

**Report 15-5  
June 2015**

# **Universal Service Fund**

STATE OF WISCONSIN



Legislative Audit Bureau ■



# **Universal Service Fund**

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From the Public Service Commission	





STATE OF WISCONSIN

## Legislative Audit Bureau

22 East Mifflin Street, Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ [www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)

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Joe Chrisman  
State Auditor

June 15, 2015

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, 2014, and June 30, 2013.

The USF funds a variety of telecommunications and other programs. It is funded by assessments on telecommunications providers that are typically recovered from consumers. In fiscal year (FY) 2013-14, revenues from providers' assessments totaled \$42.7 million and the USF provided \$39.6 million in funding for 13 programs operated by four state agencies.

Two programs—the Educational Telecommunications Access Program and Aid to Public Library Systems—represented 80.3 percent of the USF's FY 2013-14 program expenditures. The USF has been the sole funding source for Aid to Public Library Systems since FY 2008-09. The Educational Telecommunications Access Program is managed by the Department of Administration (DOA) and subsidizes access for approximately 1,000 pre-K-12 public, private, and charter schools; technical colleges; public libraries; and other educational institutions to a state-supported broadband network known as the BadgerNet Converged Network. After our inquiries in early 2015, DOA reduced the administrative fee it charges to the USF for services related to use of the BadgerNet Converged Network. DOA estimates that this fee may be reduced by as much as \$1.2 million in FY 2014-15.

We report a material weakness in the PSC's internal control over financial reporting for the USF. We noted several material or significant errors that required adjustments to the USF's financial statements and notes. The errors occurred primarily because of staff turnover and because many manual procedures are involved in the preparation of the financial statements. In response to our recommendation, the PSC indicated that an additional accountant has been hired to assist with USF financial reporting and that it would implement a more thorough secondary review process.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Joe Chrisman'.

Joe Chrisman  
State Auditor

JC/BN/ss





## Introduction ■

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The Universal Service Fund (USF) was originally established in 1993 to ensure that all residents of Wisconsin receive essential telecommunications services and have access to advanced telecommunications service capabilities. Since then, statutes have also authorized the use of USF funds for other purposes. However, providing access to advanced telecommunications service capabilities was eliminated as a purpose of PSC-operated programs by 2011 Wisconsin Act 22.

***Telecommunications providers fund the USF through assessments that providers are permitted to recover from consumers.***

In fiscal year (FY) 2013-14 and FY 2012-13, the USF funded programs that were managed by four state agencies: the Department of Administration (DOA), the Department of Public Instruction (DPI), University of Wisconsin (UW) System, and the Public Service Commission (PSC), which also establishes policies and procedures for the USF and is responsible for levying assessments on telecommunications providers to fund USF programs. Statutes permit providers to recover from consumers the amounts providers are assessed. The PSC contracts with a private contractor 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, 2014, and June 30, 2013. However, we identified a fiscal management issue related to an administrative services fee that DOA charges the USF, a material weakness related to the PSC's internal controls over financial reporting for the USF, and concerns related to

copayment billings for the Educational Telecommunications Access Program, also referred to as the Technology for Educational Achievement (TEACH) program.

### USF Programs

***In FY 2013-14, the USF provided \$39.6 million in funding for 13 programs operated by four state agencies.***

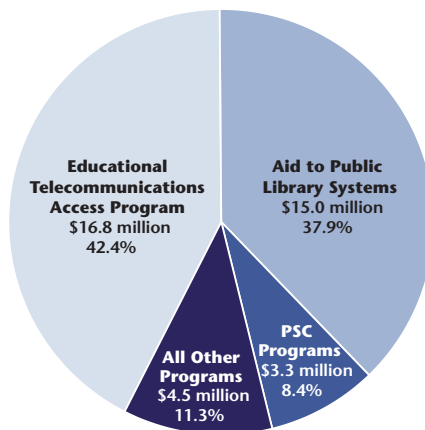
In FY 2013-14, total USF expenditures were \$39.9 million. Of this amount, \$39.6 million, or 99.4 percent, supported 13 programs managed by DOA, DPI, UW System, and the PSC. The remaining \$243,000 was for PSC administrative expenditures and consisted largely of payments to the private contractor that administers the USF. In FY 2012-13, total expenditures were \$40.5 million, including \$40.2 million in program expenditures.

***Most USF expenditures funded the Educational Telecommunications Access Program and Aid to Public Library Systems.***

As shown in Figure 1, two programs—the Educational Telecommunications Access Program and Aid to Public Library Systems—represented 80.3 percent of the USF’s FY 2013-14 program expenditures. The Educational Telecommunications Access Program, which is managed by DOA, subsidizes the cost of access to the BadgerNet Converged Network for approximately 1,000 pre-K-12 public, private, and charter schools; technical colleges; public libraries; Cooperative Educational Service Agencies (CESAs); and other educational institutions statewide. The BadgerNet Converged Network is a state-supported broadband network operated by a consortium of private telecommunications companies.

