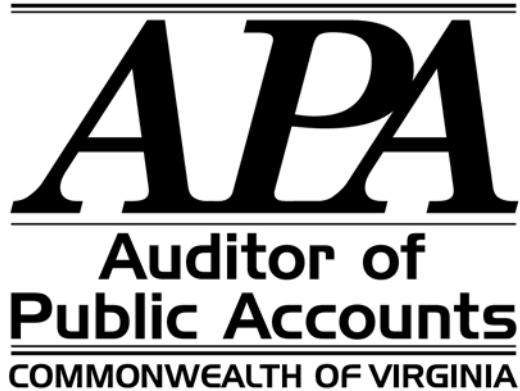


E-911 SERVICES BOARD

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2011**



AUDIT SUMMARY

Our audit of the E-911 Services Board (Board) for the year ended June 30, 2011, 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;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported;
- the Board has completed corrective action with respect to the prior audit finding titled "Improve Cash Management Practices;" and
- the Board has made significant progress with respect to the prior audit finding titled "Determine Accuracy of PSAP Data" and expects completing corrective action in fiscal year 2013.

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STATUS OF PRIOR YEAR FINDINGS

Improve Cash Management Practices - Resolved

In fiscal year 2010, the Board ended the year with negative net assets because of poor cash management. The Board did not ensure that sufficient funds were available to pay all Public Safety Answering Point (PSAP) grants awarded in the current and prior years. If the Board continued to award grants at the same rate as in prior fiscal years, they would continue to encounter future cash flow problems.

The Board reduced PSAP grant awards to \$896,692 in fiscal year 2011. This is approximately \$14.8 million less than what was awarded in the prior year. The reduction in fiscal year 2011 PSAP grant awards allows the Board to use cash on hand to pay current and prior year outstanding grant payments.

The Board also failed to pay Verizon Wireless (Verizon) \$3.8 million for services rendered in fiscal year 2010. The Board, on behalf of the collective PSAPs (generally consisting of local governments and sheriff departments), historically contracts with Verizon to provide basic E-911 call routing services. The Board has contracted with Verizon every year since its inception for this service and is the billing agent to the PSAPs. During fiscal year 2010, the Board allowed the Verizon contract to lapse. However, Verizon continued to provide the services without a signed contract.

The Attorney General’s office reviewed the Verizon contractual matter during fiscal year 2011. Through this review and negotiations with Verizon, the Board and Verizon agreed in fiscal year 2012 to pay \$1.8 million for services rendered in fiscal year 2010, which is about 50 percent less than initially owed to Verizon.

Determine Accuracy of PSAP Data – Partially Resolved

During the prior year audit, the Board did not validate the Public Safety Answering Point (PSAP) call and expense data submissions to determine funding allocations. The Board uses this data to complete the annual allocation of PSAP reimbursements for E-911 Fund supported operating costs. The prior year audit also found that a number of PSAPs that submitted call and expense data had large fluctuations from prior periods. However, management did not research these variances before allocating funds to the PSAPs.

As a result, the City of Portsmouth may have received more than \$900,000 in excess funding for fiscal year 2010. We recommended that the Board validate call and expense data received from PSAPs to ensure that they receive the correct percentage of the fund for reimbursement.

During the current year, the Board began validating fiscal years 2009 and 2010 call and expense data submitted by PSAPs, and used this data to compile fiscal years 2010 and 2011 reimbursement rates, respectively. The Board bases the reimbursement rates on the prior fiscal year’s call and expense data. The Board’s validation process found the following.

Fiscal Year	Error Rate	No. of PSAPs Overpaid/(Underpaid)	Total Amount of Overpayment/(Underpayment)
2010	100%	55/(70)	\$2,336,461/(\$2,336,461)
2011	67%	37/(47)	\$1,355,047/(\$1,355,047)

For fiscal year 2010, the Board overpaid 55 PSAPs \$2.3 million that resulted in 70 PSAPs being underpaid \$2.3 million. For fiscal year 2011, the Board overpaid 37 PSAPs \$1.3 million that resulted in 47 PSAPs being underpaid \$1.3 million. The Board will begin collecting the overpayments in fiscal year 2013 and redistribute the funds to the appropriate underpaid PSAPs.

The 2011 General Assembly session amended Section 56-484.17 of the Code of Virginia to ensure proper accounting for E-911 revenue and to reflect our 2009 audit recommendation. The revised section requires the Department of Taxation (Taxation) to collect all E-911 surcharges and distribute reimbursements beginning in fiscal year 2013.

Additionally, the 2012 General Assembly session amended the same code section to calculate PSAP reimbursement rates on a five-year pro rata average, rather than basing the rate on only the previous year cost and call load data. Therefore, Taxation will base the reimbursement rate for fiscal years 2013 through 2017 on each PSAP's average pro-rated distribution from the Wireless E-911 Fund for fiscal years 2007-2012.

The Board and Taxation have agreed to delay transitioning E-911 distribution activities to Taxation until January 2013 to allow the Board to collect the overpayments found during the validation process.

AGENCY HIGHLIGHTS

The E-911 Services Board (Board) consists of 15 members, of which the Governor appoints 13 members and the Chief Information Officer and State Comptroller serve as ex-officio 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 ten 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 2011, the surcharges, less administrative fee allowances, total \$51 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 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 2011, the Board distributed approximately \$26.7 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 \$4 million of the Fund to CMRS carriers for these purposes during fiscal year 2011.

