



OKLAHOMA CORPORATION COMMISSION

OKLAHOMA UNIVERSAL SERVICE FUND – SPECIAL UNIVERSAL SERVICES

Performance Audit

For the period July 1, 2015 through June 30, 2023

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Oklahoma Corporation Commission
Oklahoma Universal Service Fund**

**For the Period
July 1, 2015 through June 30, 2023**



March 5, 2025

**TO THE OKLAHOMA CORPORATION COMMISSIONERS AND DIRECTOR OF
ADMINISTRATION**

We present the audit report of the Oklahoma Corporation Commission (OCC) pursuant to your request and in accordance with the requirements of 74 O.S. § 213.2(B), for the period July 1, 2015 through June 30, 2023. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.) and shall be open to any person for inspection and copying.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

Background

The Oklahoma Telecommunications Act of 1997¹ established the Oklahoma Universal Service Fund (OUSF)². Although these are not state funds, the Oklahoma Corporation Commission (OCC or the Commission) regulates these collections. The Public Utility Division (PUD) provides technical support and policy analysis to the Commission and the Director of PUD serves as the OUSF Administrator.

The OUSF was designed to ensure the availability of telephone services³ at reasonable and affordable rates, the availability of internet access and provide for reasonably comparable services at affordable rates in rural communities as in urban areas. This is achieved by the provision of funding to eligible local exchange telecommunications service providers and eligible providers that provide service to eligible public schools⁴ and public libraries⁵; as well as bandwidth that is provided for necessary telemedicine services⁶ to eligible healthcare entities⁷.

For the July 2015 through September of 2021 time period the OUSF was funded by collections from contributing providers based on a percentage of their operating revenue as set forth by the Commission by establishing an OUSF assessment⁸ to recover costs of administration and payments for OUSF requests for reimbursement funding. The Commission, on March 9, 2021, in Cause No. PUD 201900316, issued Interim Order No. 717215, which changed the contribution methodology from a revenue-based to a connections-based⁹ methodology beginning with contributions in October 2021 and continuing to current. Contributing providers may recover these assessments through the application of an Oklahoma *Universal Service Fund* fee on their customer's phone bills.

The OUSF supports three main programs: Special Universal Services, Primary Universal Services and Oklahoma Lifeline.

Reimbursable costs for Special Universal Services include internet access lines, Wide Area Network (WAN), reasonable installation, network termination equipment owned and operated by the eligible service provider to eligible public school and library. As well as costs associated with the provision of bandwidth sufficient for providing telemedicine

¹ [17 O.S. §139.101 - 109](#)

² [17 O.S. § 139.106](#)

³ [17 O.S. §139.102\(37\)\(a\)-\(g\)](#)

⁴ [17 O.S. §139.102\(39\)](#)

⁵ [17 O.S. §139.102\(38\)](#)

⁶ [17 O.S. §139.102\(47\)](#)

⁷ [17 O.S. §139.102\(11\)](#)

⁸ [17 O.S. §139.107\(B\)](#)

⁹ Under a connections-based methodology the contributing providers are assessed a monthly flat fee based on the number of connections they provide their customers.

services to eligible healthcare entities. Authorized charges for reimbursement are paid to the eligible service provider on behalf of the OUSF Beneficiary which are the public schools and libraries and eligible telemedicine facilities.

The eligibility determination changes for beneficiary's preapproval and reimbursement procedures were significant per criteria in HB 2616 effective for funding year 2017 (July 1, 2015 through June 30, 2016). This made the eligibility determination process administrative, unless a request for reconsideration is filed with the Commission. These requirements and associated processes remain in place today and included the audit time period from July 1, 2015 through June 30, 2023.

