

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

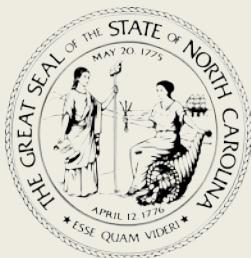


NORTH CAROLINA 911 FUND

RALEIGH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
North Carolina 911 Board

We have completed a financial statement audit of the North Carolina 911 Fund for the year ended June 30, 2014, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Findings, Recommendations, and Responses section of this report. The North Carolina 911 Fund's response is included following the finding.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



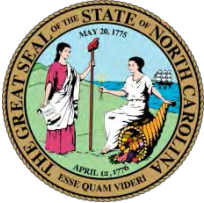
Beth A. Wood, CPA
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TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
NORTH CAROLINA 911 FUND EXHIBITS	
A-1 Balance Sheet.....	8
A-2 Statement of Revenues, Expenditures, and Changes in Fund Balance	9
Notes to the Financial Statements	10
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	19
FINDINGS, RECOMMENDATIONS AND RESPONSES	21
APPENDIX: NC 911 FUND RESPONSE LETTER.....	22
ORDERING INFORMATION.....	23

Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.

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INDEPENDENT AUDITOR'S REPORT

North Carolina 911 Board
North Carolina 911 Fund
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina 911 Fund, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina 911 Fund, as of June 30, 2014, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the North Carolina 911 Fund and are not intended to present fairly the financial position of the State of North Carolina and the results of operations in conformity with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

August 27, 2015



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the North Carolina 911 Fund (the "Fund") and the fund previously identified as the Enhanced Wireless 911 fund, we are providing the readers of these financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2014.

Financial Highlights

- The assets of the Fund exceeded its liabilities at the close of the fiscal year by \$50,192,875 all of which is committed.
- The Fund's total fund balance decreased by \$823,530 for the fiscal year.

Overview

This discussion and analysis is intended to serve as an introduction to the Fund's financial statements. The statements consist of fund financial statements and the notes to the financial statements. The fund financial statements provide a detail look at the Fund's most significant activities. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

The following schedule reflects condensed financial information for the Fund.

**Condensed Balance Sheet
June 30, 2014 and 2013**

	2014	2013 Unaudited	Variance
Assets			
Assets	\$ 62,300,343	\$ 59,947,288	\$ 2,353,055
Total Assets	<u>62,300,343</u>	<u>59,947,288</u>	<u>2,353,055</u>
Deferred Outflows of Resources	-	-	-
Total Assets and Deferred Outflows	<u>\$ 62,300,343</u>	<u>\$ 59,947,288</u>	<u>\$ 2,353,055</u>
Liabilities			
Liabilities	\$ 12,107,468	\$ 8,930,883	\$ 3,176,585
Total Liabilities	<u>12,107,468</u>	<u>8,930,883</u>	<u>3,176,585</u>
Deferred Inflows of Resources	-	-	-
Fund Balance			
Committed	<u>50,192,875</u>	<u>51,016,405</u>	<u>(823,530)</u>
Total Fund Balance	<u>50,192,875</u>	<u>51,016,405</u>	<u>(823,530)</u>
Total Liabilities, Deferred Inflows, and Fund Balance	<u>\$ 62,300,343</u>	<u>\$ 59,947,288</u>	<u>\$ 2,353,055</u>

The focus of the Fund's financial statements is to provide information on the near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Fund's operating requirements. Specifically, fund balance can be a useful measure of the resources that are available for spending at the end of the fiscal year.

Total assets increased from \$59,947,288 to \$62,300,343 for the year. The net increase is due to a continued decrease in wireline subscribers, increases in wireless and Voice over Internet Protocol (VOIP) subscribers, and the fund began collections of the prepaid wireless subscriber fee. It is important to note that collection of prepaid wireless subscriber fees was in moratorium until July 1, 2013 (SL 2011-122).

Total liabilities increased from \$8,930,883 to \$12,107,468 for the year. The increase is the result of an increase in the 911 Fund's allocable share of the liabilities related to the State Treasurer's Security Lending Agreement and also an increase in the amounts due to Public Safety Answering Points (PSAPs) at year-end.

