

An Audit

# **Universal Service Fund**

*Public Service Commission*

## **2011-2012 Joint Legislative Audit Committee Members**

Senate Members:

Robert Cowles, Co-chairperson  
Mary Lazich  
Alberta Darling  
Kathleen Vinehout  
Julie Lassa

Assembly Members:

Samantha Kerkman, Co-chairperson  
Kevin Petersen  
Robin Vos  
Andy Jorgensen  
Jon Richards

---

## LEGISLATIVE AUDIT BUREAU

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau. For more information, write the Bureau at 22 East Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to [leg.audit.info@legis.wisconsin.gov](mailto:leg.audit.info@legis.wisconsin.gov). Electronic copies of current reports are available at [www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab).

---

Interim State Auditor – Joe Chrisman

### **Audit Prepared by**

Bryan Naab, *Deputy State Auditor and Contact Person*

Emily Pape

Jenny Nielsen

# CONTENTS

---

<b>Letter of Transmittal</b>	<b>1</b>
<b>Introduction</b>	<b>3</b>
USF Programs	3
Program Funding and Fund Balance	6
Fiscal Management Issue	7
Other Related Issues	7
<b>Audit Opinion</b>	<b>9</b>
Independent Auditor's Report on the Financial Statements of the State of Wisconsin Universal Service Fund	
<b>Management's Discussion and Analysis</b>	<b>11</b>
<b>Financial Statements</b>	<b>17</b>
Balance Sheet as of June 30, 2010 and 2009	18
Statement of Revenues, Expenditures, and Changes in Fund Balance for the Years Ended June 30, 2010 and 2009	19
<b>Notes to the Financial Statements</b>	<b>21</b>
<b>Supplementary Information</b>	<b>29</b>
Schedule 1 - Budgetary Comparison Schedule for the Years Ended June 30, 2010 and 2009	30
Schedule 2 - Budgetary-GAAP Reporting Reconciliation as of June 30, 2010 and 2009	31
<b>Report on Internal Control and Compliance</b>	<b>33</b>
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	





STATE OF WISCONSIN

## Legislative Audit Bureau

22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703  
(608) 266-2818  
Fax (608) 267-0410

[www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)

Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman  
Interim State Auditor

August 4, 2011

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). Our audit report contains our unqualified opinion on the financial statements prepared by USF management for the fiscal years ending June 30, 2010 and 2009.

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) 2009-10, provider assessments totaled \$51.7 million and the USF provided \$41.8 million in funding for 13 programs operated by 4 state agencies.

Two programs—the Educational Telecommunications Access Program and Aid to Public Library Systems—represented nearly 80.0 percent of the USF's FY 2009-10 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 more than 900 K-12 schools, technical colleges, public libraries, and other educational institutions' access to a broadband voice, video, and data network known as the BadgerNet Converged Network. Our report includes a recommendation for DOA to ensure that an administrative fee it charges the USF for services related to use of the BadgerNet Converged Network reflects only the actual costs of providing those services. We estimate that at least \$4.3 million of \$5.4 million that DOA lapsed to the General Fund to meet budgeting requirements under 2007 Wisconsin Act 226 and 2009 Wisconsin Acts 2 and 28 represents excess administrative service fees paid by the USF in the past five years.

We appreciate the courtesy and cooperation extended to us by staff of the PSC and three other agencies that manage USF programs—DOA, the Department of Public Instruction, and the University of Wisconsin System—as well as by the USF's administrator, Wipfli LLP.

Respectfully submitted,

  
Joe Chrisman  
Interim State Auditor

JC/BN/ss



## Introduction ■

---

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

The Universal Service Fund (USF) was established in 1993 to ensure that all Wisconsin residents receive essential telecommunications services and have access to advanced service capabilities of a modern telecommunications infrastructure. During the two-year period we audited, it 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 the assessments paid by telecommunications providers to fund USF programs. Statutes permit providers to recover the amounts they are assessed from consumers. A private contractor provides administrative services for the USF, as required by statute.

At the request of the PSC, we completed an independent audit to fulfill the requirements of s. 196.218(2)(d), Wis. Stats. We have provided an unqualified opinion on the financial statements and related notes prepared by USF management for the fiscal years ending June 30, 2010, and June 30, 2009. In addition, we identified a fiscal management issue related to certain administrative services fees paid by the USF and subsequently lapsed to the General Fund by DOA.

