

FINANCIAL AUDIT
OF THE
COMMERCIAL MOBILE RADIO SERVICE
EMERGENCY TELEPHONE FUND

DEPARTMENT OF TREASURY

October 1, 1999 through September 30, 2000

EXECUTIVE DIGEST

COMMERCIAL MOBILE RADIO SERVICE EMERGENCY TELEPHONE FUND

INTRODUCTION

This report contains the results of our financial audit* of the Commercial Mobile Radio Service* (CMRS) Emergency Telephone Fund, Department of Treasury, for the period October 1, 1999 through September 30, 2000.

AUDIT PURPOSE

This financial audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Financial audits are conducted at various intervals to provide for enhanced financial reporting of significant State programs and/or activities and to complement the annual audit of the State's financial statements. Also, this audit complements the departmentwide financial audit. This audit is required annually by Section 484.1407 of the *Michigan Compiled Laws*.

BACKGROUND

The CMRS Emergency Telephone Fund was created to provide money to implement the Federal Communications Commission's (FCC's) wireless emergency service order. In 1996, the FCC adopted an order requiring local exchange carriers to provide enhanced 911 service to all customers by October 2001. Enhanced 911 service

* See glossary at end of report for definition.

provides for the identification of a caller's location and telephone number. Applicable parts of Sections 484.1101 - 484.1717 of the *Michigan Compiled Laws* (Act 32, P.A. 1986) were amended by Act 78, P.A. 1999, and Act 79, P.A. 1999, to provide for wireless emergency service and establish the Emergency Telephone Service Committee. Section 484.1408 of the *Michigan Compiled Laws*, which established the service charge of 55 cents, is repealed, effective January 1, 2004. The remainder of Act 32, P.A. 1986, is repealed, effective December 31, 2006.

The CMRS Emergency Telephone Fund was established as several subfunds within the General Fund. The Department of Treasury is responsible for collecting, distributing, and investing the funds. The Michigan Department of State Police is responsible for priority issues of 911 coverage and providing staff assistance to the Committee. The Committee is responsible for developing Statewide standards and model system considerations and making other recommendations for emergency telephone services.

Funding for the CMRS Emergency Telephone Fund is provided by CMRS suppliers* from charges to CMRS users*. CMRS users are each charged 55 cents a month by their CMRS supplier. The CMRS suppliers remit the funds collected from the users to the Department of Treasury on a quarterly basis. The Department of Treasury then distributes the funds to the CMRS suppliers, counties, public service answering points*, and the Michigan Department of State Police as provided in the *Michigan Compiled Laws*.

* See glossary at end of report for definition.

For fiscal year 1999-2000, CMRS Emergency Telephone Fund revenue was \$17.6 million and expenditures were \$8.0 million.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess and report on the CMRS Emergency Telephone Fund's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules and on its internal control* over financial reporting, based on our audit of the financial schedules.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules. Our assessment of internal control disclosed two material weaknesses*:

- The Department of Treasury did not process CMRS Emergency Telephone Fund year-end closing transactions in accordance with generally accepted accounting principles (GAAP) and Department of Management and Budget (DMB) procedures. This resulted in an overstatement of expenditures of \$5.0 million and an understatement of revenue of \$2.5 million. (Finding 1)
- The Department of Treasury's reconciliation of CMRS supplier collections needs to be completed in a more timely manner to provide an accurate recording of revenue. This resulted in an understatement of revenue of \$2.6 million and an understatement of expenditures of \$1.2 million. (Finding 2)

* See glossary at end of report for definition.

Audit Objective: To audit the CMRS Emergency Telephone Fund's financial schedules for the fiscal year ended September 30, 2000.

Conclusion: We expressed an unqualified opinion* on the CMRS Emergency Telephone Fund's financial schedules. The financial schedules included in this report have been corrected for the misstatements identified in the findings, in accordance with approval from the DMB Office of Financial Management.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Commercial Mobile Radio Service Emergency Telephone Fund for the period October 1, 1999 through September 30, 2000. Our audit was conducted 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 and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

AGENCY RESPONSES

Our audit report contains 2 findings and 2 corresponding recommendations. The Department of Treasury's preliminary response indicated that it agreed with the findings and will comply with the recommendations.

* See glossary at end of report for definition.

July 11, 2002

Dr. Douglas B. Roberts
State Treasurer
Treasury Building
Lansing, Michigan

Dear Dr. Roberts:

This is our report on the financial audit of the Commercial Mobile Radio Service Emergency Telephone Fund, Department of Treasury, for the period October 1, 1999 through September 30, 2000.

