

**DEPARTMENT OF MANAGEMENT
SERVICES**

**EMERGENCY COMMUNICATIONS NUMBER
E911 SYSTEM FUND**

Operational Audit

For the Period July 2008 Through June 2009



E911 BOARD

The E911 Board (Board) is established pursuant to Section 365.172, Florida Statutes, and consists of eight members appointed by the Governor and one member designated by the Secretary of the Department of Management Services (DMS). Of the eight members appointed by the Governor, four represent county 911 coordinators, two represent local exchange carriers, and two represent the wireless telecommunications industry. The member designated by the Secretary is a permanent member and serves as the Chair of the Board. Board members who served during the period July 2008 through June 2009 are shown below.

Board Members	Entity Represented	Term of Office
John C. Ford, Chair	DMS	Permanent – Designated in 2005
James G. Smith, II, Vice Chair	Local Exchange Carrier	11/09/07 – 10/28/11
Sandi Chernoff	County 911 Coordinator	11/23/05 – 11/22/09
Deborah Caruthers	County 911 Coordinator	11/09/07 – 11/23/10
Andrew Feeney	Local Exchange Carrier	11/09/07 – 10/28/09
Charles Freeman	County 911 Coordinator	11/09/07 – 10/28/09
Kim Paxton	County 911 Coordinator	11/09/07 – 11/23/10
Marilyn Haroutunian	Wireless Telecommunications	03/07/08 – 10/28/09
William Reid	Wireless Telecommunications	03/07/08 – 10/28/11

Source: Governor's Appointment Letters.

SECRETARY OF THE DEPARTMENT OF MANAGEMENT SERVICES

DMS is created pursuant to Section 20.22, Florida Statutes. The head of DMS is the Secretary, who is appointed by the Governor and subject to confirmation by the Senate. Linda H. South served as Secretary during the audit period.

The audit team leader was Barry Bell and the audit was supervised by Christi Alexander, CPA. Please address inquiries regarding this report to Nancy C. Tucker, CPA, Audit Manager, by e-mail at nancytucker@aud.state.fl.us or by telephone at (850) 487-4370.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

DEPARTMENT OF MANAGEMENT SERVICES

Emergency Communications Number E911 System Fund

SUMMARY

The Emergency Communications Number E911 Act (E911 Act) provides for a Statewide emergency telephone system for users of voice communications services.¹ The Act requires each voice communications services provider (i.e., wireless providers and nonwireless providers) to collect a monthly fee billed to subscribers on a service-identifier basis. The rate of the fee shall be set by the E911 Board (Board) but may not exceed 50 cents per month per each service identifier. The amounts collected are accounted for in the Emergency Communications Number E911 System Fund (E911 Fund) administered by the Board with oversight by the Department of Management Services (DMS).² The law requires the E911 Fund to be segregated into two categories, those being: (1) the wireless category; and (2) the nonwireless category.³

State law requires that the Auditor General annually audit the E911 Fund.⁴ Our audit, covering the period July 2008 through June 2009, disclosed the following:

Finding No. 1: With respect to Board meetings, the use of competitive quotes in selecting meeting venues and increased economy of transportation could provide significant savings.

Finding No. 2: DMS and the Board continued to execute payments to providers who, contrary to DMS and Board rules, failed to complete and file required sworn invoices.

Finding No. 3: The interest earnings disbursement paid to counties was calculated incorrectly.

BACKGROUND

The E911 Act states, in part, that it is the intent of the Legislature to establish and implement a comprehensive Statewide emergency telecommunications number system that will provide users of voice communications services within the State rapid direct access to public safety agencies by accessing the telephone number 911, to provide funds to counties to pay certain costs associated with their E911 or 911 systems, to contract for E911 services, and to reimburse wireless telephone service providers for costs incurred to provide 911 or E911 services.⁵ E911 is the designation for an enhanced 911 system or service that provides for automatic location identification and automatic number identification features. Voice communication services are all two-way voice services, through the use of any technology, that are required to be included in the provision of E911 services pursuant to orders and rules adopted by the Federal Communications Commission.

The E911 Act also established the E911 Board. The responsibilities of the nine-member E911 Board are enumerated in the E911 Act, and include:

- Receiving revenues derived from monthly fees billed to subscribers;
- Distributing portions of the revenues to wireless providers, counties, and DMS;
- Accounting for receipts, distributions, and income derived from the balances maintained in the E911 Fund; and

¹ Section 365.172, Florida Statutes.

² Section 365.173, Florida Statutes.

³ Section 365.173(1), Florida Statutes.

⁴ Section 365.173(3), Florida Statutes.

⁵ Section 365.172(2), Florida Statutes.

- 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 E911 services in the State.

Pursuant to the E911 Act, providers are to remit the fees collected from subscribers to the Board within 60 days after the end of the month in which the fee was billed along with a monthly report of the number of service identifiers whose primary use is in each county. The E911 Act authorizes providers to retain one percent of the fees collected as reimbursement for administrative costs.

The amounts provided by the Board to counties and providers for costs associated with E911 or 911 systems or services are based on the statutory rates established in law subject to modifications approved by the Board.⁶ The E911 Act 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 recovery of costs or prevent overrecovery.

Table 1 shows the revenues, expenditures, and fund balances recorded in the E911 Fund for the 2008-09 fiscal year.

Table 1
E911 Fund Revenues, Expenditures, and Fund Balance
2008-09 Fiscal Year

Beginning Fund Balance		\$ 38,744,474
Revenue	E911 Fees	\$128,198,627
	Interest Income	<u>1,255,698</u>
	Total Revenue	<u>\$129,454,325</u>
Expenditures	County Disbursements	\$107,812,845
	Provider Disbursements	14,639,355
	Rural County Grants	2,449,744
	E911 State Grants	25,000,000
	General & Administrative Costs	<u>1,072,896</u>
	Total Expenditures	<u>\$150,974,840</u>
Ending Fund Balance – Unreserved		<u>\$ 17,223,958</u>

Source: Florida Accounting Information Resource Subsystem records.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Board Meeting Travel Expenditures

Monthly meetings are held by the Board at various locations around the State with the intent of making the Board more accessible to interested parties. State laws, rules, and guidelines establish uniform travel policies, rates, and limits applicable to all public officers, employees, and other authorized persons whose travel expenses are paid by a public agency. Board meetings were generally held at hotels around the State and lasted two to three days. While the Board staff and Chair were headquartered in Tallahassee, other Board members resided at different cities throughout the State. Thus, the Board incurred travel expenditures in conjunction with the Board meetings, and travel expenditures paid by the E911 Fund totaled approximately \$85,823 for the fiscal year. Typically, Board meetings were attended by fewer than 35 people, primarily the 9 Board members, 4 or 5 staff, and 20 to 25 other interested parties.

⁶ Section 365.173, Florida Statutes.

Our examination of Board records and expenditures relating to Board meetings held during the audit period disclosed the following:

- Meeting room charges (including room rental and telephone line charges) at the various hotels ranged from \$367 to \$1,573, while amounts paid for lodging ranged from \$109 to \$169 per night. In response to audit inquiries, Board staff indicated that rate quotes were obtained from several hotels in four designated areas (Jacksonville, Orlando, Tampa, and Tallahassee) during the 2004-05 fiscal year and that, based upon sufficient availability, meetings were held at these same hotels for the same time each year. The Board was unable to provide documentation of more recent quotes that demonstrated the economy of the total costs associated with the venues selected.
- On several occasions when traveling from Tallahassee to Board meetings, the Board staff and Chair all used separate vehicles with total charges (e.g., car rental, gasoline, and tolls) ranging from \$310 to \$1,007 per trip. Additionally, for several trips, the travelers' departure and arrival times substantially coincided. In such instances, contrary to the requirements of law and directives of the Chief Financial Officer, it was not apparent that the use of multiple vehicles demonstrated the most economical means of transportation had been used.^{7 8} In response to our audit inquiries, Board staff indicated that separate vehicles may be necessary when travel departure times conflict or if some travelers have scheduled inspections or other obligations that prevent vehicle consolidation. However, none of the applicable travel reimbursement vouchers described any circumstances or need for multiple vehicles.

The use of competitive quotes in selecting meeting venues and increased economy of transportation could reduce the cost of Board meetings.

Recommendation: To reduce the cost of Board meetings, we recommend that:

- **The Board establish procedures for regularly negotiating the best rate when choosing lodging and meeting rooms and maintain documentation of such quotes. Additionally, in developing quotes, the Board should consider estimates of the costs of holding its meetings at State-owned facilities (e.g., community colleges, State universities, and State agency facilities) where meeting rooms may be free or available at a lower cost than those provided by hotels.**
- **Whenever practicable, Board staff reduce the number of vehicles used for Board meeting travel.**

Finding No. 2: Disbursements to Providers

State law requires that the E911 Fund, for accounting purposes, be segregated into two categories: (1) the wireless category; and (2) the nonwireless category.⁹ By law, 30 percent of the moneys in the wireless category shall be distributed to wireless providers based on sworn invoices submitted to the Board by wireless providers.¹⁰ DMS and Board rules require that the sworn invoices contain itemizations of recurring and nonrecurring charges, a dated and notarized signature of the person submitting the invoice, and a certification stating "I hereby certify that the foregoing statements are true and correct, and that no material fact has been withheld or concealed from the [Board]."¹¹

⁷ Section 112.061(7), Florida Statutes

⁸ Comptroller Memorandum No. 2 (1999-2000) provides that when the class of travel approved by the agency head is other than the "most economical class of transportation," the approval must come from the agency head and may not be delegated. In addition, a letter signed by the agency head authorizing the class of travel and describing the circumstances requiring such travel must be attached to the travel voucher.

