

An Audit:

Universal Service Fund

Public Service Commission

September 2008

Report Highlights ■

The fund balance increased by \$2.0 million during FY 2006-07.

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

2007 Wisconsin Act 20 repealed the limitation on assessments to support PSC-operated programs.

The PSC is responsible for developing the overall policies and procedures related to the Universal Service Fund but is directed by statute to contract with a private firm to administer the Fund.

Conversion to a new statewide data and video network was completed in September 2006.

At the request of the PSC, we completed a financial audit of the Universal Service Fund to fulfill audit requirements under s. 196.218(2)(d), Wis. Stats. Our audit report contains our unqualified opinion on the Fund's financial statements and related notes for the fiscal years ending June 30, 2007 and 2006.

Fund Finances

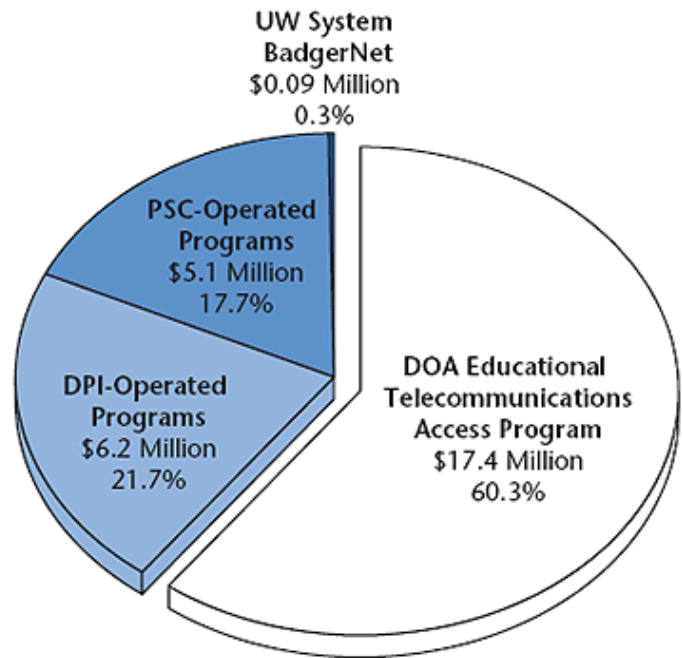
The Universal Service Fund provided increased funding for library system aid during the 2007-09 biennium.

The Universal Service Fund is funded primarily through assessments paid by telecommunications providers, which totaled \$30.0 million in FY 2006-07. Interest income totaled \$944,000. Almost \$28.9 million was expended during FY 2006-07 for 13 programs currently supported by the Universal Service Fund. Eight of these programs are operated by the PSC, with expenditures totaling \$5.1 million in FY 2006-07.

Three fiscal management issues require attention by the PSC and DOA.

The largest program supported by the Universal Service Fund, the Educational Telecommunications Access Program, is operated by DOA. This program subsidizes data lines and video links for eligible educational institutions. Its expenditures of \$17.4 million represented 60.3 percent of the Universal Service Fund's total expenditures in FY 2006-07.

Universal Service Fund Expenditures¹ FY 2006-07



¹Expenditures totaled \$28.9 million in FY 2006-07.

Key Facts and Findings

We have issued an unqualified opinion on the Fund's FY 2006-07 financial statements.

Telecommunications providers paid a total of \$30.0 million in assessments in FY 2006-07 to support Universal Service Fund programs.

Almost \$28.9 million was expended during FY 2006-07 for 13 programs supported by the Fund.

During FY 2006-07, the Universal Service Fund also provided over \$6.2 million for two programs administered by DPI. In addition, it paid almost \$90,000 to UW System to help provide four UW campuses access to voice, data, and video services through the BadgerNet Converged Network, the State's voice, data, and video telecommunications infrastructure.

We have noted in past audits that the fund balance has steadily increased over the last several years because more assessments were collected than expended. During FY 2006-07, revenues exceeded expenditures by \$2.0 million, and the fund balance totaled \$17.8 million as of June 30, 2007.

The \$2.0 million increase is, in part, attributable to lower than anticipated expenditures for the UW BadgerNet Access Program. Because of billing changes and UW System's questions about statutory restrictions, expenditures for the program were not funded through the Universal Service Fund for several months in FY 2006-07. Working with DOA, UW System has subsequently decided that the expenditures can appropriately be funded through the Universal Service Fund, and annual expenditures in this category are expected to increase to over \$1.0 million.

The PSC is responsible for determining the assessment rates that apply to telecommunications providers for all Universal Service Fund programs, based on the need for funds and appropriation amounts. In response to a recommendation in our 2007 audit (report 07-11), the PSC has begun to work more closely with other agencies that have programs funded through the Universal Service Fund to determine appropriate assessment levels and prevent similar increases in future fund balances.

PSC-Operated Programs

The eight programs currently operated by the PSC include programs that:

- provide low-income or disabled individuals affordable access to basic telephone

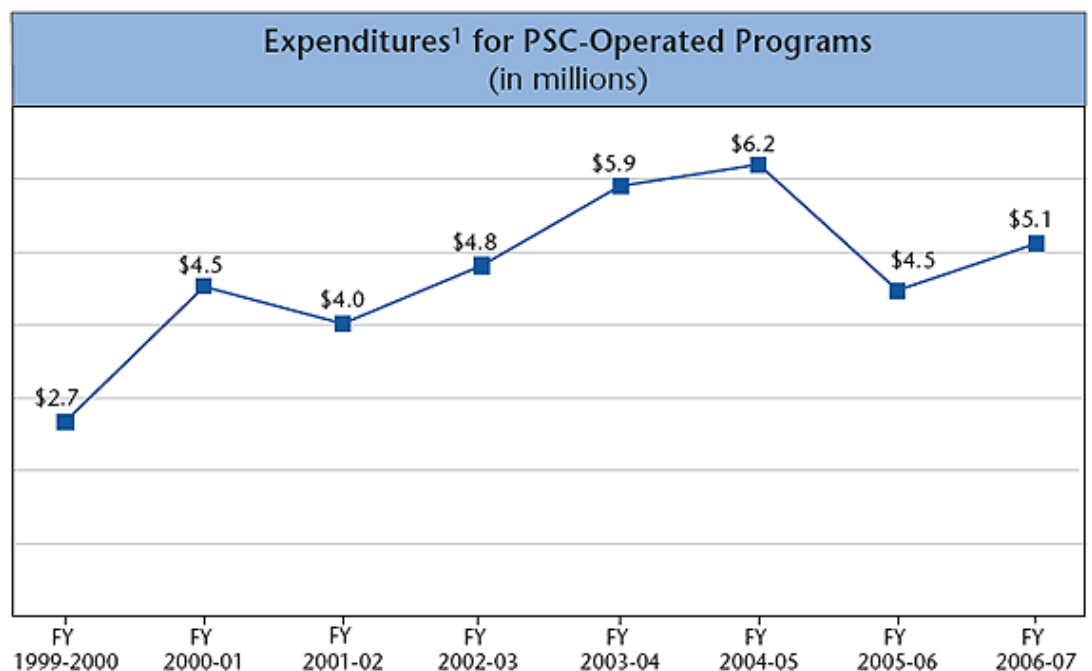
The Fund reported a balance of \$17.8 million at June 30, 2007.

and information services;

- lessen the financial effect of rate increases on users in the state; and
- assist nonprofit medical clinics or public health agencies in the purchase of medical telecommunications equipment.

For several years after the first PSC-operated programs were established in 1996, expenditures were significantly less than budgeted. In 2001, the Legislature limited the amount that telecommunications providers could be assessed to support the PSC-operated programs to \$5.0 million in FY 2003-04 and \$6.0 million beginning in FY 2004-05. Corresponding appropriation expenditure levels were also established for the 2003-05 and 2005-07 biennia.

With the addition, expansion, and promotion of PSC-operated programs, expenditures for operations and administration increased to \$6.2 million in FY 2004-05. As the PSC has made efforts to reduce costs to match appropriation limits, expenditures for operations and administration of PSC-operated programs have decreased from FY 2004-05 levels.



¹Expenditures reported in the financial statements.

2007 Wisconsin Act 20, the 2007-09 Biennial Budget Act, repealed the limitation on assessments to support the PSC-operated programs but maintained the \$6.0 million appropriation level for each year of the biennium.

Educational Telecommunications Access Program

The Educational Telecommunications Access Program, which is administered by DOA, pays for equipment, installation costs for data lines and video links, and a portion of monthly service costs for more than 900 participating educational institutions. Over \$119.7 million has been expended for the program from July 1, 1998, through June 30, 2007.

The data line and video link services are provided by a consortium of telecommunications providers. In March 2005, DOA entered into a new \$116.7 million, five-year agreement with the consortium for a converged statewide data and video network that provides higher-capacity data capabilities and video access to the State of

Wisconsin and other public users. Conversion to the new network was completed on September 1, 2006.

Library System Aid

Until FY 2003-04, general purpose revenue (GPR) funded state aid to public library systems. 2003 Wisconsin Act 33 shifted \$4.2 million in funding for public library system aid payments from GPR to the Universal Service Fund for the 2003-05 biennium. The next two biennial budgets increased the amount of funding from the Universal Service Fund for state aid to public library systems. 2005 Wisconsin Act 25 increased funding from the Universal Service Fund by another \$4.2 million over the 2005-07 biennium, for a total of \$8.4 million.

2007 Wisconsin Act 20 again increased funding from the Universal Service Fund by \$11.1 million over the 2007-09 biennium. As part of the \$11.1 million funding increase from the Universal Service Fund, the Legislature directed the PSC to use \$9.2 million of the Fund's balance. In total, the Universal Service Fund is providing \$19.5 million in funding for public library systems for the 2007-09 biennium.

Fiscal Management Issues

Our Report on Internal Control and Compliance includes three fiscal management issues. First, we recommend the PSC more thoroughly review the Universal Service Fund's financial statements to ensure they are reasonable and materially accurate. We found a material misclassification of expenditures that could easily have been identified by the PSC if such a review had been completed.

Second, DOA does not have adequate procedures in place to ensure the accuracy of the copayment billings to educational institutions participating in the Educational Telecommunications Access Program. During our testing of the copayment billings, we identified 45 educational institutions that were not billed according to the services they were receiving.

Finally, DOA incorrectly accounted for a prior-year's refund of \$196,701 for the Educational Telecommunications Access Program. We recommend improvements to address these errors.

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