**Condensed Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Years Ended June 30, 2014 and 2013**

	2014	2013 Unaudited	Variance
Revenues			
Service Charge Revenues	\$ 74,632,457	\$ 69,928,131	\$ 4,704,326
Other Revenue	1,062,469	1,009,287	53,182
Total Revenue	<u>75,694,926</u>	<u>70,937,418</u>	<u>4,757,508</u>
Expenditures			
Statutory Distributions	59,176,838	63,601,735	(4,424,897)
Grant Payments	15,795,318	62,088	15,733,230
Other Expenditures	1,546,300	1,609,751	(63,451)
Total Expenditures	<u>76,518,456</u>	<u>65,273,574</u>	<u>11,244,882</u>
Revenues Over (Under) Expenditures	(823,530)	5,663,844	(6,487,374)
Fund Balance Beginning of Year	<u>51,016,405</u>	<u>45,352,561</u>	<u>5,663,844</u>
Fund Balance End of Year	<u>\$ 50,192,875</u>	<u>\$ 51,016,405</u>	<u>\$ (823,530)</u>

Service charge revenues increased by \$4,704,326 from the prior year. Sources of revenue changed due to a change in legislation, *North Carolina General Statute 62A-54*, resulting in the collection of 911 service fees for Prepaid Wireless sales that became effective July 1, 2013. Service charge revenue and interest earned on the Short-Term Investment Fund (STIF) continued to be the only revenue source of the Fund.

As of June 30, 2014, the North Carolina 911 Board was disbursing 911 funds to 123 PSAPs in North Carolina each month, including the Eastern Band of the Cherokee Indians. This reduction from 124 PSAPs in the year ending June 30, 2013 report reflects the consolidation of the Oak Island Police Department with the Brunswick County 911 Center. The primary PSAPs located in Burke County of Morganton Police Dept. and Valdese Fire Dept. are allocated funds from the 911 fund but are actually collected and disbursed by Burke County.

The same is true in Granville County where a second primary PSAP is located in Butner. Funds are received by Granville County and then disbursed to the Butner PSAP.

Expenditures for the fiscal year were \$76,518,456, and included statutory distributions, other operating expenditures, and transfers. Grant payments expenditures increased by \$15,733,230. The increase is attributable to grant payments made during the period for grants awarded in previous years and still in progress.

As of June 30, 2014, the Commercial Mobile Radio Service (CMRS) Cost Recovery Fund balance was \$3.7 million with an average monthly disbursement of \$600 thousand. As of the same date, the average monthly disbursement for the PSAP was \$4.3 million. Average monthly revenues to the PSAP fund as of June 30, 2014 were \$5.4 million.

PSAP Funding Method

North Carolina General Statute 62A-46.(a)(1) states that "The Board must determine a method for establishing distributions that is equitable and sustainable and that ensures distributions for eligible operating costs and anticipated increases for all funded PSAPs. The Board must establish a formula to determine each PSAP's base amount."

The Board approved a new PSAP fund distribution method on December 7, 2010 to be effective July 1, 2011. This method distributed funds to eligible PSAPs based on an average of the most recent five years of eligible 911 expenditures. Each year going forward, the oldest expenses would be removed from the average and the most current year added, creating a "rolling average."

Six PSAPs made formal funding reconsideration request for FY2013 and five were given an increase from the proposed amount after careful review of past expenditures and fund balances within the individual PSAP.

The FY2013 PSAP distribution utilizing the new funding method was \$48,944,172.

For FY2014, eleven PSAPs made formal requests for funding reconsideration and seven were given an increase from the proposed amount after careful review of past expenditures and fund balances within the individual PSAP.

The PSAP distribution for FY2014 was \$51,692,725.

In performing the annual revenue/expenditure reports from the PSAPs, the 911 Board staff noted that at the end of the fiscal year of June 30, 2014, PSAP Fund Balances (the amount that PSAPs have on hand locally) totaled over \$73.9 million.

Grant and Statewide Projects

The enactment of SL 2010-158 (codified in *North Carolina General Statute 62A-47*), expanded the Board's grant authority in two significant ways: to consolidate one or more PSAPs with a primary PSAP, and to fund statewide projects.