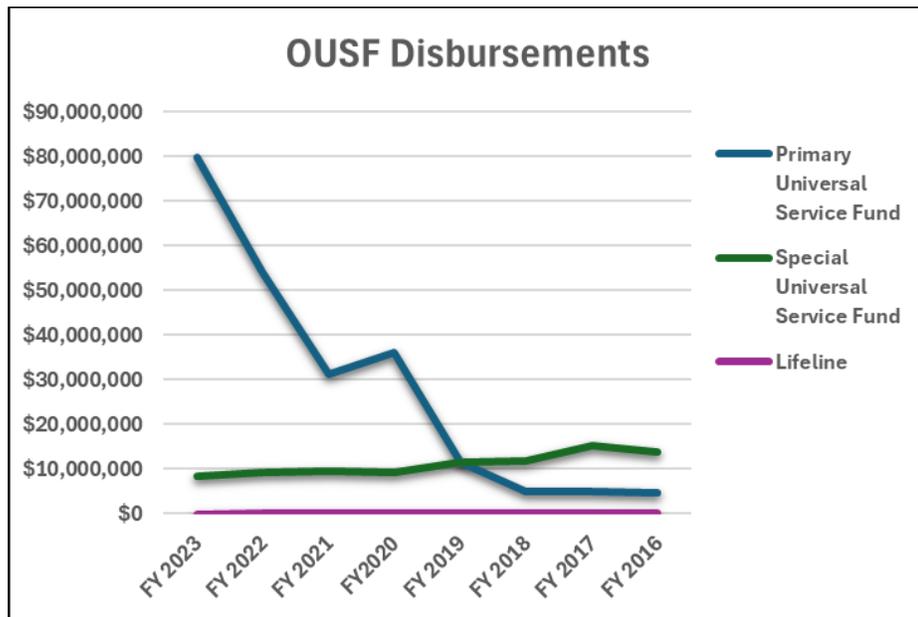
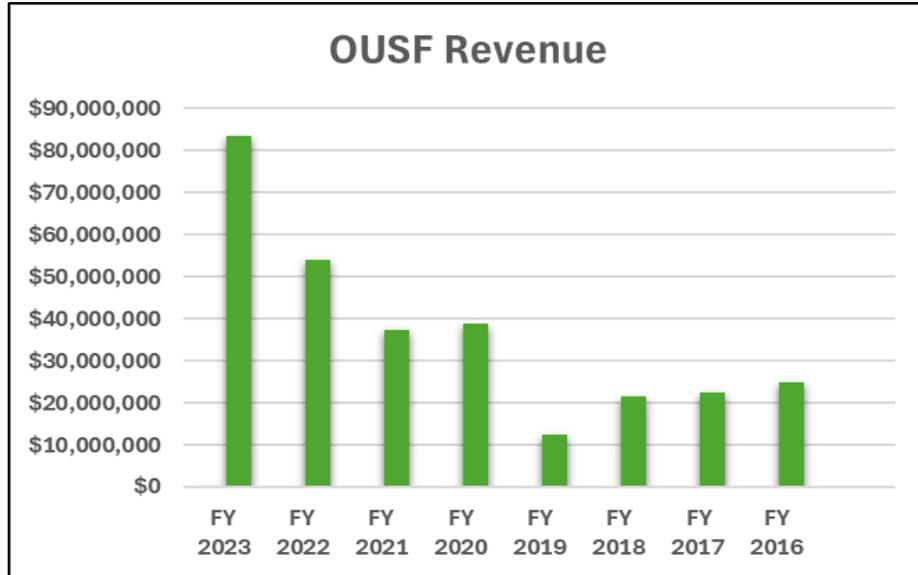
The purpose of Primary Universal Services is to provide access lines and dial tone services, at times referred to as "plain old telephone service," at reasonable and affordable rates in rural areas as in urban areas. The eligible local exchange telecommunications service providers providing these services seek reimbursement from the OUSF via the filing of an application for review by PUD personnel. Approved OUSF reimbursement funding is paid directly to the eligible local exchange telecommunications service provider.

There are two types of Primary Universal Services funding:

- "G" cases require a full review of the company's accounting records. A new case must be filed for each year for which a case has not previously been filed. The "G" cases use an audit program developed internally by PUD to review all of the General Ledger accounts (income and expenses), for the eligible regulated company and also the affiliate transactions with other non-regulated companies associated with the company seeking funding and under review in accordance with 17 O.S. § 139.106(G) and OAC 165:59-3-14.
- "K" cases and the associated statute are what have been referred to as the "make-whole" provision. Any time an eligible local exchange telecommunications service provider is impacted by a federal or state mandate, statute, or rule which decreases revenue or increases expenses, they can file a case with the OUSF to recover those losses. Approved OUSF funding for such cases are awarded as one-time lump sum and may include recurring funding if the company continues to be impacted in accordance with 17 O.S. § 139.106(K)(1)(a-c) and OAC 165:59-3-14.

Oklahoma Lifeline Fund¹⁰ was created to help ensure that low-income Oklahomans are provided financial assistance in maintaining basic local exchange telecommunications service¹¹. Currently, Lifeline reimbursement per subscriber shall not exceed \$0.02 cents per month.

The following charts illustrate the total receipts and disbursements for each OUSF program.



