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Details: Legislative Audit Bureau Report 07-11: An Audit: Universal Service Fund, Public Service Commission

(FORM UPDATED: 08/11/2010)

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STATE OF WISCONSIN

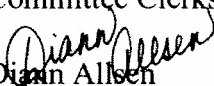
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Janice Mueller
State Auditor

DATE: August 28, 2007

TO: Lewis Rosser and Pamela Matthews
Committee Clerks to the Joint Legislative Audit Committee

FROM: 
Diana Allsen
Financial Audit Director

SUBJECT: Report 07-11: Financial Audit of the Universal Service Fund

We have completed a financial audit of the Universal Service Fund for fiscal year (FY) 2005-06, as required by the Public Service Commission (PSC) to fulfill its audit requirements under s.196.281(2)(d), Wis. Stats. The Universal Service Fund, which is primarily funded by assessments paid by telecommunications providers, supports telecommunications services and access that are provided by several state agencies, including PSC, the Departments of Administration (DOA) and Public Instruction (DPI), and the University of Wisconsin System. We expressed an unqualified opinion in the Universal Service Fund's financial statements.

The largest program supported by the Fund is DOA's Educational Telecommunications Access Program, which had expenditures totaling \$11.6 million during FY 2005-06. Expenditures decreased by \$5.2 million and were \$5.7 million less than the spending authority for the program during FY 2005-06. DOA attributes the underspending to slower than anticipated conversion to a new statewide data and video network, BadgerNet Converged Network, which was completed in September 2006. It expects annual ongoing costs will be close to its current appropriation level.

Eight of the 13 programs supported by the Fund are operated by the PSC. As we reported in past audits, expenditures for PSC-operated programs had been significantly less than amounts budgeted for the first several years. However, a \$6 million statutory limit on assessments and a growth in expenditures from FY 2001-02 through FY 2004-05 have presented budgetary challenges for these programs. In response, PSC has reduced benefits and limited expenditures to stay within its spending authority. Proposals to repeal the assessment limitation or to establish a limit for all programs are under consideration in the 2007-09 biennial budget deliberations.

Since FY 2003-04, the Fund has been used to pay for a portion of the state aids to public library systems, which previously were funded entirely with general purpose revenues. DPI is responsible for distributing the state aids to the library systems. 2005 Wisconsin Act 25, the Biennial Budget Act, doubled the amount of funding from the Fund for the public library systems to \$8.4 million

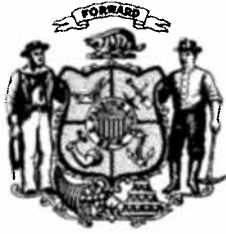
during the 2005-07 biennium. Proposals to further increase funding from the Fund for public library systems are under consideration in the 2007-09 biennial budget deliberations.

Finally, we note that the fund balance increased by \$8.8 million during FY 2005-06, in large part because the funding for DOA's Educational Telecommunications Access Program exceeded expenditures. We include a recommendation for PSC to work with staff at the other agencies to consider available fund balances when establishing assessment levels for the programs funded by the Universal Service Fund.

The report will be released on Wednesday, August 29th, at 9:00 a.m. Please let us know if you have any questions regarding this report.

DA/kc

Enclosures

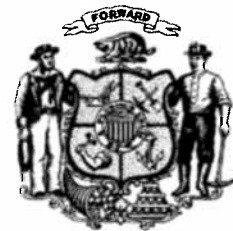


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**Report 07-11
August 2007**

An Audit

Universal Service Fund

Public Service Commission

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Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards

Appendix

Universal Service Fund Programs



STATE OF WISCONSIN

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Janice Mueller
State Auditor

August 29, 2007

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

As requested by the Public Service Commission (PSC), we have completed a financial audit of the Universal Service Fund, which was established to ensure that all state residents receive essential telecommunications services and have access to advanced telecommunications capabilities. It is funded primarily through assessments on telecommunications providers, which totaled \$30.2 million in fiscal year (FY) 2005-06. Our audit report contains our unqualified opinion on the Universal Service Fund's financial statements for the fiscal years ending June 30, 2006 and 2005.

The largest program supported by the Universal Service Fund is the Educational Telecommunications Access Program, which is administered by the Department of Administration. This program subsidizes data lines and video links for eligible educational institutions. In FY 2005-06, expenditures for these activities totaled \$11.6 million, or 50.4 percent of the Universal Service Fund's total expenditures. In September 2006, the State completed the conversion to a new statewide data and video network for program participants, as well as for state government and other public sector users.

