



AUDITOR GENERAL

DAVID W. MARTIN, CPA



DEPARTMENT OF MANAGEMENT SERVICES WIRELESS EMERGENCY TELEPHONE SYSTEM FUND Operational Audit

SUMMARY

The Wireless Emergency Communications Act (Wireless Act),¹ provides for a Statewide emergency telephone system for wireless telephone users. The Act authorizes wireless service providers (providers) to “collect a monthly fee imposed on each customer whose place of primary use is within this state. . . . The rate of the fee shall be 50 cents per month per each service number, beginning August 1, 1999.” The amounts collected are deposited in the Wireless Emergency Telephone System Fund (Wireless Fund)² administered by the Department of Management Services (DMS)³ and the Wireless 911 Board (Board).⁴

State law⁵ requires the Auditor General to annually audit the Wireless Fund. Our audit, covering the period July 2006 through June 2007 and selected actions taken through March 2008, disclosed the following:

Finding No. 1: Contrary to generally accepted accounting principles, DMS and the Board did not record in the State’s accounting system, the Florida Accounting Information Resource Subsystem (FLAIR), a receivable for provider fees billed at fiscal year end.

¹ Section 365.172, Florida Statutes (2006). Chapter 2007-78, Laws of Florida, redesignated the Wireless Emergency Communications Act as the “Emergency Communications Number E911 Act,” effective May 2007.

² Section 365.172(8)(a), Florida Statutes (2006). Chapter 2007-79, Laws of Florida, redesignated the Wireless Emergency Telephone System Fund as the “Emergency Communications Number E911 System Fund,” effective May 2007.

³ Section 365.172, Florida Statutes, states that the State Technology Office (STO) is responsible for overseeing the administration of the E911 fee. However, effective July 1, 2005, the responsibilities of STO were assimilated by DMS.

⁴ Chapter 2007-78, Laws of Florida, redesignated the Wireless 911 Board as the E911 Board, effective May 2007.

⁵ Sections 11.45(2)(e) and 365.173(3), Florida Statutes.

Finding No. 2: Board procedures were not sufficient to ensure that salaries and benefits were calculated and allocated appropriately based on actual time worked.

BACKGROUND

The Wireless Act⁶ states that it is the intent of the Legislature to establish and implement a comprehensive Statewide emergency telephone number system that will provide wireless telephone users with rapid direct access to public safety agencies by dialing 911, provide moneys to local governments to pay the cost of installing and operating wireless 911 systems, and reimburse providers for costs incurred to provide 911 or E911 services. The Wireless Act further states that wireless service providers are required by the Federal Communications Commission (FCC) to provide wireless enhanced 911 (E911) service in the form of automatic location identification and automatic number identification pursuant to the terms and conditions set forth by the FCC.

The FCC requires wireless providers to implement E911 service in two phases as noted below:

- Phase I service allows a 911 operator to receive the telephone number of the wireless 911 caller and the location of the antenna that received the call. The Board’s *Annual Report (Report)* for the 2007 calendar year, dated February 28, 2008, stated that, as of December 31, 2007, all 67 counties had requested Phase I service from the providers and 65 counties had implemented such service.

⁶ Section 365.172(2), Florida Statutes (2006).

- Phase II service allows a 911 operator to receive the telephone number of the wireless 911 caller and, in most cases, identify the location of the caller within 50 to 100 meters. The Board's *Report* stated that, as of December 31, 2007, all 67 counties had requested Phase II service from the providers and 62 counties had implemented such service.

The Board consists of six members appointed by the Governor and one member designated by the Secretary of DMS. Of the six members appointed by the Governor, three represent county 911 coordinators and three represent the wireless telecommunications industry. The member designated by the Secretary of DMS is a permanent member and also serves as the Chair of the Board. Responsibilities of the Board include:

- Receiving revenues derived from the fee;
- Distributing portions of the revenues to providers, counties, and DMS;
- Accounting for receipts, distributions, and income derived from the balances maintained in the Fund; and
- Providing annual reports to the Governor and the Legislature on amounts collected and expended, the purposes for which expenditures have been made, and the status of wireless E911 services in the State.

Pursuant to the Wireless Act,⁷ providers are to remit the fees collected from customers to the Board within 60 days after the end of the month in which the fee was billed along with a report of the number of wireless customers whose place of primary use is in each county. The Wireless Act⁸ authorizes providers to retain 1 percent of the fees collected as reimbursement for administrative costs. Wireless Fund revenues recorded in FLAIR for the 2006-07 fiscal year, are shown in Table 1.

