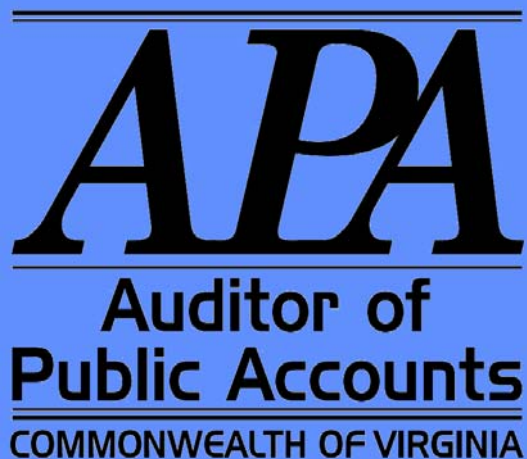


WIRELES E-911 SERVICES BOARD

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2007**



AUDIT SUMMARY

Our audit of the Wireless E-911 Services Board (Board) for the year ended June 30, 2007, found:

- the accompanying financial statements present fairly the Board's financial position as of June 30, 2007;
- a material weakness in the internal control over financial reporting; and
- an instance of noncompliance with material laws and regulations required to be reported.

A detailed description of the material weakness in the internal control over financial reporting and the instance of noncompliance can be found in the section entitled, "Internal Control and Compliance Finding and Recommendation".

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INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

Improve Accounting and Financial Reporting Processes

We identified several areas of risk impacting the Wireless E911 Services Board's (Board) financial reporting process which is provided to the Fund by the Virginia Information Technologies Agency (VITA). These issues increase the potential for material misstatement of the financial statements and arise from the following conditions.

- The Program Director has the primary understanding of the Board's operations and he directly initiates and approves many of its accounting transactions. Concentration of this level of knowledge and operational control limits the effectiveness of controls provided by VITA's accounting department to ensure the proper recording and reporting of financial transactions.
- The Program Director calculated payments to localities for their Public Safety Answering Point (PSAP) but did not retain supporting documentation. As a result, we could not verify that individual payment amounts were based on the formula prescribed in the Code of Virginia.
- The Code of Virginia and Appropriations Act does not provide sufficient direction as to how the Wireless E911 Services Board may use its appropriations. For example, the Code of Virginia only allows the Board to pay for support staff salaries but the Appropriations Act budget includes both staff salaries and other administrative costs.
- VITA's accounting department did not properly separate and record the Board's and Virginia Geographic Information Network (VGIN) transactions for financial recording and reporting.

Management has recognized some of these risks and is currently working to hire additional staff to support the Board's operations and accounting. Management should also consider seeking revisions to the Code of Virginia or the Appropriations Act to clarify the use of the Board's appropriation to cover program related administrative costs.

In addition, management should work with the Departments of Planning and Budget and Accounts to ensure that appropriations intended to support the Board and VGIN are sufficiently segregated within the Appropriations Act, the Commonwealth Accounting and Reporting System (CARS), and the agency's internal accounting system. Finally, we recommend that the Program Director retain his documentation supporting the calculation of payments to localities. These changes will help to ensure the proper accounting and reporting of the Board's financial transactions.

FINANCIAL STATEMENTS

WIRELESS E-911 SERVICES BOARD
STATEMENT OF NET ASSETS
As of June 30, 2007

ASSETS	
Current assets:	
Cash with Treasurer of Virginia (Note 2)	\$ 19,830,546
Cash equivalents with Treasurer of Virginia (Note 2)	1,233,933
Investments with Treasurer of Virginia (Note 2)	4,861,166
Accounts receivable	<u>5,377,893</u>
Total current assets	<u>31,303,538</u>
LIABILITIES	
Current liabilities:	
Accounts payable	2,330,145
Accrued compensated absences (Note 4)	22,014
Due to other state agencies	10,135
Amounts due to other governments	7,609,667
Obligations under securities lending program (Note 2)	<u>6,095,099</u>
Total current liabilities	16,067,060
Non-current liabilities:	
Accrued compensated absences (Note 4)	<u>22,898</u>
Total liabilities	<u>16,089,958</u>
NET ASSETS	
Unrestricted	<u>15,213,580</u>
Total net assets	<u>\$ 15,213,580</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

WIRELESS E-911 SERVICES BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2007