⁹ Section 365.173(1), Florida Statutes.

¹⁰ Section 365.173(2)(d), Florida Statutes.

¹¹ DMS Rule 60DD-1.001, Florida Administrative Code.

As similarly noted in report No. 2009-210, our examination of 15 Board-approved disbursements to providers totaling \$4,942,614, disclosed 2 disbursements totaling \$1,097,909 for which the provider failed to certify the invoice, contrary to DMS and Board rules.

Recommendation: We again recommend that DMS and the Board ensure that disbursements to providers are made only upon receipt of sworn invoices meeting the requirements of DMS and Board rules.

Finding No. 3: Interest Earnings Disbursement to Counties

Pursuant to State law, if the Board determines that the revenues in the wireless category exceed the amount needed to reimburse wireless providers for the cost to implement E911 services, the Board can transfer revenue to the counties from the existing funds within the wireless category, as long as the funds are disbursed equitably to all counties using a timeframe and distribution methodology established by the Board.¹² Throughout the years, it has been Board policy to disburse interest earned on the E911 fees revenues deposited into the Fund to the counties.

The distribution methodology requires the Board to disburse 67 percent of the total net interest earnings (total gross interest earnings minus total administrative fee charges) based on the interest earnings disbursement rate.¹³ However, our review of the interest earnings disbursement made during the audit period and totaling \$1,199,195 disclosed that the Board miscalculated the total net interest earnings during the period, resulting in a total underpayment of \$10,179, affecting all 67 counties.

In response to our audit inquiry, Board staff indicated that current procedures did not ensure that all information needed to perform this calculation was obtained, resulting in the miscalculation.

Recommendation: To ensure that future interest earnings disbursements are accurate, we recommend that DMS and the Board strengthen procedures over the interest earnings disbursement calculation. Additionally, we recommend that the underpayment be distributed to the counties in accordance with the interest earnings distribution rate.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, DMS and the Board had taken actions to correct the findings included in report No. 2009-210.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational 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

¹² Section 365.172(6)(a)3.e., Florida Statutes.

¹³ The interest earnings disbursement rate is derived from taking the total wireless disbursements to each county as described in Section 365.173(2)(a), Florida Statutes, in relation to the total wireless disbursements to all 67 counties.

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.

This operational audit focused on the Emergency Communications Number E911 System Fund. The overall objectives of the audit were:

- To evaluate the effectiveness of established internal 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 relevance 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 relevance and reliability of records and reports; and the safeguarding of assets.
- To determine whether DMS and the Board have corrected, or were in the process of correcting, the deficiencies disclosed in audit report No. 2009-210.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the period July 2008 through June 2009. In conducting our audit we:

- Obtained an understanding of internal controls and tested key processes and procedures related to Board organization and reporting by:
 - Interviewing selected DMS and Board personnel.
 - Reviewing documentation to determine whether applicable Board members were properly appointed, completed the required Oath of Office, and timely filed required financial disclosure forms.
 - Examining the minutes of three Board meetings to verify whether a quorum was present, meetings were properly noticed and advertised, and minutes were properly prepared.
 - Verifying whether the Board filed its 2008 Annual Report with the Governor, Speaker of the House, and President of the Senate, and that the report contained all the required information specified in Section 365.172(6)c, Florida Statutes.
 - Examining Board financial records compiled by the Board's accounting firm and comparing such records to Florida Accounting Information Resource Subsystem (FLAIR).
 - Comparing the Board's approved budget to the Board's actual expenditures.
- Obtained an understanding of internal controls and tested key processes and procedures related to E911 fee revenues by:
 - Examining Board procedures for identifying all wireless and nonwireless providers operating in the State of Florida, and for monitoring E911 fees remitted by providers.
 - Examining E911 fee revenues totaling \$4,579,244 remitted during February 2009 to the Board by ten providers (five wireless and five nonwireless providers).
- Obtained an understanding of internal controls and tested key processes and procedures related to disbursements by:
 - Examining wireless and nonwireless disbursements totaling \$1,986,837 million made to ten counties.
 - Examining E911 Fund interest earnings disbursements totaling \$594,191 made to ten counties.
 - Confirming with 20 counties the amounts received from the Board.