Table 1
Wireless Emergency Telephone
System Fund Revenues
2006-07 Fiscal Year

Revenue Type	Amount
E911 Fees	\$ 78,494,222
Interest Income	3,658,281
Total Revenues	\$ 82,152,503

According to the Wireless Act,⁹ moneys are to be provided to local governments to pay the cost of installing and operating wireless 911 systems and to providers to reimburse them for costs incurred to provide 911 or E911 services. The amounts provided by the Board to local governments and providers are to be based on the statutory rates established in law¹⁰ subject to modifications approved by the Board. The Wireless Act¹¹ authorizes the Board to implement changes to the allocation percentages provided in law, or reduce the amount of the fee, or both, if necessary to ensure the full cost recovery or prevent overrecovery of costs incurred in the provision of E911 service, including costs incurred or projected to be incurred.

Wireless Fund expenditures recorded in FLAIR for the 2006-07 fiscal year, are shown in Table 2.

Table 2
Wireless Emergency Telephone
System Fund Expenditures
2006-07 Fiscal Year

Expenditure Type	Amount
County Distributions	\$ 46,462,674
Provider Distributions	19,306,930
Rural County Grants	2,098,681
Administrative Costs	420,319
Total Expenditures	\$ 68,288,604

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Revenue Recognition

The Wireless Act¹² requires providers to remit fees to the Board within 60 days after the end of the month in which the fee was billed. For example, providers had until July and August of 2007 to remit provider fees billed for May and June 2007, respectively.

Generally accepted accounting principles require that governmental fund financial statements be reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are generally recognized when they are both measurable and

⁷ Section 365.172(9)(e), Florida Statutes (2006).
⁸ Section 365.172(9)(d), Florida Statutes (2006).

⁹ Section 365.172(2)(f)2., Florida Statutes (2006).
¹⁰ Section 365.173, Florida Statutes (2006).
¹¹ Section 365.172(6)(a)4.d., Florida Statutes (2006).
¹² Section 365.172(9)(e), Florida Statutes (2006).

available. Revenues are measurable when the amount of the transaction can be determined and are available when collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (e.g., within 60 days of the end of the current fiscal year).

Our audit disclosed that, contrary to generally accepted accounting principles, DMS and the Board did not establish a receivable in FLAIR at June 30, 2007, to recognize the provider fees billed for the months of May and June 2007 and collected in July and August 2007. As a result, the accounts receivable amount shown for the Wireless Fund by the State's accounting records as of June 30, 2007, was understated by approximately \$7 million. We noted that although the amount shown in the State's accounting records was understated, an appropriate adjustment had been made to properly report the accounts receivable in the Wireless Funds' annual financial statements.

Recommendation: We recommend that DMS and the Board record wireless fee revenue on the modified accrual basis of accounting in accordance with generally accepted accounting principles. Specifically, an account receivable should be established in the Wireless Fund for any provider fee revenue collectible within 60 days after fiscal year end.

Finding No. 2: Budget Administration – Authorized Positions

Pursuant to the Wireless Act,¹³ a percentage of the funds allocated to the providers are to be retained by the Board to be applied to costs and expenses incurred for the purposes of managing, administering, and overseeing Wireless Fund receipts and disbursements.

Although the Wireless Fund was not appropriated positions for the 2006-07 fiscal year, the Wireless Fund was granted authority to reimburse 100 percent of the salary and benefit expenses funded from the Communications Working Capital Trust Fund for two and one-half positions working on related 911 issues. The Board, through quarterly journal redistribution entries, transferred funds from the Wireless Fund to the

Communications Working Capital Trust Fund to cover such costs.

Our audit disclosed that Board procedures were not sufficient to ensure that salary and benefit costs were calculated appropriately and allocated based on actual time worked. As a result, the Board improperly transferred approximately \$39,000 in salary and benefit payments from the Wireless Fund to the Communications Working Capital Trust Fund for a position that was vacant from July 1, 2006, through January 9, 2007. In response to audit inquiry, Board management indicated that reimbursement to the Wireless Fund would be sought.

Recommendation: We recommend that DMS and the Board strengthen procedures over the calculations of amounts to be transferred from the Wireless Fund to the Communications Working Capital Trust Fund and ensure reimbursement for the amounts transferred in error.

¹³ Section 365.173(2)(b), Florida Statutes (2006).