Figure 1

**USF Program Expenditures  
FY 2013-14**



***The USF has replaced GPR as the sole funding source for Aid to Public Library Systems.***

The State used general purpose revenue (GPR) as the sole funding source for Aid to Public Library Systems, which is managed by DPI, until 2003 Wisconsin Act 33 first required the USF to fund a portion of that aid in FY 2003-04. As part of the State's efforts to address budget shortfalls, additional USF resources were used for public library aids. The USF has been the sole funding source for Aid to Public Library Systems since FY 2008-09.

The PSC manages seven USF programs that accounted for 8.4 percent of program expenditures in FY 2013-14. The Telecommunications Equipment Purchase Program (TEPP), Lifeline, Two-Line Voice Carryover, High Rate Assistance Credit, Medical Telecommunications Equipment, and the Nonprofit Access Program either provide access to basic telephone and information services for individuals with low incomes or disabilities, lessen the financial impacts of service rate increases on individuals with low incomes, or assist nonprofit medical clinics and public health agencies in purchasing medical telecommunications equipment. The seventh PSC program, Link-Up, currently provides basic telephone services for individuals living on tribal lands.

Four other USF programs managed by DPI or UW System accounted for the remaining 11.3 percent of program expenditures in FY 2013-14:

- BadgerLink is a DPI program that 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.
- Newslines for the Blind is a DPI program that 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 is a DPI program that 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. Before FY 2009-10, the contracts were funded by GPR.

- UW System BadgerNet Access helps to fund access to the BadgerNet Converged Network for certain UW campuses.

## Program Funding and Fund Balance

Statutes require most telecommunications providers in Wisconsin to contribute to the USF. The PSC is responsible for designating the method by which contributions are calculated and collected. Each October, the PSC determines the rates that will be used to assess each telecommunications provider for its share of contributions. When setting these rates, the PSC should ensure that revenues collected in the current year and any unspent revenues collected in the prior year are sufficient to cover current year appropriations. However, the PSC did not consistently consider unspent revenues when establishing annual assessment rates. As a result, a cash balance accumulated in the USF.

In response to our inquiries related to our prior audit (report 13-6), the PSC applied \$4.3 million in available cash to offset provider assessments during FY 2012-13. As a result, the USF's fund balance, as accounted for in accordance with generally accepted accounting principles, declined from \$9.7 million as of June 30, 2012, to \$7.5 million as of June 30, 2013. At the time of our prior audit, the PSC indicated that it would evaluate the overall fund balance at the end of FY 2012-13 to determine if an additional offset of provider assessments would be appropriate when setting the provider assessments for FY 2013-14. However, the PSC did not use any of the available cash to offset provider assessments for FY 2013-14.

***The PSC did not use available cash to offset provider assessments for FY 2013-14 or FY 2014-15.***

As a result, the fund balance increased from \$7.5 million as of June 30, 2013, to \$10.4 million as of June 30, 2014. In addition, the PSC did not use any of the available cash to offset provider assessments for FY 2014-15. Therefore, an increased fund balance is anticipated as of June 30, 2015, if the USF does not spend all of the appropriated amounts that it assessed during FY 2014-15.

A motion adopted by the Joint Committee on Finance as part of the 2015-17 biennial budget process proposes to transfer on July 1, 2015, \$6.0 million from the USF to a PSC appropriation that would be created for broadband expansion grants. In addition, this motion requires the PSC to submit a report to the Joint Committee on Finance in September 2015 that includes the causes of any "unencumbered" balance of the USF and a recommendation on the level of fund balance that is appropriate.

## DOA Administrative Services Fee

DOA charges the USF an administrative fee for services, such as help desk assistance, provided to users of the BadgerNet Converged Network that participate in the Educational Telecommunications Access Program. An administrative services fee is also paid to DOA by tribes, counties, and certain other entities that also use the BadgerNet Converged Network but do not participate in the Educational Telecommunications Access Program.

In prior audits, we found that the amount charged for administrative services was greater than the cost of providing the services. In report 11-10, we recommended that DOA review the administrative services fee charged to the USF to ensure it reflects only the actual costs of providing the services. In response, DOA reduced the fee charged to the USF from 15 percent to 10 percent in November 2011. Despite this reduction, the cash balance in the appropriation used to account for these fees continued to increase. In report 13-6, we again recommended that DOA review the fee to ensure it reflected only the actual costs of providing those services.

***DOA estimates that the administrative services fee it charges to the USF in FY 2014-15 may be reduced by as much as \$1.2 million.***

During FY 2012-13 and FY 2013-14, DOA continued to charge the USF an administrative services fee of 10 percent, which continued to be greater than the cost of providing the services. In FY 2013-14, administrative services fee revenues exceeded expenditures by \$1.3 million. As of June 30, 2014, the ending cash balance in the appropriation used to account for these fees totaled \$3.7 million. We estimate that at least \$3.0 million, or 80 percent, of the cash balance can be attributed to the administrative services fee paid by the USF. After our inquiries in early 2015, DOA reviewed and reduced the fee charged to the USF from 10 percent to 3 percent, retroactive to the beginning of FY 2014-15. DOA estimates that the administrative services fee it charges to the USF in FY 2014-15 may be reduced by as much as \$1.2 million.

## Additional Fiscal Management Issues

In addition to the administrative services fee issue, our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters includes two other fiscal management issues. First, we identified a material weakness related to the PSC's internal controls over financial reporting for the USF. We noted several material or significant errors that required adjustments to the USF's financial statements and notes. The errors occurred primarily because of staff turnover at the PSC and because many manual procedures are involved in the preparation of the financial statements. In response to our recommendation, the PSC indicated that an

additional accountant was hired on November 2, 2014, to assist with USF financial reporting, procedures were comprehensively updated while completing the financial statements, and that it would implement a more thorough secondary review process.

Second, we found that DOA made errors in its copayment billings to educational institutions receiving subsidized access to the BadgerNet Converged Network as part of the Educational Telecommunications Access Program. In response to our recommendation, DOA indicated that it has implemented a manual review process to ensure copayment billings are correct and will consider opportunities to automate copayment billings and the review process in the future.

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## **Audit Opinion ■**

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## 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. Ellen Nowak, Chairperson  
Public Service Commission

### Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the State of Wisconsin Universal Service Fund (USF) as of and for the years ended June 30, 2014, and June 30, 2013, 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 Universal Service Fund as of June 30, 2014, and June 30, 2013, and the respective changes in its financial position 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, 2014, and June 30, 2013, the changes in its financial position, or where applicable, its cash flows for the years 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**

The supplementary information included as Management’s Discussion and Analysis on pages 13 through 19 is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures to the 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. However, 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 do so.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated May 27, 2015, 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 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 used when considering the USF’s internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman  
State Auditor

May 27, 2015

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# Management's Discussion and Analysis ■

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## *Prepared by the Public Service Commission*

Management's Discussion and Analysis (MD&A) is prepared by the Public Service Commission (PSC) 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 were prepared by the PSC.

The PSC administers the USF. 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 USF was originally established to further the goal of providing both basic essential telecommunications services and access to advanced service capabilities to telecommunications service customers in Wisconsin. 2011 Wisconsin Act 22 eliminated providing access to advanced telecommunications service capabilities as a purpose of PSC-operated programs.

## **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 (FYs) ended June 30, 2014; June 30, 2013; and June 30, 2012, are shown in Tables A and B.

Table A

#### A Comparison of Condensed Financial Information for FY 2013-14 and FY 2012-13

	June 30, 2014	June 30, 2013	Dollar Change	Percentage Change
Total Assets	\$14,271,837	\$8,805,493	\$5,466,344	62.1%
Total Liabilities	3,864,760	1,291,350	2,573,410	199.3
<b>Fund Balance</b>	<b>\$10,407,077</b>	<b>\$7,514,143</b>	<b>\$2,892,934</b>	<b>38.5</b>

	FY 2013-14	FY 2012-13	Dollar Change	Percentage Change
Total Revenues	\$42,745,385	\$38,326,984	\$4,418,401	11.5%
Total Expenditures	39,852,451	40,487,223	(634,772)	(1.6)
<b>Excess of Revenues over Expenditures</b>	<b>\$ 2,892,934</b>	<b>\$ (2,160,239)</b>	<b>\$5,053,173</b>	<b>233.9</b>

Table B

**A Comparison of Condensed Financial Information for FY 2012-13 and FY 2011-12**

	June 30, 2013	June 30, 2012	Dollar Change	Percentage Change
Total Assets	\$8,805,493	\$12,953,386	\$(4,147,893)	32.0%
Total Liabilities	1,291,350	3,279,004	(1,987,654)	(60.6)
<b>Fund Balance</b>	<b>\$7,514,143</b>	<b>\$ 9,674,382</b>	<b>\$(2,160,239)</b>	<b>(22.3)</b>

	FY 2012-13	FY 2011-12	Dollar Change	Percentage Change
Total Revenues	\$38,326,984	\$42,354,387	\$(4,027,403)	(9.5)%
Total Expenditures	40,487,223	40,852,525	(365,302)	(0.9)
<b>Excess of Revenues over Expenditures</b>	<b>\$ (2,160,239)</b>	<b>\$ 1,501,862</b>	<b>\$(3,662,101)</b>	<b>(243.8)</b>

The USF's total assets decreased by 32.0 percent in FY 2012-13 and then increased by 62.1 percent in FY 2013-14. The fluctuations were largely related to the fluctuations in revenues, which are discussed below. The USF's total liabilities decreased by 60.6 percent in FY 2012-13 and then increased by 199.3 percent in FY 2013-14. The fluctuations generally occurred because of the timing of typical operating activities of the Educational Telecommunications Access Program.

USF revenues decreased by 9.5 percent from FY 2011-12 to FY 2012-13 because the PSC used available cash to offset provider assessments. USF revenues increased by 11.5 percent from FY 2012-13 to FY 2013-14 primarily because the PSC did not use available cash to offset provider assessments. Largely because of these revenue fluctuations, the fund balance decreased by 22.3 percent in FY 2012-13 and increased by 38.5 percent in FY 2013-14.

The USF's total revenues of \$42.7 million in FY 2013-14, \$38.3 million in FY 2012-13, and \$42.4 million in FY 2011-12 consisted of assessed revenue and 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 86 percent of total assessed revenues for FY 2013-14, as well as 86 percent of total assessed revenues for FY 2012-13 and 86 percent of total assessed revenues for FY 2011-12, were intended for six programs the PSC does not manage: the Educational Telecommunications Access Program, which is managed by the Department of Administration; Aid to Public Library Systems, BadgerLink, Newslite for the Blind, and Library Service Contracts, which are managed by the Department of Public Instruction; and University of Wisconsin System BadgerNet Access for UW campuses. The remaining revenues were used to support seven PSC-operated programs: the Telecommunications Equipment Purchase Program (TEPP), Lifeline, Link-Up, High Rate Assistance Credit, Medical Telecommunications Equipment, the Nonprofit Access Program, and Two-Line Voice Carryover.

Appropriations for the DPI programs under 2009 Wisconsin Act 28 continued to use the USF for funding Aid to Public Library Systems in place of general purpose revenue. USF appropriations for Aid to Public Library Systems began in FY 2003-04 at \$2.1 million and have increased in the intervening years to \$16.7 million in FY 2010-11. That changed under 2011 Wisconsin Act 32, the 2011-13 Biennial Budget Act, when Aid to Public Library Systems was reduced to \$15.0 million for FY 2011-12 and FY 2012-13. Aid to Public Library Systems remained at \$15.0 million for FY 2013-14.

Total expenditures for the Educational Telecommunications Access Program have steadily increased over the years to peak at \$17.0 million in FY 2010-11. This program grows in two ways: 1) the customer base expands to include additional schools and libraries; and 2) the current customers have a justified need to increase their existing bandwidth. This growth results in an increase in annual expenditures under this program. Expenditures can also be reduced due to a decrease in the cost of services or program participation. These factors caused minor fluctuations in expenditures for this program. Expenditures decreased to \$16.5 million in FY 2012-13 and increased to \$16.8 million in FY 2013-14.

Actual expenditure levels for PSC-operated programs, including administrative costs, increased by \$294,000, or 6.3 percent, to a total of \$4.9 million for FY 2012-13. The actual expenditures for PSC-operated programs, including administrative costs, decreased by \$1.4 million, or 28.1 percent, to a total of \$3.6 million for FY 2013-14. Tables C and D show the year-over-year changes in expenditures for PSC-operated programs, including administrative expenditures, for FY 2012-13 and FY 2013-14.

Table C

PSC USF Program Expenditure Changes for FY 2012-13

	FY 2012-13	FY 2011-12	Dollar Change	Percentage Change
TEPP	\$1,588,392	\$1,404,083	\$ 184,309	13.1%
High Rate Assistance Credit	1,233	4,890	(3,657)	(74.8)
Lifeline	1,926,107	2,076,446	(150,339)	(7.2)
Link-Up	150	139,163	(139,013)	(99.9)
Medical Telecommunications Equipment	821,451	216,286	605,165	279.8
Nonprofit Access Program	275,197	430,311	(155,114)	(36.0)
Two-Line Voice Carryover	10,094	9,821	273	2.8
Administrative Expenditures	322,258	369,666	(47,408)	(12.8)
<b>Total</b>	<b>\$4,944,882</b>	<b>\$4,650,666</b>	<b>\$ 294,216</b>	

Table D

PSC USF Program Expenditure Changes for FY 2013-14

	FY 2013-14	FY 2012-13	Dollar Change	Percentage Change
TEPP	\$1,446,773	\$1,588,392	\$ (141,619)	(8.9)%
High Rate Assistance Credit	1,005	1,233	(228)	(18.5)
Lifeline	1,362,384	1,926,107	(563,723)	(29.3)
Link-Up	0	150	(150)	(100.0)
Medical Telecommunications Equipment	183,174	821,451	(638,277)	(77.7)
Nonprofit Access Program	305,318	275,197	30,121	10.9
Two-Line Voice Carryover	16,245	10,094	6,151	60.9
Administrative Expenditures	242,600	322,258	(79,658)	(24.7)
<b>Total</b>	<b>\$3,557,499</b>	<b>\$4,944,882</b>	<b>\$(1,387,383)</b>	

Of the larger PSC-operated programs, Lifeline had the most significant change in expenditures. Lifeline expenditures decreased slightly by \$150,000 from FY 2011-12 to FY 2012-13, and in the following year by \$564,000 to \$1.4 million in FY 2013-14. The FY 2013-14 decrease was largely due to several changes made by the Federal Communications Commission (FCC) to limit fraud and abuse in prepaid wireless services. The PSC closely monitored the rapid increases in payments to these providers in prior years and reported several potential fraud concerns to the FCC and the Universal Service Administrative Company (USAC). The PSC, the FCC, and the USAC dealt with the apparent fraudulent actions in marketing and management of prepaid wireless Lifeline programs, and this reduced reimbursement requests in FY 2012-13 and again in FY 2013-14.

Expenditures for Link-Up decreased to zero in FY 2013-14. In FY 2011-12, the FCC issued an order to end the federal Link-Up program on all but services to individuals living on tribal lands. The PSC suspended its state Link-Up program, other than for services to individuals living on tribal lands, in April 2012, pending further analysis regarding the need for a state-only Link-Up program and what limits, if any, to benefits would be appropriate for such a program. There were no requests for reimbursement for the state Link-Up program in FY 2013-14.

Expenditures for TEPP increased by 13.1 percent in FY 2012-13 and then decreased by 8.9 percent in FY 2013-14. In general, TEPP expenditures vary from year to year due to the variation in outreach done by equipment vendors as part of their marketing plans and equipment choices of the voucher recipients. There have been no changes in the limits on equipment purchases or in the voucher amounts.

Expenditures for the Medical Telecommunications Equipment program increased 279.8 percent in FY 2012-13 but decreased 77.7 percent in FY 2013-14. Expenditures for the Nonprofit Access Program decreased 36.0 percent in FY 2012-13 and increased 10.9 percent in FY 2013-14. 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. Grants awarded for the Medical Telecommunications Equipment program totaled \$498,000 for FY 2012-13 and \$500,000 for FY 2013-14. Grant recipients tend to use the majority of their grant funds in the first year of the two-year grant cycle causing the large shifts in year-over-year expenses. Grants awarded for the Nonprofit Access Program totaled \$341,000 for FY 2012-13 and \$500,000 for FY 2013-14. The lower-than-budgeted grant awards in FY 2012-13 were due to provisions of 2011 Wisconsin Act 22 that changed what projects could be funded by the Nonprofit Access Program. With aggressive information and education efforts regarding what projects are still eligible, and broader distribution of the request for grant proposals, the requests for Nonprofit Access Program grants increased in FY 2013-14.

PSC administrative costs for the USF decreased by \$47,000, or 12.8 percent, in FY 2012-13 because the costs of updates to software for improved financial tracking and reporting of the USF programs decreased. Administrative costs in FY 2013-14



decreased by another \$80,000, or 24.7 percent, from FY 2012-13 because there were no comparable software upgrade costs in FY 2013-14.

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 Director  
P.O. Box 7854  
Madison, WI 53707-7854

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## **Financial Statements ■**

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**Balance Sheet**  
**June 30, 2014, and June 30, 2013**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<b>ASSETS</b>		
Cash and Cash Equivalents (Notes 2C and 3)	\$ 12,302,354	\$ 6,935,202
Assessments Receivable (Note 2D)	1,968,683	1,842,446
Due from Other Funds	<u>800</u>	<u>27,845</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 14,271,837</u></b>	<b><u>\$ 8,805,493</u></b>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Program Liabilities:		
Educational Telecommunications Access Program	\$ 2,676,565	\$ 66,307
BadgerLink and Newslines for the Blind	46,794	21,071
Telecommunications Equipment Purchase Program (TEPP)	156,783	228,739
Lifeline	320,330	339,495
Library Service Contracts	430,429	415,735
UW System BadgerNet Access	77,265	72,113
Nonprofit Access Program	106,398	47,063
Medical Telecommunications Equipment	0	77,283
Two-Line Voice Carryover	826	451
High Rate Assistance Credit	<u>63</u>	<u>100</u>
Total Program Liabilities	<u>3,815,453</u>	<u>1,268,357</u>
Accounts Payable	17,270	22,993
Due to Other Funds	<u>32,037</u>	<u>0</u>
<b>Total Liabilities</b>	<b><u>3,864,760</u></b>	<b><u>1,291,350</u></b>
Fund Balance:		
Committed	<u>10,407,077</u>	<u>7,514,143</u>
<b>Total Fund Balance</b>	<b><u>10,407,077</u></b>	<b><u>7,514,143</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 14,271,837</u></b>	<b><u>\$ 8,805,493</u></b>

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, 2014, and June 30, 2013**

	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013
<b>REVENUES</b>		
Telecommunications Providers' Assessments (Note 2D) for:		
Department of Public Instruction Programs	\$ 18,766,308	\$ 16,796,904
Educational Telecommunications Access Program	16,980,496	15,239,715
Public Service Commission Programs	5,938,325	5,329,908
UW System BadgerNet Access	1,054,700	946,713
Total Telecommunications Providers' Assessments	<u>42,739,829</u>	<u>38,313,240</u>
Interest Income	5,556	13,716
Other Revenue	0	28
<b>Total Revenues</b>	<u><b>42,745,385</b></u>	<u><b>38,326,984</b></u>
<b>EXPENDITURES</b>		
Program Expenditures:		
Educational Telecommunications Access Program	16,786,158	16,458,754
Aid to Public Library Systems	15,013,100	15,013,100
BadgerLink and Newsline for the Blind	2,568,703	2,513,599
Telecommunications Equipment Purchase Program (TEPP)	1,446,773	1,588,392
Lifeline	1,362,384	1,926,107
Library Service Contracts	1,024,107	888,420
UW System BadgerNet Access	902,884	668,468
Nonprofit Access Program	305,318	275,197
Medical Telecommunications Equipment	183,174	821,451
Two-Line Voice Carryover	16,245	10,094
High Rate Assistance Credit	1,005	1,233
Link-Up	0	150
Total Program Expenditures	<u>39,609,851</u>	<u>40,164,965</u>
PSC Administrative Expenditures	242,600	322,258
<b>Total Expenditures</b>	<u><b>39,852,451</b></u>	<u><b>40,487,223</b></u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>2,892,934</b>	<b>(2,160,239)</b>
<b>FUND BALANCE</b>		
Fund Balance—Beginning of the Year	<u>7,514,143</u>	<u>9,674,382</u>
Fund Balance—End of the Year	<u><u>\$ 10,407,077</u></u>	<u><u>\$ 7,514,143</u></u>

The accompanying notes are an integral part of this statement.



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# Notes to the Financial Statements ■

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## 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. 2011 Wisconsin Act 22 eliminated providing access to advanced telecommunications service capabilities as a purpose of PSC-operated programs. 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 System (UW), 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 2013-14 and FY 2012-13 follows.

### A. Educational Telecommunications Access Program

The BadgerNet Converged Network is a state-supported broadband voice, data, and video network. The Educational Telecommunications

Access Program, which is managed by DOA and was implemented in February 1998, provides educational institutions and other entities with subsidized access to the BadgerNet Converged Network. The educational institutions use the data lines for direct internet or intranet access, and for video links to provide for two-way interactive video that allows participants to view and respond to instructional presentations from off-site locations.

**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. General purpose revenue provided additional funding for public library aid. Since FY 2008-09, when the general purpose revenue appropriation for public library aid was repealed by 2009 Wisconsin Act 28, the USF has provided the entirety of funding for public library aid. DPI is responsible for distributing the aid payments to 17 Wisconsin public library systems according to a statutory formula.

**C. BadgerLink and Newline 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 Newline for the Blind, which is an electronic information service that provides telephone and online 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 category of 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 administrator 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 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. In addition, the state and federal Link-Up programs have provided a waiver of certain regulated service charges when low-income residential customers initiate or move telephone service. As of April 2012, the federal and state Link-Up programs only provide waivers to individuals living on tribal lands. 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. Library Service Contracts**

2009 Wisconsin Act 28 included statutory language providing that the payment of library service contracts is an authorized use of the USF. DPI enters into annual contracts with the Milwaukee Public Library, Wisconsin Library Services, the Wisconsin Regional Library for the Blind and Physically Handicapped, and the Cooperative Children's Book Center to provide funding for specialized library materials and information. For instance, the USF funds DPI's contract with the Milwaukee Public Library to process, maintain, and circulate full-length books and magazines in braille.

**G. University of Wisconsin System BadgerNet Access**

Beginning in FY 1997-98, the Legislature appropriated funds from the USF to provide funding for the BadgerNet Converged Network for four UW campuses. Funds from the USF became available to all UW System campuses beginning in FY 2007-08.

**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 services.

**I. 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.

**J. Two-Line Voice Carryover**

This program, which was implemented in FY 2001-02, 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. High Rate Assistance Credit**

This program, which was implemented in May 1996, lessens 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.

**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.

**C. Cash and Cash Equivalents**

Cash and cash equivalents include shares in the State Investment Fund, a short-term investment pool of state and local funds, and cash deposited in the State of Wisconsin's bank awaiting transfer to the State Investment Fund.

**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."

**E. Fund Balance**

Fund balance represents the difference between the USF's assets and liabilities. GASB Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes a hierarchy of five fund balance reporting classifications including nonspendable, 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.

**F. Deferred Outflows of Resources and Deferred Inflows of Resources**

GASB issued Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective beginning in FY 2012-13. The objective of this statement is to provide guidance for deferred outflows of resources and deferred inflows of resources as required elements of the financial statements. The USF has no deferred outflows or inflows of financial resources to be reported on the Balance Sheet.

**3. DEPOSITS**

The USF's cash and cash equivalents balance consists of shares in the State Investment Fund and amounts deposited in the State of Wisconsin's bank awaiting transfer to 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. As of June 30, 2014, \$624,800 of the USF's deposits were uninsured by the FDIC. As of June 30, 2013, none of the USF's deposits were uninsured. A state appropriation for losses on public deposits (s. 34.08, Wis. Stats.) insures up to \$400,000 over the amount of federal insurance.

**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 (SWIB) with oversight by its Board of Trustees. The State Investment Fund is not registered with the U.S. Securities and Exchange Commission. The carrying amount of shares in the State Investment Fund, which approximates fair market value, was \$11,427,000 as of June 30, 2014, and \$6,772,000 as of June 30, 2013.

The types of securities in which the State Investment Fund may invest are enumerated in s. 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 and solvent financial institutions in Wisconsin, and bankers acceptances. SWIB 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 88 days as of June 30, 2014, and 34 days as of June 30, 2013.

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 and the Nonprofit Access Program. 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 PSC. As of June 30, 2014, and June 30, 2013, the following commitments were included in the committed fund balance:

<u>Program</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
TEPP	\$ 280,733	\$ 480,785
Medical Telecommunications Equipment	501,618	187,792
Nonprofit Access Program	<u>721,449</u>	<u>528,597</u>
	\$1,503,800	\$1,197,174

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## **Auditor's Report ■**

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## 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. Ellen Nowak, Chairperson  
Public Service Commission

We have audited the financial statements of the State of Wisconsin Universal Service Fund (USF) as of and for the years ended June 30, 2014, and June 30, 2013, and have issued our report thereon dated May 27, 2015. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the following paragraphs, we identified a certain deficiency in internal control that we consider to be a material weakness.

*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. We consider the deficiency described below, related to financial reporting, to be a material weakness.

The Public Service Commission (PSC), which is responsible for preparing the financial statements for the USF, did not maintain effective internal controls over financial reporting, and we noted several material or significant errors that required adjustments to the financial statements and notes. For example:

- The PSC did not consider all cash receipts in the calculation of USF assessments receivable. As a result, assessments receivable were overstated by \$174,102 for fiscal year (FY) 2012-13 and \$760,212 for FY 2013-14. Additionally, revenues from assessments were overstated by corresponding amounts.
- The PSC incorrectly reported \$15,013,000 of Aid to Public Library Systems expenditures as Library Service Contracts and BadgerLink and Newslines for the Blind expenditures for FY 2012-13. The PSC incorrectly reported \$2,494,405 of BadgerLink and Newslines for the Blind expenditures as Aid to Public Library Systems and Library Service Contracts expenditures for FY 2013-14.
- The PSC did not accrue \$133,646 of Lifeline expenditures for the FY 2012-13 financial statements. As a result, Lifeline expenditures were initially understated by \$133,646. When preparing the FY 2013-14 financial statements, the PSC did not prepare a "reversing" entry related to this accrual, and Lifeline expenditures were overstated by \$133,646.
- Due to the nature of the USF, the entire fund balance should be classified as committed and, therefore, the committed fund balance should equal the total fund balance. However, the PSC incorrectly reported a committed fund balance of \$9,854,364 as of June 30, 2013, but a total fund balance of \$7,598,045. The PSC incorrectly reported a committed fund balance of \$7,714,191 as of June 30, 2014, but a total fund balance of \$11,015,005.
- The PSC misstated the USF's carrying amount of shares in the State Investment Fund disclosed in the note for deposits. The PSC overstated the June 30, 2013 carrying amount by \$1,351,000, and the PSC understated the June 30, 2014 carrying amount by \$758,000.

The errors in the financial statements and notes primarily occurred because of staff turnover at the PSC and the USF's administrator and because there are many manual procedures involved in the preparation of the financial statements. A thorough secondary review by an individual with an understanding of the USF and relevant accounting concepts would have helped the PSC staff identify some of these errors.

Although the errors we identified were corrected, we recommend the PSC take steps to prevent or detect errors in the preparation of the USF's financial statements and notes, including implementing a thorough secondary review process.

In its written response, the PSC agrees with the recommendation and indicates that it will implement a more thorough secondary review process. Additionally, the PSC indicates that an additional accountant was hired on November 2, 2014, to assist with the USF financial statement preparation process and that procedures were comprehensively updated while completing the financial statements.

### 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*.

We noted certain additional matters related to Educational Telecommunications Access Program copayment billings that we reported to the Department of Administration (DOA), which is responsible for managing this program, in a separate letter dated May 5, 2015. We found that DOA made errors in its copayment billings to educational institutions receiving subsidized access to the BadgerNet Converged Network as part of the Educational Telecommunications Access Program. We recommend that DOA correctly bill all educational institutions that receive subsidized BadgerNet Converged Network access through the Educational Telecommunications Access Program.

In its written response, DOA agrees with the recommendation and indicates that it has implemented a manual review process to ensure that, consistent with written policies and procedures, copayment billings are correct and only for services that were actually received. In addition, DOA will consider opportunities to automate copayment billings and the review process with the implementation of a new service portal and the State's new enterprise resource planning system.

We also noted certain additional matters pertaining to an administrative services fee paid by the USF to DOA, as discussed on page 7. After our current audit follow-up in early 2015, DOA reviewed the administrative services fee and reduced it from 10 percent to 3 percent, retroactive to the beginning of FY 2014-15. DOA estimates that the administrative services fee it charges to the USF in FY 2014-15 may be reduced by as much as \$1.2 million.

### Responses to Findings

The written responses to the findings identified in our audit are described in the preceding paragraphs. The responses provided by the PSC and DOA were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### 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

May 27, 2015



# Public Service Commission of Wisconsin

Ellen Nowak, Chairperson  
Phil Montgomery, Commissioner  
Mike Huebsch, Commissioner

610 North Whitney Way  
P.O. Box 7854  
Madison, WI 53707-7854

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June 9, 2015

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 Legislative Audit Bureau's draft Universal Service Fund Audit Report. The Commission welcomes the input provided by these audits to better address our financial controls and processes as they relate to financial and programmatic oversight of the Universal Service Fund. As with any small financial unit, establishing strong internal controls can become cumbersome and difficult with so few staff to provide those defined layers of control. As noted by the Legislative Audit Bureau, "... errors in the financial statements and notes primarily occurred because of staff turnover at the PSC and the USF's administrator and because there are many manual procedures involved in the preparation of the financial statements."

The following is the Commission's management response addressing the issues highlighted in the Universal Service Fund Audit Report:

The Commission proactively corrected the identified weaknesses in the Commission's internal controls over financial reporting during the audit process as these issues were identified. The Commission's Financial Manager began detailed documentation of the process during the course of the audit to ensure that these errors in manual procedures would not occur again. These weaknesses did not affect the implementation or financial standing of any USF program. The Commission believes that, while these weaknesses are significant, they are no longer material in nature.

With the audit ongoing, the Commission's Office of Financial and Grant Services realized the substantial efforts involved in providing strong financial and programmatic oversight of the inherently complex USF program and hired an accountant on November 2, 2014, whose position description provides for 30 percent of the time to be devoted to the oversight of the USF budget. This will provide not only an additional layer of internal control and review, but consistent, focused oversight of the USF budget in general for the foreseeable future.

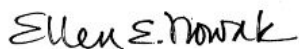
As the Legislative Audit Bureau has noted in this audit and in past audits, the Commission should offset the assessment rates to address a building cash reserve. The Commission has reached out to Wipfli, its USF program administrator, to provide recommendations for a reserve amount that would be substantial enough to control the

Mr. Joe Chrisman, State Auditor  
Page Two

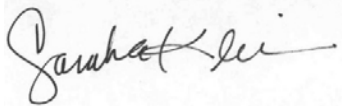
cash reserve, while not so aggressive that it would jeopardize financial stability. This is a very difficult proposal because it means reducing the assessment amount across the board to all USF programs, not just those that regularly run a surplus. Generally speaking, drawing down the cash reserve is an inelegant means of budgeting when no specific amount is laid out. Since the draw-down is not a great solution, but rather a means to an end, the Commission would appreciate the Legislative Audit Bureau suggesting other means in addressing the cash reserve, such as implementing something similar to the Commission's own assessment process that allows for a true-up at year-end to provide an accurate process to correct overages or deficits in the initial assessment.

Thank you again for the opportunity to respond. The Commission is confident in its proactive corrections of all the issues identified in the audit. Please feel free to contact Commission staff if you require additional information or have any questions.

Sincerely,



Ellen Nowak, Chairperson  
Public Service Commission



Sarah Klein, Administrator  
Division of Business & Communications Services  
Public Service Commission

cc: Lisa Farrell, Jenna Schmidt