- Reviewing award and other documentation, including grant applications, for ten county grants (five rural county and five E911 State grants), disbursements totaling \$1,655,986 and, as applicable, DMS and Board compliance with the *Florida Single Audit Act*.
 - Examining five final county grant reports (three rural county and two E911 State grants) associated with grant projects completed during the audit period.
 - Verifying that disbursements to providers were made in accordance with Section 365.173(2)(d), Florida Statutes.
 - Examining 15 provider disbursements totaling \$4,942,614.
- Obtained an understanding of internal controls and tested key processes and procedures related to general expenditures by:
- Examining 30 general expenditure transactions totaling \$153,975.
 - Examining travel payments totaling \$85,823 related to 13 Board meetings held during the audit period.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a biennial basis. 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’S RESPONSE

In a response letter dated May 19, 2010, the Secretary of DMS concurred with our audit findings and recommendations. The Secretary’s response is included as EXHIBIT A.

EXHIBIT A
MANAGEMENT'S RESPONSE



Office of the Secretary
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Governor Charlie Crist

Secretary Linda H. South

May 19, 2010

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, *Department of Management Services Emergency Communications Number E911 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 'LH South'.

Linda H. South
Secretary

Attachment

cc: John C. Ford, Chairman, Florida E911 Board
Davis Faulkenberry, DMS, Deputy Secretary
Charles Ghini, DMS, Director of Telecommunications

We serve those who serve Florida.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Mr. David W. Martin, CPA
May 19, 2010
Page 1

Department of Management Services' Response
To the Auditor General's *Emergency Communications Number E911 System Fund*
Department of Management Services
Division of Telecommunications

Finding No. 1: Board Meeting Travel Expenditures

With respect to Board meetings, the use of competitive quotes in selecting meeting venues and increased economy of transportation could provide significant savings.

Recommendation:

To reduce the cost of Board meetings, we recommend that:

- The Board establish procedures for regularly negotiating the best rate when choosing lodging and meeting rooms and maintain documentation of such quotes. Additionally, in developing quotes, the Board should consider estimates of the costs of holding its meetings at State-owned facilities (e.g., community colleges, State universities, and State agency facilities) where meeting rooms may be free or available at a lower cost than those provided by hotels.
- Whenever practicable, Board staff reduce the number of vehicles used for Board meeting travel.

Response:

Lodging: The Board concurs with this recommendation. DMS staff supporting the Board will enhance procedures by July 1, 2010 to ensure that competitive rate quotes are obtained from multiple hotels in each of the four designated centralized meeting locations (Jacksonville, Orlando, Tallahassee, Tampa) each calendar year, and will negotiate the best rates available when selecting lodging and meeting rooms for Board meetings. Additionally, State-owned facilities will be researched for availability of meeting rooms where practicable.

Transportation: The Board concurs with this recommendation. DMS staff supporting the Board will consolidate rental vehicles for travel to Board meetings, when practicable.

Finding No. 2: Disbursements to Providers

DMS and the Board continued to execute payments to providers who, contrary to DMS and Board rules, failed to complete and file required sworn invoices.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Mr. David W. Martin, CPA
May 19, 2010
Page 2

Recommendation:

We again recommend that DMS and the Board ensure that disbursements to providers are made only upon receipt of sworn invoices meeting the requirements of DMS and Board rules.

Response:

The Board concurs with this recommendation. All invoices received from the service providers were sworn / notarized invoices; however, the certification statement for one service provider was omitted on two of their submitted invoices. On March 4, 2010, DMS staff supporting the Board received the certification statement for the two invoices that did not previously include the required certification statement. DMS and the Board will review all required documentation submitted, to ensure that disbursements to providers are made only upon receipt of sworn invoices with the requirements of DMS and Board rules.

Finding No. 3: Interest Earnings Disbursement to Counties

The interest earnings disbursement paid to counties was calculated incorrectly.

Recommendation:

To ensure that future interest earnings disbursements are accurate, we recommend that DMS and the Board strengthen procedures over the interest earnings disbursement calculation. Additionally, we recommend that the underpayment be distributed to the counties in accordance with the interest earnings distribution rate.

Response:

The Board concurs with this recommendation. The Board's independent accounting firm has been reconciling the year to date interest amount per the financial statements to the FLAIR trial balance received on a monthly basis. Upon disbursement of the interest earnings to the counties, the Board's accounting firm will reconcile the amount to be disbursed with FLAIR interest earnings for the period from the last distribution date to the current distribution date. In addition, the underpayment calculated at \$10,179.00 will be distributed at year end in accordance with the interest earnings distribution rate.