



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:
 271-0265-10

Emergency 9-1-1 Fund

*Michigan Department of State Police and
 Department of Treasury*

October 1, 2007 through September 30, 2009

Released:
 November 2010

A financial audit determines if the financial schedules are fairly presented; considers internal control over financial reporting; and determines compliance with requirements material to the financial schedules. This financial audit of the Emergency 9-1-1 Fund was required by Act 32, P.A. 1986, as amended.

Financial Schedules:

Auditor's Report Issued

We issued an unqualified opinion on the Emergency 9-1-1 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 and 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 Fund was created in 1999 to provide funding to implement Act 32, P.A. 1986, as amended, known as the Emergency 9-1-1 Service Enabling Act, and to implement the Federal Communications Commission's (FCC's) wireless emergency service order. The wireless emergency service order provides for enhanced 9-1-1 service to identify the location and telephone number of a mobile telephone caller. As of May 2008, all Michigan counties were compliant with the FCC's wireless emergency service order. Legislation revised the Act in fiscal year 2007-08 to provide for the ongoing costs of operating, maintaining, upgrading, and other reasonable and necessary expenditures for Michigan's 9-1-1 system. These costs are supported by 9-1-1 service charges collected by service suppliers from service users and remitted to the Emergency 9-1-1 Fund and directly to counties.

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or by visiting our Web site at:
<http://audgen.michigan.gov>



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201 N. Washington Square
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Thomas H. McTavish, C.P.A.
Auditor General

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THOMAS H. MCTAVISH, C.P.A.
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November 12, 2010

Sheriff Dale R. Gribler, Chair
Emergency 9-1-1 Service Committee
and
Colonel Eddie L. Washington, Jr., Director
Michigan Department of State Police
333 South Grand Avenue
Lansing, Michigan

Mr. Robert J. Kleine
State Treasurer
Richard H. Austin Building
Lansing, Michigan

Dear Sheriff Gribler, Colonel Washington, and Mr. Kleine:

This is our report on the financial audit of the Emergency 9-1-1 Fund, Michigan Department of State Police and Department of Treasury, for the period October 1, 2007 through September 30, 2009.

This report contains our report summary, our independent auditor's report on the financial schedules, and the Emergency 9-1-1 Fund's 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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MICHIGAN DEPARTMENT OF STATE POLICE AND DEPARTMENT OF TREASURY

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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

Sheriff Dale R. Gribler, Chair
Emergency 9-1-1 Service Committee
and
Colonel Eddie L. Washington, Jr., Director
Michigan Department of State Police
333 South Grand Avenue
Lansing, Michigan

Mr. Robert J. Kleine
State Treasurer
Richard H. Austin Building
Lansing, Michigan

Dear Sheriff Gribler, Colonel Washington, and Mr. Kleine:

We have audited the accompanying financial schedules of the Emergency 9-1-1 Fund, Michigan Department of State Police and Department of Treasury, for the fiscal years ended September 30, 2009 and September 30, 2008, as identified in the table of contents. These financial schedules are the responsibility of the Fund's management and the Departments' 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 Emergency 9-1-1 Fund's 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 Emergency 9-1-1 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 Emergency 9-1-1 Fund for the fiscal years ended September 30, 2009 and September 30, 2008 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2010 on our consideration of the 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 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 schedule of restricted revenues - not authorized or used is presented for purposes of additional analysis and is not a required part of the 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

October 7, 2010

EMERGENCY 9-1-1 FUND
 Michigan Department of State Police and Department of Treasury
 Schedule of Revenues
Fiscal Years Ended September 30

	2009	2008
REVENUES		
Tax revenue (Note 2):		
9-1-1 service charge	\$ 27,187,722	\$ 23,043,260
Miscellaneous revenues:		
Common cash earnings - Nonoperating	278,697	793,918
Refund of prior year expenditure	35,871	56,731
Total revenues	\$ 27,502,290	\$ 23,893,909

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

EMERGENCY 9-1-1 FUND
Michigan Department of State Police and Department of Treasury
Schedule of Sources and Disposition of Authorizations
Fiscal Years Ended September 30

