

**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, 2010**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



June 9, 2011

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 Kwame R. Brown
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

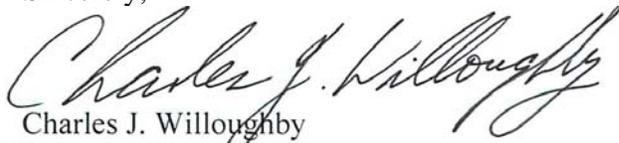
Dear Mayor Gray and Chairman Brown:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2010, 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 and the changes in the financial position for the year ended September 30, 2010, 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 me or Ronald W. King, 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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**GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010
*(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, 2010**

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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's (the District) E911/E311 Special Revenue Fund (the Fund). 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.

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, 2010 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 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 May 5, 2011 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

The management's discussion and analysis and the budgetary comparison schedule on pages 3 through 6 and page 12 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

 Bert Smith & Co.

May 5, 2011
Washington, D.C.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

The following is a discussion and analysis of the Government of the District of Columbia's E911/E311 Special Revenue Fund (Fund) financial performance for the fiscal year ended September 30, 2010. The financial statements and accompanying notes on pages 7 through 11, 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

- The Fund's pooled cash balance with the District of Columbia government is \$24,793,842.
- The District purchased several radios. The value of the radios is \$5,995,320.
- User Fee Revenue accrued and collected from telephone carriers is \$12,274,629.
- As required by law, two District agencies transferred \$5,987,530 to the Fund at year-end.
- The District transferred \$6,950,000 from the Fund to the District's General Fund.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2010

Balance Sheets as of September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>Variance</u>	<u>% Variance</u>
Assets				
Pooled Cash	\$24,793,842	\$23,701,118	\$ 1,092,724	4.61%
Accounts Receivable	2,800,000	3,178,718	(378,718)	-11.91%
Total Assets	<u>\$27,593,842</u>	<u>\$26,879,836</u>	<u>\$714,006</u>	<u>2.66%</u>
Liabilities				
Vouchers Payable	\$ 6,478,312	\$ 650,674	\$ 5,827,638	895.63%
Accrued Claim Liability	2,776,797	6,146,597	(3,369,800)	-54.82%
Total Liabilities	<u>9,255,109</u>	<u>6,797,271</u>	<u>2,457,838</u>	<u>36.16%</u>
Net Assets	<u>\$18,338,733</u>	<u>\$20,082,565</u>	<u>\$ (1,743,832)</u>	<u>-8.68%</u>

Assets

As of September 30, 2010, the Fund had a pooled cash balance of \$24.8 million, which was a 4.61% increase over fiscal year 2009. The increase in the pooled cash is due to the timing of receipt of the user fees and transfers in and payments of the Fund's obligations and transfers out.

Liabilities

Vouchers payable increased by \$5.8 million or 895.63%. The increase is primarily due to the purchase of 1,059 radios delivered at year-end at a cost of \$5.9 million.

Accrued claims liability decreased by \$3.3 million as a result of the adjustment made to reduce Verizon claim liability. It was determined based on the Public Service Commission's order that the amount required for settlement of the case was less than the amount previously accrued.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
SEPTEMBER 30, 2010

Statements of Revenues, Expenditures, and Changes in Fund Balance for the year ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>Variance</u>	<u>% Variance</u>
Revenue				
User Fees	\$12,274,629	\$12,714,347	\$ (439,718)	-3.46%
Total Revenue	<u>12,274,629</u>	<u>12,714,347</u>	<u>(439,718)</u>	<u>-3.46%</u>
Expenditures				
Supplies	4,524	131,479	(126,955)	-96.56%
Professional Fees	782,519	97,876	684,643	699.50%
Contractual Services	1,014,412	767,874	246,538	32.11%
Office Support	-	113,994	(113,994)	-100.00%
IT Software Maintenance	3,522,230	4,923,206	(1,400,976)	-28.46%
Furniture and Fixtures	7,290	66,198	(58,908)	-88.98%
IT Hardware Acquisitions	6,251,658	97,082	6,154,576	6339.56%
District Fixed Costs	3,941,599	-	3,941,599	100.00%
Other	12,342	289,434	(277,092)	-95.74%
Total Expenditures	<u>15,536,574</u>	<u>6,487,143</u>	<u>9,049,431</u>	<u>139.50%</u>
Interest Income	34,601	1,608,300	(1,573,699)	-97.85%
Net Other Financing Sources	<u>\$ 1,483,512</u>	<u>\$ 8,549,656</u>	<u>\$ (7,066,144)</u>	<u>-82.65%</u>