This report contains our executive digest; description of agency; audit objectives, audit scope, and agency responses; comments, findings, recommendations, and agency preliminary responses; and independent auditor's reports on compliance and on internal control over financial reporting and on the financial schedules. This report also contains the Commercial Mobile Radio Service Emergency Telephone Fund financial schedules, notes to the financial schedules, and supplemental financial schedule and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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Description of Agency

The Commercial Mobile Radio Service (CMRS) Emergency Telephone Fund was created to provide money to implement the Federal Communications Commission's (FCC's) wireless emergency service order. In 1996, the FCC adopted an order requiring local exchange carriers to provide enhanced 911 service to all customers by October 2001. Enhanced 911 service provides for the identification of a caller's location and telephone number. Applicable parts of Sections 484.1101 - 484.1717 of the *Michigan Compiled Laws* (Act 32, P.A. 1986) were amended by Act 78, P.A. 1999, and Act 79, P.A. 1999, to provide for wireless emergency service and establish the Emergency Telephone Service Committee. Section 484.1408 of the *Michigan Compiled Laws*, which established the service charge of 55 cents, is repealed, effective January 1, 2004. The remainder of Act 32, P.A. 1986, is repealed, effective December 31, 2006.

The CMRS Emergency Telephone Fund was established as several subfunds within the General Fund. The Department of Treasury is responsible for collecting, distributing, and investing the funds. The Michigan Department of State Police is responsible for priority issues of 911 coverage and providing staff assistance to the Committee. The Committee is responsible for developing Statewide standards and model system considerations and making other recommendations for emergency telephone services.

Funding for the CMRS Emergency Telephone Fund is provided by CMRS suppliers from charges to CMRS users. CMRS users are each charged 55 cents a month by their CMRS supplier. The CMRS suppliers remit the funds collected from the users to the Department of Treasury on a quarterly basis. Sections 484.1408 and 484.1409 of the *Michigan Compiled Laws* provide for the funds received from the CMRS suppliers to be distributed as follows:

1. Twenty-five cents to CMRS suppliers for providing and installing equipment that implements the wireless emergency service order. The submission of an invoice and approval by the Committee is required before funds can be distributed to the CMRS suppliers.

2. Ten cents to counties, equally, for implementing the wireless emergency service order, if a final 911 plan* is in place.
3. Fifteen cents to counties, per capita, for implementing the wireless emergency service order, if a final 911 plan is in place.
4. One and one-half cents to public service answering points for training personnel assigned to 911 centers. The submission of a request for funds and approval by the Committee is required before funds can be distributed to the public service answering points.
5. Three cents to the Michigan Department of State Police to fund priority issues for 911 coverage, to be approved by the Legislature.
6. One-half cent to be retained by the CMRS supplier for billing and collection costs.

For fiscal year 1999-2000, CMRS Emergency Telephone Fund revenue was \$17.6 million and expenditures were \$8.0 million.

** See glossary at end of report for definition.*

Audit Objectives, Audit Scope, and Agency Responses

Audit Objectives

Our financial audit of the Commercial Mobile Radio Service (CMRS) Emergency Telephone Fund, Department of Treasury, had the following objectives:

1. To assess and report on the CMRS Emergency Telephone Fund's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules and on its internal control over financial reporting, based on our audit of the financial schedules.
2. To audit the CMRS Emergency Telephone Fund's financial schedules for the fiscal year ended September 30, 2000.

Audit Scope

Our audit scope was to examine the financial and other records of the Commercial Mobile Radio Service Emergency Telephone Fund for the period October 1, 1999 through September 30, 2000. Our audit was conducted 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 and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Agency Responses

Our audit report contains 2 findings and 2 corresponding recommendations. The Department of Treasury's preliminary response indicated that it agreed with the findings and will comply with the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Treasury to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING

COMMENT

Audit Objective: To assess and report on the Commercial Mobile Radio Service (CMRS) Emergency Telephone Fund's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules and on its internal control over financial reporting, based on our audit of the financial schedules.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules. Our assessment of internal control disclosed two material weaknesses. The Department of Treasury did not process CMRS Emergency Telephone Fund year-end closing transactions in accordance with generally accepted accounting principles (GAAP) and Department of Management and Budget (DMB) procedures. Also, the Department of Treasury's reconciliation of CMRS supplier collections needs to be completed in a more timely manner to provide an accurate recording of revenue.