At the June 28, 2012 meeting, the 911 Board awarded a total of \$11,600,000 to three primary PSAPs. All three grants awards were to counties undertaking projects that qualified for the PSAP consolidation grants. Lenoir County 911 was awarded \$7,400,000 to

consolidate with Jones County 911 which is the first consolidation grant awarded by the 911 Board that consolidates two counties. Brunswick County was awarded \$2,100,000 to consolidate with Oak Island PD and Scotland County was awarded \$2,100,000 to consolidate with several secondary PSAPs in that county. The Board continued funding for the second year of the statewide orthography project in the amount of \$3,946,827. The Board voted to transfer \$15,547,827 from the PSAP Distribution fund to the PSAP Grant account at the August 24, 2012 Board meeting.

At the June 28, 2013 Board meeting, \$11,183,828 was awarded in grants to eight PSAPs. Of those eight, two were for consolidation projects, Anson County for \$949,000 and Hertford County for \$4,250,000. The Board also continued funding for the third year of the statewide orthography project in the amount of \$3,987,667. The Board voted to transfer \$15,171,495 from the PSAP Distribution Fund and the CMRS Cost Recovery Fund to the PSAP Grant account at the September 27, 2013 meeting.

The transferred funds in 2012 and in 2013 to the Grant Fund were considered excess in the PSAP Distribution Fund and the CMRS Cost Recovery Fund and did not impact either fund's ability to meet its fiscal responsibilities.

911 Fee

The 911 Board reviewed the PSAP and CMRS Cost Recovery Fund balances at the March 22, 2013 meeting. The staff presented the financial forecast for FY2014 and recommended that the 911 fee remain at \$.60 for the next year. The Board approved the staff recommendation.

Future Highlights

There are several areas that will need to be addressed in the future.

The single most important challenge facing the 911 Fund continues to be moving the North Carolina 911 system to a Next Generation 911 platform. Next Generation 911 is difficult to define but can be simply described as moving from an analog system focused on delivering 911 calls to a single PSAP to a digital network allowing seamless transfer of call information among many PSAPs.

The transition period from analog to digital will necessitate the need for two systems, the legacy analog and the next generation digital, to operate simultaneously. Because PSAPs operate independently and without a statewide coordinated effort, these costs not only will be high but also will have to be incurred over a longer period of time. The North Carolina 911 Board should take immediate steps to create a Next Generation 911 plan and begin implementation of that plan.

The 911 Board financial staff has collected an enormous amount of data relating to 911 fund expenditures by local PSAPs since 2008. The most basic of analysis shows the disproportion of costs paid by individual PSAPs for like items across the state. These cost differences are believed to be the result of local purchasing procedures without knowledge or oversight at the state level. The 911 Board staff has heard anecdotal reports from several meetings with PSAP managers and Finance officers about these issues. As PSAP operating costs are increasing, especially with the implementation of Next Generation 911, a more uniform

purchasing method for all PSAPs needs to be implemented or a PSAP funding method that highlights cost efficiencies rather than cost dependencies needs to be developed.

Implementation of operating standards for PSAPs has still not become effective. Working through the Rules Review and Approval process has become quite a challenge and remains what appears to be an elusive goal for the 911 Board staff. The cost of implementation remains unknown at this point but could prove to be a negative impact on the PSAP fund. When implementation does occur, these costs need to be monitored closely by Staff.

While it is not an immediate issue, the future of 911 revenue is one that needs to be a part of any financial discussion by the 911 Board. The traditional model of collecting from telephone subscribers is becoming more complex as the traditional telephone subscriber is becoming less "traditional" and more difficult to define for fee collecting purposes. This is just not a problem within our state but a problem nationally. North Carolina, however, cannot wait for a solution to be determined or dictated but rather must be on the forefront to help craft a solution that fits North Carolina and its 911 needs.

Request for Information

This report is designed to provide an overview of the Fund's finances for those with an interest in this area. Questions concerning any of the information presented in this report or requests for additional financial information should be directed to the Chief Financial Officer, North Carolina 911 Fund, 3700 Wake Forest Road, Raleigh, North Carolina 27609.



FINANCIAL STATEMENTS

**North Carolina 911 Fund
Balance Sheet
June 30, 2014**

Exhibit A-1

ASSETS

Cash and Cash Equivalents (Note 2)	\$ 48,579,518
Accounts Receivables (Note 1)	5,947,062
Interest Receivable (Note 1)	18,132
Due from Other Funds (Note 1)	1,737,575
Securities Lending Collateral	<u>6,018,056</u>
Total Assets	<u>62,300,343</u>

DEFERRED OUTFLOWS OF RESOURCES

Total Deferred Outflows of Resources	<u>0</u>
Total Assets and Deferred Outflows	<u><u>\$ 62,300,343</u></u>

LIABILITIES

Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 952,705
Intergovernmental Payable (Note 1)	5,078,725
Other Payables	39,462
Obligations Under Securities Lending	<u>6,036,576</u>
Total Liabilities	<u>12,107,468</u>

DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources	<u>0</u>
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FUND BALANCES

Committed	<u>50,192,875</u>
Total Liabilities, Deferred Inflows and Fund Balance	<u><u>\$ 62,300,343</u></u>

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

North Carolina 911 Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance
For the Fiscal Year Ended June 30, 2014

Exhibit A-2

REVENUES

Service Charges Revenues	\$ 74,632,457
Investment Earnings	308,606
Administration Fees	753,863
	<hr/>
Total Revenues	75,694,926
	<hr/>

EXPENDITURES

Statutory Distributions	59,176,838
Grant Payments	15,795,318
Salaries and Benefits	391,813
Contracted Services	987,787
Travel	64,380
Data Processing	8,633
Telephone	26,961
Vehicle Lease	22,884
Registration Fees	2,534
Postage and Freight	224
Other	17,932
Capital Outlay	689
	<hr/>
Total Expenditures	76,495,993
	<hr/>

Revenues Over (Under) Expenditures	<hr/> (801,067) <hr/>
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OTHER FINANCING SOURCES (USES)

Transfers Out (Note 1)	<hr/> (22,463) <hr/>
Total Other Financing Sources (Uses)	<hr/> (22,463) <hr/>
Net Change in Fund Balances	(823,530)

FUND BALANCE

Fund Balance, July 1, 2013	<hr/> 51,016,405 <hr/>
Fund Balance, June 30, 2014	<hr/> \$ 50,192,875 <hr/> <hr/>

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - On October 1, 1998, the General Assembly of North Carolina (General Assembly) ratified Senate Bill 1242 which established the Enhanced 911 Wireless Fund and the North Carolina Wireless 911 Board. On July 27, 2007, the General Assembly of North Carolina further revised *North Carolina General Statutes* 62A, creating a North Carolina 911 Fund and North Carolina 911 Board. The North Carolina 911 Board consolidates the State's Enhanced 911 system under a single board with a uniform 911 service charge to integrate the State's 911 system, enhance efficiency and accountability, and create a level competitive playing field among voice communication providers.

The 911 Board continues to provide for an enhanced 911 system for the use of wireless, wireline and Voice over Internet Protocol (VoIP) telephone services. In addition, the Fund provides funding for major improvements in the quality and reliability of statewide 911 services available to the customers of voice communication service providers.

As required by *North Carolina General Statute* 62A-41 certain elected officials appoint the sixteen members of the 911 Fund's Advisory Board. The State Chief Information Officer or the Chief Information Officer's designee serves as the chair. Four members are appointed by the Governor, six members are appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives and six members are appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate.

Of the sixteen Board members, three members represent the Commercial Mobile Radio Service (CMRS) providers, four members represent the Local Exchange Carriers, and one member represents VoIP providers and are considered the "Industry" representatives. Of the remaining eight members representing the "Public Sector," there is one member representing a county, one member representing a municipality, one member who is a sheriff, one member who is a police chief, one member who is a fire chief, one member who is rescue or emergency medical services chief, one member representing the NC Chapter of NENA (National Emergency Number Association) and one member representing the NC Chapter of APCO (Association of Public Safety Communication Officials).

During the year, voice communications providers remit monthly service charges to the 911 Fund and Public Safety Answering Points (PSAPs) receive statutory distributions from the fund. The North Carolina 911 Board manages all revenues remitted to the 911 Fund, establishes procedures for disbursement of funds, and advises all voice communications service providers and eligible counties of such procedures.

- B. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their

constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The North Carolina 911 Fund is part of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the 911 Fund is financially accountable. The 911 Fund's accounts and transactions are included in the State's *Comprehensive Annual Financial Report* as part of the State's governmental funds.

- C. Basis of Presentation** - The accompanying financials statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* require the presentation of both government-wide and fund level financial statements. The financial statements presented are governmental fund financial statements of the 911 Fund. Because the 911 Fund is not a separate legal entity, government-wide financial statements are not prepared.

The 911 Fund reports only one major fund, the Special Revenue Fund. The Special Revenue Fund is the primary operating fund and is used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes. The primary revenue source is 911 service charge.

- D. Measurement Focus and Basis of Accounting** - The financial statements of the 911 Fund have been prepared using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources.

Under the modified accrual basis, revenues are recognized when both measurable and available. The 911 Fund considers revenues to be available if they are collected within 35 days of the end of the current fiscal period. In addition, expenditures are recorded when the related fund liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when payment is due.

The 911 Fund recognizes assets of non-exchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met.

Non-exchange transactions occur when one government provides (or receives) value to (or from) another party without receiving (or giving) equal or nearly equal value in return.

- E. **Cash and Cash Equivalents** - This classification includes deposits held by the North Carolina State Treasurer in the short-term investment fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- F. **Receivables** - This classification consists of service charges for voice communication connections. Accounts receivables are expected to be collected within one year. As of June 30, 2014, the 911 Fund had an accounts receivable balance of \$5,947,062. This amount includes \$5,887,582 in service charge fees, and \$59,480 in administration fees from the voice communication providers. As of June 30, 2014, the 911 Fund had an interest receivable of \$18,132 based on the STIF account balance.
- G. **Due from Other Funds** - As of June 30, 2014, the Department of Revenue owed the 911 Fund \$1,444,526 for prepaid wireless revenues collected for May and June 2014. As of June 30, 2014, the Department of Health and Human Service must repay the 911 Fund \$293,049 from the Telecom Relay Service surcharge as a result of an error in recording revenue received from a voice provider.
- H. **Securities Lending** - While the 911 Fund does not directly engage in securities lending transactions, it deposits certain funds with the State Treasurer's Short-Term Investment Fund which participates in securities lending activities. Based on the State Treasurer's allocation of these transactions, the 911 Fund recognizes its allocable share of the assets and liabilities related to these transactions on the accompanying financial statements as "State Treasurer's Securities Lending Collateral" and "Obligations Under State Treasurer's Securities Lending Agreements." The allocable share of the income and costs arising from the transactions is included on the Statement of Revenues, Expenditures, and Changes in Fund Balance. Based on the authority provided in *North Carolina General Statute* 147-69.3(e), the State Treasurer lends securities from its investment pools to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's securities custodian manages the securities lending program. During the year, the custodian lent U.S. government and agency securities, corporate bonds and notes for collateral. The custodian is permitted to receive cash, U.S. Government and agency securities, or irrevocable letters of credit as collateral for the securities lent. The collateral is initially pledged at 102 percent of the market value of the securities lent, and additional collateral is required if its value falls to less

than 100 percent of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower.

Additional details on the State Treasurer's securities lending program are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- I. **Accounts Payable** - Accounts payable represent amounts due to vendors, CMRS providers and employees for goods, services or travel provided/incurred by June 30, 2014.
- J. **Intergovernmental Payables** - Intergovernmental payables represent amounts due to eligible Public Safety Answering Points (PSAPs). Eligible PSAPs are those providers that have complied with the provisions of *North Carolina General Statute*, Chapter 62A, Article 3, and Emergency Telephone Service. At June 30, 2014, \$5,078,725 is currently due to the PSAPs.
- K. **Fund Balance** - Fund balance for governmental funds is reported in five categories: non-spendable, restricted, committed, assigned, and unassigned. The fund balance for the 911 Fund is committed since it can only be used for specific purposes pursuant to constraints imposed by formal action of the N.C. General Assembly, the State's highest level of decision-making authority. The N.C. General Assembly establishes commitments through the passage of legislation that becomes State law. Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally. As of June 30, 2014, the 911 Fund has a committed fund balance of \$50,192,875.
- L. **Service Charge Revenues and Administration Fees** - A monthly service charge is levied on each voice communication service connection. The monthly service charge was initially set on October 1, 1998 and may be adjusted by the Board to ensure full cost recovery for voice communication service providers and for primary PSAP's over a reasonable period of time. A change in the rate may become effective only on July 1. The 911 Fund receives a 1% administrative fee from the total service charges remitted by the voice communication providers. The voice communication providers may retain an allowance equal to the greater of 1% or fifty dollars (\$50.00) a month of the \$0.60 collected for their administrative costs.
- M. **Statutory Distributions** - The 911 Fund is required to use the 911 service charge fees, less a 1% administrative fee, to cover the costs associated with developing, maintaining and providing technical assistance to primary PSAPs of the enhanced 911 system and other costs as approved by the 911 Board. A portion of the remaining fees are