¹⁰ [17 O.S. §139.105](#)

¹¹ [17 O.S. §139.102\(27\)](#)

Note: Since FY 2020, there has been significant growth in revenues and disbursements for the Primary Universal Service Fund. The following factors are attributable to the increase:

- (1) In February 2018 the Commission voted to phase out the High-Cost Fund (HCF)¹²; by 25% in 2019, 50% in 2020; 75% in 2021; 100% in 2022. The elimination of the HCF caused an increase of “K” cases to be filed under O.S. 17 O.S. § 139.106(K). This change resulted in an increase in disbursements totaling \$37,148,775.24 from the OUSF annually by 2022.
- (2) Prior to 2016 statutory changes¹³, the Commission was not issuing final orders related to Primary OUSF cases. Following the Medicine Park Telephone Co. v. OCC; 2019 OK 21; 115453¹⁴ case, the Supreme Court of Oklahoma decided that under O.S. 17 O.S. § 139.106(G), that Medicine Park was entitled to funding because they had followed the statutorily established process and submitted valid, supporting documentation. As a result of this case/decision several things happened resulting in an increase in OUSF disbursements:
 - a. Entities that had filed cases, orders were issued, and disbursements were made;
 - b. Entities that were waiting for the decision before requesting funding, then requested funding, some for multiple prior years;
 - c. Entities that were unsure of the rules and their application were more confident in the results and began requesting funding.
- (3) Increase in revenues is a product of what was needed to support the fund disbursements. In October 2021, the OCC changed from Revenue-based to Connections-based revenues¹⁵ which resulted in a more consistent and predictable revenue stream.

¹² CAUSE NO. PUD 201200040 - The Commission finds that the Oklahoma HCF, created by Commission Order No. 399040, should be abolished, effective February 28, 2022, because it no longer serves the public interest.

¹³ HB 2616 modified [74 O.S. § 139.106](#) to include procedure for eligible local exchange telecommunications service providers seeking OUSF funding.

¹⁴ Case Number: [115453](#)

¹⁵ [17 O.S. § 139.107\(A\)](#) directs the Commission to fund the OUSF in a competitive neutral manner.

**Oklahoma Corporation Commission
Performance Audit**

The OCC is comprised of three Commissioners who are elected by a statewide vote of the people to serve a six-year term. The terms are staggered so one commission vacancy occurs every two years.

As of January 30, 2025, OCC Commissioners include:

- Kim DavidChairman
- Todd Hiatt.....Commissioner
- Brian Bingman.....Commissioner

**Scope and
Methodology**

Our audit was requested by OCC in accordance with 74 O.S. § 213. 2(B), which requires the State Auditor and Inspector to perform an examination upon receiving a written request to do so by the chief executive officer of the governmental entity or another authorized requestor.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the eligibility determination process for both the OUSF Special Universal Services and Primary Universal Services for the period July 1, 2015 through June 30, 2023. We determined Lifeline to be immaterial program based on *OUSF Historical Disbursements* as shown in above chart.

In assessing risk and developing our audit objectives, we held discussions with management, reviewed documentation, performed data analysis, and prior audit follow up. These procedures included:

- Reviewing OUSF historical disbursements and other related internal data provided by the OUSF finance and program personnel to assess the related disbursement processes and trends for any notable risks.
- Reviewing pertinent OUSF statutes and regulations and assessing related risks.

Four audit objectives were developed as discussed in the next section. For the four OUSF objectives, case file populations for the period July 1, 2021 through June 30, 2023 was used for audit testwork sampling. No other significant risks or findings were identified as a result of these procedures.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*¹⁶ outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Any component considered significant to our audit objectives is assessed during our procedures and included as appropriate in this report.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are operating together in an integrated manner. They also stress that documentation is a necessary part of an effective internal control system and is required to demonstrate its design, implementation, and operating effectiveness.

¹⁶ *Standards for Internal Control in the Federal Government*, or the “Green Book,” sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

OBJECTIVE #1 Determine whether the Public Utility Division’s internal control system is operating effectively in line with *Government Accountability Office (GAO) Standards for Internal Control* to ensure recipients of the OUSF Special Universal Services funds are eligible.

Conclusion Effective internal controls are operating in line with the *GAO Standards for Internal Control* to ensure recipients of the OUSF Special Universal Services funds are eligible.