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's 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 or a currently consolidated PSAP that is also applying for a regional initiative involving another primary PSAP.
- \$325,000 for a regional initiative involving two primary PSAPs or a currently consolidated PSAP or a secondary consolidation.

- \$375,000 for a regional initiative involving three primary PSAPs and/or two primary PSAPs and a currently consolidated PSAP.
- \$425,000 for a regional initiative involving four primary PSAPs and/or three primary PSAPs and a currently consolidated PSAP.
- \$475,000 for a regional initiative involving five or more primary PSAPs and/or four or more primary PSAPs and a currently consolidated PSAP.
- \$500,000 for an initial 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 to the PSAP Grant Program. During fiscal year 2011, the Board paid \$1.4 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 CMRS fees fund the Board and staff expenses, which are generally about three percent of total revenue each year.

Future Development

The General Assembly amended the Code of Virginia during the General Assembly sessions of 2011 and 2012 and transferred CMRS surcharge fee collection and PSAP distribution responsibilities to the Department of Taxation starting in fiscal year 2013. Starting in fiscal year 2018, Taxation will also begin determining the PSAP reimbursement rates.

The Board will continue to administer the PSAP Grant Program and collect call load and cost data for the reimbursement rate calculation in 2017. The Board will also continue providing technical assistance to the localities for E-911, interoperability, and Geographic Information Systems.



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 9, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **E-911 Services Board** (Board) for the year ended June 30, 2011. 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 a matter from the prior year audit that is only partially resolved and involves internal control and its operation that we consider necessary to be reported again to management. 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 August 8, 2012. Management's response to the partially resolved prior year 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

GGG/clj



COMMONWEALTH of VIRGINIA

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August 9, 2012

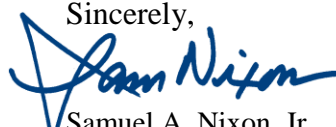
Mr. Walter J. Kurcharski
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

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, 2010 through June 30, 2011.

Virginia Information Technologies Agency (VITA) concurs with the audit findings. With the support of the E-911 Services Board, we have worked hard since our last audit to implement processes to enhance cash management and to validate the Public Safety Answering Point (PSAP) distribution rates for FY2010 through FY2012. Even though funding adjustments still need to be executed, at their July meeting, the E-911 Services Board approved the adjustments to the PSAP data and a plan for completing resulting funding adjustments by January 1, 2013.

As always, we appreciate the professionalism of your staff.

Sincerely,

Samuel A. Nixon, Jr.

c: The Honorable James D. Duffey, Jr., Secretary of Technology

E-911 SERVICES BOARD

BOARD MEMBERS

As of June 30, 2011

Michael M. Cline
Chairman

John W. Knapp, Jr.
Vice-Chairman

David Von Moll
Treasurer

Linda W. Cage
J.D. Diggs
Danny Garrison
Tracy Hanger
Robert G. Kemmler
Robert Layman

Ronald Mastin
Doug Middleton
Samuel A. Nixon
Pat B. Shumate
Mickey L. Sims
Denise B. Smith

WIRELESS E-911 SERVICES BOARD
 SCHEDULE OF FINANCIAL POSITION

APPENDIX A

	For the Year Ending, June 30, 2010	For the Year Ending, June 30, 2011
Assets		
Cash with Treasurer of Virginia	\$ 11,297,777	\$ 7,712,226
Accounts receivable	<u>4,713,228</u>	<u>4,062,349</u>
Total assets	<u>16,011,005</u>	<u>11,774,575</u>
Obligations		
Accounts payable	5,664,481	10,391,255
Grant commitments	10,348,604	-
Accrued compensated absences	<u>89,710</u>	<u>89,761</u>
Total obligations	<u>16,102,795</u>	<u>10,481,016</u>
Net assets available	<u>\$ (91,790)</u>	<u>\$ 1,293,559</u>

WIRELESS E-911 SERVICES BOARD
SCHEDULE OF ACTIVITIES

APPENDIX B

	For the Year Ending, June 30, 2010	For the Year Ending, June 30, 2011
Operating revenues		
CMRS fees	\$ 53,015,428	\$ 52,953,818
	<u>53,015,428</u>	<u>52,953,818</u>
Total operating revenues		
Operating expenses		
Personal expenses	1,151,326	1,123,295
Contractual services	459,743	188,466
Supplies and materials	5,770	5,669
Rent, insurance and other related charges	4,080	42,875
Expendable equipment/improvements	10,828	391
NENA Spring Conference	-	40,000
PSAP formula allocation payments	23,395,789	30,543,625
CMRS capital reimbursements	5,405,129	4,764,275
PSAP grant expenses	17,296,475	1,409,873
	<u>47,729,140</u>	<u>38,118,469</u>
Total operating expenses		
Operating gain	<u>5,286,288</u>	<u>14,835,349</u>
Transfers		
Transfers to other state agencies	<u>(13,450,000)</u>	<u>(13,450,000)</u>
Increase (decrease) in net assets	<u>(8,163,712)</u>	<u>1,385,349</u>
Total net assets available, July 1	<u>8,071,922</u>	<u>(91,790)</u>
Total net assets available, June 30	<u>\$ (91,790)</u>	<u>\$ 1,293,559</u>