

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

DISTRICT OF COLUMBIA

E911/E311 SPECIAL REVENUE FUND

**Financial Statements and
Independent Auditors' Report
Fiscal Year Ended September 30, 2006**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

OIG No. 07-1-15UC

April 9, 2007

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



April 9, 2007

The Honorable Adrian M. Fenty
Mayor of the District of Columbia
Mayor's Correspondence Unit, Suite 221
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

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

Dear Mayor Fenty and Chairman Gray:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2006, Bert Smith and Company (BS&C) submitted the enclosed final report on the District of Columbia E911/E311 Special Revenue Fund (Fund).

BS&C opined that the financial statements present fairly, in all material respects, the financial position of the Fund for the year ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America. In accordance with *Government Accounting 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.

If you have questions or need additional information, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles J. Willoughby
Inspector General

Enclosure

CJW/ws

cc: See Distribution List

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Mayor Fenty and Chairman Gray
FY 2006 and 2005 E911/E311 Special Revenue Fund
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**DISTRICT OF COLUMBIA GOVERNMENT
E911/E311 SPECIAL REVENUE FUND
SCHEDULE OF REVENUES AND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**BERT SMITH
& Co.**

Certified Public Accountants and Management Consultants

**DISTRICT OF COLUMBIA GOVERNMENT
E911/E311 SPECIAL REVENUE FUND**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the Schedule of Revenue and Expenditures of the District of Columbia's E911/E311 Special Revenue Fund (the Fund) for the year ended September 30, 2006. This financial statement is the responsibility of the Fund's management. Our responsibility is to express an opinion on the financial statement based on our audit. The prior year summarized comparative information has been derived from the Fund's 2005 financial statement and, in our report dated January 27, 2006, we expressed an unqualified opinion on that financial statement.

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 statement is free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 indicated in Note 2, the accompanying financial statement is not intended to be a complete presentation of the financial position of the Fund or the District of Columbia as of and for the year ended September 30, 2006.

In our opinion, the schedule of revenue and expenditures referred to above, present fairly, in all material respect, the revenues and expenditures of the Fund 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 January 26, 2007 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.

Bert Smith & Co.

January 26, 2007
Washington, D.C.

DISTRICT OF COLUMBIA E911/E311 FUND
SCHEDULE OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2006
(With Comparative Totals for 2005)

	2006	2005
REVENUES		
User Fees	<u>\$12,752,903</u>	<u>\$13,680,179</u>
EXPENDITURES		
Personnel Services	11,505,647	11,912,203
Professional Services	549,756	252,786
Equipment	800,400	339,489
Telephone Company Charges	2,041,151	1,989,189
Office Supplies	182,622	-
Utilities, Communications and Energy	<u>519,784</u>	<u>-</u>
Total Expenditures	<u>15,599,360</u>	<u>14,493,667</u>
Excess Deficiency of Revenues Under Expenditures	(2,846,457)	(813,488)
Fund Balance - Beginning of the Year	<u>9,598,142</u>	<u>10,411,630</u>
Fund Balance - End of the Year	<u>\$ 6,751,685</u>	<u>\$ 9,598,142</u>

The accompanying notes are an integral part of this schedule.

DISTRICT OF COLUMBIA GOVERNMENT
E911/E311 SPECIAL REVENUE FUND
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 1: DESCRIPTION OF FUND

The Emergency and Non-Emergency Number Telephone Calling Systems Fund (E911/311 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 all persons with local exchange service in the District. Each local exchange carrier collects the user fees from their subscribers and is responsible for remitting those fees to the District on a quarterly basis. Effective October 1, 2004, the District of Columbia changed the fee imposed upon all local exchange carriers to a fee on local exchange carriers.

As stipulated by the Act, the Fund is to be used solely to defray personnel and non-personnel costs incurred by the District and its agencies and instrumentalities in providing an E911/311 system and to cover direct costs incurred by wireless carriers in providing enhanced E911/311 service. The Fund is not to be used for any other purpose. The Office of Unified Communication, which became an independent agency in Fiscal Year 2005, is responsible for the administration of the Fund.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity — The accompanying schedule presents only the revenues and expenditures of the E911/E311 Special Revenue Fund (the Fund). The minimum combination of financial statements required to qualify a report as basic financial statements and which are needed for fair presentation of an entity in conformity with generally accepted accounting principles (GAAP) are not presented. Furthermore, the accompanying schedule is not intended to present the financial position or changes in financial position of the Fund or the District of Columbia as a whole in conformity with GAAP.

Measurement Focus — All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified basis of accounting. With this measurement focus, generally, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (revenues and other financial sources) and decreases (expenditures and other financing uses) in net current assets.

Basis of Accounting — The Schedule of Revenue and Expenditures was prepared using the modified accrual 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 E911/E311 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 effect certain reported amounts and disclosures. Accordingly actual results could differ from those estimates.

NOTE 3 CONTINGENCY

In Fiscal Year 2004, the Public Service Commission concluded that the District is obligated to pay a local exchange carrier (LEC) additional amounts due to a rate increase for services performed since May 31, 2002. Currently, the District is appealing the decision. The District, however, has accrued on the Fund's books \$3.6 million for the anticipated amount owed to the LEC as a result of the decision.



**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 schedule of revenue and expenditures of the District of Columbia Government E911/E311 Special Revenue Fund (Fund) for the year ended September 30, 2006, and have issued our report thereon dated January 26, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Fund's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described below:

Fund Coordinator

The Fund's user fees decreased from the prior fiscal year by \$927,276 while its expenditures increased by \$1,105,693. This resulted in a significant diminution of the entity's fund balance. The Office of Unified Communication (OUC) was unable to provide an explanation for the decrease in the fees since it was not adequately monitoring and analyzing the user fees received from the different telephone carriers. OUC indicated that it was in the process of hiring a fund coordinator.

Recommendation

We recommend the OUC implement the fund coordinating process expeditiously to monitor and analyze the telephone carrier user fees receipts so it can determine whether the Fund is receiving all the user fees it is entitled to receive under the law.

Management Response: “We concur with the auditor’s recommendation to implement the fund coordinating process. A Revenue Coordinator has been hired and the first task will be to review and monitor the telephone carriers’ user fees receipts, to include verification of the line counts to the corresponding reimbursement from the various carriers. Through April 2006, a contract was in place to monitor the user fees receipts; however, we were unable to hire the Revenue Coordinator prior to the expiration of the contract.

The OUC is committed to exercising due diligence in monitoring the fund’s receipts. We anticipate providing a preliminary report by June 30, 2007 to address the revenue variance in fiscal year 2006.”

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Compliance and Other Matters — As part of obtaining reasonable assurance about whether the Fund’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*.

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

A handwritten signature in black ink that reads "Bert Smith & Co." with a stylized flourish at the end.

January 26, 2007
Washington, D.C.