



A Review of the South Carolina Universal Service Fund

BACKGROUND

The goal of universal service is to ensure the widespread availability of affordable local telephone service. The S.C. universal service fund (USF) establishes a complex system by which consumers pay a surcharge on their telephone bills to support local telephone companies. The fund is projected to disperse approximately \$55 million to companies in 2006-2007.

South Carolina also has an Interim LEC fund to replace certain revenues for participating local exchange carriers (LECs). Contributors to this fund are long distance companies.

During our audit the USF and Interim LEC funds were administered by the Public Service Commission. Their administration was transferred to the newly-created Office of Regulatory Staff beginning in January 2005. However, the PSC continues to be responsible for setting policy and guidelines for the funds.

The Legislative Audit Council's 2005 audit reviewed the need for the USF and Interim LEC funds. We also reviewed the PSC's administration of the USF.

In our February 2005 audit of the South Carolina Universal Service Fund, the Legislative Audit Council made recommendations to the General Assembly, the Public Service Commission (PSC), and the Office of Regulatory Staff (ORS). In our follow-up we found that the General Assembly had not implemented our recommendations to scale down the universal service fund and eliminate the Interim LEC fund. Our recommendations to the PSC for specific policy changes have also not been implemented. However, the ORS implemented all of our recommendations to improve the administration of the USF.

STATUS OF LAC RECOMMENDATIONS		
	MADE*	IMPLEMENTED
Legislative	3	0 (0%)
PSC	3	0 (0%)
ORS	10	10 (100%)
TOTAL	16	10 (63%)

* Two recommendations are not included because they are not applicable.

NEED FOR THE USF

Our 2005 audit found several reasons why the state USF is not needed in its present form and should be scaled down. In our follow-up, nothing came to our attention to change this conclusion. These reasons included:

- Telephone companies receive support from the federal universal service fund.
- The overall goals of universal service have largely been met.
- None of the eight other states in BellSouth's service area has a USF comparable to South Carolina's, and their basic telephone rates are equivalent to South Carolina's.
- The tele-communications market is rapidly changing. Increasing numbers of customers are wireless phone and Internet users; providers of these services are not regulated or subsidized by the state.

In our 2005 audit, we recommended that the state USF be scaled back to include only supplements for low-income subscribers and support for those lines for which companies can provide evidence that costs are excessive. Legislation is under consideration in the 2007 session that would scale back the state USF. The Public Service Commission is considering changes to the USF in an ongoing proceeding; however, it has not yet considered the policy changes recommended by the LAC. Our 2005 audit also recommended that the state's interim LEC fund be eliminated or transitioned into the USF for those companies demonstrating need. The General Assembly considered legislation to eliminate this fund in 2005; however, the legislation did not pass.

IMPROVEMENTS IN USF ADMINISTRATION

WE RECEIVED INFORMATION FROM THE PUBLIC SERVICE COMMISSION AND THE OFFICE OF REGULATORY STAFF AND INTERVIEWED OFFICIALS REGARDING THE IMPLEMENTATION OF THE AUDIT'S RECOMMENDATIONS. WE ALSO VERIFIED EVIDENCE SUPPORTING THE INFORMATION PROVIDED BY BOTH AGENCIES, AS APPROPRIATE.

FOR MORE INFORMATION

Our full report, summary, and this document are published on the Internet at

LAC.SC.GOV

Copies can also be obtained by calling

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In our 2005 audit, we found many deficiencies in the PSC's administration of the USF. The Office of Regulatory Staff assumed responsibility for administering the fund in 2005. We found that the ORS has implemented all of our recommendations to improve fund administration.

The ORS has made significant efforts to conduct audits of self-reported data for participant companies in the USF. ORS has implemented a plan for the regular auditing of company data and is following through with these scheduled audits. The administration of the USF has also been improved by the implementation of a new billing system which includes a function for late payment billing, as recommended in our 2005 audit. This system directly communicates with the Treasurer's Office, has both accounts receivable and payable, runs bills monthly, and can provide reports to management.

With the PSC's approval, ORS has also made efforts to improve the administration of the low-income assistance component of the USF, as recommended. At the time of the audit in 2005, companies were receiving support for the number of low-income subscribers they had in 2001 (approximately 23,000 households). ORS has obtained updated information from the companies. Also, between October 2005 and June 2006, the outreach efforts of ORS helped add over 2,700 households as Lifeline customers in South Carolina. The low-income assistance component of the USF provides an avenue for South Carolina to receive federal funds. For each household that participates in the Lifeline and Linkup programs, \$120 in federal USF funding comes to South Carolina. The increase in the number of households receiving support results in \$324,000 in annual federal funds to these consumers.

Other recommendations implemented by ORS include:

- Enforcing yearly data requirements to ensure that companies provide current and relevant information necessary to administer the USF.
- Ensuring that annual audits of the state USF are done by an independent third party. The first audit (2001-2004) of the USF confirmed several problems we had identified with the administration of the fund. The second audit (2005) and our follow-up work indicated that these problems have been addressed and remedied.
- Supplementing the "USF Guidelines and Administrative Procedures" adopted by the PSC with adequate written policies and procedures to assist in the daily administration of the fund. Upon the request of ORS, the PSC issued an order clarifying previously written guidelines regarding various aspects of the fund.
- Developing a system of verification of the calculations made and the data used in the administration of the fund.
- Ensuring that auditors who review contributions and distributions do not also have managerial responsibilities for the fund.
- Investigating the costs and benefits of hiring an experienced fund administrator. After performing a cost-benefit analysis, ORS determined that it would be most beneficial and cost-effective if it continued to administer the USF.
- Using the resources of the USF to cover the costs of administration. The PSC approved this use of funds.