### USF Programs

***In FY 2009-10, the USF provided \$41.8 million in funding for 13 programs operated by 4 state agencies.***

Most of the USF's expenditures support the programs managed by DOA, DPI, the PSC, and UW System. In fiscal year (FY) 2009-10, \$41.8 million in program expenditures represented 99.2 percent of the USF's total expenditures; \$324,000 in administrative

expenditures—consisting largely of payments to the private contractor that administers the USF —increased total expenditures to \$42.1 million in FY 2009-10. In FY 2008-09, total expenditures were \$41.2 million, including \$40.8 million in program expenditures. In addition to these expenditures, DOA transferred \$1.8 million from the USF to the State of Wisconsin’s General Fund during the two-year period we audited: \$600,000 in FY 2008-09 and \$1.2 million in FY 2009-10.

**Most program expenditures fund the Educational Telecommunications Access Program and Aid to Public Library Systems.**

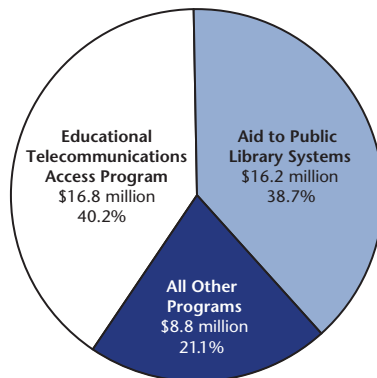
Two programs—the Educational Telecommunications Access Program and Aid to Public Library Systems—represented nearly 80.0 percent of the USF’s FY 2009-10 program expenditures. The Educational Telecommunications Access Program subsidizes equipment, installation, and a portion of the monthly service costs for access to the BadgerNet Converged Network for more than 900 K-12 schools, technical colleges, public libraries, Cooperative Educational Service Agencies (CESAs), and other public and private institutions statewide. The BadgerNet Converged Network is a broadband voice, video, and data network operated by a consortium of telecommunications providers, including AT&T, under a contract with DOA.

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

The State of Wisconsin provided general purpose revenue (GPR) as aid to public libraries until 2003 Wisconsin Act 33 required the USF to fund a portion of that aid beginning in FY 2003-04. By FY 2008-09, the USF had become the sole funding source for the Aid to Public Library Systems program, which is managed by DPI. As shown in Figure 1, \$16.2 million in Aid to Public Library Systems expenditures represented 38.7 percent of all USF program expenditures in FY 2009-10.

Figure 1

**USF Program Expenditures  
FY 2009-10**





Eleven other USF programs managed by DPI, the PSC, or UW System accounted for the remaining 21.1 percent of program expenditures in FY 2009-10:

- BadgerLink is a DPI program that funds statewide public access to information resources available in Wisconsin's public, school, academic, and special libraries, including contracts to allow online access to the full text of numerous magazines, journals, newspapers, reference publications and to other licensed material. BadgerLink also connects users to WISCAT, the online catalog of Wisconsin library holdings, and to other information resources.
- Newsline 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 national and some 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 had been funded with GPR.
- UW System BadgerNet Access helps to fund access to the BadgerNet Converged Network for all four-year UW campuses.
- 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 are seven programs currently operated by the PSC to 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.

During our audit period, a 14<sup>th</sup> USF program that had been established in FY 2000-01 to ensure pay telephones remained or were installed where there is a public need was ended. The Public Interest Pay Telephone program did not receive USF funding beginning in FY 2009-10.

## Program Funding and Fund Balance

### ***Cell phone service providers began contributing to the USF in 2009.***

Statutes require the PSC to estimate the revenues required to fund the USF's programs and administrative costs and to assess most telecommunications providers for their share of these costs. 2009 Wisconsin Act 28 required Commercial Mobile Radio Service (CMRS) providers, including cell phone providers, to be assessed for USF program and administrative costs beginning in September 2009, but the PSC was not able to begin making assessments until the following month, and it is currently considering whether and how to assess cell phone providers for their September 2009 share. As noted, providers are permitted to recover the amounts they are assessed from consumers.

### ***Provider assessment revenues increased 73.0 percent from FY 2008-09 to FY 2009-10.***

Program expenditures did not increase significantly during the two-year period we reviewed. However, provider assessment revenues increased 73.0 percent, primarily because 2009 Wisconsin Act 28 also made the USF the sole source of funding for Aid to Public Library Systems and required the PSC to include that program's FY 2008-09 and FY 2009-10 costs in telecommunications provider assessments for FY 2009-10. (It should be noted that program expenditures for Aid to Public Library Systems declined from \$16.8 million in FY 2008-09 to \$16.2 million in FY 2009-10.)

2009 Wisconsin Act 28 also requires the USF to provide \$2.3 million in funding for the Library Service Contracts program during the 2009-11 biennium. USF expenditures for that program were \$852,000 in FY 2009-10.

