

An Audit:

Universal Service Fund

Public Service Commission

November 2009

Report Highlights ■

The USF supports 14 programs managed by 4 state agencies.

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

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

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

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

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

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

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

Key Facts and Findings

We have issued an unqualified opinion on the USF's financial statements for FY 2007-08.

Telecommunication providers paid a total of \$31.6 million in assessments to support USF programs during FY 2007-08.

A total of \$37.9 million was expended during FY 2007-08 for 14 USF programs and the PSC's administrative costs.

The USF fund balance declined by \$5.6 million during FY 2007-08 and was \$12.2 million as of June 30, 2008.

DOA overpaid almost \$25,000 for a grant it awarded under the Educational Telecommunications Access Program.

Revenue and Expenditures

Revenues from provider assessments were \$31.6 million and represented 98.0 percent of the USF's total revenues in FY 2007-08. Interest income was \$658,000.

Expenditures for the 14 programs the USF supported in FY 2007-08 were \$37.6 million and represented 99.1 percent of total expenditures.

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

programs administered by DPI. The largest of these is Aid to Public Library Systems, for which FY 2007-08 expenditures were \$14.0 million.

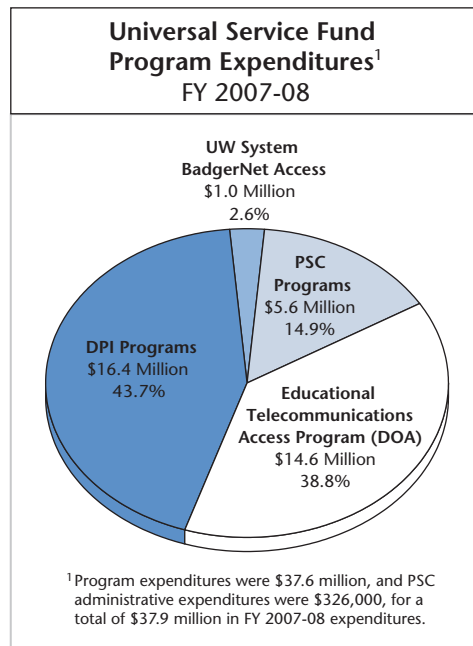
In addition, the PSC expended \$5.6 million for eight programs it operated in FY 2007-08, and the USF provided almost \$1.0 million to UW System to help fund access to voice, data, and video services for its four-year campuses through the BadgerNet Converged Network, which is the State's voice, data, and video telecommunications network.

USF Programs

The Educational Telecommunications Access Program subsidizes data lines and video links for more than 900 public and private entities, including K-12 schools, technical colleges, public libraries, juvenile correctional facilities, cooperative educational service agencies, and public museums, as well as the Wisconsin School for the Deaf and the Wisconsin Center for the Blind and Visually Impaired.

The program pays for equipment, installation costs, and a portion of monthly service costs. Copayments are based on the number and speed of participating institutions' data lines and video links.

A consortium of telecommunications providers delivers services to participating institutions through the BadgerNet Converged Network.



The USF also provided \$16.4 million, or 43.7 percent of FY 2007-08 program expenditures, for four

That statewide data line and video link network was completed in September 2006 and also serves the State of Wisconsin and other public users.

DOA entered into a \$116.7 million, multi-year agreement with the consortium in March 2005. The agreement will expire in November 2011 but may be extended for up to five additional years.

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

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

The eight USF-funded programs operated by the PSC:

- provide access to basic telephone and information services for individuals with low incomes or disabilities;

- lessen the financial effect of rate increases on low-income users; and
- assist nonprofit medical clinics and public health agencies in purchasing medical telecommunications equipment.

Fund Balance

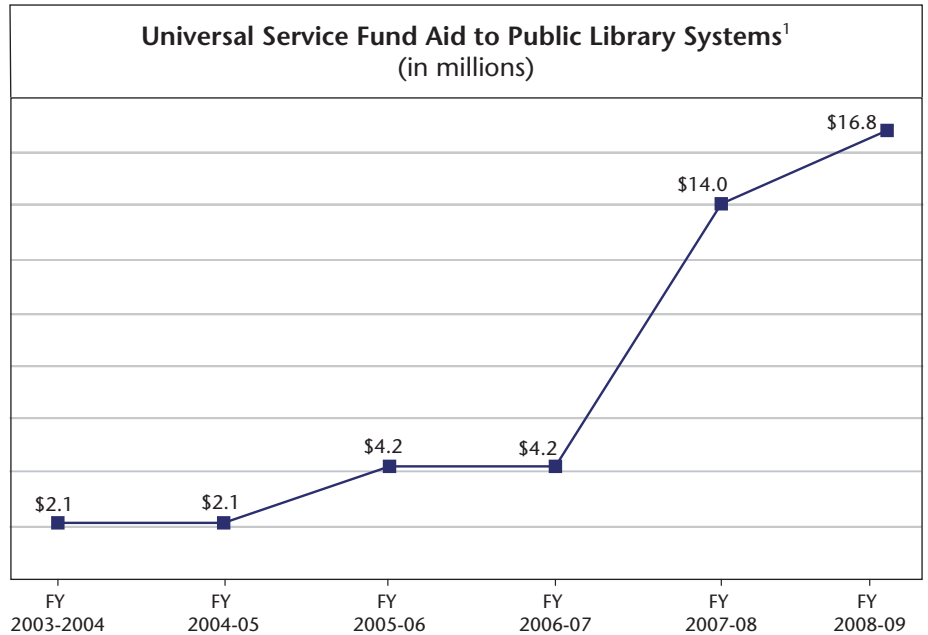
In past audits, we noted that the USF's fund balance had increased steadily because revenue from provider assessments exceeded program expenditures. In contrast, expenditures exceeded revenues by \$5.6 million in FY 2007-08. As a result, the fund balance declined by \$5.6 million and was \$12.2 million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

The decline in the fund balance is largely attributable to increased

reliance on the USF as a funding source for the Aid to Public Library Systems program operated by DPI.

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

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



¹ FY 2008-09 amount is unaudited.

Fiscal Management Issues

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

Our current Report on Internal Control and Compliance notes that DOA failed to take the necessary steps to correct these copayment billings and identifies additional errors for FY 2007-08.

We also found that DOA paid almost \$25,000 more than it had awarded for a grant under the Educational Telecommunications Access Program. Our Report on Internal Control and Compliance includes a recommendation that DOA give priority to addressing these errors and seek recovery of the overpayment.

The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

Additional Information

For a copy of report 09-12, call (608) 266-2818 or visit our Web site:



www.legis.wisconsin.gov/lab

Address questions regarding this report to:

Bryan Naab
(608) 266-2818

Legislative Audit Bureau

22 East Mifflin Street
Suite 500
Madison, WI 53703
(608) 266-2818

Janice Mueller
State Auditor