

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

DISTRICT OF COLUMBIA

E911/E311 SPECIAL REVENUE FUND

**Financial Statements
(With Independent Auditors' Report Thereon)
Fiscal Year Ended September 30, 2012**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



April 5, 2013

The Honorable Vincent C. Gray
Mayor
District of Columbia
Mayor's Correspondence Unit, Suite 316
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Gray and Chairman Mendelson:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2012, Bert Smith & Co. (BS&C) submitted the enclosed final report on the District of Columbia E911/E311 Special Revenue Fund (Fund) (OIG No. 13-1-17UC).

BS&C opined that the financial statements present fairly, in all material respects, the financial position of the Fund and the changes in its financial position for the year ended September 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, BS&C also has issued its report on consideration of the Fund's internal control over financial reporting and on its tests of the Fund's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. This report identifies one significant deficiency. A deficiency in internal control over financial reporting 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 and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is important enough to merit attention by those charged with governance. The significant deficiency identified in the report is tracking accounting transactions in one fund. Additionally, tests performed of compliance disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Mayor Gray and Chairman Mendelson
FY 2012 E911/E311 Special Revenue Fund Financial
Statements and Independent Auditors' Report
OIG No. 13-1-17UC – Final Report
April 5, 2013
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If you have questions or need additional information, please contact me or Ronald W. King,
Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,


Charles J. Willoughby
Inspector General

CJW/ws

Enclosure

cc: See Distribution List

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Mayor Gray and Chairman Mendelson
FY 2012 E911/E311 Special Revenue Fund Financial
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OIG No. 13-1-17UC – Final Report
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Mr. Paul Geraty, CPA, Public Sector Audit Division KPMG LLP (1 copy)

GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(Together With Independent Auditors' Report)

BERT SMITH
& Co.

Certified Public Accountants and Management Consultants

GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Council of the
Government of the District of Columbia

We have audited the accompanying financial statements of the Government of the District of Columbia (the District) E911/E311 Special Revenue Fund (the Fund) as of and for the year ended September 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Fund's September 30, 2011 financial statements and, in our report dated February 29, 2012, we expressed an unqualified opinion on those financial statements.

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the E911/E311 Special Revenue Fund and do not purport to, and do not present fairly the financial position of the District as of September 30, 2012 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2012, and the changes in the financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2013 on our consideration of the District'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 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.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and budgetary comparison information on pages 3 through 6 and page 11, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion on provide any assurance.

Bert Smith & Co.

February 15, 2013
Washington, D.C.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012

The following is a discussion and analysis of the Government of the District of Columbia (District) E911/E311 Special Revenue Fund's (Fund) financial performance for the fiscal year ended September 30, 2012. The Office of Unified Communications, which is an independent District agency, is responsible for the administration of the Fund. The financial statements and accompanying notes on pages 7 through 10 should be read in conjunction with this discussion.

Basic Financial Statements

The Fund's basic financial statements are comprised of two components: fund financial statements and notes to the financial statements.

- **Fund Financial Statements.** The governmental financial statements focus primarily on the sources, uses, and balances of current financial resources. The financial statements consist of a balance sheet and statement of revenues, expenditures, and changes in fund balances.
- **Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

Financial Highlights

- Pooled Cash decreased by \$8,483,190 or 50.16%.
- Vouchers Payable decreased by \$6,509,059 or 83.36%.
- User Fees decreased by \$869,598 or 6.72%.
- Overall Expenditures decreased by \$6,041,502 or 40.68%.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2012

Condensed Balance Sheets as of September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Variance</u>	<u>% Variance</u>
Assets				
Current Assets	\$11,751,970	\$20,143,126	\$(8,391,156)	-41.66%
Liabilities				
Current Liabilities	1,299,616	12,961,189	(11,661,573)	-89.97%
Fund Balance				
Restricted	10,452,354	7,181,937	3,270,417	45.54%
Total Liabilities and Fund Balance	<u>\$11,751,970</u>	<u>\$20,143,126</u>	<u>\$(8,391,156)</u>	<u>-41.66%</u>

Assets

As of September 30, 2012, the Fund had a pooled cash balance of \$8,428,640, a 50.16% decrease from 2011. The decrease is mainly attributed to the payment of the P25 radio upgrades which totaled \$7,446,607. The upgrades were accrued in the prior year. In addition, the Fund had a decrease in user fees of about \$869,598.

Liabilities

Vouchers payable decreased by \$6,509,059 primarily due to the payment of radio upgrade accruals during the fiscal year.