Operating revenues:	
Charges for services	<u>\$47,593,846</u>
Operating expenses:	
Personal expenses	563,538
Contractual services	467,254
Supplies and materials	18,099
Rent, insurance, and other related charges	35,064
Expendable equipment/improvements	30,128
Non-recurring cost estimate payments to providers (Note 3)	<u>44,475,432</u>
Total operating expenses	<u>45,589,515</u>
Operating income	<u>2,004,331</u>
Non-operating revenues:	
Interest and other investment income	1,662,449
Other	<u>(478,161)</u>
Total non-operating revenues	<u>1,184,288</u>
Income before transfers	3,188,619
Transfer to the Virginia Geographic Information Network	(1,320,558)
Transfer to the General Fund of the Commonwealth	<u>(500,000)</u>
Changes in net assets	1,368,061
Total net assets, July 1, as restated (Note 5)	<u>13,845,519</u>
Total net assets, June 30	<u>\$15,213,580</u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

WIRELESS E-911 SERVICES BOARD
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

Cash flows from operating activities:	
Cash receipts for sales and services	\$ 46,619,348
Internal activity cash payments to other funds	(3,726,287)
Cash payments to suppliers for goods and services	(87,775)
Cash payments for contractual services	(71,484)
Cash payments to employees	(568,758)
Payments to providers for non-recurring cost estimates	<u>(44,942,120)</u>
Net cash used by operating activities	<u>(2,777,076)</u>
Cash flows from noncapital financing activities:	
Cash transfer out to the Virginia Geographic Information Network	(1,320,558)
Cash transfer out to General Fund of the Commonwealth	<u>(500,000)</u>
Net cash used by noncapital financing activities:	<u>(1,820,558)</u>
Cash flows from investing activities:	
Cash received from interest on cash and investments	<u>1,184,288</u>
Net cash provided by investing activities:	<u>1,184,288</u>
Net increase in cash	(3,413,346)
Cash, July 1 2006, as restated (Note 5)	<u>23,243,892</u>
Cash, June 30 2007	<u><u>\$ 19,830,546</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH USED
BY OPERATING ACTIVITIES:

Operating income	\$ 2,004,331
Adjustments to reconcile operating income to net cash used by operating activities:	
Changes in assets and liabilities:	
Increase in accounts receivable	(998,826)
Decrease in accounts payable	(11,419,876)
Increase in amounts due to other governments	7,609,667
Increase in amounts due to state government	10,279
Increase in accrued compensated absences	<u>17,349</u>
Net cash used by operating activities	<u><u>\$ (2,777,076)</u></u>

The accompanying Notes to Financial Statements are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

WIRELESS E-911 SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

B. Reporting Entity

VITA's Wireless E-911 Services Board was created by Chapter 15, Title 56, Code of Virginia 1950, as amended (the "Wireless Enhance Public Safety Telephone Service Act"). The Wireless E-911 Services Board directs the funding used to comply with the June 1996 Federal Communications Commission (FCC) directive (FCC Order 94-102), which mandated a two-phase implementation of E-911 technology by wireless service providers.

A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Board is a component unit of the Commonwealth of Virginia and is included in the general purpose financial statements of the Commonwealth.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements of the proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The cash basis of accounting is used during the year. The financial statements are prepared on the accrual basis at the end of the fiscal year.

The activities of the Wireless E-911 Services Board are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating.

GASB Statement Number 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, provides governments two options for reporting their proprietary fund activities. All Proprietary Funds reported herein apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those conflict with or contradict

GASB pronouncements. In accordance with GASB Statement Number 20, the Board has elected not to apply FASB pronouncements issued after November 30, 1989.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash of the Wireless E-911 Services Board represents cash on deposit with the Treasurer of Virginia. All cash on deposit is covered by the Federal Deposit Insurance Corporation (FDIC), and collateralized in accordance with the Virginia Securities for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia. Cash equivalents and investments held by the Treasurer of Virginia represent the Board's allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of the cash equivalents and investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

3. PAYMENTS TO PSAP OPERATORS AND CRMS PROVIDERS

The Wireless E-911 Services Board provides payments to Public Safety Answering Point (PSAP) operators of all wireless E-911 PSAP costs and to Commercial Mobile Radio Service (CMRS) providers of all wireless E-911 CRMS costs as defined in the Code of Virginia Title 56, Chapter 15. Each PSAP operator receives a monthly payment based on the monthly Wireless E-911 remittance and a distribution formula calculated used the prior fiscal year's call and cost information. Each CMRS provider must provide the estimated costs it expects to incur during the next fiscal year. The Wireless E-911 Services Board reviews these estimates and makes quarterly payments to each CMRS provider for qualifying, actual costs.