Expenditures

In fiscal year 2010, the Fund's total operating expenditures totaled \$15.5 million compared to \$6.4 million in fiscal year 2009. Operating expenses increased by 139.50% primarily due to increases in IT Hardware Acquisitions and District Fixed Costs. In September 2010, the District purchased 1,059 radios for public safety first responders as part of the P25 Radio System Upgrade project at a cost of \$5.9 million. During the fiscal year, a portion of Office of Unified Communication's (OUC) allocated share of the District's fixed costs was charged to the Fund based on a prorated share of space occupied by the Fund's 911 operations at the Unified Communications Center (UCC) and Public Safety Communications Center (PSCC). The total amount of fixed costs charged to the Fund was \$3.9 million, which mainly consisted of telecommunications, security, rentals, and janitorial services. In 2009, no fixed costs were charged to the Fund.

Other changes from fiscal year 2009 to 2010 include a \$.6 Million or 700% increase in Professional Fees and a 28.46% or \$1.4 million decrease in IT Software Maintenance. The changes in the two categories are related. Contractors that support IT software that were previously budgeted under "IT Software Maintenance" were reallocated to "Professional Service Fees" in fiscal year 2010. Furthermore, the amount of contractor support was reduced significantly. The remaining IT Software Maintenance expense is for IT maintenance contracts only.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
SEPTEMBER 30, 2010

Interest Income

Interest income for 2010 represented interest earned for one fiscal year. Fiscal year 2009 interest income of \$1.6 million represented interest earned on the Fund's pooled cash balance for the previous five years in the District's General Fund. The interest income was transferred to the Fund per DC Law 34-1802.

Net Other Financing Sources

As required by law, two District agencies transferred funds to the Fund in 2010. The Fund received a transfer of \$.1 million from the Fire and Emergency Medical Services (FEMS) Special Events Fund and \$5.8 million from the FEMS Ambulance Fund, totaling \$5.9 million. This was a 41.5% decrease from 2009. In 2009, the total amount transferred from other agencies was \$10.1 million. The Fund received a transfer of \$.4 million from the Metropolitan Police Department, \$6.8 million from Traffic Enforcement, and \$2.9 million from the Consumer Protection Fund of the Office of the Attorney General.

In addition, as part of the District's Gap Closing Initiative, funds were transferred from the Fund to the District's General Fund in 2010 and 2009. In 2010, the transfer to the General Fund was \$6.9 million compared to \$1.6 million in 2009.

Due to the subsequent settlement of the Verizon claim, the liability that had been accrued on the Fund's books was decreased to the settlement amount. The reduction of the liability resulted in an additional financing source to the Fund of \$2.4 million.

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, 2010

ASSETS	
Pooled Cash	\$24,793,842
Accounts Receivable	<u>2,800,000</u>
Total Assets	<u><u>\$27,593,842</u></u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Vouchers Payable	\$ 6,478,312
Accrued Claim Liability	<u>2,776,797</u>
Total Liabilities	<u>9,255,109</u>
 Fund Balance	
Reserved	<u>18,338,733</u>
Total Fund Balance	<u>18,338,733</u>
 Total Liabilities and Fund Balance	 <u><u>\$27,593,842</u></u>

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, 2010

Revenue	
User Fees	\$12,274,629
Total Revenue	<u>12,274,629</u>
 Expenditures	
Supplies	4,524
Professional Service Fees	782,519
Contractual Services	1,014,412
IT Software Maintenance	3,522,230
IT Hardware Acquisitions	6,251,658
Furniture and Fixtures	7,290
District Fixed Costs	3,941,599
Other	12,342
Total Expenditures	<u>15,536,574</u>
Deficiency of Revenue under Expenditures	(3,261,945)
 Other Financing Sources (Uses)	
Interest Income	34,601
District Agency Transfers in	5,987,530
Claim Settlement Adjustment	2,445,982
Transfer to the District General Fund	<u>(6,950,000)</u>
Total Other Financing Sources (Uses)	<u>1,518,113</u>
Net Change in Fund Balance	(1,743,832)
Fund Balance, Beginning of the Year	<u>20,082,565</u>
Fund Balance, End of the Year	<u><u>\$18,338,733</u></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, 2010

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. The Office of Unified Communication (OUC), independent District agency, is responsible for the administration of the Fund.