Scope & Methodology

To accomplish our objective, we performed the following:

- Documented in detail our understanding of the OUSF Special Universal Services process for determining eligibility for eligible service providers and beneficiaries applying for Special Universal Services reimbursement.
- Evaluated those processes and identified and assessed significant internal controls related to our objective.
- Randomly selected 20 schools receiving OUSF Special Universal Services funding. Ten for the period July 1, 2021 to June 30, 2022 and 10 for the period July 1, 2022 to June 30, 2023 to ensure internal control process for determining eligibility for recipients of the OUSF Special Universal Services is operating effectively in line with *GAO Standards for Internal Control*.
- Randomly selected six libraries receiving OUSF Special Universal Services funding. Three for the period July 1, 2021 to June 30, 2022 and 3 for the period July 1, 2022 to June 30, 2023 to ensure internal control process for determining eligibility for recipients of the OUSF Special Universal Services is operating effectively in line with *GAO Standards for Internal Control*.
- Randomly selected 10 healthcare entities receiving OUSF Special Universal Services funding – five for the period July 1, 2021 to June 30, 2022 and five for the period July 1, 2022 to June 30, 2023 to ensure internal control process for determining eligibility for recipients of the OUSF Special Universal Services is operating effectively in line with *GAO Standards for Internal Control*.

No findings were noted as a result of our procedures.

OBJECTIVE #2 Determine whether the Public Utility Division’s internal control system is operating effectively in line with *GAO Standards for Internal Control* to ensure recipients of the OUSF Primary Universal Services funds are eligible.

Conclusion Effective internal controls are operating in line with the *GAO Standards for Internal Control* to ensure of the recipients of the OUSF Primary Universal Services funds are eligible.

**Scope &
Methodology**

To accomplish our objective, we performed the following:

- Documented in detail our understanding of the OUSF Primary Universal Services process for determining eligibility for service providers applying for Primary Universal Services reimbursement.
- Evaluated those processes and identified and assessed significant internal controls related to our objective.
- Judgmentally selected a total of 12 service providers that received Primary Universal Services funding to ensure we selected 6 different service providers for each fiscal year.

For the period July 1, 2021 to June 30, 2022, we selected four “G” cases and two “K” cases and for the period July 1, 2022 to June 30, 2023, we selected five “G” cases and one “K” case to ensure internal control process for determining eligibility for recipients of the OUSF Primary Universal Services is operating effectively in line with *GAO Standards for Internal Control*.

No findings were noted as a result of our procedures.

OBJECTIVE #3 Determine whether recipients of the OUSF Special Universal Services were eligible according to 17 O.S. § 139.109.1 and OAC Title 165, Chapter 59, Subchapter 7.

Conclusion The recipients of the OUSF Special Universal Services were eligible according to 17 O.S. § 139.109.1 and OAC Title 165, Chapter 59, Subchapter 7.

**Scope &
Methodology**

To accomplish our objective, we performed the following:

- Randomly selected 20 schools receiving funding for Special Universal Services. The sample consisted of ten cases for the period July 1, 2021 to June 30, 2022 and 10 cases for the period July 1, 2022 to June 30, 2023.
 - Reviewed each school’s case file for proper documentation of the eligibility determination to ensure compliance with 17 O.S. § 139.109.1 and OAC Title 165, Chapter 59, Subchapter 7.
- Randomly selected six libraries receiving funding for Special Universal Services. The sample consisted of three cases for the period July 1, 2021 to June 30, 2022 and three cases for the period July 1, 2022 to June 30, 2023.
 - Reviewed each Library’s case file for proper documentation of the eligibility determination to ensure compliance with 17 O.S. § 139.109.1 and OAC Title 165, Chapter 59, Subchapter 7.
- Randomly selected 10 healthcare entities receiving funding for Special Universal Services. The sample consisted of five cases for the period July 1, 2021 to June 30, 2022 and five cases for the period July 1, 2022 to June 30, 2023.
 - Reviewed each healthcare entity’s case file for proper documentation of the eligibility determination to ensure compliance with 17 O.S. § 139.109.1 and OAC Title 165, Chapter 59, Subchapter 7.

No findings were noted as a result of our procedures.

OBJECTIVE #4 Determine whether recipients of the OUSF Primary Universal Services were eligible according to 17 O.S. § 139.106 and OAC Title 165, Chapter 59, Subchapter 3-14.

Conclusion The recipients of the OUSF Primary Universal Services were eligible according to 17 O.S. § 139.106 and OAC Title 165, Chapter 59, Subchapter 3-14.

**Scope &
Methodology**

To accomplish our objective, we performed the following:

- Judgmentally selected 12 service providers receiving funding for Primary Universal Services. The sample consisted of four “G” cases and two “K” cases for the period July 1, 2021 to June 30, 2022 and five “G” cases and one “K” case for the period July 1, 2022 to June 30, 2023.
- Reviewed each case file for proper documentation of the eligibility determination to ensure compliance with 17 O.S. § 139.106 and OAC Title 165, Chapter 59, Subchapter 3-14.

No findings were noted as a result of our procedures.

O·K·L·A·H·O·M·A
S·A·I
STATE AUDITOR & INSPECTOR



Cindy Byrd, CPA | State Auditor & Inspector

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