Eight of the 13 programs supported by the Universal Service Fund are operated by the PSC. The Legislature limits the amount the PSC can annually assess telecommunications providers for the PSC-operated programs to \$6.0 million. The limit and growth in expenditures from FY 2001-02 through FY 2004-05 have presented budgetary challenges for these programs. In response, the PSC has reduced benefits and limited expenditures to better match its spending authority.

During FY 2005-06, revenues exceeded expenditures by \$8.8 million for several of the programs funded through the Universal Service Fund, which increased the fund balance to \$15.8 million as of June 30, 2006. Most significantly, funding received for the Educational Telecommunications Access Program exceeded expenditures by \$6.6 million. We include a recommendation that the PSC work more closely with the Department of Administration and the University of Wisconsin System in establishing annual assessment levels.

We appreciate the courtesy and cooperation extended to us by staff at the PSC; the departments of Administration and Public Instruction; the University of Wisconsin System; and the Universal Service Fund's administrator, Wipfli LLP.

Respectfully submitted,

Janice Mueller
State Auditor

JM/DA/ss

Report Highlights ■

The fund balance increased by \$8.8 million during FY 2005-06.

The PSC has reduced benefits and limited expenditures to meet its spending authority.

Conversion to a new statewide data and video network that provides higher-capacity data capabilities was completed in September 2006.

The Fund provided increased funding for library system aid during the 2005-07 biennium.

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. The Fund 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).

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. 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, 2006 and 2005.

As part of our financial audit, we also reviewed various aspects of the Universal Service Fund's programs, including:

- budgetary issues for the PSC-operated programs;
- implementation of a statewide data and video network that affects the Educational Telecommunications Access Program; and
- a large increase in the fund balance.

Fund Finances

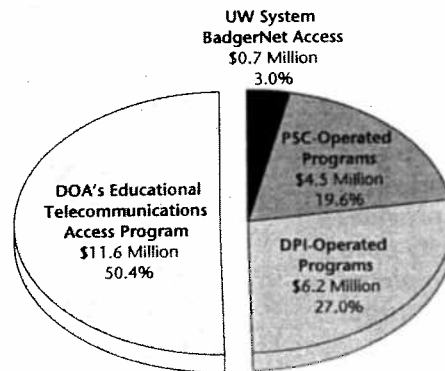
The Universal Service Fund is funded primarily through assessments paid by telecommunications providers, which totaled \$30.2 million in FY 2005-06. It also received \$1.1 million in capital lease financing through the State's master lease program and \$535,000 in interest income.

More than \$23.0 million was expended during FY 2005-06 for 13 programs supported by the Fund. Eight of these programs are operated by the PSC, with expenditures totaling \$4.5 million in FY 2005-06. However the largest program, the Educational Telecommunications Access Program, is operated by DOA.

The Educational Telecommunications Access Program subsidizes data lines and video links for eligible educational institutions. As shown in Figure 1, its expenditures of \$11.6 million represented 50.4 percent of the Fund's total expenditures in FY 2005-06.

Figure 1

Universal Service Fund Expenditures¹
FY 2005-06



¹ Expenditures totaled \$23.0 million in FY 2005-06.

During FY 2005-06, the Universal Service Fund also provided \$6.2 million for three programs administered by DPI. In addition, it paid more than \$700,000 to UW System. That funding helped provide four campuses—River Falls, Stout, Superior, and Whitewater—access to voice, data, and video services through the BadgerNet Converged Network, the State's voice, data, and video telecommunications infrastructure.

During FY 2005-06, revenue and other financing sources exceeded expenditures by \$8.8 million for several of the programs funded through the Universal Service Fund. As a result, the fund balance increased to \$15.8 million as of June 30, 2006. Most significantly, assessments and other financing resources received for the Educational Telecommunications Access Program exceeded expenditures by \$6.6 million.

Because of billing changes and statutory restrictions, UW System currently is not able to fund expenditures for its BadgerNet Access program through the Universal Service Fund. It is pursuing a statutory change to remove the restricting language and allow funding from the Universal Service Fund to be used for any telecommunications services across UW System. The Legislature is considering the proposed change as part of 2007-09 budget deliberations. 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.