As stipulated by the Act, the Fund can be used to defray personnel and non-personnel costs incurred by the District and its agencies and instrumentalities in providing an E911/E311 system and to cover direct costs incurred by wireless carriers in providing enhanced E911/E311 service. Effective October 1, 2008 under DC Law 34-1802, however, none of the monies from the Fund can be used to defray personnel costs.

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 effect certain reported amounts and disclosures. 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 DC Law 34-1802, the District allocates to the Fund its share of interest income earned from the pooled account. In Fiscal Year 2010, interest income allocated to the Fund totaled \$34,601. At September 30, 2010, the Fund’s pooled cash with the District totaled \$24,793,842.

NOTE 4 ACCOUNTS RECEIVABLE

Accounts Receivable represents an estimate of fourth quarter fees owed from telephone carriers. At September 30, 2010, accounts receivable was estimated at \$2,800,000.

NOTE 5 CAPITAL EXPENDITURES

The District purchased a number of radios for use by the E911/E311 system. The cost of the radios was \$5,995,320. Within governmental funds, amounts incurred for the acquisition of capital assets are reported as fund expenditures. Depreciation is not reported within governmental fund financial statements. The cost of the radios is included in IT hardware acquisitions.

NOTE 6 ACCRUED CLAIM

A formal case was filed with the Public Service Commission (Commission) to determine a tariff rate for the E911 service provided by Verizon to the District from April 2004 to the present, as well as prospectively. On September 30, 2009, the Commission issued an order stating that the Fund was liable to Verizon for \$2,242,182 for the time period between April 1, 2004 and September 30, 2009. In 2010, Verizon’s appeal of the order was denied. At September 30, 2009, OUC showed a liability of \$4,688,164 on its books. At year-end, this liability was adjusted to the Commission order amount. The adjustment resulted in a decrease in expenditures of \$2,445,982.

The Commission also determined the E911 service rate to be paid monthly to Verizon as \$104,551. During the fiscal year, OUC paid Verizon \$720,000. At September 30, 2010, the amount payable to Verizon under the Commission order and the monthly service rate was \$2,776,797. Subsequently, in April 2011, OUC paid the amount owed to the Verizon.

NOTE 7 DISTRICT AGENCY TRANSFERS

The District passed two laws in 2009: **DC 28-3911** and **34-1803.01** that required the transfer of funds from other District agencies to the Fund.

DC 28-3911

The law required a transfer from the District of Columbia Consumer Protection Fund, if the fund balance exceeds \$3 million. No funds were transferred during the fiscal year.

DC 34-1803.01

The law required a transfer from the following sources, if their revenue exceeded the budgeted amount.

- Fire and Emergency Medical Services Department Special Events Fund
- Fire and Emergency Medical Services Department Ambulance Revenue
- Steam (including arrearage payments) for the Correctional Treatment Facility
- Federal Reimbursement for Emergency Planning and Security Costs
- Photo Enforcement (red light and speeding)

At year-end, the Fund received transfers from the Fire and Emergency Medical Services Department Special Events Fund and Ambulance Revenue of \$117,205 and \$5,870,325, respectively.

NOTE 8 LOCAL FUND TRANSFER

The Fiscal Year 2010 Emergency Act authorized the transfer of \$6,950,000 from the Fund to the District's local fund to close a budget gap. The transfer was from the Fund's other financing sources and did not include any user fees.

NOTE 9 DISTRICT FIXED COSTS

The District's Office of Finance and Resource Management (OFRM) charged to the Fund its allocated share of the District's fixed costs which totaled approximately \$2.4M. However, OUC transferred \$1.4M of the local fund fixed costs to the Fund. These transfers resulted in the Fund exceeding its budgeted fixed costs amount. The total amount of District fixed costs charged to the Fund was \$3.9M.

