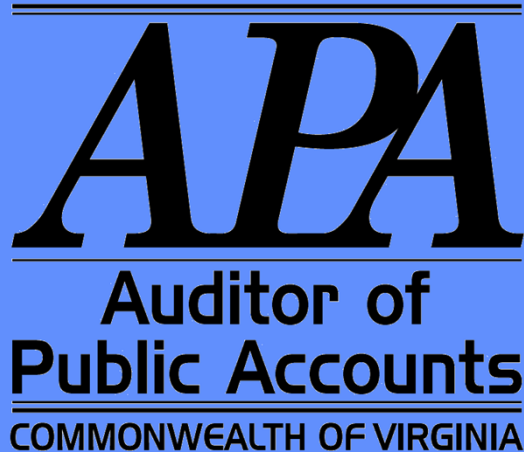


WIRELESS E-911 SERVICES BOARD

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2010**



AUDIT SUMMARY

The Wireless E-911 Services Board (Board) has awarded \$15.6 million in grants to Virginia Public Safety Answering Points (PSAP) for fiscal year 2010 which, in combination with normal fund expenses, will deplete most of the Board's available cash and projected revenues over the next fiscal year. Our review found the Board had \$10.3 million in outstanding PSAP grant awards at fiscal year-end 2010, with only \$11.3 million of cash on hand. Our analysis of fiscal year 2011 revenues, expenses, and outstanding grant commitments, both actual and projected, reveal that the Board has grant commitments and uncertain vendor contingencies for the next fiscal year.

We recommend that the Board and management employ stricter cash management practices to ensure that the timing of grant payments and other expenses does not create a cash flow problem in the future. We also recommend the Board and management consider reducing the PSAP awards in upcoming years, or use other alternatives to reserve a contingency in the event the Board becomes obligated to pay for 2010 vendor services which it neglected to pay in fiscal year 2010.

We also found that management does not validate call and expense data submitted by PSAPs. This data is used to allocate available funding for PSAPs across the state. As a result, the City of Portsmouth may have received more than \$900,000 in excess funding for fiscal year 2010. We also identified a number of other significant variances in call and expense data submitted by PSAPs which we found no evidence to explain.

We recommend that the Board direct management to employ formal data validation procedures to deter the potential for misstated PSAP call and expense data. The use of inaccurate PSAP data caused the Board to overpay at least one PSAP. Management must employ stricter data quality controls to ensure that this does not happen again in the future.

Our audit of the Wireless E-911 Services Board (Board) for the year ended June 30, 2010, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the Board's financial system;
- certain matters involving internal control and its operations necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-2
STATUS OF PRIOR YEAR FINDINGS	3
AGENCY HIGHLIGHTS	4-5
INDEPENDENT AUDITOR’S REPORT	6-7
AGENCY RESPONSE	8
AGENCY OFFICIALS	9
APPENDICES	
Appendix A: Schedule of Financial Position	10
Appendix B: Schedule of Activities	11

AUDIT FINDINGS AND RECOMMENDATIONS

Improve Cash Management Practices

The Wireless E-911 Services Board (Board) has awarded \$15.6 million in grants to Virginia PSAPs for fiscal year 2010 which, in combination with normal fund expenses, will deplete most of the Board's available cash and projected revenues over the next fiscal year. Our review found the Board had \$10.3 million in outstanding PSAP grant awards at fiscal year-end 2010, with only \$11.3 million of cash on hand. Our analysis of fiscal year 2011 revenues, expenses, and outstanding grant commitments, both actual and projected, reveal that the Board has grant commitments and uncertain contingencies for the next fiscal year.

In March of 2009, the Board approved its grant awards for fiscal year 2010 totaling \$15.6 million, an increase from the \$9.6 million awarded in fiscal 2009. This increased award committed the Board to pay out a substantial portion of its net assets from prior years. The fund ended 2010 with negative net assets, and will likely end fiscal 2011 with negative assets again, when considering outstanding grant commitments

The Board, on behalf of the collective Public Safety Answering Points, historically contracts with Verizon Wireless (Verizon) to provide basic E-911 call routing services on behalf of each of the state's PSAPs (generally consisting of local governments and Sheriff Departments). The Board has contracted with Verizon every year since its inception for this service. Each contract specifically states that the E-911 Board is the billing agent to the PSAPs and the contract is between Verizon and the collective PSAP community. The Board paid Verizon \$4.6 million on behalf of the PSAPs in fiscal year 2009.