	<u>2009</u>	<u>2008</u>
SOURCES OF AUTHORIZATIONS (Note 3)		
Balances carried forward	\$ 22,687,195	\$ 21,407,057
Restricted financing sources	<u>27,502,290</u>	<u>23,893,909</u>
Total	<u>\$ 50,189,485</u>	<u>\$ 45,300,966</u>
DISPOSITION OF AUTHORIZATIONS (Note 3)		
Expenditures:		
Local exchange providers and service suppliers	\$ 1,199,492	\$ 1,502,115
Counties - Equal distributions	8,990,651	7,814,071
Counties - Per capita distributions	13,486,252	11,723,672
Public safety answering points - Training	1,466,276	1,157,184
State police administration	<u>924,289</u>	<u>416,729</u>
Total expenditures	\$ 26,066,960	\$ 22,613,771
Balances carried forward:		
Restricted revenues - not authorized or used	<u>24,122,525</u>	<u>22,687,195</u>
Total	<u>\$ 50,189,485</u>	<u>\$ 45,300,966</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 Emergency 9-1-1 Fund (formerly the Commercial Mobile Radio Service* Emergency Telephone Fund), administered by the Michigan Department of State Police (MSP) and the Department of Treasury, for the fiscal years ended September 30, 2009 and September 30, 2008. The financial transactions of the Fund are accounted for 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 Emergency 9-1-1 Fund. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; pension benefits; and other postemployment benefits.

The Fund was created in 1999 to provide funding to implement Act 32, P.A. 1986, as amended, known as the Emergency 9-1-1 Service Enabling Act, and to implement the Federal Communications Commission's (FCC's) wireless emergency service order. The wireless emergency service order provides for enhanced 9-1-1 service to identify the location and telephone number of a mobile telephone caller. As of May 2008, all Michigan counties were compliant with the FCC's wireless emergency service order. Legislation revised the Act in fiscal year 2007-08 to assist with the ongoing costs of operating, maintaining, upgrading, and other reasonable and necessary expenditures for Michigan's 9-1-1 system*.

The Act requires 9-1-1 service charges to be collected by service suppliers* from service users* and remitted to the Emergency 9-1-1 Fund. The Act was revised in fiscal year 2007-08 to expand the 9-1-1 service

* See glossary at end of report for definition.

charges to service users of all communication devices, which generally include local telephone, cellular telephone, wireless communication, and interconnected voice over Internet devices that can access emergency services by dialing 9-1-1.

The Act established the Emergency 9-1-1 Service Committee (formerly the Emergency Telephone Service Committee) within MSP to provide oversight, including developing Statewide standards, determining county and public safety answering point* (PSAP) eligibility for funding, notifying service suppliers of 9-1-1 service charges, recommending changes in 9-1-1 service charges and distribution percentages, and collecting and reporting data to the Legislature. The Department of Treasury collects the 9-1-1 service charges and expends the funds as required in the Act. The Act is repealed effective December 31, 2014.

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 accounting principles generally accepted in the United States of America. 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 Emergency 9-1-1 Fund's accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Fund or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

* See glossary at end of report for definition.

Note 2 Schedule of Revenues

Effective July 1, 2008, Act 32, P.A. 1986, as amended, replaced the monthly 9-1-1 service charge of \$0.29 on contractual cellular telephone subscribers with a \$0.19 monthly 9-1-1 service charge on all communication devices, including local telephone, contractual and prepaid cellular telephones, wireless communication, and interconnected voice over Internet devices. The monthly 9-1-1 service charges are collected from service users by service suppliers and remitted to the Emergency 9-1-1 Fund. In addition, the Act allows counties to assess a county 9-1-1 service charge collected by the service suppliers and paid directly to the counties, except for prepaid cellular telephone customers, whose weighted county 9-1-1 service charge is paid to the Emergency 9-1-1 Fund. The 9-1-1 service charges remitted to the Emergency 9-1-1 Fund are distributed to the entities identified in Note 3c.

Note 3 Schedule of Sources and Disposition of Authorizations

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

- a. Balances carried forward: Restricted revenues - not authorized or 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 used to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount of revenue recorded. Any amounts not expended at year-end are carried forward to the next fiscal year as restricted revenues - not authorized or used.
- c. Expenditures: Act 32, P.A. 1986, as amended, provides for the revenue collected in the Emergency 9-1-1 Fund to be distributed to local exchange providers* (LEPs) (7.75%), counties on an equal basis (40% of 82.5%), counties on a per capita basis (60% of 82.5%), PSAPs (6.0%), MSP

* See glossary at end of report for definition.

regional dispatch center (1.88%), and MSP administration and 9-1-1 coordinator (1.87%):

- (1) Local exchange providers and service suppliers: These expenditures are reimbursement of costs related to wireless emergency service.
 - (2) Counties - Equal distributions: These expenditures are each county's share of the 9-1-1 service charges collected by the Department of Treasury and distributed on an equal basis to all counties that had a final 9-1-1 plan* in place. The counties then distribute the funds to the PSAPs within their service district to operate Michigan's 9-1-1 system.
 - (3) Counties - Per capita distributions: These expenditures are each county's share of the 9-1-1 service charges collected by the Department of Treasury and distributed based on the county populations to all counties that have a final 9-1-1 plan in place. The counties then distribute the funds to the PSAPs within their service district to operate Michigan's 9-1-1 system.
 - (4) Public safety answering points - Training: These expenditures are payments to PSAPs for training personnel assigned to 9-1-1 centers. The submission of a request for funds and approval by the Emergency 9-1-1 Service Committee are required before funds can be distributed to the PSAPs.
 - (5) State police administration: These expenditures are costs incurred by MSP to administer the Act, maintain the office of the State 9-1-1 coordinator, and operate a regional dispatch center.
- d. Restricted revenues - not authorized or used: Revenues that, by statute (Act 32, P.A. 1986, as amended), are restricted for use to a particular program or activity. See the supplemental schedule of restricted revenues - not authorized or used for more details on program or activity restrictions.

