



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

“...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

Report Number:
 27-265-05

Commercial Mobile Radio Service Emergency Telephone Fund

Department of Treasury

October 1, 2002 through September 30, 2004

Released:
 November 2005

A financial audit determines if the financial statements 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 the 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 or Other Matters Material to the Financial Schedules

We did not identify any instances of noncompliance or other matters 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 by Act 78, P.A. 1999, which amended Act 32, P.A. 1986. Further, Act 244, P.A. 2003, revised the revenues and expenditures of the Fund. Act 89, P.A. 2004, revised allowable expenditures from the restricted revenues - not authorized/not used. Act 32, P.A. 1986, is repealed, effective December 31, 2006.

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Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

November 9, 2005

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, 2002 through September 30, 2004.

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 internal control over financial reporting and on compliance and other matters 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



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

Independent Auditor's Report on the Financial Schedules

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, 2004 and September 30, 2003, 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'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 1, 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, 2004 and September 30, 2003 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 17, 2005 on our consideration of the Commercial Mobile Radio Service Emergency Telephone Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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

June 17, 2005

COMMERCIAL MOBILE RADIO SERVICE EMERGENCY TELEPHONE FUND
 Department of Treasury
 Schedule of General Fund Revenues
Fiscal Years Ended September 30

	2004	2003
REVENUES (Note 3)		
Tax Revenue:		
Commercial mobile radio service tax	\$ 28,808,968	\$ 28,061,928
Miscellaneous Revenue:		
Common cash earnings - Nonoperating	530,326	534,285
Total Revenues	\$ 29,339,294	\$ 28,596,213

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

	2004	2003
SOURCES OF AUTHORIZATIONS (Note 2)		
Balances carried forward	\$ 40,800,522	\$ 33,095,821
Restricted financing sources	29,339,294	28,596,213
Total	\$ 70,139,817	\$ 61,692,034
DISPOSITION OF AUTHORIZATIONS (Note 2)		
Expenditures and transfers:		
Commercial mobile radio service (CMRS) suppliers	\$ 8,283,944	\$ 6,641,403
Counties - Equal distributions	5,878,150	5,400,000
Counties - Per capita distributions	8,816,542	8,100,000
Public safety answering points	920,900	732,428
State police priority issues	1,867,909	17,681
State police administration	4,848	
State Building Authority public safety communications	12,000,000	
Total expenditures and transfers	\$ 37,772,293	\$ 20,891,512
Balances carried forward:		
Restricted revenues - not authorized/not used	32,367,523	40,800,522
Total	\$ 70,139,817	\$ 61,692,034

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 years ended September 30, 2004 and September 30, 2003. 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 disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; and pension benefits and other postemployment benefits.

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 by Act 78, P.A. 1999, which amended Act 32, P.A. 1986. Further, Act 244, P.A. 2003, revised the revenues and expenditures of the Fund. Act 89, P.A. 2004, revised allowable expenditures from the restricted revenues - not authorized/not used. Act 32, P.A. 1986, is repealed, effective December 31, 2006.

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

* See glossary at end of report for definition.

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 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. Balances carried forward: Restricted revenues - not authorized/not used that were not spent as of the end of the prior fiscal year. Annual legislative appropriation is required to authorize the expenditure of the restricted revenues.
- b. 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. Any amounts not expended at year-end are carried forward to the next fiscal year as restricted revenues - not authorized/not used.
- c. 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

* See glossary at end of report for definition.

Committee are 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 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 are 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.
 - (6) State police administration: These expenditures represent costs incurred by the Michigan Department of State Police for administration of the enhanced 911 service.
 - (7) State Building Authority public safety communications: These transfers represent funds transferred to the State Building Authority for rental obligations under the bonds issued to finance the Michigan public safety communication system project as required by Act 89, P.A. 2004.
- d. Restricted revenues - not authorized/not used (carried forward): Revenues that, by statute, are restricted for use to a particular program or

* See glossary at end of report for definition.

activity. However, the expenditure of the restricted revenues is subject to annual legislative appropriation.

Note 3 Schedule of General Fund Revenue

The accompanying revenue schedule has been adjusted to reflect the correction of a recording error that occurred in fiscal year 2003-04.

The Department of Treasury recorded \$248,410 of tax revenue as revenue from other services in error.

In accordance with Department of Management and Budget Administrative Guide procedure 1210.09, the Department of Treasury requested and the Office of Financial Management, Department of Management and Budget, granted a waiver to present the financial schedule with a corrected balance in tax revenue.

SUPPLEMENTAL
FINANCIAL SCHEDULE

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

	<u>2004</u>	<u>2003</u>
RESTRICTED REVENUES - NOT AUTHORIZED/NOT USED		
Commercial mobile radio service suppliers	\$ 31,345,228	\$ 37,946,954
Counties - Equal distributions		67,250
Counties - Per capita distributions		100,519
Public safety answering points	778,732	825,930
State police priority issues		1,859,869
State police administration	<u>243,563</u>	
 Total Restricted Revenues - Not Authorized/Not Used	 <u>\$ 32,367,523</u>	 <u>\$ 40,800,522</u>

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

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

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

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, 2004 and September 30, 2003, as identified in the table of contents, and have issued our report thereon dated June 17, 2005. 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.

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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

June 17, 2005

GLOSSARY

Glossary of Acronyms and Terms

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.
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.
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 safety answering points.
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.
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 misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.

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 initiate, record, process, 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	<p>An auditor's opinion in which the auditor states that:</p> <ol 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 an "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.