NOTE 10 SUBSEQUENT EVENTS

OUC has evaluated any subsequent events through the date this report was available for issuance which is May 5, 2011. There are 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, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
User Fees	\$17,038,466	\$12,274,629	\$4,763,837
Total Revenues			
Expenditures			
Supplies and Materials	189,694	40,453	149,241
Telephone, Telegraph, Telegram, etc.	-	2,181,191	(2,181,191)
Rentals - Land and Structures	131,262	131,262	-
Janitorial Services	77,521	72,919	4,602
Security Services	1,590,106	1,556,228	33,878
Others Services and Charges	7,766,632	4,307,159	3,459,473
Contractual Services - Other	2,035,799	1,013,562	1,022,237
Equipment and Equipment Rental	5,247,452	6,233,800	(986,348)
Total Expenditures	<u>17,038,466</u>	<u>15,536,574</u>	<u>1,501,892</u>
Deficiency of Revenue under Expenditures	<u>\$ -</u>	<u>\$(3,261,945)</u>	<u>\$3,261,945</u>

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
E911/E311 SPECIAL REVENUE FUND
NOTES TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

NOTE 1 BUDGET BASIS

The Fund has a legal adopted budget approved by the District of Columbia 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 2010. 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, 2010 and have issued our report thereon dated May 5, 2011. 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 certain deficiencies in internal control over financial reporting, described below that we consider to be significant deficiencies in internal control over financial reporting.

1. *Tracking Accounting Transactions in One Fund*

The District maintains the accounting transactions of the Fund in two separate agency funds within SOAR (Fund 600 and Fund 1630). The District established agency fund (1630) when the Office of Unified Communications (OUC) became a separate independent agency. However, all of the transactions in Funds 600 and 1630 are related to the operation of the E911/E311 Special Revenue Fund and should be reflected in one fund so that any potential overruns or misstatements can be properly identified and corrected.

Recommendation: We recommend OUC record all the transactions related to the Fund in one agency fund in SOAR.

Agency Response: As of fiscal year 2011, all the transactions related to the fund are recorded in one fund.

2. *Allocated District Fixed Costs*

The District's Office of Finance and Resource Management (OFRM) charged to the Fund its allocated share of the District's fixed costs which totaled approximately \$2.4M. During the fiscal year, OUC transferred through several journal entries additional fixed costs to the Fund that had been originally allocated and charged to OUC's local fund, which is the agency's largest fund. This caused the Fund to exceed the amount budgeted for fixed costs by \$1.4M. OUC's share of the District's fixed costs was \$6.4M of which \$3.9 was charged to the Fund. Since the Fund is restricted for the operation of the E911/E311 system and primarily funded with user fees, the District fixed costs should be allocated equitably to the Fund based on the benefits received.

OUC also had recorded some of the fixed costs to the incorrect object class. The District requires fixed costs to be recorded to "30" object class. Except for \$720K, all of the fixed costs had been recorded mainly to object class "40", which was titled other services and charges. There were some charges to "20 and "70" object classes.

Recommendation: Subsequent changes in the Fund's laws (FY 2011) do not allow fixed costs to be charged to the Fund. However, in case the law is reversed in the future, we recommend OUC charge fixed costs to the Fund in accordance with its budgeted amount or in an equitable manner that is based on the benefits received by the Fund. We also recommend OUC charge fixed costs to the correct object class so that adjustments can be identified and corrected.

Agency Response: We maintain that fixed cost expenditures were lawfully allocated. The E911/E311 operation is funded by both local and special purpose revenue with no specificity in the law on how expenditures are paid for against said funding sources. Fixed cost budgets are an estimate of what the actual costs will be, which may cause expenditures to exceed the budgeted amount. We do agree with the recommendation that costs should be properly recorded under the most appropriate object class.

3. *Capital Expenditures*

At year-end, OUC purchased several radios valued at \$5.9M that met the District's capitalization threshold. The radios were not capitalized and identified as capital expenditures in the District's SOAR accounting system.

Recommendation: We recommend OUC capitalize current radios and future equipment that meets the District's capitalization threshold. We also recommend OUC properly identify the equipment as capital expenditures in SOAR.

Agency Response: We disagree with the finding. The radios were procured (September 22, 2010) and subsequently paid on October 12, 2010, resulting in their omission from the reports used to update the Fixed Assets System. The related depreciation would have been zero for fiscal year 2010. As of March 31, 2011, the items have been capitalized in SOAR.

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 responses to the findings identified in our audit are described above. We did not audit the District's responses 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.



May 5, 2011
Washington, D.C.