

WIRELESS E-911 SERVICES BOARD

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2009**



AUDIT SUMMARY

Our audit of the Wireless E-911 Services Board (Board) for the year ended June 30, 2009, 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.

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AUDIT FINDINGS AND RECOMMENDATIONS

Ensure Completeness of Revenue

Management does not have sufficient expertise to ensure the completeness of Commercial Mobile Radio Service (CMRS) carrier surcharge fee revenue collections. The Board receives over \$50 million in CMRS provider fees each year from 42 different carriers. There is a 75-cent surcharge for each mobile telephone line active in the state, which the Board receives less a three percent administrative fee retained by each carrier.

Each carrier submits a self-reported schedule including a count of active wireless lines, a multiplier for the 75 cent surcharge, and the reduction of a three percent administrative fee each month, along with a check for the calculated amount. Management performs a limited review of these remittance advices to determine mathematical accuracy, and that the accompanying check agrees to the total amount reported by each carrier.

While management also performs an analysis of year-end revenue totals, they lack the expertise to appropriately monitor the self-reported wireless line counts remitted by carriers, which is the basis for the CMRS surcharge revenue. Any time a government relies upon self-reporting by tax or fee payers, the underlying information on which the amounts due are calculated is subject to some form of audit. This is true with state income tax as well as fuels tax, both of which have audit functions. The lack of an audit process to help ensure the accuracy and completeness of self-reported amounts could result in taxpayers under-reporting amounts due.

Management's lack of sufficient monitoring procedures led to the auditor's discovery of three missing monthly remittances from one wireless carrier during fiscal year 2009. While increased monitoring on a carrier-by-carrier basis each month would have detected this, management cannot provide assurance over the completeness of any of the remittances actually received by each carrier, without reviewing some evidence of the completeness of a carrier's reported count of wireless lines each month.

We recommend 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. Directing Taxation to collect these funds will provide increased capabilities to analyze the amounts reported by each carrier to other information remitted to Taxation for income tax purposes. The move will also permit Taxation to include wireless carrier line reporting to be included in their audit work plan to help ensure completeness of revenue.

In the interim, we recommend that management improve their revenue monitoring procedures, to ensure that each carrier submits a CMRS surcharge fee remittance advice every month; and investigate any significant changes in the number of active wireless lines reported by a carrier from one month to the next. These changes will help ensure the completeness of revenue, but will not provide the level of assurance that an audit process would.

Ensure Compliance with Grant Guidelines

The Wireless E-911 Services Board (Board) is not properly ensuring grantee compliance with its Public Safety Answering Point (PSAP) Grants. The Board's Grant Guidelines for the PSAP program require Board management (management) to review three things to ensure the compliance of grantees. Once the Board awards a PSAP grant, the grantee must provide a firm fixed-price contract for services before requesting funds from the Board. Once the grantee receives and spends the funds, the grantee should provide

invoices to the Board staff to review for compliance with grant terms. Finally, recipients must provide programmatic reports or evidence that they met specific grant objectives set out in each grant award.

During our review of fifteen PSAP grants awarded and paid in fiscal year 2009, we found the following deficiencies.

- Management did not obtain firm-fixed price contracts or invoices from grantees before making payments for one Regional Initiative project totaling \$627,000 and one consolidation project totaling \$600,000. Therefore, we cannot determine the reasonableness of these expenses.
- Wireless E-911 could not provide programmatic reports for one consolidation project costing \$600,000; three regional initiative projects costing \$1.2 million; and nine individual PSAP projects costing \$442,000.

During fiscal year 2009, management appointed a PSAP grant program manager to help ensure grantee compliance with its grant guidelines. With the help of the PSAP grant program manager, management has implemented an electronic drawdown system, effective in fiscal year 2010, that requires recipients to upload firm-fixed price contracts, invoices, or other supporting documentation subsequent to drawing down funds.

Management should continue to work with regional coordinators to ensure recipients are submitting the proper evidence of the appropriate use of grant funds subsequent to payment, if not provided prior to payment. Further, management should implement a programmatic report template to demonstrate successful completion of a project. This will allow management to ensure compliance with its grant guidelines.

Ensure Accuracy of PSAP Distribution Rates

Management incorrectly calculated the Public Safety Answering Point (PSAP) distribution rates for fiscal year 2010. According to the Public Safety Communication (PSC) policies and procedures, there are three steps to calculating the PSAP distribution rate. First, management calculates the statewide percentage of Wireless E-911 calls. Second, management calculates the percentage of Wireless E-911 calls for each PSAP. Third, management calculates the actual distribution percentage for the PSAP.

While performing a review of this function, we identified a miscalculation of the PSAP rates. According to the PSC policies and procedures, if the PSAP's distribution percentage is greater than the statewide percentage, then it is multiplied by the recurring equipment costs to determine the allowable shared cost. In this instance, management inadvertently transposed the formula to calculate the allowable shared costs thereby understating allowable shared cost by approximately \$291,000. This error in effect, caused an incorrect calculation of the PSAP distribution percentages as well.

Because we identified this error prior to any fiscal year 2010 PSAP distribution payments, management did not have to revoke any funding from the PSAP's.

We recommend that management improve review controls to ensure the accuracy of all distribution rates before the Board approves them. Improving the review process will ensure not only the accuracy of PSAP distribution rates, but will also ensure compliance with the Code of Virginia.

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 fifteen members, of which the governor appoints thirteen members. 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 eleven 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 the administrative costs. The purpose of this fee is to defray costs incurred in complying with the Code of Virginia. For fiscal year 2009 the surcharges, less administrative fee allowances, total \$51.5 million.

Distribution of Surcharge Fees

The Board distributes approximately 60 percent of the Wireless E-911 Fund (Fund) 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 2009, the Board distributed approximately \$27 million to PSAP operators.

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 \$5.1 million of the Fund to CMRS carriers for these purposes during fiscal year 2009.

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 \$150,000 for an individual primary PSAP, \$475,000 for a regional initiative involving five or more primary PSAP operators, or \$500,000 for a consolidation project.

In addition to the annual 10 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 2009, the Board awarded 101 PSAP grants for a total of \$9.6 million.

Board members receive reimbursement for travel expenses, and staff make payments for services necessary to carry out their responsibilities. Other agency expenditures include payroll expenses, contractual services, and transfers to other state agencies.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

December 23, 2009

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable M. Kirkland Cox
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, 2009. 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 on the Commonwealth Accounting and Reporting System and the Board's financial system, review the adequacy of the Board's internal controls, and test compliance with applicable laws and regulations.

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 and accounts payable
- Cash receipting and accrual of accounts receivable
- 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 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.

Distribution

We discussed this report with management on January 21, 2010. Management's response has been included at the end of this report.

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/alh



COMMONWEALTH of VIRGINIA

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January 29, 2010

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, 2008 through June 30, 2009.

VITA concurs with the audit findings and recommendations and has already taken steps to correct those findings within our control. We have implemented processes to enhance the review of incoming revenue received and to ensure the accuracy of the PSAP distribution rates before they are approved by the Wireless E-911 Services Board. VITA will need to work with the Board to address the finding on compliance with PSAP grant guidelines as modification of the guidelines will likely be necessary. Though some changes have already been made internal to VITA, legislative action will be required to fully address the finding regarding ensuring completeness of revenue. Counsel for the Board has determined that currently no agency has the authority to audit Wireless E-911 surcharge remittance. While VITA, working with the Board, will propose changes to the Governor for consideration during the next General Assembly session in 2011, whether this change is made is out of VITA's control.

As always, we appreciate the professionalism of your staff.

Sincerely,

A handwritten signature in black ink, appearing to read "George F. Coulter".

George F. Coulter

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

WIRELESS E-911 SERVICE BOARD

BOARD MEMBERS

As of June 30, 2009

Michael M. Cline
Chairman

John W. Knapp, Jr.
Vice-Chairman

David Von Moll
Treasurer

Linda W. Cage
Robert G. Kemmler
Edward Frankenstein
George Coulter
Tracy Hanger
Phil Heins

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

Albert F. Vincent

WIRELESS E-911 SERVICES BOARD
SCHEDULE OF FINANCIAL POSITION
As of June 30, 2009

APPENDIX A

Assets	
Current assets:	
Cash with Treasurer of Virginia	\$ 15,595,795
Accounts receivable	<u>4,861,173</u>
Total current assets	<u>20,456,968</u>
 Total assets	 <u>20,456,968</u>
 Liabilities	
Current liabilities:	
Accounts payable	12,380,489
Accrued compensated absences	<u>27,520</u>
Total current liabilities	<u>12,408,009</u>
 Noncurrent liabilities:	
Accrued compensated absences	<u>54,053</u>
Total noncurrent liabilities	<u>54,053</u>
 Total liabilities	 <u>12,462,062</u>
 Net assets	
Unrestricted	<u>7,994,906</u>
 Total net assets	 <u>7,994,906</u>
 Total liabilities and net assets	 <u>\$ 20,456,968</u>

WIRELESS E-911 SERVICES BOARD
SCHEDULE OF ACTIVITIES
For the year ending June 30, 2009

APPENDIX B

Operating revenues	
Charges for services	<u>\$ 51,536,335</u>
Total operating revenues	<u>51,536,335</u>
Operating expenses	
Personal expenses	1,133,316
Contractual services	407,449
Supplies and materials	12,274
Rent, insurance & other related charges	5,364
Expendable equipment/improvements	6,054
Non-recurring cost estimate payments to providers	<u>51,046,660</u>
Total operating expenses	<u>52,611,117</u>
Operating loss	<u>(1,074,782)</u>
Loss before transfers	<u>(1,074,782)</u>
Transfers	
Transfers to other state agencies	<u>(7,750,000)</u>
Total transfers	<u>(7,750,000)</u>
Decrease in net assets	(8,824,782)
Total net assets, July 1	<u>16,819,688</u>
Total net assets, June 30	<u>\$ 7,994,906</u>