### ***The USF's Fund Balance increased from \$0.5 million as of June 30, 2009, to \$8.8 million as of June 30, 2010.***

USF expenditures for the Educational Telecommunications Access Program increased from \$15.7 million in FY 2008-09 to \$16.8 million in FY 2009-10 because DOA reduced monthly copayment amounts for participating educational institutions and because more participating educational institutions requested and received higher-speed service, which has a higher cost. Expenditures for some other programs also increased. Nevertheless, the USF's Fund Balance increased from \$0.5 million as of June 30, 2009, to \$8.8 million as of June 30, 2010, primarily because of the required increase in provider assessments related to Aid to Public Library Systems. The Fund Balance would have been higher at the end of each of these years, but DOA directed the USF to transfer a total of \$1.8 million to the General Fund during the two-year period we audited: \$600,000 was

transferred in FY 2008-09 to meet budgeting requirements of 2009 Wisconsin Act 2, and \$1.2 million was transferred in FY 2009-10 to meet budgeting requirements of 2009 Wisconsin Act 28.

## Fiscal Management Issue

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

***We estimate that the USF has paid DOA at least \$4.3 million in excess fees that were subsequently lapsed to the General Fund.***

For a number of years, revenues from these administrative services fees, which are accounted for in the same appropriation, have exceeded DOA's costs of providing the services covered by the fees, resulting in a surplus cash balance. DOA chose to lapse \$5.4 million from this surplus cash balance to the State's General Fund to help meet its budgeting requirements under 2007 Wisconsin Act 226 and 2009 Wisconsin Acts 2 and 28. We estimate that at least \$4.3 million of that amount represents excess administrative service fees paid by the USF in the past five years.

### Recommendation

---

*We recommend the Department of Administration ensure that the fee it charges the Universal Service Fund for administrative services related to the BadgerNet Converged Network reflects only the actual costs of providing those services.*

## Other Related Issues

***DOA has chosen not to accept \$23.0 million in federal ARRA funding to improve the broadband capacity of the BadgerNet Converged Network.***

In February 2011, DOA notified the federal government that Wisconsin is not accepting a \$23.0 million federal grant to improve the broadband capacity of the BadgerNet Converged Network by expanding or converting copper cables to some educational institutions to lower-cost fiber optic cables. The grant had been awarded in April 2010 under the American Recovery and Reinvestment Act of 2009 (ARRA). DOA has expressed concerns over the specificity of the grant requirements and indicated that it intends to instead expand broadband capacity through enhancements to the copper network for which it contracts with a consortium of telecommunications providers, including AT&T, and is negotiating a contract renewal. The current contract will expire in November 2012.

We note that 2011 Wisconsin Act 32 recently permitted UW Extension to accept, with certain restrictions, ARRA funding for the installation of fiber optic cables to improve high-speed Internet access in four communities but limited UW-Madison's participation in WiscNet, the not-for-profit association that provides Internet services for some entities that use the BadgerNet Converged Network. A discussion of those decisions is beyond the scope of this financial audit of the USF. However, as required by Act 32, we will complete a financial audit and program evaluation of the UW System Board of Regents' use of broadband services, including WiscNet, by January 1, 2013.

We also note that because the USF's purpose has been redefined in 2011 Wisconsin Act 22, the PSC's Nonprofit Access Program may no longer provide USF funding for Internet access. Act 22 did not affect USF funding for Internet access provided by non-PSC programs, such as the Educational Telecommunications Access Program and UW System BadgerNet Access.

■ ■ ■ ■

---

# Audit Opinion ■

---

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

We have audited the accompanying financial statements of the Universal Service Fund of the State of Wisconsin as of and for the years ended June 30, 2010, and June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the management of the Universal Service Fund. Our responsibility is to express an opinion on these financial statements based on our 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*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.


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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Universal Service Fund as of June 30, 2010 and 2009, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 13, 2011, on our consideration of the Universal Service Fund's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Universal Service Fund. The supplementary information included as Management's Discussion and Analysis on pages 11 through 16 and as the Budgetary Comparison Schedule on page 30 and the Budgetary-GAAP Reporting Reconciliation on page 31 is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

June 13, 2011

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

---

# Management's Discussion and Analysis ■

---

## *Prepared by Public Service Commission Management*

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

The PSC is an independent regulatory agency of the State of Wisconsin that is responsible for the regulation of public utilities, including electric, natural gas, telephone, water, and combined water and sewer facilities. One of the PSC's responsibilities is to administer the USF. 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. It is noted that in 2011 Wisconsin Act 22, the Legislature eliminated providing access to advanced telecommunications services 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. They include two statements:

- the Balance Sheet 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 presents a comparison of revenues for which cash is received during or soon after the end of the year; expenditures for which payment is due during the year or soon thereafter; and other financing sources and uses. The net of these categories increases or decreases the Fund Balance.