FINDING

1. Closing Transactions

The Department of Treasury did not process CMRS Emergency Telephone Fund year-end closing transactions in accordance with GAAP and DMB procedures.

The Department of Treasury collects and distributes CMRS Emergency Telephone Fund revenue according to Sections 484.1408 and 484.1409 of the *Michigan Compiled Laws*. Payments are distributed to the counties that have a final 911 plan in place. Payments to CMRS suppliers require the submission of invoices and approval by the Emergency Telephone Service Committee. Payments to public service answering points (PSAPs) require a written request for funds and approval

by the Committee. Priority issues funded from the distribution to the Michigan Department of State Police require approval from the Legislature.

Our review of CMRS financial transactions for the closing process disclosed:

- a. The Department of Treasury established a year-end liability of \$6.1 million for fiscal year 1999-2000. The recorded liability was based on the portion of collections received that was restricted for distribution to CMRS suppliers and PSAPs but not paid by September 30, 2000. The Department of Treasury established the accrual without documentation validating that the expenditures it recorded actually occurred as of September 30, 2000 and, as a result, a liability existed. The unexpended revenue portion for CMRS suppliers and PSAPs should have been carried over from fiscal year 1999-2000 to fiscal year 2000-01 as restricted revenue.

The Department of Treasury informed us that it recorded the expenditure and related liability in an attempt to comply with Section 484.1409 of the *Michigan Compiled Laws*, which requires that all money collected and deposited in the CMRS Emergency Telephone Fund be distributed, and DMB Administrative Guide procedure 1210.27, which advises agencies to establish methods that tend toward overstating, rather than understating, liabilities in cases involving measurement problems. However, the Department of Treasury did not consider that payments to CMRS suppliers and PSAPs are a reimbursement for documented expenditures approved by the Committee, not an automatic distribution of funds as received by the counties.

Section 1600.118 of the *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), published by the Governmental Accounting Standards Board (GASB), requires recognition of expenditures on the modified accrual basis when the related liability is incurred, if measurable. DMB Administrative Guide procedure 1210.27 requires compliance with these standards. The \$6.1 million in expenditures recorded by the Department of Treasury did not fulfill the requirement for recognition of expenditures because the Department of Treasury did not have documentation that the related liability was incurred.

As of August 31, 2001, 11 months into the subsequent fiscal year, the Department of Treasury had distributed only \$400,000 of the \$6.1 million liability.

- b. The Department of Treasury did not record revenue and the related accounts receivable of \$2.5 million for collections made by the CMRS suppliers for the three-month period ended September 30, 2000 but not remitted to the State until October and November 2000. In addition, an expenditure and the related liability should have been established for \$1.1 million of the \$2.5 million for funds to be distributed to the counties.

GASB Codification Sections 1600.106 - 1600.116 provide revenue recognition criteria for the modified accrual basis of accounting, which recognizes revenues in the period in which they become measurable and available. DMB Administrative Guide procedure 1210.27 requires compliance with these standards. The \$2.5 million CMRS supplier revenue should have been recognized as revenue in fiscal year 1999-2000 based on GASB revenue recognition criteria.

Adherence to GAAP is essential in ensuring a reasonable degree of comparability among the financial reports of governmental units.

The financial schedules included in this report have been corrected for the misstatements identified in this finding, in accordance with approval from the DMB Office of Financial Management.

RECOMMENDATION

We recommend that the Department of Treasury process CMRS Emergency Telephone Fund year-end closing transactions in accordance with GAAP and DMB procedures.

AGENCY PRELIMINARY RESPONSE

The Department of Treasury agreed with the finding. With regard to item a., the Department of Treasury informed us that the liabilities it recorded resulted from interpretations of Section 484.1409 of the *Michigan Compiled Laws*. The Department of Treasury felt it was complying with the laws of the State and GAAP. The DMB Administrative Guide requires conservatism in estimating liabilities and

states that "in cases involving measurement problems, establish methods which tend toward overstating rather than understating liabilities."

The Department of Treasury informed us that it has changed procedures to comply with the audit recommendation. Liabilities are recorded only if invoices have been received from CMRS suppliers or PSAPs, as required by law. Liabilities are also recorded for any revenue related to distributions to counties because the counties are not required to provide any documentation to receive funds.

With regard to item b., the Department of Treasury informed us that it has changed procedures to comply with the audit recommendation. Revenue received in the first 60 days of the new fiscal year is recorded as accrued revenue in the previous fiscal year.

FINDING

2. Collection Reconciliations

The Department of Treasury's reconciliation of CMRS supplier collections needs to be completed in a more timely manner to provide an accurate recording of revenue.