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our operational audit of the Wireless Emergency Telephone System Fund were:

- To evaluate the effectiveness of established controls in achieving management's control objectives in the categories of compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the validity and reliability of records and reports; and the safeguarding of assets.
- To evaluate management's performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the validity and reliability of records and reports; and the safeguarding of assets.
- To determine whether DMS and the Board have corrected, or are in the process of correcting, the deficiency disclosed in the prior audit (report No. 2007-182) for those activities, functions, and classes of transactions within the scope of audit.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

The scope of our audit included: Board organization, financial reporting, revenues, and expenditures. The scope of our audit did not include county administration of E911 moneys. Such moneys are subject to examination in connection with the annual audits required pursuant to Section 218.39, Florida Statutes.

This operational audit was conducted in accordance with applicable Generally Accepted Government Auditing Standards. In conducting our audit, we interviewed DMS and Board personnel, tested selected DMS and Board records, and completed various analyses and other procedures. Our audit included examinations of various documents (as well as events and conditions) applicable to the period July 2006 through June 2007 and selected actions taken through March 2008.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA
Auditor General

MANAGEMENT RESPONSE

In a response letter dated May 7, 2008, the Secretary of the Department of Management Services concurred with our audit findings and recommendations. The Secretary's response is included in its entirety at the end of this report as **APPENDIX A**.

This audit was conducted by Barry Bell and supervised by Christi Alexander, CPA. Please address inquiries regarding this report to Sherrill F. Norman, CPA, Audit Manager, via e-mail (sherrillnorman@aud.state.fl.us) or by telephone (850-487-9316). This report and other audit reports prepared by the Auditor General can be obtained on our Web site (<http://www.myflorida.com/audgen>); by telephone (850-487-9024); or by mail (G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450).

APPENDIX A
MANAGEMENT RESPONSE



Office of the Secretary
4050 Esplanade Way
Tallahassee, Florida 32399-0950
Tel: 850.488.2786
Fax: 850.922.6149
www.dms.MyFlorida.com

Governor Charlie Crist

Secretary Linda H. South

May 7, 2008

Mr. David W. Martin, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Pursuant to Section 11.45(4)(d), Florida Statutes, this is our response to your report, of *the Department of Management Services, Wireless Emergency Telephone System Fund*. Our response corresponds with the order of your tentative and preliminary findings and recommendations contained in the draft report.

If further information is needed concerning our response, please contact Steve Rumph, Inspector General, at 488-5285.

Sincerely,

A handwritten signature in black ink, appearing to read 'L. H. South', is written over a light blue horizontal line.

Linda H. South
Secretary

Attachment

cc: John C. Ford, Chairman, Florida E911 Board

We serve those who serve Florida.

APPENDIX A
MANAGEMENT RESPONSE (CONTINUED)

Mr. David W. Martin
May 7, 2008
Attachment Page 1

**Department of Management Services' Response
To the Auditor General's Operational Audit of
Wireless Emergency Telephone System Fund**

Finding No. 1: Revenue Recognition

Contrary to generally accepted accounting principles, DMS and the Board did not record in the State's accounting system, the Florida Accounting Information Resource Subsystem (FLAIR), a receivable for provider fees billed at fiscal year end.

Recommendation:

We recommend that DMS and the Board record wireless fee revenue on the modified accrual basis of accounting in accordance with generally accepted accounting principles. Specifically, an account receivable should be established in the Wireless Fund for any provider fee revenue collectible within 60 days after fiscal year end.

Response:

We concur with the recommendation. The financial statements for the Florida E911 Board are prepared on the modified accrual basis of accounting. The accounts receivable for June 30, 2008 will be recorded by September 15, 2008 with information received from Law, Redd, Crona and Munroe, the E911 Board's independent CPA firm. A post closing adjustment will be submitted to the Department of Financial Services for this entry by September 15, 2008.

Finding No. 2: Budget Administration – Authorized Positions

Board procedures were not sufficient to ensure that salaries and benefits were calculated and allocated appropriately based on actual time worked.

Recommendation:

We recommend that DMS and the Board strengthen procedures over the calculations of amounts to be transferred from the Wireless Fund to the Communications Working Capital Trust Fund and ensure reimbursement for the amounts transferred in error.

Response:

We concur with the recommendation. The Department on behalf of the Florida E911 Board implemented a procedure to ensure that DMS staff presents all invoices for payment to the Board, or the Board Chair, for review

APPENDIX A
MANAGEMENT RESPONSE (CONTINUED)

Mr. David W. Martin
May 7, 2008
Attachment Page 2

and approval prior to any amounts being transferred from the Wireless Fund to the Communications Working Capital Trust Fund. The Board has issued the invoice for reimbursement of salaries and benefits transferred in error. A copy of the invoice was provided to Auditor General Staff in the exit interview for their records.