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

### Noteworthy Financial Activity

Condensed financial statements as of and for the fiscal years ended June 30, 2010, 2009, and 2008 are shown in the following tables.

Table A

#### A Comparison of Condensed Financial Information for FY 2009-10 and FY 2008-09

	June 30, 2010	June 30, 2009	Change	
			Amount	Percentage
Total Assets	\$10,198,913	\$14,276,547	\$(4,077,634)	(29)%
Total Liabilities	1,360,649	13,807,723	(12,447,074)	(90)
<b>Fund Balance</b>	<b>\$ 8,838,264</b>	<b>\$ 468,824</b>	<b>\$ 8,369,440</b>	

	FY 2009-10	FY 2008-09	Change	
			Amount	Percentage
Total Revenues	\$51,711,536	\$ 30,060,479	\$21,651,057	72%
Total Expenditures	42,105,396	41,185,384	920,012	2
Total Other Financing Uses	1,236,700	600,000	636,700	106
<b>Excess of Revenues over Expenditures and Other Uses</b>	<b>\$ 8,369,440</b>	<b>\$(11,724,905)</b>	<b>\$20,094,345</b>	



Table B

**A Comparison of Condensed Financial Information for FY 2008-09 and FY 2007-08**

	June 30, 2009	June 30, 2008	Change	
			Amount	Percentage
Total Assets	\$14,276,547	\$14,082,028	\$ 194,519	1%
Total Liabilities	13,807,723	1,888,299	11,919,424	631
<b>Fund Balance</b>	<b>\$ 468,824</b>	<b>\$12,193,729</b>	<b>\$(11,724,905)</b>	

	FY 2008-09	FY 2007-08	Change	
			Amount	Percentage
Total Revenues	\$30,060,479	\$32,248,133	\$(2,187,654)	(7)%
Total Expenditures	41,185,384	37,885,912	3,299,472	9
Total Other Financing Uses	600,000	0	600,000	100
<b>Excess of Revenues over Expenditures and Other Uses</b>	<b>\$(11,724,905)</b>	<b>\$(5,637,779)</b>	<b>\$(6,087,126)</b>	

The USF's total revenues of \$51.7 million in FY 2009-10, \$30.1 million in FY 2008-09, and \$32.2 million in FY 2007-08 consisted of assessed revenue plus interest income. The PSC assesses telecommunications providers, as required by statute and administrative rule, over a 12-month period to fund amounts appropriated from the USF. Revenues increased 72 percent from FY 2008-09 to FY 2009-10 to fund an increase in FY 2008-09 Aid to Public Library Systems funded by the USF. Under 2009 Wisconsin Act 28, which took effect on June 30, 2009, the General Fund appropriation for Aid to Public Library Systems was decreased by \$11.3 million in FY 2008-09, and the USF appropriation for Aid to Public Library Systems was increased by the same amount for that period. This fiscal change was reported in the USF's financial statements as both a liability and an expenditure, and it accounted for the majority of the 631 percent increase in liabilities from FY 2007-08 to FY 2008-09.

Approximately 89 percent of total assessed revenues for FY 2009-10, as well as 80 percent of total assessed revenues for FY 2008-09 and 81 percent of total assessed revenues for FY 2007-08, were intended for five programs the PSC does not manage: the Educational Telecommunications Access Program, which is managed by DOA; Aid to Public Library Systems, BadgerLink, Newline for the Blind,

and Library Service Contracts, which are managed by DPI; and UW System BadgerNet Access for University of Wisconsin 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, Public Interest Pay Telephone, and Two-Line Voice Carryover.

USF appropriations increased by 6.2 percent from FY 2007-08 to FY 2008-09 and increased by 1.0 percent from FY 2008-09 to FY 2009-10. This increase was due to the increased appropriations for DPI programs. Appropriations for the Educational Telecommunications Access Program, UW System BadgerNet Access, and the PSC-operated programs totaled \$24.3 million in FY 2007-08 and in FY 2008-09. The FY 2009-10 appropriations for the Educational Telecommunications Access Program and PSC-operated programs decreased by \$269,400 due to the 1.0 percent decrease in funding for many state programs required by 2009 Wisconsin Act 28. There was no appropriation change from FY 2008-09 to FY 2009-10 for UW System BadgerNet Access.