* See glossary at end of report for definition.

Note 4 Financial Schedule Presentation

The Department of Treasury requested and received approval from the Office of Financial Management, Department of Technology, Management & Budget, to present the Emergency 9-1-1 Fund financial schedules differently than the presentation in the *SOMCAFR* for fiscal year 2008-09. The differences include a decrease in 9-1-1 service charge revenue of \$1.7 million and related expenditures of \$1.0 million and balances carried forward of \$0.2 million. The transactions should have been recorded in the *SOMCAFR* in fiscal year 2007-08 but were recorded in fiscal year 2008-09.

SUPPLEMENTAL
FINANCIAL SCHEDULE

EMERGENCY 9-1-1 FUND
Michigan Department of State Police and Department of Treasury
Schedule of Restricted Revenues - Not Authorized or Used
Fiscal Years Ended September 30

	2009	2008
RESTRICTED REVENUES - NOT AUTHORIZED OR USED		
Restricted for use as follows:		
Local exchange providers and service suppliers	\$ 20,721,220	\$ 19,606,327
Public safety answering points - Training	1,675,067	1,461,040
State police administration operations	747,234	631,330
State police administration of the 9-1-1 Office and Feasibility Study	979,004	988,499
Total restricted revenues - Not authorized or used	\$ 24,122,525	\$ 22,687,195

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND COMPLIANCE



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

Sheriff Dale R. Gribler, Chair
Emergency 9-1-1 Service Committee
and
Colonel Eddie L. Washington, Jr., Director
Michigan Department of State Police
333 South Grand Avenue
Lansing, Michigan

Mr. Robert J. Kleine
State Treasurer
Richard H. Austin Building
Lansing, Michigan

Dear Sheriff Gribler, Colonel Washington, and Mr. Kleine:

We have audited the financial schedules of the Emergency 9-1-1 Fund, Michigan Department of State Police and Department of Treasury, for the fiscal years ended September 30, 2009 and September 30, 2008, as identified in the table of contents, and have issued our report thereon dated October 7, 2010. 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 Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Governor, the Legislature, the Emergency 9-1-1 Service Committee, the Michigan Department of State Police and the Department of Treasury, and others within the Fund's management 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

October 7, 2010

GLOSSARY

Glossary of Acronyms and Terms

9-1-1 system	A system for providing a 9-1-1 service, which allows service users to reach a PSAP by dialing 9-1-1.
commercial mobile radio service	Certain communications services and equipment regulated by the FCC. This service includes wireless two-way communications devices, including cellular telephones, radio telecommunications lines used in providing cellular telephone services, and network radio access lines.
communications service	A service capable of accessing, connecting with, or interfacing with a 9-1-1 system, exclusively through the numerals 9-1-1, by dialing, initializing, or otherwise activating the 9-1-1 system through the numerals 9-1-1 by means of a local telephone device, cellular telephone device, wireless communication device, interconnected voice over the Internet device, or any other means.
control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
FCC	Federal Communications Commission.
final 9-1-1 plan	A plan prepared by one or more counties for implementing a 9-1-1 system in a specified 9-1-1 service district with final modifications, if necessary, from the tentative 9-1-1 plan.
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 presented fairly in all material respects in conformity with the disclosed basis of accounting.

internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
local exchange provider (LEP)	A provider of basic local exchange service, which means the provision of an access line and usage within a local calling area for the transmission of high quality two-way interactive switched voice or data communication.
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 in internal control over financial reporting	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected.
MSP	Michigan Department of State Police.
public safety answering point (PSAP)	A communications facility operated on a 24-hour basis assigned the responsibility by a public agency or county to receive 9-1-1 calls and to dispatch public safety response services.
service supplier	An individual, a corporation, a partnership, an association, a governmental entity, or any other legal entity providing a communications service to a service user in this State.

service user An individual, a corporation, a partnership, an association, a governmental entity, or any other legal entity receiving a communications service (such as local telephone service or cellular telephone service).

significant deficiency in internal control over financial reporting A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules and/or financial statements that is more than inconsequential will not be prevented or detected.

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 an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements 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 and/or financial statements taken by themselves.