DMB Administrative Guide procedure 1210.27 requires all State departments to establish and maintain processes that will ensure that errors in transaction processing will be identified and corrected promptly.

CMRS supplier collections of \$2.6 million were recorded as sales, use, and withholding tax revenue for fiscal year 1999-2000 because of an incorrect account number used by CMRS suppliers to initiate the electronic funds transfer process. This caused the CMRS revenue for fiscal year 1999-2000 to be understated by \$2.6 million. In addition, an expenditure and the related liability should have been established for \$1.2 million of the \$2.6 million of funds to be distributed to the counties.

CMRS supplier collections remitted to the Department of Treasury may be either through an electronic funds transfer or by check. The \$2.6 million CMRS supplier collections were received by a financial institution as an electronic funds transfer. The CMRS suppliers used the sales, use, and withholding tax account number

rather than the CMRS Emergency Telephone Fund account number when remitting the payment to the financial institution. The Department of Treasury recorded the CMRS supplier collections as sales, use, and withholding tax revenue, based on the report from the financial institution. The Department of Treasury had notified the CMRS suppliers that the incorrect account number was used; however, they continued to use the incorrect account number.

The Department of Treasury had implemented a reconciliation process to detect errors; however, these procedures were not always performed in a timely manner to help ensure accurate financial reporting. The \$2.6 million CMRS supplier collections remitted to the Department of Treasury on October 30, 2000 were not corrected until January 26, 2001.

The financial schedules included in this report have been corrected for the misstatements identified in this finding, in accordance with approval from the DMB Office of Financial Management.

RECOMMENDATION

We recommend that the Department of Treasury complete its reconciliation of CMRS supplier collections in a more timely manner to provide an accurate recording of revenue.

AGENCY PRELIMINARY RESPONSE

The Department of Treasury agreed with the finding. The Department of Treasury informed us that steps have been taken to resolve issues related to the correct application of CMRS Emergency Telephone Fund payments. Personal contacts were made with responsible individuals from the companies involved. The companies are now filing their returns and payments using the correct account numbers. In addition, steps have been taken to ensure that more timely reconciliations are done for CMRS Emergency Telephone Fund collections.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit the CMRS Emergency Telephone Fund's financial schedules for the fiscal year ended September 30, 2000.

Conclusion: We expressed an unqualified opinion on the CMRS Emergency Telephone Fund's financial schedules. The financial schedules included in this report have been corrected for the misstatements identified in the findings, in accordance with approval from the DMB Office of Financial Management.

Independent Auditor's Report on Compliance and
on Internal Control Over Financial Reporting

November 14, 2001

Dr. Douglas B. Roberts
State Treasurer
Treasury Building
Lansing, Michigan

Dear Dr. Roberts:

We have audited the General Fund financial schedules of the Commercial Mobile Radio Service Emergency Telephone Fund, Department of Treasury, for the fiscal year ended September 30, 2000 and have issued our report thereon dated November 14, 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether the Commercial Mobile Radio Service Emergency Telephone Fund's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commercial Mobile Radio Service Emergency Telephone Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial

reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commercial Mobile Radio Service Emergency Telephone Fund's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules. Reportable conditions are described in Findings 1 and 2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions identified in the previous paragraph, we consider Findings 1 and 2 to be material weaknesses.

This report is intended solely for the information and use of the State's management and the Legislature 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.

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Schedules

November 14, 2001

Dr. Douglas B. Roberts
State Treasurer
Treasury Building
Lansing, Michigan

Dear Dr. Roberts:

We have audited the accompanying schedule of General Fund revenue and the schedule of sources and disposition of General Fund authorizations of the Commercial Mobile Radio Service Emergency Telephone Fund, Department of Treasury, for the fiscal year ended September 30, 2000. These financial schedules are the responsibility of the Commercial Mobile Radio Service Emergency Telephone Fund's management and the Department of Treasury's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Commercial Mobile Radio Service Emergency Telephone Fund are accounted for principally in the General Fund of the State of Michigan.