Appropriations for the DPI programs were \$16.5 million for FY 2007-08, \$19.0 million for FY 2008-09, and \$19.6 million for FY 2009-10. Enactment of 2007 Wisconsin Act 20 and 2009 Wisconsin Act 28 continued the trend of using the USF for funding the Aid to Public Library Systems in place of GPR. 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 \$16.2 million in FY 2009-10. Initially 2007 Wisconsin Act 20 provided \$5.5 million for library aids. 2009 Wisconsin Act 28 retroactively increased the FY 2008-09 appropriation by \$11.3 million for a total appropriation of \$16.8 million. In addition to Aid to Public Library Systems funding, FY 2009-10 included \$2.3 million in USF funding for Newline for the Blind and BadgerLink, and \$1.1 million in USF funding for Library Service Contracts. Finally, DOA directed that \$1,176,700 be transferred to the General Fund from DPI's USF appropriations in FY 2009-10 to meet lapse requirements under 2009 Wisconsin Act 28.

Total expenditures for the Educational Telecommunications Access Program increased \$1.2 million, from \$14.6 million in FY 2007-08 to \$15.7 million in FY 2008-09. They increased another \$1.0 million to reach \$16.8 million in FY 2009-10. 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.

Actual expenditure levels for the PSC-operated programs, including administrative costs, decreased by \$0.6 million, or 9.4 percent, during FY 2008-09 to a total of \$5.4 million. An additional \$600,000 was transferred to the State of Wisconsin General Fund in FY 2008-09 to meet lapse requirements under 2009 Wisconsin Act 2. Expenditures for PSC-operated programs in FY 2009-10 totaled \$4.9 million, which was a decrease of \$0.4 million, or 8.1 percent. In addition, DOA directed that an additional \$60,000 be transferred to the General Fund in FY 2009-10. Therefore, including the amounts transferred from DPI's appropriations, a total of \$1,236,700 was transferred from the USF to the General Fund during FY 2009-10.

Of the larger PSC-operated programs, Lifeline and Link-Up had the most significant changes in expenditures. Lifeline expenditures decreased by \$53,000 from FY 2007-08 to FY 2008-09, but in the following year they increased by \$0.5 million to reach nearly \$1.9 million in FY 2009-10. This increase was largely due to a significant rate increase for basic local exchange service by the largest telecommunications provider in Wisconsin. Expenditures for Link-Up decreased by \$0.9 million, or 59 percent, in FY 2008-09 because of the action that the PSC took in early 2008 to change eligibility requirements so that Link-Up reimbursements were limited annually to one per customer at the same address per provider. Also, the PSC capped the amount a provider may receive per customer at \$30. The decline in expenditures in FY 2008-09 and the continued decline of \$0.2 million in FY 2009-10 indicate the program changes had the intended effect of reducing expenditures.

Expenditures for TEPP decreased by 6.6 percent in FY 2008-09 and then increased by 3.8 percent in 2009-10. TEPP expenditures vary from year to year due to the variation in outreach done by equipment vendors as part of their marketing plans.

The Public Interest Pay Telephone program was discontinued in FY 2008-09. The PSC eliminated continued funding for this program when it approved the operating budget for the USF program.

Expenditures for the Medical Telecommunications Equipment program increased 50 percent in FY 2008-09 but decreased 60 percent in FY 2009-10, while expenditures for the Nonprofit Access Program increased 47 percent in FY 2008-09 but decreased 48 percent in FY 2009-10. 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. Also, no awards were made in FY 2008-09 for the Nonprofit Access Program. Rather, the amount budgeted for this program was included in the \$600,000 transfer to the General Fund during FY 2008-09. Grants

totaling \$500,000 were awarded for the Nonprofit Access Program in FY 2009-10. Grants for \$500,000 were awarded in both FY 2008-09 and FY 2009-10 for the Medical Telecommunications Equipment program.

PSC administrative costs for the USF increased by \$92,000, or 28 percent, in FY 2008-09 due to the cost of improvements made to the TEPP Web site, the development of a provider reimbursement Web site, and improved financial tracking and reporting of the USF program. Administrative costs in FY 2009-10 declined by \$94,000, or 22 percent, from FY 2008-09 because most of the costs for the administrative improvements had been paid in the previous fiscal year.

UW System expended nearly all of its appropriation in FY 2008-09 and all of its appropriation in FY 2009-10. Because 2007 Wisconsin Act 20 enabled the USF to fund access to the BadgerNet Converged Network at any four-year UW System campus, UW System expects to continue to expend close to what is appropriated each fiscal year from the USF for the program.

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

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

■ ■ ■ ■

---

## **Financial Statements ■**

---

## Balance Sheet June 30, 2010 and 2009

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<b>ASSETS</b>		
Cash and Cash Equivalents (Notes 2C and 3)	\$ 7,325,428	\$ 11,073,715
Assessments Receivable (Note 2D)	2,866,234	699,526
Other Receivables	6,500	26,531
Due from Other Funds	<u>751</u>	<u>2,476,775</u>
<b>Total Assets</b>	<b><u>\$ 10,198,913</u></b>	<b><u>\$ 14,276,547</u></b>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Program Liabilities:		
Educational Telecommunications Access Program	\$ 501,424	\$ 1,665,512
Lifeline	474,772	293,488
Telecommunications Equipment Purchase Program (TEPP)	123,789	156,649
Medical Telecommunications Equipment	69,373	97,598
Link-Up	56,685	75,425
Nonprofit Access Program	46,163	76,070
Library Service Contracts	14,375	0
High Rate Assistance Credit	2,879	2,854
Two-Line Voice Carryover	1,181	1,140
BadgerLink and Newslines for the Blind	354	0
Public Interest Pay Telephone	0	16,996
Library Aids (Note 6)	0	11,297,400
Accounts Payable	<u>69,654</u>	<u>124,591</u>
<b>Total Liabilities</b>	<b><u>1,360,649</u></b>	<b><u>13,807,723</u></b>
Fund Balance:		
Reserved for Encumbrances (Note 5)	1,872,034	1,217,779
Unreserved	<u>6,966,230</u>	<u>(748,955)</u>
<b>Total Fund Balance</b>	<b><u>8,838,264</u></b>	<b><u>468,824</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 10,198,913</u></b>	<b><u>\$ 14,276,547</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, 2010 and 2009**

	Year Ended June 30, 2010	Year Ended June 30, 2009
<b>REVENUES</b>		
Telecommunications Providers' Assessments (Note 2D) for:		
Department of Public Instruction Programs	\$ 29,804,619	\$ 7,675,422
Educational Telecommunications Access Program	15,102,764	15,187,315
Public Service Commission Programs	5,766,652	5,973,740
UW System BadgerNet Access	<u>1,025,036</u>	<u>1,040,919</u>
Total Telecommunications Providers' Assessments	\$ 51,699,071	\$ 29,877,396
Interest Income	12,465	179,866
Other Revenue	<u>0</u>	<u>3,217</u>
<b>Total Revenues</b>	<b><u>51,711,536</u></b>	<b><u>30,060,479</u></b>
<b>EXPENDITURES</b>		
Program Expenditures:		
Educational Telecommunications Access Program	16,784,925	15,747,363
Aid to Public Library Systems	16,165,400	16,783,500
BadgerLink and Newslines for the Blind	2,322,892	2,243,449
Lifeline	1,864,758	1,337,373
Telecommunications Equipment Purchase Program (TEPP)	1,779,971	1,714,759
UW System BadgerNet Access	1,054,800	1,051,800
Library Service Contracts	852,458	0
Link-Up	394,175	590,599
Medical Telecommunications Equipment	295,758	743,490
Nonprofit Access Program	249,006	482,097
High Rate Assistance Credit	11,420	29,882
Two-Line Voice Carryover	5,895	5,595
Public Interest Pay Telephone	<u>0</u>	<u>37,948</u>
Total Program Expenditures	41,781,458	40,767,855
Administrative Expenditures	<u>323,938</u>	<u>417,529</u>
<b>Total Expenditures</b>	<b><u>42,105,396</u></b>	<b><u>41,185,384</u></b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>9,606,140</b>	<b>(11,124,905)</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfer to State of Wisconsin General Fund (Note 4)	<u>1,236,700</u>	<u>600,000</u>
Excess of Revenues and Other Sources over Expenditures and Other Uses	8,369,440	(11,724,905)
<b>FUND BALANCE</b>		
Fund Balance—Beginning of the Year	<u>468,824</u>	<u>12,193,729</u>
Fund Balance—End of the Year	<b><u>\$ 8,838,264</u></b>	<b><u>\$ 468,824</u></b>

The accompanying notes are an integral part of this statement





---

# Notes to the Financial Statements ■

---

## 1. DESCRIPTION OF THE UNIVERSAL SERVICE FUND

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

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

A description of each of the programs under which the USF incurred expenditures during FYs 2009-10 and 2008-09 follows.

### A. Educational Telecommunications Access Program

The BadgerNet Converged Network is the State's broadband voice, data, and video network provided by DOA to state agencies, local governments, UW campuses, technical colleges, public and private

schools, and other eligible users. This program, which is administered by DOA, was implemented in February 1998 to provide 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 video links to provide for two-way interactive video that allows participants to view and respond to instructional presentations from off-site locations.

**B. Public Library Aids**

2003 Wisconsin Act 33 included statutory language providing that the payment of public library system aid is an authorized use of the USF. GPR provided additional funding for public library aid during FY 2006-07 and FY 2007-08. In FY 2008-09 and FY 2009-10, the USF provided the entirety of funding for public library aid, as the GPR appropriation for public library aid was repealed by 2009 Wisconsin Act 28. DPI is responsible for distributing the aid payments to 17 Wisconsin public library systems according to a statutory formula.