Due to District General and Special Purpose Revenue Funds decreased by \$5,152,514. The funds owed to the other agencies for transfers incorrectly made to the Fund in 2011 were paid in 2012.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2012

Condensed Statements of Revenues, Expenditures, and Changes in Fund Balance for the Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Variance</u>	<u>% Variance</u>
Revenue				
User Fees	\$ 12,064,942	\$ 12,934,540	\$ (869,598)	-6.72%
Total Revenue	<u>12,064,942</u>	<u>12,934,540</u>	<u>(869,598)</u>	<u>-6.72%</u>
Expenditures				
Professional Fees	3,526,726	2,817,302	709,424	25.18%
IT Software Maintenance and Acquisitions	3,270,132	9,512,900	(6,242,768)	-65.62%
Security Services	1,596,781	1,612,637	(15,856)	-98%
Equipment & Equipment Rental	23,292	601,304	(578,012)	-96.13%
Other Expenditures	391,816	306,106	85,710	28.00%
Total Expenditures	<u>8,808,747</u>	<u>14,850,249</u>	<u>(6,041,502)</u>	<u>-40.68%</u>
Interest Income	14,222	22,103	(7,881)	-35.66%
Net Transfers Out	<u>-</u>	<u>(9,263,190)</u>	<u>9,263,190</u>	<u>-100.00%</u>
Change in Fund Balance	<u>\$ 3,270,417</u>	<u>\$(11,156,796)</u>	<u>\$14,427,213</u>	<u>-129.31%</u>

Revenue

The Fund assesses user fees to carriers. The fiscal year 2012 fees totaled \$12,064,942, which was a decrease of \$869,598 or 6.72%. The decrease in user fees is mainly attributed to a reduction in the number of (wireless and wireline) landlines as more consumers are only using wireless telephones. User fees are based on the number of landlines in a home.

Expenditures

Overall expenditures decreased by \$6,041,502 or 40.68% due to purchase of the P25 Radio Upgrades in 2011 which were funded by capital and grant funds. The District also received a Capital reprogramming of \$3.0M in Fiscal Year 2012 solely for the purpose of the P25 Radio Upgrade.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2012

Transfers

In 2011, the District's City Council authorized the transfer of funds from the Fund to the District's General Fund as part of the Fiscal Year 2011 Transfer of Special Purpose Funds Act of 2010.

This report is designed to provide a general financial overview of the Government of the District of Columbia's Government E911/E311 Special Revenue Fund. If you have any questions regarding this report, please contact Angelique Hayes, Associate Chief Financial Officer for Public Safety and Justice Cluster.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
BALANCE SHEET
SEPTEMBER 30, 2012
(With Comparative Totals for 2011)

	2012	2011
ASSETS		
Pooled Cash	\$ 8,428,640	\$ 16,911,830
Accounts Receivable	2,837,108	3,039,934
Due from District's General Fund	472,000	-
Interest Receivable	14,222	-
Prepaid Expenditures	-	191,362
Total Assets	\$ 11,751,970	\$ 20,143,126
 LIABILITIES AND FUND BALANCE		
Liabilities		
Vouchers Payable	\$ 1,299,616	\$ 7,808,675
Due to District's General and Special Revenue Funds	-	5,152,514
Total Liabilities	1,299,616	12,961,189
 Fund Balance		
Restricted	10,452,354	7,181,937
Total Fund Balance	10,452,354	7,181,937
 Total Liabilities and Fund Balance	 \$ 11,751,970	 \$ 20,143,126

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u>
Revenue		
Wireline, Wireless, and VOIP User Fees	\$ 11,674,161	\$ 12,570,873
Prepaid Wireless and Internet User Fees	390,781	363,667
Total Revenue	<u>12,064,942</u>	<u>12,934,540</u>
Expenditures		
Supplies	41,648	19,621
Professional Service Fees	1,889,073	2,301,412
Contractual Services	1,637,653	515,890
IT Software Maintenance	2,881,873	4,303,445
IT Hardware Acquisitions	388,259	5,209,455
Equipment & Equipment Rental	23,292	601,304
Security Services	1,596,781	1,612,637
Office Support	10,152	169,648
Other	340,016	116,837
Total Expenditures	<u>8,808,747</u>	<u>14,850,249</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	3,256,195	(1,915,709)
Other Financing Sources (Uses)		
Interest Income	14,222	22,103
Transfer from the District General Fund	-	1,373,375
Transfer to the District General Fund	-	(10,636,565)
Total Other Financing Sources (Uses)	<u>14,222</u>	<u>(9,241,087)</u>
Net Change in Fund Balance	3,270,417	(11,156,796)
Fund Balance, at October 1	<u>7,181,937</u>	<u>18,338,733</u>
Fund Balance, at September 30	<u>\$ 10,452,354</u>	<u>\$ 7,181,937</u>

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 DESCRIPTION OF FUND

The Emergency and Non-Emergency Number Telephone Calling Systems Fund (the "Fund") was created on August 11, 2000 pursuant to the Emergency and Non-Emergency Telephone Calling Systems Fund Act of 2000 (the "Act"). The Fund is a special revenue fund of the District of Columbia (the "District") and is funded by user fees imposed by the Act. The user fees are collected from providers who have subscribers with wireless, wireline, and voice over internet protocol services. Effective October 1, 2010, the Fund began collecting fees from providers who sell prepaid wireless services. The Office of Unified Communication (OUC), an independent District agency, is responsible for the administration of the Fund.

Under the Act, none of the monies from the Fund can be used to defray personnel costs and non-personnel costs related to overhead, including energy, rentals, janitorial services, or occupancy costs. These costs are funded by local appropriated funds. The Fund can be used to defray technology and equipment costs directly incurred in providing a 911 system and direct costs incurred by wireless carriers in providing wireless E-911 service.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- ***Reporting Entity***
The Fund is a special revenue fund of the District. These financial statements present only the Fund and are not intended to present fairly the financial position or changes in financial position of the District as a whole in conformity with accounting principles generally accepted in the United States of America.
- ***Measurement Focus and Basis of Accounting***
The financial statements are accounted for using the flow of current financial resources measurement focus and the modified basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available when collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, any revenues collected within 60 days after year-end is considered available to pay liabilities of the Fund. Expenditures are recorded when the liability is incurred.
- ***Estimates***
The preparation of the financial statement in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities. These estimates also affect the contingent assets and liabilities at the date of the financial statements and the reported amounts of receivables and expenses during the period. Accordingly, actual results could differ from those estimates.

NOTE 3 POOLED CASH

The Fund's cash is deposited into an invested pooled account with the District. In accordance with District policies, substantially all of its deposits were insured or collateralized with securities held by the District or by its agent in the name of the District.

As required by D.C. Law 34-1802, the District allocates to the Fund its share of interest income earned from the pooled account. In fiscal year 2012, interest income allocated to the Fund totaled \$14,222. At September 30, 2012, the Fund's pooled cash with the District totaled \$8,428,640.

NOTE 4 ACCOUNTS RECEIVABLE

Accounts Receivable represents an estimate of fourth quarter fees owed by carriers. At September 30, 2012, accounts receivable was estimated at \$2,837,108.

NOTE 5 DUE FROM DISTRICT GENERAL FUND

The Fiscal Year 2011 Transfer of Special Purpose Funds Act of 2010 (Act) authorized the transfer of \$472,000 from the Fund to the District's General Fund for the current year and for the next two subsequent fiscal years. The District made the current year transfer of \$472,000. However, because the Fund's use is restricted for the purchase of E911 equipment and it does not have any unrestricted funds, the transfer should not have been made. As a result, a due from the District General Fund has been recorded at year-end of \$472,000.

NOTE 6 SUBSEQUENT EVENTS

The District has evaluated any subsequent events through the date this report was available for issuance which is February 15, 2013. The review revealed no material events that would have an effect on the financial statements.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
User Fees	\$12,028,000	\$12,064,942	\$ (36,942)
Total Revenues	<u>12,028,000</u>	<u>12,064,942</u>	<u>(36,942)</u>
Expenditures			
Supplies and Materials	176,666	41,648	135,018
Telephone, Telegraph, and Telegram	1,612,637	31,251	1,581,386
Security Services	-	1,596,781	(1,596,781)
Others Services and Charges	6,416,912	5,089,863	1,327,049
Contractual Services-Other	2,545,981	1,637,653	908,328
Equipment and Equipment Rental	1,275,804	411,551	864,253
Total Expenditures	<u>12,028,000</u>	<u>8,808,747</u>	<u>3,219,253</u>
Revenue Over Expenditures	<u>\$ -</u>	<u>\$ 3,256,195</u>	<u>\$ (3,256,195)</u>

GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
NOTE TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NOTE 1 BUDGET BASIS

The Fund has a legal adopted budget approved by the District's City Council. Pursuant to the Reprogramming Policy Act, the District may reallocate budget amounts within an appropriation title. No reallocations occurred within the Fund in fiscal year 2012. The budgetary comparison schedule has been prepared in accordance with the accounting principles generally accepted in the United States of America.



**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Mayor and Council of the
Government of the District of Columbia

We have audited the financial statements of the District of Columbia Government's (the District) E911/E311 Special Revenue Fund (the Fund) as of and for the year ended September 30, 2012 and have issued our report thereon dated February 15, 2013. 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 above. However, we identified a certain deficiency in internal control over financial reporting, described below that we consider to be a significant deficiency in internal control over financial reporting.

1. Tracking Accounting Transactions in One Fund

The District maintains the account balances of the Fund's wireline, wireless, and VOIP transactions in two separate funds within SOAR (Fund 600 and Fund 1630). The District established fund (1630) when the Office of Unified Communications (OUC) became a separate independent agency. Since the account balances in Funds 600 and 1630 are related to the E911/E311 Special Revenue Fund the account balances should be reflected in one fund to reduce the potential for misstatements of the respective account balances.

Recommendation: We recommend that the District closeout the Fund 600 account balances to the related Fund 1630 account balances.

Management's Response: The balances in fund detail 0600 represent prior years' activities. There is no current year activity in this fund. The OCFO will transfer out all prior year balances from fund detail 0600.

A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements 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 statement 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*.

The District's response to the finding identified in our audit is described above. We did not audit the District's response and, according, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, the Council of District of Columbia Government, and management and is not intended to be and should not be used by anyone other than these specified parties.



February 15, 2013
Washington, D.C.