PSC-Operated Programs

The eight programs operated by the PSC include programs that:

- provide low-income or disabled individuals affordable access to basic telephone and information services;
- lessen the financial effect of high 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 in FY 2004-05 and each year thereafter. Corresponding appropriation expenditure levels were also established in the 2003-05 and 2005-07 biennia.

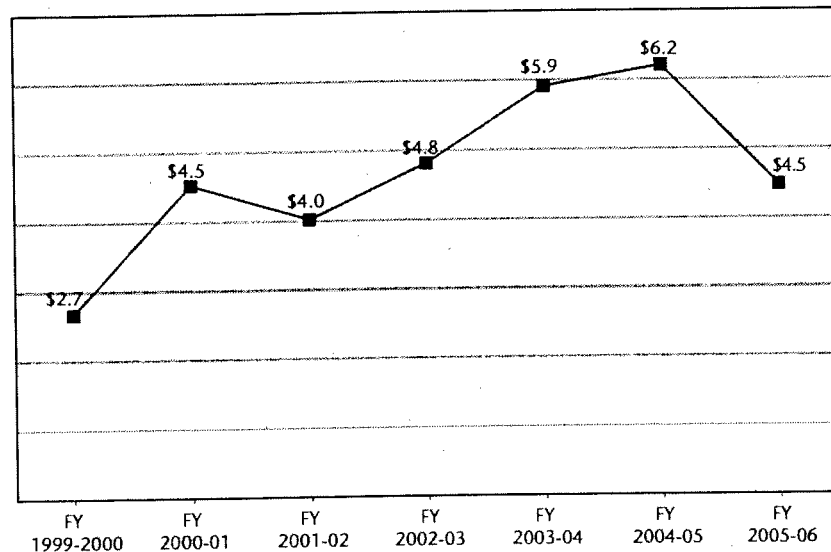
However, with the addition, expansion, and promotion of PSC-operated programs, expenditures for operations and administration increased to \$6.2 million in FY 2004-05. As shown in Figure 2, expenditures decreased to \$4.5 million in FY 2005-06, as the PSC reduced costs to meet the appropriation limits. As part of these efforts, the PSC reduced benefits in the program that helps people

with disabilities acquire special telecommunications equipment and reduced its promotion efforts.

The Governor's 2007-09 biennial budget proposal would repeal the limitation on assessments to support the PSC-operated programs. Currently, the Legislature is also considering an Assembly proposal to limit overall Universal Service Fund assessments paid by telecommunications providers to \$32.0 million annually.

Figure 2

**Expenditures¹ for PSC-Operated Programs
(in Millions)**



¹ Expenditures reported in the financial statements.

**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 eligible educational institutions. Over \$102.3 million has been expended for the program through FY 2005-06.

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

new 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.

The amount expended for the Educational Telecommunications Access Program decreased by \$5.2 million, or 31 percent, during FY 2005-06. In addition, the program's expenditures were \$5.7 million less than its spending authority of \$17.3 million for the year. DOA attributes the underspending in FY 2005-06 to slower than anticipated conversion to the new network. It expects ongoing annual costs will be close to the current appropriation level.

Library Aid

Until FY 2003-04, general purpose revenue (GPR) funded state aid to public library systems. 2003 Wisconsin Act 23 shifted \$4.2 million in funding for public library system aid payments from GPR to the Universal Service Fund for the 2003-05 biennium.

2005 Wisconsin Act 25 further reduced GPR funding for library systems by \$2.2 million and increased funding from the Universal Service Fund by another \$4.2 million over the 2005-07 biennium. Under Act 25, the Fund paid 28.3 percent of the library systems' state aid in FY 2005-06, and 27.2 percent in FY 2006-07.

The Governor's 2007-09 biennial budget proposal includes a provision to increase funding from the Universal Service Fund for public library systems by \$1.9 million over the 2007-09 biennium. In addition, the Legislature is currently considering a proposal by the Joint Committee on Finance that would direct the PSC to use \$9.2 million of the Fund's available balance to replace a similar amount of GPR funding for public library systems during FY 2007-08.

Recommendation

We include a recommendation for the Public Service Commission to:

- work with agency staff in DOA and UW System to consider available fund balances when establishing assessment levels for all programs funded by the Universal Service Fund (*p. 16*).

■ ■ ■ ■