The Board made payments to PSAP operators and CMRS providers as follows:

	For the Year Ended <u>June 30, 2007</u>
PSAP Operators	\$30,928,979
CMRS Providers	<u>13,348,488</u>
Total	<u>\$44,277,467</u>

4. LONG-TERM LIABILITIES

Accrued compensated absences liability activity for the year ended June 30, 2007 was as follows:

Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Amount Due Within <u>One Year</u>
\$28,548	\$25,303	\$8,939	\$44,912	\$22,014

5. RESTATEMENT OF BEGINNING CASH AND TOTAL NET ASSETS

Cash as of July 1, 2006, as shown on the Statement of Cash Flows, and total net assets as of July 1, 2006 have been restated due to Virginia Geographic Information Network (VGIN) transactions that were erroneously included in prior years. The revised amounts are as follows:

	<u>Cash</u>	<u>Total Net Assets</u>
Original amount	\$24,000,065	\$14,535,942
Less: VGIN transactions	<u>756,173</u>	<u>690,423</u>
Restated amount	<u>\$23,243,892</u>	<u>\$13,845,519</u>

6. WIRELESS E-911 SERVICES BOARD

The 2000 General Assembly enacted the Enhanced Public Safety Telephone Service Act (56-484.12 through 56-484.18). The act established the Wireless E-911 Services Board and the Public Safety Communications Division of the Department of Technology Planning, and continued the Wireless E-911 special fund. The Board shall be responsible for promoting and assisting the development, deployment, and maintenance of a statewide enhanced emergency telecommunications system and enhanced wire line emergency telecommunications services in specific local jurisdictions not currently wire line E-911 capable. The Board shall also be responsible for overseeing and allocating the wireless E-911 special funds and managing moneys appropriated for enhanced wire line emergency telecommunication services in local jurisdictions not wire line E-911 capable.

7. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

Employees of the Board are employees of the Commonwealth of Virginia. The employees participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health-related plans for retired employees. Information related to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth of Virginia, not the Board, has the overall responsibility for contributions to these plans.

8. RISK MANAGEMENT

The Board is exposed to various risk of loss related to torts: theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Board participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The Board pays premiums to each of these Departments for its insurance coverage. Information related to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

July 31, 2008

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
And Review Commission

Board of Directors
Wireless E-911 Services Board

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the **Wireless E-911 Services Board** (Board), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Board's management. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of June 30, 2007 and the changes in its financial position and its cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Wireless E-911 Services Board has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board'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 Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles; such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency entitled "Improve Accounting and Financial Reporting Processes", which is described in the section titled "Internal Control and Compliance Finding and Recommendation" to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board'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 an instance of noncompliance that is required to be reported under Government Auditing Standards. An instance of noncompliance, entitled "Improve Accounting and Financial Reporting Processes" is described in the section titled "Internal Control and Compliance Finding and Recommendation".

The Board's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit the Board's response and, accordingly, we express no opinion on it.

Report Distribution and Exit Conference

The “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters” is intended solely for the information and use of the Governor and General Assembly of Virginia, the Wireless E911 Services Board and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference on August 12, 2008.

AUDITOR OF PUBLIC ACCOUNTS

KKH:clj



COMMONWEALTH of VIRGINIA

Virginia Information Technologies Agency

Lemuel C. Stewart, Jr.
Chief Information Officer
Email: cio@vita.virginia.gov

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TDD VOICE -TEL. NO.
711

August 19, 2008

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

Dear Mr. Kurcharski:

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, 2006 through June 30, 2007.

While we concur with the audit findings and recommendations, we believe it is important to note that three of the four noted conditions have existed since the establishment of the E-911 program, and have not been raised in previous reports by your office. Thus we were unaware of the need for their correction. We have already taken steps to correct two of these findings, concentration of knowledge and control in the program director, and separation of Fund and VGIN transactions. The finding questioning the sufficiency of the direction provided by the *Code of Virginia* will require legislative action to correct. While VITA will propose changes to the Governor for consideration during the next General Assembly session, whether this change is made is out of VITA's control. The fourth finding regarding the failure to retain supporting documentation has already been corrected for fiscal year 2008.

As always, we appreciate the professionalism of your staff.

Sincerely,

Lemuel C. Stewart, Jr.

c: The Honorable Aneesh Chopra, Secretary of Technology
Judy Napier, Deputy Secretary of Technology
Members, Information Technology Investment Board
Members, Wireless E-911 Services Board

WIRELESS E-911 SERVICES BOARD

BOARD MEMBERS

As of June 30, 2007

Lemuel C. Stewart, Jr.
Chairman

Robert W. Woltz, Jr.
Vice Chairman

David Von Moll
Treasurer

Linda W. Cage
Edward Frankenstein
John Furlough
Tracy Hanger
Phil Heins
Robert Layman

Ronald Mastin
Robert McAvoy
Fred Newman
Pat B. Shumate
Denise B. Smith
Albert Vincent