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 schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and the sources and disposition of authorizations for the Commercial Mobile Radio Service Emergency Telephone Fund's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not

intended to constitute a complete financial presentation of either the Department of Treasury or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and the sources and disposition of authorizations of the Commercial Mobile Radio Service Emergency Telephone Fund for the fiscal year ended September 30, 2000, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2001 on our tests of the Commercial Mobile Radio Service Emergency Telephone Fund's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying supplemental financial schedule, the schedule of General Fund expenditures, is presented for purposes of additional analysis and is not a required part of the Commercial Mobile Radio Service Emergency Telephone Fund's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

COMMERCIAL MOBILE RADIO SERVICE EMERGENCY TELEPHONE FUND

Department of Treasury
Schedule of General Fund Revenue
Fiscal Year Ended September 30, 2000

REVENUE

Tax Revenue:

Commercial Mobile Radio Service tax \$ 17,322,955

Miscellaneous Revenue:

Common Cash earnings 243,511

Total Revenue \$ 17,566,466

The accompanying notes are an integral part of the financial schedules.

COMMERCIAL MOBILE RADIO SERVICE EMERGENCY TELEPHONE FUND

Department of Treasury

Schedule of Sources and Disposition of General Fund Authorizations

Fiscal Year Ended September 30, 2000

SOURCES OF AUTHORIZATION (Note 2)	
Restricted financing sources	<u>\$ 17,566,466</u>
DISPOSITION OF AUTHORIZATIONS (Note 2)	
Net expenditures	\$ 8,031,772
Restricted revenue - not authorized (carried forward)	<u>9,534,694</u>
Total	<u>\$ 17,566,466</u>

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Commercial Mobile Radio Service (CMRS) Emergency Telephone Fund, Department of Treasury, for the fiscal year ended September 30, 2000. The financial transactions of the CMRS Emergency Telephone Fund are accounted for principally in several subfunds of the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The notes accompanying these financial schedules relate directly to the CMRS Emergency Telephone Fund. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits and Other Postemployment Benefits, and Compensated Absences.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and the sources and disposition of authorizations for the CMRS Emergency Telephone Fund's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department of Treasury or the State's General Fund in accordance with accounting principles generally accepted in the United States of America.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. Restricted financing sources: Collections of restricted revenue, restricted transfers, and restricted intrafund expenditure reimbursements to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.
- b. Restricted revenue - not authorized (carried forward): Revenue that, by statute, is restricted for use to a particular program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation.

Note 3 Differences From the State's General Accounting System

The schedule of General Fund revenue was adjusted for the fiscal year ended September 30, 2000 from the amount reported in the fiscal year 1999-2000 *SOMCAFR*. CMRS tax revenue was increased by \$2.5 million. This difference resulted from the need to make a correction for revenue determined to be misstated.

Additionally, the schedule of sources and disposition of General Fund authorizations was adjusted for the fiscal year ended September 30, 2000 from the amount reported in the fiscal year 1999-2000 *SOMCAFR*. Restricted financing sources were increased by \$2.5 million, net expenditures were decreased by \$3.8 million, and restricted revenue - not authorized (carried forward) was increased by \$8.8 million. These differences resulted from the need to make corrections to certain items determined to be misstated.

SUPPLEMENTAL
FINANCIAL SCHEDULE

COMMERCIAL MOBILE RADIO SERVICE EMERGENCY TELEPHONE FUND

Department of Treasury
Schedule of General Fund Expenditures
Fiscal Year Ended September 30, 2000

EXPENDITURES

Distribution to counties - equal basis	\$ 3,209,176
Distribution to counties - per capita basis	<u>4,822,596</u>
Total Expenditures	<u>\$ 8,031,772</u>

Glossary of Acronyms and Terms

Commercial Mobile Radio Service (CMRS)	Certain communications services and equipment regulated by the Federal Communications Commission. CMRS includes wireless, 2-way communications devices, including cellular telephones; radio telecommunications lines used in providing cellular telephone services; and network radio access lines.
CMRS supplier	A person or private, governmental, or other legal entity providing a telephone service or a CMRS to a service user in the State.
CMRS user	An exchange access facility or CMRS service customer of a service supplier within a 911 system.
DMB	Department of Management and Budget.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
FCC	Federal Communications Commission.
final 911 plan	A tentative 911 service plan that has been modified to reflect necessary changes resulting from exclusions of public agencies from the 911 service district and any failure of public safety agencies to be designated as PSAPs.
GAAP	generally accepted accounting principles.
GASB	Governmental Accounting Standards Board.

internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material weakness	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
public service answering point (PSAP)	A communications facility operated on a 24-hour basis assigned the responsibility by a public agency or county to receive 911 calls and to dispatch public safety response services.
reportable condition	A matter coming to the auditor's attention relating to a deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>
unqualified opinion	An auditor's opinion in which the auditor states that: <ul style="list-style-type: none"> a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or

financial statements. In issuing this "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves.