



*Cobb County...Expect the Best!*

***INTERNAL AUDIT DIVISION***

***Report Number: 2012-002***

***FINAL REPORT - Review of Cobb County  
E911 Fund***

***February 6, 2012***

***Latona Thomas, CPA, Manager  
Barry Huff, Staff Auditor I***

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## COBB COUNTY INTERNAL AUDIT

Latona Thomas, CPA

100 Cherokee Street, Suite 250  
Marietta, Georgia 30090  
phone: (770) 528-2559 • fax: (770) 528-2642  
TDD/TTY: (678) 581-5429  
latona.thomas@cobbcounty.org

*Division Manager*

February 6, 2012

### MEMORANDUM TO COBB COUNTY MANAGER

FROM: Latona Thomas, CPA, Manager 

SUBJECT: **FINAL REPORT** - Review of Cobb County E911 Fund

Attached for your review is the subject audit report. The objective of our audit was to determine if the E911 Fund is effectively administered to ensure adequate funding to keep the fund solvent; adequate controls over receipts and expenditures for completeness, accuracy, and recordation; and laws and regulations are being followed.

#### **Impact on the Governance of the County**

The findings in the report will help ensure the E911 Fund (the Fund) remains solvent, and there are adequate controls over the accounting of E911 funds. In addition, Cobb County (the County) management will be assured the Fund is properly managed in accordance with the current laws and regulations.

#### **Executive Summary**

Our review showed that generally the E911 Fund is administered effectively. Revenue from telephone service providers was accounted for and questioned when not received. Reserves were maintained to ensure funds were available to timely pay cost recovery fees to wireless telephone providers. Laws pertaining to the administration of the E911 Fund generally were followed. An Annual Financial Report was submitted to the State Treasurer Office as required. All transfers to/from the Fund were appropriate and the methodology and rates used to direct bill the Fund for support services appears reasonable. Finance management periodically reviewed E911 related workflow and recommended steps to improve efficiency and effectiveness.

Although the Fund is currently solvent, we determined that actions are necessary to ensure its long-term solvency and improve controls over receipts and expenditures.

### **Recommendations**

We made several recommendations designed to help ensure the solvency of the Fund and improve controls over the processing of remittances and expenditures including:

- Deciding whether to allocate additional costs to the E911 Fund.
- Evaluating the adequacy of the current surcharge rate.
- Evaluating the County's cost to provide dispatch services to cities.
- Securing written confirmations from two wireless providers on whether they plan to bill for any outstanding non-recurring costs.
- Ensuring reserves can be kept to a minimum, and payments of the recovery costs can be monitored.
- Establishing procedures to ensure all surcharges are collected.
- Utilizing the E911 Advisory Board.
- Modifying reserve practices to make funds available for expenditures.
- Increasing controls over remittance processing.
- Consider an alternative billing for cost recovery.

### **Response**

The Emergency Management Director provided a consolidated response with input from the Finance Department. They concurred with 11 of our 12 recommendations and have begun to implement proposed corrective actions. We provided an additional comment on the recommendation to implement better separation of duty controls for remittance processing. Management assumes the inherent risk of the current process. We will perform our normal six month follow-up on the implementation of corrective actions proposed in the remaining 11 recommendations. The complete response to the draft report is included as Appendix V.

Copies of this report will be sent to the managers affected by the report recommendations. Please contact me at (770) 528-2559 if you have questions or Barry G. Huff, Auditor-in-Charge, at (770) 528-2558.

## **Background**

### **Nationwide Implementation<sup>1</sup>**

In November 1967, the Federal Communications Commission (FCC) met with the American Telephone and Telegraph Company (AT&T) to find a means of establishing a universal emergency number that could be implemented quickly. In 1968, AT&T announced that it would establish the digits 911 (nine-one-one) as the emergency code throughout the United States. The United States Congress backed AT&T's proposal and passed legislation allowing the use of only the numbers 911 when creating a single emergency calling service, thereby making 911 a standard emergency number nationwide.

On February 16, 1968, Senator Rankin Fite completed the first 9-1-1 call made in the United States in Haleyville, Alabama. By the end of 1976, 911 was serving about 17% of the population of the United States. In 1979, approximately 26% of the population of the United States had 911 service, and nine states had enacted 911 legislation. At this time, 911 service was growing at the rate of 70 new systems per year. By 1987, those figures had grown to indicate that 50% of the US population had access to 911 emergency service numbers.

### **Georgia and Cobb County Implementation**

In 1977, the Georgia assembly passed a law with the intent to create a cohesive statewide emergency 911 system in Georgia. The Emergency Communications Director stated Cobb's Basic<sup>2</sup> system was started in the late 1970s. We reviewed the County Clerk's Office files from 1970 to 1981 and did not see any reference to the establishment of the 911 system; however, from various sources we did note that the County consolidated its Fire and Police dispatch and created an Enhanced<sup>3</sup> 911 system in 1987. Until the beginning of FY1991, the 911 Emergency System was budgeted as a division of the Police Department. Beginning in FY 1991, the **E911 Fund** (a special revenue fund<sup>4</sup>) was created to record the revenue and expenditures used to operate the 911 system.

In January 1997, the City of Marietta merged its 911 dispatch services with Cobb County. In November 1999, the City of Powder Springs merged its Police dispatch with Cobb County, as the County was already providing Fire dispatch and services. Acworth and Kennesaw combined their 911 systems in 2007 and dispatched their own Police services; however, fire calls are transferred to the Cobb County 911 system for dispatch of Cobb County Fire services. Fire services for the cities of Acworth, Kennesaw and Powder Springs are paid by their residents via a 2.56 Fire millage in their property taxes.

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<sup>1</sup> National Emergency Number Association

<sup>2</sup> Basic 911 means that when the three-digit number is dialed, the call is delivered across dedicated circuits to a call taker/dispatcher in a local Public Safety Answering Point (PSAP), or 911 center, who answers the call. The emergency and its location are communicated by voice between the caller and the call taker.

<sup>3</sup> Enhanced 911 means the call is selectively routed and the local 911 center has equipment and database information that allow the call taker to see the caller's phone number and address on a display. This lets them quickly dispatch emergency help, even if the caller is unable to communicate where they are or what is the emergency.

<sup>4</sup> A special revenue fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The cities of Austell and Smyrna provide their own Fire, Police and 911 dispatch services. See chart below for services provided by the County.

**PUBLIC SAFETY SERVICES OFFERED CITIES**

Cities	911 Dispatch		Public Safety Service	
	Fire	Police	Fire	Police
Austell				
Acworth	X		X	
Kennesaw	X		X	
Smyrna				
Powder Springs	X	X	X	
Marietta	X	X		

Source: Ann Flynn, Assistant Director, Emergency Communications

Beginning in 2000, wireless service providers began to provide enhanced wireless service. The County entered into agreements with some wireless service vendors to provide this enhanced service; however, all of the agreements are currently expired. The cost recovery for providing this service is discussed below.

**Revenue and Costs**

A state law was passed in 1990, giving counties and municipalities the authority to recover the cost to operate an emergency 911 telephone system through a charge of up to \$1.50 per telephone line. On June 12, 1990, the County’s Board of Commissioners (BOC) passed a resolution to direct the telephone company to charge its unincorporated Cobb County customers \$1.25 per landline.

By resolution of the Board of Commissioners, starting March 25, 1999, wireless service providers were required to collect a \$1.00 surcharge from customers for the 911 system. In addition, the wireless providers are allowed to invoice the County up to \$.45 per subscriber<sup>5</sup> for the actual costs associated with providing Phase I and Phase II of the enhanced wireless 911 services. These costs are categorized as non-recurring (NRC) and monthly recurring (MRC) costs<sup>6</sup>. All telephone providers who collect 911 fees are allowed to retain a 3% administrative fee to offset the cost of collection.

Revenue from the 911 charges can be used to pay for emergency telephone equipment, service provider cost recovery and recurring charges, salaries, office supplies, building, computer hardware and software, public education materials, and logging recorders. In 2011, Georgia State legislation allowed additional usage including the payment of indirect costs, public safety voice and data equipment (i.e. 800 MHz costs), geo-targeted text messaging alert systems or towers necessary to carry out the function of 911 operations. Per discussion with Finance Department staff, the implementation of this legislation will not be implemented right away, but will be researched further for future impact.

The County is currently authorized to collect a \$1.25 fee from each landline and wireless telephone provider within the boundaries of unincorporated Cobb County and the cities of Marietta and Powder Springs.

<sup>5</sup> Customer of the wireless company.

<sup>6</sup> See Glossary for definition of terms.

## ***Results of Review***

We performed a comprehensive assessment of the administration of the E911 Fund and determined generally, the process to track payments, receipts and reserve balances was effective. Tax returns and invoices received from telephone service providers were tracked, monitored and questioned when not received. Invoices for wireless cost recovery fees were paid, on average, within 15 days. Money set aside in reserve to pay non-recurring (NRC) and monthly recurring (MRC) costs was accurately calculated and accounted for. The Finance Department Division Manager performed periodic reviews of the E911 workflow and recommended steps to improve the efficiency and effectiveness. Laws pertaining to the administration of the E911 fund generally were followed. An Annual Financial Report was submitted to the State Treasurer Office as required. All transfers to/from the fund were appropriate. The methodology and rates used to direct bill the Fund appear reasonable.

We also identified some actions that need to be taken to ensure the solvency of the Fund and improve accounting processes.

### ***Changes Are Needed to Ensure Solvency of the E911 Fund***

Our review of the projected financial model for the E911 Fund revealed that with proposed capital expenditures estimated at \$4 million for FY2012 and \$1.9 million in FY2013, the E911 Fund will remain solvent under current fiscal policies and projected revenue and operating expenditures.

Although the solvency of the Fund is not an issue at this time, future changes in fiscal policies and lack of adherence to established administrative guidelines could significantly affect the Fund. Therefore, in order to ensure its long-term solvency, County management should:

- Decide Whether to Allocate Additional Costs to the E911 Fund.
- Evaluate the Current E911 System Surcharge.
- Evaluate Costs to Operate Cities' E911 Operations.
- Change Cost Recovery Fund Balance Reserve.
- Utilize the E911 Advisory Board.
- Decide Whether to Audit Telephone Providers.

### ***Decide Whether to Allocate Additional Costs to the E911 Fund***

The solvency of the Fund could be jeopardized if the County decides to appropriate additional expenditures to the Fund that have been authorized by recent legislation. A new law<sup>7</sup> provides for additional uses for the E911 Fund including paying for the lease, purchase and maintenance of communication equipment (i.e. 800 MHz) and using the indirect cost method to allocate costs associated with supporting the E911 system.

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<sup>7</sup> HB 280, A BILL to be entitled an Act to amend Part 4 of Article 2 of Chapter 5 of Title 46 of the Official Code of Georgia Annotated, the "Georgia Emergency Telephone Number 911 Service Act of 1977," ... to provide additional uses for Emergency Telephone System Fund moneys;... Effective July 1, 2011

Our review of the projected financial model for the E911 Fund included an amount of \$870,671<sup>8</sup> for transfer to the General Fund as reimbursement for 800 MHz costs. The FY2010 Cost Allocation Plan shows an indirect cost allocation of \$587,928 to the E911 Fund. Allocating these costs to the Fund would have a \$1.5 million annual impact (See Table 1).

<b>ADDITIONAL E911 COSTS</b>	
<b>Allocated Costs</b>	<b>Amounts</b>
<b>800 MHz Costs</b>	\$870,671
<b>E911 Indirect Costs</b>	\$587,928
<b>Total</b>	<b>\$1,458,599</b>

**Table 1 - Data Source: Finance Department E911 Fund Model and Indirect Cost Allocation Plan.**

Currently, County management has decided not to assign costs for communication equipment to the Fund and stay with the direct billing method to allocate costs, which for this Fiscal Year, as of August 30, 2011, totaled \$105,688.

Although allocating these additional expenditures are permitted, further analysis is needed to evaluate their impact on the available fund balance and the E911 operation's ability to maintain the level of service it provides. Had management decided to allow just the estimated 800 MHz costs to the Fund, the fund balance would reflect a fund deficit of \$83,000 for FY2012, and almost \$1 million in FY2013.

### ***Recommendation***

The Finance and Emergency Communications Directors should:

**Recommendation 1:** Finalize and document the decision of whether to allocate additional costs to the E911 Fund to include a periodic review of the implementation's impact in the future.

**Response:** Concur - After discussions with the County Manger regarding future expenditures from the E911 Fund there is no plan to allocate additional costs to the E911 Fund.

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<sup>8</sup> The composition of this amount was not determined or verified; therefore, we cannot provide any assurance of its validity.

### **Evaluate the Current 911 System Surcharge**

With the option of allocating additional costs to the Fund, increasing the surcharge should be considered during deliberations on how to ensure the solvency of the Fund. The current \$1.25 monthly fee charged to an estimated 812,149 (502,513 wireless and 309,636 landline) telephone subscribers currently produces about \$11 million dollars in revenue annually. The County expects additional revenue in FY2012 from a recent law that allocates funds to each county and municipality from fees paid to the State by prepaid wireless providers; however, the amount expected is undetermined.

In June 1990, the initial 911 surcharge of \$1.25 was assessed against landline telephone subscribers. In March 1999, the Board authorized a \$1.00 surcharge for all wireless phone subscribers. The Board raised the surcharge on wireless subscribers to \$1.25 effective January 2010 to meet the expense of emerging technology and increased call demand.

Counties and municipalities are permitted, under certain stipulations, to charge a fee up to \$1.50 per month per telephone service to pay for the costs associated with the operation of an E911 system. Due to the new laws, which allow additional costs and new sources of revenue, the current surcharge needs to be evaluated to ensure that the Fund stays solvent and citizens are charged the lowest rate.

### **Recommendation**

The Finance and Emergency Communications Directors should:

**Recommendation 2:** Evaluate the long-term solvency of the Fund, consult the advisory board and determine if a surcharge increase is warranted.

**Response:** Concur - The current 911 surcharge per subscriber is \$1.25 with the ability to raise the charge to \$1.50 per subscriber. We will continue to work with Finance and Budget on our ten year plan to ensure the solvency of the Fund. We will also keep the 911 Advisory Board abreast of our financial solvency to determine if an increase in needed in future years.

### **Evaluate Costs to Operate Cities' E911 Operations**

Revenue collected from cities to pay for 911 services may not be adequate. A study by the Emergency Communications Assistant Director indicated that it cost the County approximately \$600,000 per year to provide the dispatch service for the City of Marietta. However, we were unable to verify or substantiate the data in the report and thus provide no assurance thereon. No cost study has been conducted to determine the cost for services to Powder Springs.

In January 1997, the County entered into a 20-year contract to provide E911 service to the City of Marietta. In exchange, the County collects the 911 surcharge from telephone subscribers within the City's boundaries. The contract can be terminated upon mutual agreement or unilaterally with 24-month notice. In November 1999, the County agreed to a 20-year contract to provide Police dispatch for the City of Powder Springs in exchange for the 911 surcharge revenue from telephone subscribers within its boundaries. The termination provisions are similar to City of Marietta's. Agreements with the cities of Marietta and Powder Springs may preclude the County from pursuing additional funding for the E911 service. A cost analysis will provide the Cities with assurance that they are getting the service commensurate with the surcharge their citizens are paying and the County will have information to decide whether to pursue additional compensation.

### ***Recommendation***

The Finance and Emergency Communications Directors should:

***Recommendation 3:*** Compare costs of providing the dispatch services for the cities of Marietta and Powder Springs to the surcharge revenue from their respective telephone subscribers. If costs exceed revenue, initiate discussions with the County Manager and BOC regarding whether to pursue additional costs from the cities.

***Response:*** Concur - We would like an outside consultant to present a cost comparison of providing the dispatch services to the city of Marietta and Powder Springs to the surcharge revenue received. An in-house review showed a substantial cost to Cobb County. A nonbiased third party would eliminate any question of partiality. Our current contract with the cities does not allow for cost increase above the subscriber base. This will be a political decision particularly with HB 489 negotiations scheduled for 2014. I will seek direction from the County Manager on this issue by April 2012.

### ***Change Cost Recovery Fund Balance Reserves***

A fund balance reserve is maintained to pay the enhanced wireless cost recovery fees. There are 20<sup>9</sup> wireless telephone providers operating in the County who are currently billing or have the potential for billing for cost recovery. Currently, \$.45 of the \$1.25 collected from subscribers of only 5 of the 20 wireless providers is placed in reserve to pay for these fees (See Table 2 below). These providers represent three of the largest providers (highlighted) and two smaller companies that bill us directly for cost recovery.

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<sup>9</sup> Two additional wireless providers, Verizon (108,088 subscribers) and T-Mobile (71,343 subscribers), decided to bill their subscribers instead of the County. See section "Alternative Billing for Cost Recovery", Page 14.

**FIVE WIRELESS PROVIDERS - BILLINGS & RESERVES**

Providers	Subscriber Count/Billing Rate	Amount Billed Monthly	Amount Reserved Monthly <sup>10</sup>	Excess Reserve Monthly
Cingular	195,753 @ \$.30	\$58,726	\$88,089	\$29,363
Sprint PCS	52,402 @ \$.15	\$7,860	\$23,581	\$15,721
MetroPCS	51,063 @ \$.10	\$5,106	\$22,978	\$17,872
Nextel West	14,537 @ \$.16	\$2,326	\$6,542	\$4,216
Southern Linc	623 @ \$.30	\$187	\$280	\$93
<b>Total Excess (Monthly)</b>				<b>\$67,265</b>

**Table 2 - Data Source: Finance Department Files. Estimated subscriber count as of May 31, 2011.**

Four other providers bill us indirectly through their parent company (Sprint and Cingular) but we do not set aside money in the reserve because they bill indirectly and they have relatively few subscribers (See Table 3 below). The additional estimated monthly recovery fees for the four companies is \$2,360 (5,244 subscribers @ \$.45).

**FOUR WIRELESS PROVIDERS – UNRESERVED RECOVERY COSTS**

Providers	Estimated Subscribers	Projected Unreserved Recovery Costs <sup>11</sup>
Ga. RSA #3 (Cingular)	4,703	\$2,116
Nextel Partners (Sprint)	388	\$175
NE Ga. LTD (Cingular)	82	\$37
Chattanooga MSA (Cingular)	71	\$32
<b>Total Unreserved Costs</b>	<b>5,244</b>	<b>\$2,360</b>

**Table 3 - Data Source: Finance Department Files. Estimated subscriber count as of May 31, 2011.**

Eleven additional providers (see Table 4 below) do not currently bill the County for cost recovery and we were unable to determine their eligibility based on information provided by Finance. We do not know whether they plan to bill us for recovery costs nor do we reserve any money to pay these providers. The potential impact on the fund balance would be approximately \$1,557 (3,460 subscribers X \$.45) a month if the 11 providers chose to bill us the full \$.45.

<sup>10</sup> Estimated Subscriber Count multiplied by the \$.45.

<sup>11</sup> Estimated Subscriber Count multiplied by the \$.45.

**ELEVEN WIRELESS PROVIDERS - NO BILLING, NO RESERVE**

Providers	Subscribers	Projected Recovery Costs
CBeyond Communications	2,097	\$944
Consumer Cellular	527	\$237
Jitterbug	321	\$144
On Star Corporation	232	\$104
Suncom Wireless	186	\$84
Working Asset Funding Corp	53	\$24
I-Wireless LLC	14	\$6
Deltacom, Inc.	19	\$9
Globalstar USA LLC	7	\$3
Cause Based Commerce, Inc.	2	\$1
PNG Telecommunications	2	\$1
<b>Total</b>	<b>3,460</b>	<b>\$1,557</b>

**Table 4 - Data Source: Finance Department Files. Estimated subscriber count as of May 31, 2011**

The total potential monthly impact on the fund balance of the 15 providers we do not reserve cost for is \$3,917 (\$1,557 + \$2,360) a month or \$47,004 annually. There has been no negative impact on the cash flow of the Fund for these 15 providers because of the excessive reserve amounts of the other five providers.

We were unable to determine the amount of the cost recovery reserve as of the end of our audit period May 31, 2011; however, the excessive amount of reserve has been building over time and the balance beginning in FY2011 was \$3.8 million. An additional estimated \$519,240<sup>12</sup> in excess reserve has been added to the reserve balance this year.

Finance decided to create this reserve fund in order to make sure money is available if the wireless providers decided to bill the County for the full \$.45 recovery cost. However, the County Attorney's Office advised that once the provider bills for their respective periodic recovery cost (monthly or quarterly) they cannot come back later and bill for additional costs, which makes retention of the excess reserve amount unnecessary. Keeping the excess reserve can hinder adequate planning and may prevent E911 management from making planned capital expenditures.

***Recommendations***

The Finance Director should:

**Recommendation 4:** Periodically release any reserved fund balance over the cost recovery amount billed by the five wireless providers and, if deemed necessary, set aside an amount in reserve for the smaller companies.

<sup>12</sup> Determined by multiplying the net excess monthly reserve \$64,905 (\$67,265 minus \$2,360) by the number of fiscal months (8) until May 31, 2011.

**Response:** Concur – Understanding the County Attorney’s advisement that once a provider bills for their respective periodic recovery cost they cannot come back later and bill for additional costs, we feel comfortable releasing excess reserve in order to increase available operational and capital funds.

### **Utilize the E911 Advisory Board**

Effective December 22, 1993 via BOC resolution, an advisory board was created to oversee the operations of the 911 and Emergency Communications Departments through the manager. Responsibilities include making recommendations to the County Manager and BOC concerning staffing levels, financial appropriations, 911 surcharge rates, and the employment or discharge of management personnel. On June 13, 2006, the resolution was adopted to modify the advisory board structure and to establish appointment terms and meeting frequency. Comprised of the Sheriff, Public Safety Director, appointee from Cobb Municipal Association, and a representative from Finance and County Attorney offices, the Board is to meet as needed, at least annually in July. The Emergency Communications Director or his designee is the Advisory Board facilitator.

The 911 Advisory Board could be better utilized to provide oversight and direction to the 911 Program. The Board has not met regularly so that it can provide that oversight/advisory role for 911 operations. Although officially formed in December 1993, minutes were provided for only two meetings, one in September 2006 and another in March 2011. Members discussed several items in the meetings including raising the surcharge (2006) to keep the fund solvent. Management stated the 911 Advisory Board did not meet more frequently because of the difficulty in coordinating all the members’ schedules. Regular board meetings and advisement will help ensure effective operations and the solvency of the 911 Fund.

### **Recommendation**

The Emergency Management Director should:

**Recommendation 5:** Ensure the Advisory Board meets as required and advises the County Manager and BOC on issues such as uncollectible revenue, auditing telephony<sup>13</sup> suppliers, the long-term financial solvency of the 911 Fund, in addition to other state responsibilities.

**Response:** Concur - The Advisory Board will continue to meet as required by state law. We will request the Finance representative provide an in-depth analysis on the financial state of the bureau at each meeting. We will convene meetings when necessary throughout the year and provide a written summary of any recommendations.

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<sup>13</sup> In telecommunication, **telephony** encompasses the general use of equipment to provide voice communication over distances, specifically by connecting telephones to each other.

### **Decide Whether to Audit Telephone Providers**

Georgia law<sup>14</sup> allows local governments, on an annual basis and at its expense, to audit or cause to be audited the books and records of service suppliers with respect to the collection and remittance of 911 surcharges.

The County has never initiated any audits primarily because of the perceived cost. Without these audits, the County is not assured the providers are remitting all the revenue that is due.

### **Recommendation**

The Finance and Emergency Communications Directors should:

**Recommendation 6:** Evaluate ways to audit the telephone service providers and determine if initiating audits to verify the reported surcharge collections is practical.

**Response:** Concur - This will involve independent auditors to audit landline and wireless vendors to ensure the accuracy of both receipts per subscriber as well as allowable expenditures requested via invoice for reimbursement. We will research vendors that provide this type of service and have a recommendation by June 2012.

### **Controls Over Receipts and Expenditures Need Strengthening**

Our review showed that there are opportunities where controls need strengthening and procedures enhanced to ensure:

- All surcharge revenue is collected.
- Wireless providers are properly registered.
- Payments of Cost Recovery Funds are monitored.
- Cost justifications are properly analyzed.
- Adequate controls over remittance processing.

### **All Surcharge Revenue is Collected**

E911 management has not established policies or procedures to address uncollected or delinquent surcharge payments. Not having an established procedure has left some surcharge revenue uncollected. Generally, the major telephone providers are timely with their submission of tax returns — documents used to report the amount of surcharge revenue withheld from their subscribers. However, one major provider (T-Mobile) had two reporting periods (January and July 2010) where the number of subscribers reported on their tax return was significantly less than the prior periods. The estimated revenue shortfall for these period totals an estimated \$75,000.

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<sup>14</sup> § 46-5-134(d)(4)

All providers should report an accurate subscriber count, which determines the amount of 911 surcharge revenue to remit to the County. In January of 2010, the 911 surcharge changed from \$1.00 to \$1.25 and several of the providers adjusted their number of subscribers reported downward which reduced the amount the County should have received in revenue. When brought to their attention, all wireless providers whose counts were significantly lowered, adjusted their subscriber count and paid the difference in revenue due except T-Mobile. The Finance accountant initiated contact with the provider and turned the resolution of the problem over to E911 management when T-Mobile would not pay. To date, there has been no resolution to the delinquency.

In addition, MetroPCS decided they are classified as a prepaid wireless provider and will no longer pay their revenue to Cobb County but will send their surcharge revenue to the State. If they meet the requirement as a prepaid wireless provider, their decision to send the revenue to the state is appropriate.

Since redirecting their revenue payments in February, the County has not paid Metro PCS's invoices, totaling \$54,712, for cost recovery fees. This issue remains unresolved. Also, a smaller company, Nextel Boost has not filed a return since their quarter ending December 2010 tax return received in February 2011. Potential loss of revenue from Boost in FY2011 is \$55,000. The accountant presumes they are out of business but no action has been taken to verify.

According to the Finance accountant, these incidences of delinquency are common with smaller companies and happen occasionally with the larger companies. The accountant has historically performed all the follow-up necessary to bring providers into compliance with the payment of surcharge revenue. He contacts the companies via email or phone and inquires about the delinquent payment, but if he receives no communication or feedback, E911 management initiates no further collection actions.

We also noted on several returns, a deduction from gross tax due for "uncollectibles"—surcharges unpaid by subscribers. Georgia law<sup>15</sup> provides that telephone providers shall provide the governing authority, within 60 days, the name and address of each subscriber who has refused to pay the 911 charge and the local government may initiate collection actions. According to Finance and E911 staff, we do not receive this listing from the providers and have not asked for it; therefore, no collection actions have been initiated. Management does not feel it would be cost-effective to go after individuals for the money; however, without the cumulative amount available, management cannot make an informed decision on whether to pursue collection.

E911 management should establish procedures to address the delinquency of surcharge payments, including, when warranted, the referral of delinquency to the County Attorney's Office for resolution.

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<sup>15</sup> O.C.G.A. § 46-5-134(b)

## ***Recommendation***

The Finance and Emergency Communications Directors should:

**Recommendation 7:** Establish procedures for the collection of overdue revenue from telephone providers. Procedures should include a consistent methodology for handling delinquency including an established period for collection actions prior to referral to the County Attorney's Office for resolution.

**Response:** Concur - We will work with Finance to write a procedure in which 911 Management is notified when revenue is 90 days overdue. A decision will be made to forward the matter to legal, write the debt off or seek another solution. We will have this procedure in place by April 2012.

## **Wireless Providers are Properly Registered**

Georgia law<sup>16</sup> requires any wireless service supplier doing business in Georgia to register certain information with the Director of the Georgia Emergency Management Agency (GEMA). Any service supplier that fails to register within 30 days after notice shall not be eligible to receive cost recovery funds. The County can use the listing to identify wireless providers who are not paying their surcharge obligations.

A new law was proposed, but did not pass this legislative session, to require all telephony suppliers (i.e. landline, VOIP, etc.) to register with GEMA. If passed in the future, the County can use the listing to determine if all telephone providers are collecting and remitting the 911 surcharge to the County.

Only 12 of the 22 wireless providers in Cobb County are on the current GEMA listing. The remaining 10 are submitting surcharge revenue but none are currently billing the County for recovery costs. The 10 providers could be ineligible to receive cost recovery funds if they have not registered with GEMA. E911 management should notify the providers and GEMA of their non-compliance. E911 management should use the listing to identify all wireless providers who are not remitting 911 surcharge fees and report to GEMA all providers who have not registered. This will prevent any ineligible provider from receiving cost recovery funds and help ensure the County is receiving all the 911 surcharge revenue it is entitled.

## ***Recommendation***

The Emergency Communications Director should:

**Recommendation 8:** Establish a procedure to periodically compare a list of surcharge-paying wireless providers to the GEMA listing to identify providers who are not paying their 911 surcharges and report to GEMA any providers who are not on the listing.

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<sup>16</sup> O.C.G.A. § 46-5-124.1 (2010)

**Response:** Concur - I will contact Elaine Sexton, the 911 Coordinator for the State of Georgia, so we can compare the list of wireless providers and suggest that she do the same with other jurisdictions. Contact will be made by April 2012.

**Payment of Cost Recovery Funds are Properly Monitored<sup>17</sup>**

**Tracking NRC & MRC Costs**

Our audit showed there were no procedures for tracking the payment of non-recurring Phase I and II costs. Although most of the non-recurring costs (NRC) for both phases have been recovered, Sprint has not recovered their Phase I costs and is not definitive on whether they will pursue recovery of Phase II costs. Also, MetroPCS has not recovered their Phase II NRC. The table below shows the status of Phase I and Phase II NRC recovery for the top five wireless providers.

**NON-RECURRING COST BILLING BY PROVIDERS**

Providers	Phase One	Phase Two
Cingular	Paid	Paid/Written Off
T-Mobile	Paid	Will not bill
MetroPCS	Paid	Not Recovered
Verizon	Will not bill	Will not bill
Sprint/Nextel	Not Recovered	No current plan to recover

**Table 5- Source: Finance Department E911 Files, Bill Ulseth**

Without the proper means to monitor the payments, the County cannot determine when costs have been fully paid nor properly evaluate the cost justifications that may include assessments for recovery of non-recurring costs.

**MRC Billing Procedures**

In 2000 and 2004, three-year service agreements were entered into with the major wireless providers that established terms for paying the NRC and MRC. The agreements allowed the wireless providers to use a “per subscriber billing rate” when billing the County for MRC. The “per subscriber billing rate” methodology is still being used by the wireless providers although current law governing the recovery of MRC requires that billings must be based on actual costs. Using the “per subscriber billing rate” method without adjusting subscriber counts based on actual costs, can result in overcharges to the County. For instance, MetroPCS monthly invoices averaged \$4,875 during our audit period; however, their MRC specified in their cost justification was \$2,935. We will conduct a more in-depth analysis of the impact of using this billing method and report our results in a supplemental report.

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<sup>17</sup> Results are based on the top five wireless providers and their subsidiaries (10 of 22 companies) who service 99% (498,430 of 502,513) of all subscribers.

## ***Recommendation***

The Finance Department and Emergency Communications Directors should:

**Recommendation 9:** Obtain written confirmations from Sprint/Nextel and Metro PCS on whether they plan to bill for uncollected nonrecurring costs. If so, agree upon a methodology for billing and establish a method for monitoring the payment of the costs.

**Response:** Concur with exception – It is our understanding that Metro PCS is now considered a pre-paid vendor, therefore they cannot charge non-recurring costs. That being said, we will request the assistance of the County Attorney’s office in drafting a letter to determine if we will be billed for uncollected non-recurring costs from Sprint/Nextel.

## **Costs Justifications are Properly Analyzed**

E911 management does not have the expertise to evaluate whether the cost justifications submitted to support billing rates are reasonable. The decision to accept the justifications is based primarily on whether the billing rate<sup>18</sup> proposed by the provider is within the statutory limitations. An employee in the Information Systems Department with some cellular experience provided assistance and GEMA advised payment if the proposed cost recovery rate is within the statutory limits. No other outside consultation was acquired. This process is particularly important to evaluate justification for providers who may be piggybacking on larger provider networks and cannot delineate the recovery costs that may be embedded in fees they pay the larger providers. Allowing them to charge us for cost recovery may result in the County paying more than one provider for the same costs.

## ***Recommendation***

The Emergency Communications Director should:

**Recommendation 10:** Seek industry expertise to interpret and evaluate the cost justifications to ensure they are reasonable and the County is not overcharged.

**Response:** Concur - I will coordinate with the telecommunications professional in Information Services for assistance, information and direction on this issue. The National Emergency Number Association may be able to offer some assistance in this area as well. We will be relying outside sources for the majority of the information, therefore I am hesitant to commit to a completion date. However, the discussion will be started by April 2012.

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<sup>18</sup> The wireless suppliers are allowed to invoice the County up to \$.45 per subscriber for the actual costs associated with providing enhanced wireless 911 services.

### **Adequate Controls Over Remittance Processing**

We determined that the Finance accountant who receives the surcharge payments from the telephone providers also does all the accounting of those payments. The accountant receives the payments, annotates with accounting codes and sends to another person to prepare the deposit slips and input the Cash Remittance (CR) to AMS Financial System. Subsequently, he receives the CR support paperwork, checks for errors, and monitors the bank account for evidence that the funds were received by the bank.

To enhance controls over the processing of the surcharge payments, someone other than the accountant should receive and deposit the checks. The employee could log the checks prior to giving to the accountant for processing and use the log to verify that all checks were processed or the other person could send copies of the checks to the accountant for coding while the employee deposits the checks in the bank. The employee could prepare the CRs from information on the check copies.

The Finance Division Manager stated he compensates for this lack of separation of duties by ensuring someone else reconciles the E911 Fund's bank statement back to AMS. In our opinion, this compensating process does not address the risk of having the same person receive and account for remittances. Reconciling the Fund account only acknowledges the remittances that were deposited, not those that may not.

Key duties and responsibilities need to be divided among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

### **Recommendation**

The Finance Director should:

**Recommendation 11:** Modify the remittance process so someone other than the Fund accountant receives and deposits the remittances from the providers.

**Response:** Disagree - Staffing with fund assignments does not make it cost effective to segregate this function. The bank reconciliation process as well as review by Finance Division Manager should provide reasonable assurance that funds are receipted accurately and timely.

**Internal Audit Comment:** As stated, we believe their compensating process does not fully offset the risk of having the same person receive and account for remittances. Reconciling the Fund account will not timely identify undeposited remittances that may have been mishandled. Management assumes the risk inherent with this method of remittance processing.

## ***Consider Alternative Billing for Cost Recovery***

Two of the five largest wireless providers (Verizon and T-Mobile) have decided not to bill the County for recovery costs. They decided that the administrative time and cost associated with the current method of cost recovery is too great a burden to continue. They decided it would be more efficient and less expensive to their subscribers to include a small increase in the Administrative Fee on subscriber invoices to recover their cost associated with provisioning and maintaining E911 service. T-Mobile changed their billing in February 2004 and Verizon in March 2007.

If the remaining wireless providers who bill the County would make the same decision, it would eliminate administrative time and costs for the providers as well as the County. There are several benefits to this method of cost recovery for the County including:

- No invoices to process and pay.
- No cost recovery reserves necessary.
- Surcharge may be reduced.
- Additional allowable costs can be allocated to the fund.

### ***Recommendation***

The Emergency Communications Director should:

**Recommendation 12:** Discuss and determine the actual benefits of the alternative method of cost recovery with Verizon and T-Mobile representatives. Present and propose the alternative method to others who can effect change in the billing process including the wireless providers who bill us, other 911 Directors, and/or the Association County Commissioners of Georgia.

**Response:** Concur - I will contact Verizon and T-Mobile representatives and propose their billing model to other providers; however, I have no control over whether Verizon and/or T-Mobile will discuss their billing model with me or whether other vendors are amenable to discussion over their billing decisions. However, one backlash to these discussions could cause Verizon and T-Mobile to reevaluate their current billing model.

## ***Detailed Objectives, Scope, and Methodology***

We conducted this review as part of our annual audit plan. The audit period for our analysis was Fiscal years 2010 to 2011 (as of May 31, 2011). We conducted the review onsite in the Finance Department and our Division office.

Our objective was to determine if the E911 Fund is effectively administered to ensure adequate funding to keep the fund solvent; adequate controls over receipts and expenditures for completeness, accuracy, and recordation; and laws and regulations are being followed.

In order to accomplish our objective, we performed the following sub-objectives:

- I. Determined if current fund balance, project revenue and planned expenditures was sufficient to ensure the fund's solvency.
  - A. Determined if the Emergency Communications Management (ECM) has performed analysis to determine if all 911 providers are paying the collected fee.
  - B. Determined if ECM evaluated the feasibility of pursuing uncollected 911 surcharge fees.
  - C. Evaluated the Fund's financial model for accuracy. Analyzed projected revenue and expenditures for reasonableness.
  - D. Determined the projected capital expenditures planned for the E911 system.
  - E. Evaluated whether revenue collected from cities for 911 services was adequate.
  - F. Determined if the fund reserve to pay for wireless providers' recovery costs is adequate.
- II. Determined if laws pertaining to the administration of the E911 Fund are being followed.
  - A. Determined if the County complied with the major regulations governing the 911 system.
  - B. Determined if the Advisory Board was providing oversight and direction to the 911 system.
  - C. Reviewed a judgmental sample of the County's telephone bills received over our audit period and determined if we had been billed the 911 service charge.

- D. Determined if the annual financial reports<sup>19</sup> for the E911 Fund have been submitted to the State Treasurer Office.
  - E. Determined if transfers out of the Fund were for legitimate expenditures allowable by law.
- III. Determined if the Finance Department's process to track payments, receipts and reserve balances is effective and efficient.
- A. Obtained tax returns and invoices received from telephone service providers and scheduled all the receipts (911 charges); disbursements (requests for non-recurring (NRC) and monthly recurring (MRC) costs); and set-aside amounts for reserves for the audit period.
    - 1. Evaluated controls over the processing of remittances and disbursements.
    - 2. Determined if reserves were released when appropriate.
    - 3. Determined if the process to record receipts, disbursements and reserves is effective and efficient.
  - B. Evaluated the process to verify all telephone providers are paying the 911 surcharge.
  - C. Evaluated the process for paying the NRC and MRC costs.
  - D. Evaluated the frequency and scope of the supervisory review of work performed to process the receipts, payment of invoices and accounting for reserve balance.
  - E. Evaluated the process used to ensure direct billing costs associated with the 911 Fund are quantified and assessed.

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<sup>19</sup> O.C.G.A. § 36-81-7(a) (1) (2011) ...the governing authority... shall provide for and cause to be made an annual audit of the financial affairs and transactions of all funds and activities of the local government for each fiscal year of the local government.

**Abbreviations and Glossary**

MRC	Monthly Recurring Cost
NRC	Non-Recurring Cost
Cost Recovery Fee	Costs that wireless providers are allowed to recover from the County for the installation and monthly maintenance of Phase I and Phase II enhancements.
Enhanced 911	Enhanced 911 means the call is selectively routed and the local 911 center has equipment and database information that allows the call taker to see the caller's phone number and address on a display. However, when 911 calls are made from wireless phones, the call may not be routed to the most appropriate 911 center, and the call taker <u>does not receive the callback phone number</u> or the location of the caller.
GEMA	Georgia Emergency Management Agency
PSAP	Public Safety Answering Point
Wireless 911- Phase I	A wireless 911 call will come into the PSAP with the wireless phone call back number.
Wireless 911- Phase II	Allows call takers to receive both the caller's wireless phone number and their estimated location information.
Association County Commissioners of Georgia	A nonprofit instrumentality of Georgia's county governments formed in 1914 and today serves as the consensus building, training, and legislative organization for all 159 county governments in the state.