**C. BadgerLink and Newsline for the Blind**

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

A contract exists between DPI and the National Federation of the Blind to provide Newsline 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. Lifeline and Link-Up Programs**

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

reimbursement separately from the State of Wisconsin and the federal government for each entity's share of the waived costs.

**E. Telecommunications Equipment Purchase Program (TEPP)**

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

**F. UW 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. The remaining nine four-year campuses were appropriated funds from the USF beginning in FY 2007-08.

**G. 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 entered 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, USF funds DPI's contract with the Milwaukee Public Library to process, maintain, and circulate full-length books and magazines in braille.

**H. 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.

**I. Nonprofit Access Program**

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

**J. High Rate Assistance Credit**

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

**K. Two-Line Voice Carryover**

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

**L. Public Interest Pay Telephone**

This program was implemented in FY 2000-01 to ensure that pay telephones remained or were installed at locations where there is a public need. The program has ended. It no longer received USF dollars beginning in FY 2009-10.

**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 reported on the Balance Sheet include a demand deposit account at a commercial financial institution and cash deposited in the State Investment Fund, a short-term investment pool of state and local funds.

**D. Telecommunications Providers' Assessments**

Annually, the PSC estimates the revenues needed to pay for the year's program and administrative costs up to limits established by the Legislature. The PSC then assesses certain telecommunications providers their share of these costs based on intrastate revenues. In addition to assessing based on an estimate of revenues needed to pay for the current year's program and administrative costs, the PSC was also directed to assess for an increase of \$11.3 million for Aid to Public Library Systems during FY 2008-09.

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 pay one-twelfth of the assessed amount each month. The USF recognizes telecommunications providers' assessments when due. Unpaid assessments as of June 30 are reported on the Balance Sheet as assessments receivable.

**3. DEPOSITS**

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

Custodial credit risk is the risk that in the event of the failure of a financial institution, deposits may not be returned. The Federal Deposit Insurance Corporation (FDIC) insures the USF's deposits for losses up to \$250,000 resulting from the failure of a financial institution. The amount of the USF's bank account balance was \$6,664 as of June 30, 2010, and \$491,982 as of June 30, 2009. The amount exposed to custodial credit risk was \$0 as of June 30, 2010, and \$241,982 as of June 30, 2009. As of June 30, 2010, the USF does not have a deposit policy relating to custodial credit risk.

Cash deposited with the State of Wisconsin is invested in the State Investment Fund, which is a short-term pool of state and local funds managed by the State of Wisconsin Investment Board with oversight by its Board of Trustees. The carrying amount of shares in the State Investment

Fund, which approximates fair market value, was \$7,324,000 as of June 30, 2010, and \$11,069,000 as of June 30, 2009.

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 and solvent financial institutions in Wisconsin, and bankers acceptances. The Investment Board’s trustees may specifically approve other prudent investments.

**4. TRANSFERS TO THE GENERAL FUND**

DOA directed that \$600,000 be transferred from the USF to the State of Wisconsin General Fund in FY 2008-09, and \$1.2 million in FY 2009-10, which allowed DOA to meet the lapse requirements of 2009 Wisconsin Acts 2 and 28.

**5. ENCUMBRANCE RESERVES**

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

**A. Telecommunications Equipment Purchase Program (TEPP)**

Vouchers that have been issued to disabled persons for the purchase of special telecommunications equipment but have yet to be presented to the USF for payment are reported as reserved for encumbrances. TEPP encumbrances were \$665,972 as of June 30, 2010, and \$731,125 as of June 30, 2009.

**B. Other Encumbrances**

As of June 30, 2010, and June 30, 2009, the following encumbrance balances were outstanding for the various programs in which awards had been made to participants or vouchers had been issued, but the appropriate invoices and supporting documentation had not yet been presented to the USF for the release of funding to the recipient or vendor:

<u>Program</u>	<u>Encumbrances at June 30, 2010</u>	<u>Encumbrances at June 30, 2009</u>
Medical Telecommunications		
Equipment	\$535,344	\$302,171
Nonprofit Access Program	388,875	141,433
Newsline for the Blind	0	25,550
Library Service Contracts	281,842	0
Administration	0	17,500

**6. AID TO PUBLIC LIBRARY SYSTEM LIABILITY**

Under 2009 Wisconsin Act 28, the General Fund appropriation for Aid to Public Library Systems was decreased by \$11.3 million in FY 2008-09, and the USF appropriation for Aid to Public Library Systems was increased by \$11.3 million for FY 2008-09. Aid to Public Library Systems for FY 2008-09 had been distributed to the library systems and charged to the General Fund prior to the enactment of Act 28. After enactment, in July 2009, a transfer was made to record the expenditures in the USF, which incurred a liability of \$11.3 million as of June 30, 2009.

