

FINANCIAL AUDIT
OF THE
COMMERCIAL MOBILE RADIO SERVICE EMERGENCY
TELEPHONE FUND

DEPARTMENT OF TREASURY

October 1, 2000 through September 30, 2002

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Financial Audit
Commercial Mobile Radio Service Emergency
Telephone Fund
Department of Treasury

Report Number:
27-265-02

Released:
June 2004

A financial audit determines if the financial schedules are fairly presented; considers internal control over financial reporting; and determines compliance with State compliance requirements material to the financial schedules. This financial audit of the Commercial Mobile Radio Service (CMRS) Emergency Telephone Fund was conducted as part of the constitutional responsibility of the Office of the Auditor General.

Financial Schedules:

Auditor's Report Issued

We issued an unqualified opinion on CMRS Emergency Telephone Fund's financial schedules.

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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Noncompliance Material to the Financial Schedules


We did not identify any instances of noncompliance applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.

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Background:

The CMRS Emergency Telephone Fund was created to implement the Federal Communications Commission's wireless emergency service order to provide enhanced 911 service. Enhanced 911 service provides for the identification of the location and telephone number of a mobile telephone caller. The Fund was established statutorily through an amendment to Act 32, P.A. 1986, by Act 78, P.A. 1999. Act 32, P.A. 1986, is repealed, effective December 31, 2006.

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<p>A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov</p> 	<p>Michigan Office of the Auditor General 201 N. Washington Square Lansing, Michigan 48913</p> <p>Thomas H. McTavish, C.P.A. Auditor General</p> <p>Scott M. Strong, C.P.A., C.I.A. Deputy Auditor General</p>
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 29, 2004

Mr. Jay B. Rising
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Rising:

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, 2000 through September 30, 2002.

This report contains our report summary; our independent auditor's report on the financial schedules; and the Commercial Mobile Radio Service Emergency Telephone Fund financial schedules, notes to the financial schedules, and supplemental financial schedule. This report also contains our independent auditor's report on compliance and on internal control over financial reporting and a glossary of acronyms and terms.

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

AUDITOR GENERAL

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INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL SCHEDULES



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on
the Financial Schedules

October 31, 2003

Mr. Jay B. Rising
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Rising:

We have audited the financial schedules of the Commercial Mobile Radio Service Emergency Telephone Fund, Department of Treasury, for the fiscal years ended September 30, 2002 and September 30, 2001, as identified in the table of contents. 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.

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 financial schedules present only the revenues and the sources and disposition of authorizations for the Commercial Mobile Radio Service Emergency Telephone Fund's General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Commercial Mobile Radio Service

Emergency Telephone Fund or the State's General Fund in conformity 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 revenues and the sources and disposition of authorizations of the Commercial Mobile Radio Service Emergency Telephone Fund for the fiscal years ended September 30, 2002 and September 30, 2001, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2003 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 supplemental financial schedule, as identified in the table of contents, 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 Revenues
Fiscal Years Ended September 30

	<u>2002</u>	<u>2001</u>
REVENUES		
Tax Revenue:		
Commercial Mobile Radio Service Tax	\$ 24,733,579	\$ 23,735,378
Miscellaneous Revenue:		
Common cash earnings - Nonoperating	<u>561,713</u>	<u>708,259</u>
Total Revenues	<u>\$ 25,295,292</u>	<u>\$ 24,443,636</u>

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 Years Ended September 30

	2002	2001
SOURCES OF AUTHORIZATIONS (Note 2)		
Balances carried forward	\$ 22,001,340	\$ 9,534,694
Restricted financing sources	25,295,292	24,443,636
Total	\$ 47,296,632	\$ 33,978,330
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Expenditures:		
Commercial Mobile Radio Service (CMRS) suppliers	\$ 1,214,355	\$ 395,016
Counties - Equal distributions	4,827,448	4,460,830
Counties - Per capita distributions	7,241,117	6,700,155
Public safety answering points	774,874	420,988
State police priority issues	143,016	0
Total expenditures	\$ 14,200,810	\$ 11,976,990
Balances carried forward:		
Restricted revenues - not authorized/used	33,095,821	22,001,340
Total	\$ 47,296,632	\$ 33,978,330

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 for the fiscal years ended September 30, 2002 and September 30, 2001. The financial transactions of the CMRS Emergency Telephone Fund are accounted for principally in 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, Budgetary Control, and Legal Compliance; and Pension Benefits and Other Postemployment Benefits.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by generally accepted accounting principles applicable to governments. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules present only the revenues and the sources and disposition of authorizations for the CMRS Emergency

* See glossary at end of report for definition.

Telephone Fund's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the CMRS Emergency Telephone Fund or the State's General Fund in conformity with generally accepted accounting principles.

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 revenues 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 revenues - authorized or restricted revenues - not authorized/used.
- b. Expenditures:
 1. CMRS suppliers*: These expenditures represent costs incurred by CMRS suppliers for providing and installing equipment that implements the wireless emergency service order. The submission of an invoice and approval by the Emergency Telephone Service Committee is required before funds can be distributed to the CMRS suppliers.
 2. Counties - Equal distributions: These expenditures represent distributions made by the Department of Treasury to counties, equally, for implementing the wireless emergency service order, if a final 911 plan* is in place.
 3. Counties - Per capita distributions: These expenditures represent distributions made by the Department of Treasury to counties, based

* See glossary at end of report for definition.

on the county populations, for implementing the wireless emergency service order, if a final 911 plan is in place.