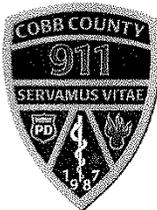
***Major Contributors to the Report***

Latona Thomas, CPA, Internal Audit Division Manager  
Barry G. Huff, Auditor-in-Charge

***Final Report Distribution List***

Sam Heaton, Fire Chief/Interim Public Safety Agency Director  
Tony Wheeler, Emergency Communications Manager  
Ann Flynn, Assistant Communications Manager  
Jim Pehrson, CPA, Finance Director/Comptroller  
Internal Audit Division File

## ***Auditee's Response to the Draft Report***

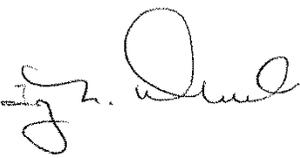


**COBB COUNTY  
E911 COMMUNICATIONS BUREAU**

140 North Marietta Parkway  
Marietta, Georgia 30060-1454  
(770) 499-4163 • fax: (770) 590-5719

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Tony N. Wheeler  
*Emergency Communications Manager*

TO: Latona Thomas, CPA, Manager, Internal Audit

FROM: Tony N. Wheeler, Emergency Communication Director 

Date: January 31, 2012

SUBJECT: Response to the Internal Audit Division's Draft Report -- Review of Cobb County E911 Fund

This memo is in response to the subject report dated November 22, 2011. The review determined that generally the E911 fund is administered effectively and is currently solvent. However, you determined that actions are necessary to ensure its long-term solvency and improve controls over receipts and expenditures.

You made several recommendations and our response to those recommendations are provided below.

**The Finance and Emergency Communications Directors should:**

**Recommendation 1:** Finalize and document the decision of whether to allocate additional costs to the E911 Fund to include a periodic review of the implementation's impact in the future.

**Response:** Concur - After discussions with the County Manger regarding future expenditures from the E911 fund there is no plan to allocate additional costs to the E911 fund.

**Recommendation 2:** Evaluate the long-term solvency of the Fund, consult the advisory board and determine if a surcharge increase is warranted.

**Response:** Concur - The current 911 surcharge per subscriber is \$1.25 with the ability to raise the charge to \$1.50 per subscriber. We will continue to work with Finance and Budget on our



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ten year plan to ensure the solvency of the fund. We will also keep the 911 Advisory Board abreast of our financial solvency to determine if an increase is needed in future years.

**Recommendation 3:** Compare costs of providing the dispatch services for the cities of Marietta and Powder Springs to the surcharge revenue from their respective telephone subscribers. If costs exceed revenue, initiate discussions with the County Manager and BOC regarding whether to pursue additional costs from the cities.

**Response:** Concur - We would like an outside consultant to present a cost comparison of providing the dispatch services to the city of Marietta and Powder Springs to the surcharge revenue received. An in-house review showed a substantial cost to Cobb County. A nonbiased third party would eliminate any question of partiality. Our current contract with the cities does not allow for cost increase above the subscriber base. This will be a political decision particularly with HB 489 negotiations scheduled for 2014. I will seek direction from the County Manager on this issue by April 2012.

**Recommendation 4:** Periodically release any reserved fund balance over the cost recovery amount billed by the five wireless providers and , if deemed necessary, set aside an amount in reserve for the smaller companies.

**Response:** Concur - Understanding the County Attorney's advisement that once a provider bills for their respective periodic recovery cost they cannot come back later and bill for additional costs, we feel comfortable releasing excess reserve in order to increase available operational and capital funds.

**The Emergency Management Director should:**

**Recommendation 5:** Ensure the Advisory Board meets as required and advises the County Manager and BOC on issues such as uncollectible revenue, auditing telephony suppliers, the long-term financial solvency of the 911 Fund, in addition to other state responsibilities.

**Response:** Concur - The Advisory Board will continue to meet as required by state law. We will request the finance representative provide an in-depth analysis on the financial state of the bureau at each meeting. We will convene meetings when necessary throughout the year and provide a written summary of any recommendations.

**The Finance and Emergency Communications Directors should:**

**Recommendation 6:** Evaluate ways to audit the telephone service providers and determine if initiating audits to verify the reported surcharge collections is practical.

**Response:** Concur - This will involve independent auditors to audit landline and wireless vendors to ensure the accuracy of both receipts per subscriber as well as allowable expenditures requested via invoice for reimbursement. We will research vendors that provide this type of service and have a recommendation by June 2012.

**Recommendation 7:** Establish procedures for the collection of overdue revenue from telephone providers. Procedures should include a consistent methodology for handling delinquency including an established period for collection actions prior to referral to the County Attorney's Office for resolution.

**Response:** Concur

We will work with Finance to write a procedure in which 911 Management is notified when revenue is 90 days overdue. A decision will be made to forward the matter to legal, write the debt off or seek another solution. We will have this procedure in place by April 2012.

**The Emergency Communications Director should:**

**Recommendation 8:** Establish a procedure to periodically compare a list of surcharge-paying wireless providers to the GEMA listing to identify providers who are not paying their 911 surcharges and report to GEMA any providers who are not on the listing.

**Response:** Concur - I will contact Elaine Sexton, the 911 Coordinator for the State of Georgia, so we can compare the list of wireless providers and suggest that she do the same with other jurisdictions. Contact will be made by April 2012.

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**Concur with exception** – It is our understanding that Metro PCS is now considered a pre-paid vendor, therefore they can not charge non-recurring costs. That being said, we will request the assistance of the County Attorney's office in drafting a letter to determine if we will be billed for uncollected non-recurring costs from Sprint/Nextel.

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**The Finance Director should:**

**Recommendation 11:** Modify the remittance process so someone other than the Fund accountant receives and deposits the remittances from the providers.

**Response:** Disagree

Staffing with fund assignments does not make it cost effective to segregate this function. The bank reconciliation process as well as review by Finance Division Manager should provide reasonable assurance that funds are receipted accurately and timely.

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