During fiscal year 2010, the Board allowed the Verizon contract to lapse, however, Verizon continued to provide the services without a signed contract. Verizon and the Board have not yet resolved how or if Verizon will receive compensation for services rendered in fiscal year 2010, estimated at \$3.8 million.

The Attorney General's office is currently reviewing this contractual matter and in the interim Verizon and the Board have agreed on a contract for fiscal year 2011 for \$3.8 million. The Board has not reserved any funds for a potential settlement with Verizon and instead included the unspent funds as part of its fiscal 2010 grant authorization.

If the PSAPs continue to invoice for grant awards at the rate with which they have in the past the Board risks not having sufficient cash flow to pay grantees timely in the future and meet any potential settlement with Verizon.

We recommend that the Board and its staff employ stricter cash management practices to ensure that the timing of grant payments and other expenses does not create a cash flow problem in the future. We also recommend the Board and its staff consider reducing the PSAP awards in upcoming years, or use other alternatives to reserve a contingency in the event the Board becomes obligated to pay for 2010 Verizon services.

Determine Accuracy of PSAP Data

During the audit, management informed the auditors that the City of Portsmouth submitted inaccurate call data for their fiscal year 2010 Public Safety Answering Point allocation. As a result, the City may have received more than \$900,000 in excess funding, resulting in a reduction of funding to other PSAPs.

Management does not validate the PSAP call and expense data submissions to determine funding allocations. Management uses this data to complete the annual allocation of PSAP reimbursements for E-911 Fund supported operating costs, which was \$23.4 million for fiscal year 2010.

Our review of fiscal year 2010 and 2011 PSAP allocation calculations found a number of other PSAPs which submitted call and expense data with large fluctuations from prior periods. Management did not research these variances before allocating funds to the PSAPs.

Each PSAP must submit a count of total calls, 911 calls, wireless 911 calls, total recurring equipment cost, personnel costs, and IT Geographic Information System support costs to management. Through a percentage based formula, management then calculates the total payment each PSAP will receive based on the PSAP data. Generally, the PSAPs will receive a larger portion of the total funding available with higher call volumes and related expenses.

Currently, management receives each PSAP's call and expense data on an electronic form. Management has staff aggregate the data to determine the relative percent of available funding awarded to each PSAP. The staff only performs cursory reviews of total call and expense data submitted by PSAPs for reasonableness.

We recommend that the Board direct management to employ formal data validation procedures to deter the potential for misstated PSAP call and expense data. Data validation should include trend analysis of submitted data by all PSAPs with an acceptable tolerance level for variances. When variances exceed those tolerance levels management should inquire further with PSAPs who submit out of the ordinary call or expense data and obtain evidence to support their submissions. Further, management may wish to employ site audits of call data reporting systems and review expense ledgers for PSAPs on a sample basis periodically. The use of inaccurate PSAP data caused the Board to overpay at least one PSAP. Management must employ stricter data quality controls to ensure that this does not happen again in the future.

STATUS OF PRIOR YEAR FINDINGS

Ensure Completeness of Revenue - Resolved

As we found in the prior year, the Board's staff did not have sufficient expertise to ensure the completeness of Commercial Mobile Radio Service (CMRS) carrier surcharge fee revenue collections. We recommended that the Governor and General Assembly consider moving the collection of CMRS surcharge fees to an agency more appropriately experienced in the collection of self-reported revenues, such as the Department of Taxation.

During the 2011 General Assembly Session, legislation passed that will require that CMRS revenue go directly to the Department of Taxation, who would remit proceeds to the Board for its specific use.

Ensure Compliance with Grant Guidelines - Resolved

In our prior audit, we found the staff was not properly ensuring grantee compliance with awarded Public Safety Answering Point (PSAP) Grants. We found that management did not ensure they received firm fixed price contract offers for advance grant payments as required by Board policy.

During our current audit, we found no instances of noncompliance with PSAP Grant management and oversight in our review of this function for fiscal year 2010.

Ensure Accuracy of PSAP Distribution Rates – Partially Resolved

In our prior audit, management incorrectly calculated the Public Safety Answering Point (PSAP) distribution rates. This miscalculation required the staff and Board to reallocate PSAP formula payments for fiscal year 2010.

During our fiscal year 2010 audit, we found that management accurately calculated PSAP formula grant rates. However, we identify a lack of data quality control in the Audit Finding and Recommendation entitled "Determine Accuracy of PSAP Data."

AGENCY HIGHLIGHTS

During its 2000 session, the General Assembly called for the establishment of a Wireless E-911 Services Board (Board). The Board consists of 15 members, of which the governor appoints 13 members. Both the Chief Information Officer and Comptroller of the Commonwealth also serve on the Board. The Board's responsibilities include; promoting and assisting in the statewide development, deployment, and maintenance of enhanced wireless emergency telecommunications services and technologies. The Board also oversees and allocates the wireless E-911 special funds, and manages moneys appropriated for enhanced wire-line emergency telecommunication services in local jurisdictions that currently do not have E-911 capability. The Board employs 11 staff to assist in managing grants awarded to Public Safety Answering Points (PSAP) as well as monitor surcharge remittances submitted by Commercial Mobile Radio Service (CMRS) providers.

Collection of Surcharge Fees

The Board generates all of its revenue through surcharge payments submitted by CMRS providers authorized to do business in Virginia. The surcharge is a monthly fee of 75 cents assessed to each CMRS telephone number in the Commonwealth. CMRS providers can retain three percent of the fee to cover their administrative costs. The purpose of this fee is to defray costs incurred in complying with the Code of Virginia. For fiscal year 2010 the surcharges, less administrative fee allowances, total \$53 million.

Distribution of Surcharge Fees

The Board distributes approximately 60 percent of the Wireless E-911 Fund (Fund), after necessary administrative expenses, to PSAP operators on a monthly basis. PSAP operators are public safety dispatchers for fire, police, ambulance, and other local and state emergency services. Payments to PSAP operators use a distribution annual formula, that uses the call load and PSAP provider cost information from the previous fiscal year. The Board approves the calculated distribution percentage every October. During fiscal year 2010, the Board distributed approximately \$23.4 million to PSAP operators. In addition, the Board paid the State Police \$3.7 million to offset dispatcher operating costs and remitted \$8 million to the Compensation Board to pass on to local law enforcement dispatchers as required by the Appropriations Act.

Additionally, the Board provides CMRS carriers with payments of up to 30 percent of the Fund. These payments cover the CMRS carriers' reasonable and direct capital costs, and operating expenses incurred by a carrier required to provide wireless E-911 service. Carriers must submit to the Board on or before December 31 of each year, their estimates of direct wireless E-911 costs they expect to incur during the next fiscal year. Although the Board may pay up to 30 percent of the Fund for this purpose, CMRS carriers rarely request the full amount of funding available each year. The Board issued approximately \$5.4 million of the Fund to CMRS carriers for these purposes during fiscal year 2010.

The Board awards the remaining ten percent of the Fund to PSAP operators through a grant program. The primary purpose of this program is to financially assist Virginia primary PSAP operators with the purchase of equipment and services that support the continuity and enhancement of wireless E-911. Any Virginia primary PSAP operator that supports wireless E-911 is eligible to apply for and receive these funds either as a stand-alone applicant or as part of a regional initiative or consolidation project. Grant awards cannot exceed the following:

- \$150,000 for an individual primary PSAP,
- \$325,000 for a regional initiative involving two primary PSAPs or a currently consolidated PSAP,
- \$475,000 for a regional initiative involving three primary PSAPs and/or two primary PSAPs and a currently consolidated PSAP,
- \$625,000 for a regional initiative involving four primary PSAPs and/or three primary PSAPs and a currently consolidated PSAP,
- \$775,000 for a regional initiative involving five or more primary PSAPs and/or four or more primary PSAPs and a currently consolidated PSAP, or
- \$800,000 for a consolidation project.

In addition to the annual ten percent allocation of the Fund to PSAP Grants, the Board allocates any unspent funds from the 30 percent CMRS cost recovery pool allocated in the prior fiscal year to the PSAP Grant Program. During fiscal year 2010, the Board paid \$17.3 million in PSAP grant expenses.

Board members receive reimbursement for travel expenses, and staff make payments for services necessary to carry out their responsibilities. Other agency expenses include payroll expenses, contractual services, and transfers to other state agencies. These expenses are also funded by CMRS fees, but are generally about three percent of total revenue each year.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

June 3, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Wireless E-911 Services Board** (Board) for the year ended June 30, 2010. 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.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System and the Board's financial system, review the adequacy of the Board's internal controls, test compliance with applicable laws and regulations, and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

The Board's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Grant award and disbursement
Cash receipting

Contractual service expenses
Payroll expenses

We performed audit tests to determine whether the Board's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Board's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Board properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and the Board's financial system. The Board records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Board's financial system.

We noted certain matters involving internal control and its operation that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations." The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Board has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on April 28, 2011 and during the week of June 6, 2011. Management's response to the finding identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

AWP/clj



COMMONWEALTH of VIRGINIA

Virginia Information Technologies Agency

Samuel A. Nixon, Jr.
Chief Information Officer
E-mail: cio@vita.virginia.gov

11751 Meadowville Lane
Chester, Virginia 23836-6315
(804) 416-6100

TDD VOICE -TEL. NO.
711

June 9, 2011

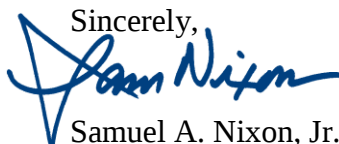
Mr. Walter J. Kucharski
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

Thank you for the opportunity to respond to the Auditor of Public Accounts' audit of the Wireless E-911 Program for the period of July 1, 2009 through June 30, 2010. VITA concurs with the audit findings and recommendations regarding cash management. At their May meeting, the Board formed a Finance Committee, chaired by the Comptroller of the Commonwealth, to specifically address concerns they have with cash management. VITA will work with this committee and the full Board to fully address the audit findings. Though the reduction of a cash balance in the Fund will require more aggressive management, the expenditure of funds in FY2010 is indicative of the needs within the PSAP community and the Board's desire to meet those needs.

With regards to the finding recommending employment of formal data validation procedures over PSAP-submitted call and expense data, originating from a PSAP payment calculation error that VITA identified to Auditor of Public Accounts staff, VITA concurs that the error should not have been made and with the audit recommendations for improvement. VITA staff has always reviewed the PSAP data provided, but for many reasons, we concur that this review does not include adequate validation procedures. To compound matters, in FY2010, our review process was abbreviated due to the late submission of data, and as a result the review did not timely identify the payment calculation error. VITA will work with the Board to develop new processes to ensure that PSAP call and expense data includes adequate trend analysis and validation of variance data before final PSAP payment calculations are implemented. Due to the passage of legislation in 2011, the Board and staff will have much more time to review this data for accuracy.

As always, we appreciate the professionalism of your staff.

Sincerely,

Samuel A. Nixon, Jr.

c: The Honorable Jim Duffey, Secretary of Technology
Members, Wireless E-911 Services Board

WIRELESS E-911 SERVICE BOARD

BOARD MEMBERS

As of June 30, 2010

Michael M. Cline
Chairman

John W. Knapp, Jr.
Vice-Chairman

David Von Moll
Treasurer

Linda W. Cage
J.D. Diggs
Tracy Hanger
Phil Heins
Robert G. Kemmler
Robert Layman

Ronald Mastin
Samuel A. Nixon
Pat B. Shumate
Mickey L. Sims
Denise B. Smith
Henry W. Stanley, Jr.

WIRELESS E-911 SERVICES BOARD
SCHEDULE OF FINANCIAL POSITION
As of June 30, 2010

APPENDIX A

Assets

Cash with Treasurer of Virginia
Accounts receivable

\$ 11,297,777
4,713,228

Total assets

16,011,005

Obligations

Accounts payable
Grant commitments
Accrued compensated absences

5,664,481
10,348,604
89,710

Total obligations

16,102,795

Net assets available

\$ (91,790)

WIRELESS E-911 SERVICES BOARD
SCHEDULE OF ACTIVITIES
For the year ending June 30, 2010

APPENDIX B

Operating revenues	
CMRS fees	<u>\$ 53,015,428</u>
Total operating revenues	<u>53,015,428</u>
Operating expenses	
Personal expenses	1,151,326
Contractual services	459,743
Supplies and materials	5,770
Rent, insurance & other related charges	4,080
Expendable equipment/improvements	10,828
PSAP formula allocation payments	23,395,789
CMRS capital reimbursements	5,405,129
PSAP grant expenses	<u>17,296,475</u>
Total operating expenses	<u>47,729,140</u>
Operating gain	<u>5,286,288</u>
Transfers	
Transfers to other state agencies	<u>(13,450,000)</u>
Decrease in net assets	<u>(8,163,712)</u>
Total net assets availble, July 1	<u>8,071,922</u>
Total net assets available, June 30	<u>\$ (91,790)</u>