4. Public safety answering points*: These expenditures represent payments to public safety answering points for training personnel assigned to 911 centers. The submission of a request for funds and approval by the Emergency Telephone Service Committee is required before funds can be distributed to the public safety answering points.
 5. State police priority issues: These expenditures represent costs incurred by the Michigan Department of State Police to prioritize and fund issues for 911 coverage as approved by the Legislature.
- c. Restricted revenues - not authorized/used: Revenues that, by statute, are restricted for use to a particular program or activity. However, the expenditure of the restricted revenues is subject to annual legislative appropriation.

Note 3 Differences From the State's General Accounting System

There were no differences between the CMRS Emergency Telephone Fund financial schedules and the State's general accounting system for the fiscal year ended September 30, 2002.

The schedule of General Fund revenues and the schedule of sources and disposition of General Fund authorizations were adjusted for the fiscal year ended September 30, 2001 from the amount reported in the fiscal year 2000-01 *SOMCAFR*. The Department of Treasury requested and received approval for this presentation from the Office of Financial Management.

These differences resulted from the need to make corrections to certain items determined to be misstated as follows:

- a. Balances carried forward were increased by \$8.8 million on the schedule of sources and disposition of General Fund authorizations for misstatements noted during the fiscal year 1999-2000 audit related to the

* See glossary at end of report for definition.

recognition of revenues and expenditures. These misstatements were corrected for presentation purposes on the fiscal year 1999-2000 financial schedules.

- b. Tax revenue of \$2.5 million for fiscal year 1999-2000 revenue was recorded in fiscal year 2000-01. As a result, tax revenue was decreased on the schedule of General Fund revenues and restricted financing sources were decreased on the schedule of sources and disposition of General Fund authorizations.
- c. Miscellaneous revenue of \$5.4 million was recorded in fiscal year 2000-01 for a write-off of a fiscal year 1999-2000 account payable. This account payable misstatement was corrected for presentation purposes on the fiscal year 1999-2000 financial schedules. As a result, miscellaneous revenue was decreased on the schedule of General Fund revenues and restricted financing sources were decreased on the schedule of sources and disposition of General Fund authorizations.
- d. County expenditures of \$2.3 million for fiscal year 1999-2000 were recorded in fiscal year 2000-01. As a result, Counties - Equal distributions were decreased by \$919,000 and Counties - Per capita distributions were decreased by \$1,381,000 on the schedule of sources and disposition of General Fund authorizations.
- e. CMRS supplier and public safety answering point expenditures of \$747,000 for fiscal year 2000-01 were decreased during the write-off of the fiscal year 1999-2000 accounts payable. As a result, these expenditures were increased by \$395,000 and \$352,000, respectively, on the schedule of sources and disposition of General Fund authorizations.

The net effect of these corrections for the fiscal year ended September 30, 2001 was that CMRS revenue was decreased by \$7.9 million on the schedule of General Fund revenues. Additionally, on the schedule of sources and disposition of General Fund authorizations, balances carried forward were increased by \$8.8 million, restricted financing sources were decreased by \$7.9 million, and net expenditures were decreased by \$1.6 million.

Note 4 New Legislation

Effective January 1, 2004, Act 244, P.A. 2003, revised the revenues and eligible expenditures for CMRS:

Revenues

- a. Revenues will be reduced from \$.52 to \$.29 for each monthly CMRS customer, effective January 1, 2006. In addition, the revenues could be reduced to \$.29 after July 1, 2004 for the customers of those CMRS suppliers that elect not to seek reimbursement from the CMRS Emergency Telephone Fund.

Expenditures

- b. The Michigan Department of State Police may use a maximum of \$.01 of the monthly amount collected from CMRS customers for administrative expenditures or for operating a regional dispatch center. Local exchange providers* may recover eligible costs related to the wireless emergency service order that are recommended by the Michigan Public Service Commission and approved by the Emergency Telephone Service Committee.

* See glossary at end of report for definition.

SUPPLEMENTAL FINANCIAL SCHEDULE

COMMERCIAL MOBILE RADIO SERVICE EMERGENCY TELEPHONE FUND
 Department of Treasury
 Schedule of Restricted Revenues - Not Authorized/Used by Funding Source
Fiscal Years Ended September 30

	<u>2002</u>	<u>2001</u>
RESTRICTED REVENUES - NOT AUTHORIZED/USED		
Commercial Mobile Radio Service suppliers	\$ 30,511,522	\$ 19,270,610
Public safety answering points	732,128	774,881
State police priority issues	<u>1,852,171</u>	<u>1,955,849</u>
 Total Restricted Revenues - Not Authorized/Used	 <u>\$ 33,095,821</u>	 <u>\$ 22,001,340</u>

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND INTERNAL CONTROL



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

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

October 31, 2003

Mr. Jay B. Rising
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Rising:

We have audited the financial schedules of the Commercial Mobile Radio Service Emergency Telephone Fund, Department of Treasury, for the fiscal years ended September 30, 2002 and September 30, 2001, as identified in the table of contents, and have issued our report thereon dated October 31, 2003. 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 internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be

material weaknesses. 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. We noted no matters involving internal control over financial reporting and its operation that we consider 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

GLOSSARY

Glossary of Acronyms and Terms

commercial mobile radio service (CMRS)	Certain communications services and equipment regulated by the Federal Communications Commission. CMRS includes wireless two-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 a private, governmental, or other legal entity providing a telephone service or a CMRS to a service user in the State.
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.
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 public service answering points.
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.
local exchange provider	A provider of a regulated basic local exchange service.
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 safety
answering point**

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 significant 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

State of Michigan Comprehensive Annual Financial Report.

unqualified opinion

An auditor's opinion in which the auditor states that:

- 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.