in the State Investment Fund, which approximates fair market value, was \$27,419,000 as of June 30, 2018, and \$20,012,000 as of June 30, 2017.

The types of securities in which the State Investment Fund may invest are enumerated in ss. 25.17 (3) (b), (ba), (bd), and (dg), Wis. Stats., and include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government

of Canada, certificates of deposit issued by banks in the United States including solvent financial institutions in Wisconsin, and banker's acceptances. The Investment Board's trustees may specifically approve other prudent investments.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Investment Fund is unrated. However, the State Investment Fund's investment guidelines establish specific maximum exposure limits by security types based on the minimum credit ratings as issued by nationally recognized statistical rating organizations.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The State Investment Fund uses the weighted average maturity method to analyze interest rate risk. Its investment guidelines mandate that the weighted average maturity for the entire portfolio not exceed one year. The weighted average maturity of the State Investment Fund was 20 days as of June 30, 2018, and 29 days as of June 30, 2017.

Fair Value Measurements—The fair value of the investment in the State Investment Fund, a pooled short-term investment fund managed by the State of Wisconsin Investment Board, is based on net asset value (NAV) per share (or its equivalent), as of June 30. This is a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. The valuation of the underlying investments of the State Investment Fund depends on asset class and maturity date. Repurchase agreements and non-negotiable certificates of deposit are valued at cost. All remaining short-term debt investments are valued at fair value. Because quoted market prices for SIF securities are often not available, SWIB's custodial bank compiles fair values from third-party pricing services, which use matrix pricing models to estimate a security's fair value. There are no unfunded commitments relating to the State Investment Fund, and shares of the State Investment Fund can be fully redeemed at any time with no notice or other restrictions. Further information about the investments in the State Investment Fund can be obtained from the separately issued *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2018, and *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2017. These reports can be found at <https://www.swib.state.wi.us/publications>.

4. COMMITMENTS

The USF is committed to making future payments for vouchers issued but not yet redeemed by TEPP participants and for awards made to participants in the Medical Telecommunications Equipment Program, Nonprofit Access

Program, Broadband Expansion Grant Program, and TEACH grant programs. These commitments are included in the amount reported as committed fund balance for financial statement purposes and not as a liability because the required invoices and supporting documentation necessary to accrue a payable had not yet been presented to the awarding agency. As of June 30, 2018, and June 30, 2017, the following commitments were included in the committed fund balance:

<u>Program</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
TEPP	\$ 523,967	\$ 724,980
Medical Telecommunications Equipment Program	467,850	454,661
Nonprofit Access Program	751,249	697,907
Broadband Expansion Grant Program	9,326,836	1,052,740
TEACH grants	<u>10,088,273</u>	<u>3,858,046</u>
	\$21,158,175	\$6,788,334

5. TRANSFERS FROM THE GENERAL FUND

2017 Wisconsin Act 59, the 2017-2019 Biennial Budget Act, transferred \$12.5 million from DOA’s federal E-Rate appropriation into the USF to provide additional funding for the Broadband Expansion Grant Program, TEACH, and Aid to Public Library Systems.

6. PRIOR PERIOD ADJUSTMENT

The beginning fund balance has been restated to correct for an understatement of liabilities as of June 30, 2016, associated with Lifeline as well as an overstatement of assessment receivables as of June 30, 2016. This restatement resulted in the beginning of the year fund balance for FY 2016-17 being reduced by \$380,246 from \$14,110,182 to \$13,729,936.



Auditor's Report ■



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Ms. Rebecca Cameron Valcq, Chairperson
Public Service Commission

We have audited the financial statements and the related notes of the Universal Service Fund (USF) as of and for the years ended June 30, 2018, and June 30, 2017, and have issued our report thereon dated August 15, 2019. We conducted our audit 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*, which is issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the USF is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the USF's internal control to determine the audit procedures that are appropriate in the circumstances 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 USF's internal control. Accordingly, we do not express an opinion on the effectiveness of the USF's internal control.

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 misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the USF's financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a 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.

Our consideration of internal control 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified significant deficiencies, described as Findings 1 and 2 in the accompanying schedule of findings and responses, with internal controls related to the USF program managed by the Department of Administration (DOA). DOA's written response to the findings identified in our audit is included in the accompanying schedule of findings and responses. DOA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the USF's financial statements are free from material misstatement, we performed tests of 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*.