■ ■ ■ ■





---

## **Supplementary Information ■**

---

## Budgetary Comparison Schedule for the Years Ended June 30, 2010 and 2009

	Year Ended June 30, 2010		Year Ended June 30, 2009	
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<b>AVAILABLE FOR APPROPRIATION</b>				
Unexpended Budgetary Fund Balance				
Beginning of the Year <sup>1</sup>		\$ (384,974)		\$ 10,320,578
Revenues <sup>2</sup>	\$ 49,540,331	<u>49,540,331</u>	\$ 31,401,015	<u>31,401,015</u>
<b>Amount Available for Appropriation</b>		<b>49,155,357</b>		<b>41,721,593</b>
<b>APPROPRIATIONS AND TRANSFERS (OUTFLOWS)<sup>3</sup></b>				
Educational Telecommunications Access Program	17,069,100	16,784,925	17,278,500	15,747,363
PSC Programs	6,825,715	6,067,773	7,376,695	6,280,455
BadgerLink and Newslite for the Blind	2,370,450	2,322,892	2,269,000	2,243,449
Aid to Public Library Systems <sup>4</sup>	16,165,400	16,165,400	16,783,500	16,783,500
Library Contract Services	1,134,300	852,458	0	0
UW System BadgerNet Access	<u>1,054,800</u>	<u>1,054,800</u>	<u>1,054,800</u>	<u>1,051,800</u>
<b>Total Appropriations and Transfers</b>	<b>44,619,765</b>	<b>43,248,248</b>	<b>44,762,495</b>	<b>42,106,567</b>
<b>FUND BALANCE</b>				
Unexpended Budgetary Fund Balance—End of the Year		5,907,109		(384,974)
Less Encumbrances Outstanding at End of the Year		<u>(1,872,034)</u>		<u>(1,217,779)</u>
<b>Unencumbered Fund Balance—End of the Year Budgetary Basis</b>		<b><u>\$ 4,035,075</u></b>		<b><u>\$ (1,602,753)</u></b>

<sup>1</sup> The ending Fund Balance with encumbrances carries forward because the previous year's encumbrances become expenditures in the next year or continue in the encumbrance line.

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

<sup>3</sup> Appropriation amounts include encumbrances carried forward from the prior year.

<sup>4</sup> 2009 Wisconsin Act 28 increased funding by \$11,297,400 for FY 2008-09.

## Budgetary-GAAP Reporting Reconciliation as of June 30, 2010 and 2009

The following schedule reconciles the budgetary-based fund balance in Schedule 1 with the generally accepted accounting principles (GAAP)-based fund balance in the financial statements as of June 30, 2010 and 2009.

	June 30, 2010	June 30, 2009
Fund Balance (Budgetary Basis) as Reported on the Budgetary Comparison Schedule	\$ 4,035,075	\$ (1,602,753)
Adjustments (Basis Differences):		
To Eliminate the Effect of Encumbrances that Reduce the Budgetary Fund Balance under Budgetary Reporting <sup>1</sup>	1,872,034	1,217,779
To Adjust Revenues for Cash Deposits Not Recorded Until after Year-end <sup>2</sup>	15,750	325,875
To Accrue Assessments and Other Receivables <sup>3</sup>	2,856,983	375,651
To Accrue Payables <sup>4</sup>	58,422	152,272
Fund Balance, End of the Year (GAAP Basis) as Reported in the Financial Statements	\$ 8,838,264	\$ 468,824

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

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

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

<sup>4</sup> This entry adjusts the GAAP Fund Balance by additional payables that were not yet recorded on the State's accounting system as of June 30, but were obligations of the State as of June 30.



---

# Report on Internal Control and Compliance ■

---

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

We have audited the financial statements of the State of Wisconsin Universal Service Fund as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated June 13, 2011. 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*, issued by the Comptroller General of the United States.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

the entity's financial statements will not be prevented or will not be detected and corrected on a timely basis.

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

### COMPLIANCE AND OTHER MATTERS


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

We noted certain additional matters pertaining to an administrative service fee paid to the Department of Administration, as discussed on page 7 of the report. In its written response, the Department of Administration agreed to review the administrative service fee to ensure that it is reasonable. The fee is currently under review, and the Department of Administration intends to annually review it during each budget cycle.

We did not audit the Department of Administration's response and, accordingly, express no opinion on it.

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

June 13, 2011

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