Purpose of This Report

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the USF's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the USF's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

August 15, 2019

SCHEDULE OF FINDINGS AND RESPONSES

Finding 1: Educational Telecommunications Access Program Co-payment Revenue

Criteria:

The USF was established to ensure that all state residents have access to essential telecommunications services. The programs supported by the USF are operated by four agencies including the Public Service Commission (PSC), DOA, the Department of Public Instruction (DPI), and the University of Wisconsin (UW) System. The PSC is responsible for, among other things, preparing the financial statements, including the related notes, for the USF. The PSC works with the other agencies in fulfilling its responsibilities. The PSC relies on DOA, DPI, and UW System to communicate relevant information related to their programs for consideration in preparing the USF financial statements.

DOA manages the Educational Telecommunications Access Program (TEACH), which is funded by the USF. This program subsidizes the cost of access to BadgerNet for approximately 900 educational institutions, including K-12 schools; technical colleges; public libraries; Cooperative Educational Service Agencies (CESAs); and other public and private institutions statewide. BadgerNet is a broadband voice and data network operated by a consortium of telecommunications providers under a contract with DOA.

As required by s. 16.997 (2) (d), Wis. Stats., educational institutions are required to pay for the services provided to them by the TEACH program. These co-payments may not exceed \$100 per month for each data line or video link that relies on a transport medium operating at a speed of 1.544 megabits per second, and may not exceed \$250 per month for each data line or video link that operates at a higher speed. Semiannually, DOA uses an automated process that uses information from the telecommunication provider's bill to invoice educational institutions for their service co-payments using established rates based on total bandwidth or managed video. Co-payment revenue is used to offset TEACH program expenditures in the USF. The co-payment revenue is initially recorded by DOA in the Technology Services Fund. DOA staff make an entry in STAR Finance, which is the component of the State of Wisconsin's enterprise resource planning system that provides accounting functions, to transfer it to the USF.

Condition:

During our current audit, DOA staff indicated that they did not transfer the co-payment revenue DOA received from educational institutions during FY 2017-18 from the Technology Services Fund to the USF on STAR Finance. In addition, DOA did not inform the PSC financial reporting staff that the transfer did not occur.

Questioned Costs:

None.

Context:

We interviewed DOA staff that indicated that the transfer of co-payment revenue from the Technology Services Fund to the USF did not occur on STAR Finance during FY 2017-18. We

further interviewed DOA and the PSC staff to determine if this had been communicated to the PSC for its consideration in preparing the USF financial statements.

Effect:

Because the co-payment revenue for FY 2017-18 remained in the Technology Services Fund on STAR Finance and DOA did not communicate this to the PSC for inclusion in the USF's financial statements, the Educational Telecommunications Access Program account was overstated by \$606,600 on the Statement of Revenues, Expenditures, and Changes in Fund Balance for FY 2017-18. In addition, the Due from Other Funds account was understated by \$606,600 on the Balance Sheet.

Cause:

DOA staff indicated that they did not make the entry in STAR Finance to record the transfer of the FY 2017-18 co-payment revenue from the Technology Services Fund to USF due to other priorities and the need to complete research to determine the proper accounting treatment of this activity in the USF statements. DOA staff did not complete this research until after our audit inquires began in May 2019.

Further, DOA staff did not inform the PSC staff who were responsible for preparing the USF financial statements that the transfer did not occur. If the PSC staff had been informed, they could have made the necessary adjusting journal entry to the USF financial statements.

Recommendation

We recommend that the Department of Administration take steps to ensure that it communicates to the Public Service Commission all information related to the Educational Telecommunications Access Program that is necessary for the Public Service Commission to prepare the Universal Service Fund financial statements.

Response and Corrective Action Plan from the Department of Administration:

The Department of Administration agrees that it should communicate to the PSC all information related to TEACH that is necessary for the PSC to prepare the USF financial statements. In most circumstances, the information that is contained in the State's enterprise resource planning system is that which is required to be provided by the Department to the PSC to ensure the completeness and accuracy of the USF financial statements as it relates to the TEACH program. However, as the auditors noted, co-payment revenue initially recorded to the Technology Services Fund was not transferred to the USF in FY 2017-18. The missed transfer was not communicated to the PSC at the time it prepared the USF financial statements because it was not known to the Department due to staff turnover and not due to other priorities, as reported.

The Department will communicate to the PSC any adjustments to TEACH-related USF balances contained in the State's enterprise resource planning system following the certification of appropriations as soon as they are known. Further, the Department will modify invoicing for TEACH co-payment revenue to directly collect the same in the USF, thereby eliminating the need to complete future revenue transfers for the same.

Contact Person: Colleen Holtan, Director, Bureau of Financial Management

Anticipated Completion Date: December 31, 2019

Finding 2: Educational Telecommunications Access Program Invoice Process*Criteria:*

DOA manages the TEACH program, which is funded by the USF. This program subsidizes the cost of access to BadgerNet for approximately 900 educational institutions, including K-12 schools; technical colleges; public libraries; CESAs; and other public and private institutions statewide. BadgerNet is a broadband voice and data network operated by a consortium of telecommunications providers under a contract with DOA. Educational institutions request new services, change existing services, or remove services by submitting a form through the TEACH portal or by emailing the form to DOA staff, who then enter the information into the TEACH portal. The TEACH portal is a web-based automated system that allows educational institutions to submit BadgerNet service requests electronically.

As required by s. 16.997 (2) (d), Wis. Stats., educational institutions are required to pay for the services provided to them by the TEACH program. These co-payments may not exceed \$100 per month for each data line or video link that relies on a transport medium operating at a speed of 1.544 megabits per second, and may not exceed \$250 per month for each data line or video link that operates at a higher speed. Semiannually, DOA uses an automated process that uses information from the telecommunication provider's bill to invoice educational institutions for their service co-payments using established rates based on total bandwidth or managed video. Prior to providing the invoices to educational institutions, DOA staff review the invoices to ensure the accuracy of the automated process.

Condition:

During our audit, we reviewed 39 invoices for educational institutions who either began or changed service during our audit period to determine if each educational institution was invoiced the correct amount for the level of service it received. For 9 of the 39 invoices we reviewed, the amounts DOA invoiced differed from the level of service specified on the telecommunications provider's monthly bill. DOA staff could neither verbally explain nor produce documentation to explain these differences. Further, DOA staff could not provide us with documentation to show that any review was performed to ensure the accuracy of the amounts DOA invoiced the educational institutions.

In addition, although statutes require educational institutions to pay DOA for services received, DOA staff indicated that DOA chose not to invoice educational institutions for the billing period from July through December 2017. Therefore, no educational institution paid for the services it received during this time period.

Questioned Costs:

None.

Context:

We interviewed DOA staff who are responsible for invoicing educational institutions. We reviewed invoices for services received by the same 13 educational institutions from July through December 2016, from January through June 2017, and from January through June 2018. Because DOA chose not to invoice any educational institution for the period from July through December 2017, we could not review invoices for services received during that time period.

Effect:

The nine differences we identified resulted in six invoices to educational institutions that were understated by a total of \$1,750 and three invoices to educational institutions that were overstated by a total of \$400. Since DOA staff's review of invoices did not prevent or detect and correct these differences, additional differences may exist that we did not identify.

Because DOA did not invoice educational institutions for the July through December 2017 service period, we estimate that co-payment revenue of approximately \$600,000 was not available for DOA to use to offset TEACH expenditures in the USF.

Cause:

DOA staff could not explain why the nine differences we identified occurred. DOA staff also could not produce documentation to support that the amounts DOA invoiced were correct.

DOA staff indicated that DOA did not invoice educational institutions for the services provided between July and December 2017 because the transition to an upgraded BadgerNet was delayed from the end of December 2017 to the end of summer 2018. Although DOA staff indicated that statutes are silent on the minimum amount that TEACH customers are required to pay for service, a plain language reading of the statutes requires DOA to require educational institutions to pay an amount for each month.

 Recommendation

We recommend the Department of Administration:

- *review its automated process and correct any invoice errors, including for the differences we identified;*
- *ensure that adequate documentation is maintained to support its review of the automated process and the amounts it invoiced educational institutions;*
- *comply with statutes by requiring educational institutions to pay for each month of services received; and*
- *report to the Joint Legislative Audit Committee by February 21, 2020, on its progress in implementing these recommendations and include information on the results of its review of its automated process.*

Response and Corrective Action Plan from the Department of Administration:

During the period under audit, broadband voice and data services to state agencies, authorized users, and educational institutions were transformed from the BadgerNet Converged Network (BCN) to BadgerNet to provide increased service delivery with significant cost savings for the state. Transition and transformation activities were scheduled to be completed by December 31, 2017, but were ultimately not concluded until December 2018, as a result of a variety of delays primarily attributable to the telecommunication provider. The delay and the transformation activities, more generally, created unique circumstances that resulted in the findings identified by the auditors. Specifically, the Department had to combine two different billing databases into one output to produce invoices for the educational institutions at various stages of transformation from BCN

to BadgerNet. Although the Department is confident that the results reported by the auditors are not representative of the overall accuracy of its invoicing, it acknowledges that during the transformation billing documentation should have been more readily available. TEACH portal enhancements, which were initiated prior to the commencement of audit fieldwork, will improve the availability of documentation by consolidating all order and service delivery information into a single database. The enhanced portal is anticipated to be implemented prior to the December 2019 billing for the July through December 2019 service period.

Because of delays in transforming sites to BadgerNet, the Department chose to charge educational institutions \$0 for the July through December 2017 service period to compensate for the potential loss of federal E-rate funds filed by educational institutions for ISP services. E-rate filings for ISP services are submitted prior to the completion of the service period based on planned services and costs. Deviations from plans, such as those caused by transformation schedule delays, may cause costs to be ineligible for reimbursement. As the project progressed, the transformation forecast was readjusted based on customer and telecommunication provider readiness to mitigate that consequence for service periods after December 2017.

The Department will:

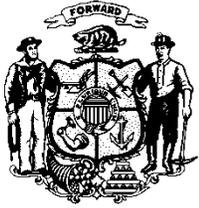
- review its automated process and correct any invoice errors, including for the differences identified by the auditors;
- ensure that adequate documentation is maintained to support its review of the automated process and the amounts it invoices educational institutions;
- comply with statutes by requiring educational institutions to pay for each month of services received; and
- report to the Joint Legislative Audit Committee by February 21, 2020, on its progress in implementing these recommendations and include information on the results of its review of its automated processes.

Contact Person: James Sylla, Director, Bureau of Policy and Budget

Anticipated Completion Date: December 31, 2019, except for the report to the Joint Legislative Audit Committee for which the anticipated completion date is February 21, 2020.

■ ■ ■ ■

Response ■



Public Service Commission of Wisconsin

Rebecca Cameron Valcq, Chairperson
Ellen Nowak, Commissioner
Mike Huebsch, Commissioner

4822 Madison Yards Way
P.O. Box 7854
Madison, WI 53707-7854

August 22, 2019

Mr. Joe Chrisman
State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53703

Dear Mr. Chrisman,

Thank you for the opportunity to respond to the Universal Service Fund (USF) financial audit report. We believe the following information adds important context. The report identifies a fund balance of \$35.3 million in the USF as of June 30, 2018; however, as of that date, \$21.2 million was already committed for making reimbursement payments for existing grant awards. In September 2018 an additional \$7.1 million was committed for Broadband Expansion grant awards made in that month. Of the remaining fund balance identified in the report, \$2.0 million was held in reserve to enable the Commission to meet the statutory requirement to provide a minimum of \$2.0 million in annual broadband grant funding. Finally, \$3.4 million was reserved for fiscal year (FY) 2019 TEACH expenses. As shown in the table below, of the \$35.3 million fund balance identified in the report, only \$1.6 million was available for unexpected activity or future broadband grant funding requirements.

	Amount (million)
Reported Fund Balance (<i>as of June 30, 2018</i>)	\$ 35.3
Commitments (<i>as of June 30, 2018</i>)	(21.2)
September 2018 Broadband Expansion Grant Awards	(7.1)
Annual Broadband Grant Funding Requirement	(2.0)
Amount Reserved for FY 2019 TEACH Expenses	(3.4)
Available Fund Balance	\$ 1.6

Thank you again for the opportunity to respond to the information included in the audit report. We appreciate the professionalism and cooperation your staff has exhibited.

Sincerely,

Rebecca Cameron Valcq
Chairperson