to be used to reimburse CMRS for actual costs incurred in complying with the requirements of enhanced 911 Service. The allocation of funds remitted by CMRS providers is 20% to the CMRS portion of the fund and 80% to the PSAP portion of the fund. Funds received from other voice communication providers are allocated 100% to the PSAP portion of the fund.

- N. Grant Payments** - The 911 Board funds grants to PSAPs in rural and other high-cost areas and projects that provide statewide benefits for 911 Service. A PSAP may apply to the 911 Board for a grant. The Board may approve a grant application and enter into agreement with a PSAP if the Board determines the estimated costs are reasonable, the expenses are consistent with the 911 plan, sufficient funds are available, and the costs are authorized PSAP costs or the costs are for consolidating PSAP's, or the relocation costs of a primary PSAP.

The Board may use funds for a statewide project if the Board determines the project is consistent with the 911 plan, the project is cost-effective and efficient, the project is an eligible expense under *North Carolina General Statute* 62A-46(c) and the project will have a statewide benefit for 911 Service.

- O. Transfers** - Transfers represent payments by the 911 Fund to Information Technology Services (ITS) for its share of allocated costs such as facilities, administration, security, and customer support expenses. At June 30, 2014, \$22,463 was transferred to ITS.

NOTE 2 - DEPOSITS AND INVESTMENTS

At June 30, 2014, the amount shown on the Balance Sheet as cash and cash equivalents includes \$48,579,518 which represents the 911 Fund's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2014. Assets and shares of the STIF are valued at cost or amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NOTE 3 - RISK MANAGEMENT

The 911 Fund is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to

employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state administered insurance programs. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company.

The State Property Fire Insurance Fund (the "Insurance Fund"), an internal service fund of the State, insures all State owned buildings and contents for fire and various other property losses up to \$2,500,000 per occurrence. Losses covered by the Fund are subject to a \$5,000 per occurrence deductible. The Insurance Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Insurance Fund.

All State owned vehicles are covered by liability insurance administered by the North Carolina Department of Insurance. The State is self-insured for the first \$1,000,000 of any loss through a retrospective rating plan. Excess insurance coverage is purchased through a private insurer to cover losses greater than \$1,000,000 up to \$10,000,000 per occurrence.

The 911 Fund is protected for losses from employee dishonesty and computer fraud for employees paid in whole or part from state funds. The coverage is placed with a private insurance company and is administered by the North Carolina Department of Insurance. The 911 Fund is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible.

The 911 Fund employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

The Statewide Workers' Compensation Program provides benefits to workers injured on the job. All employees of the State are included in the program. When an employee is injured, the employer's primary responsibility is to arrange for and provide the necessary treatment for work related injury. The State is self-insured for workers' compensation. A third party administrator processes workers' compensation claims. State agencies and participating component units contribute to a fund administered by the Office of the State Controller to cover their workers' compensation claims. The third party administrator receives a per case administration fee and draws down State funds to make medical and indemnity payments on behalf of the State in accordance with the North Carolina Workers' Compensation Act.

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible employees. This Death Benefit Plan is administered by the State

Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

Additional details on state-administered risk management programs are disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NOTE 4 - PENSION AND DEFERRED COMPENSATION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (TSERS) is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The Plan is administered by a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the 911 Fund had a total payroll of \$305,136, of which \$273,008 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$23,724 and \$16,380, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The 911 Fund made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$23,724, \$19,742, and \$14,649, respectively.

The TSERS financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Supplemental Retirement Income Plan - IRC Section 401(k) Plan – All full time employees are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan created under the Internal

Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the plan participants. No costs are incurred by the 911 Fund.

- C. **Deferred Compensation Plan** - IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Supplemental Retirement Income Plan (the “Plan”). The Plan permits each participating employee to defer a portion of his or her salary until future years.

The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board of Trustees of the Plan. The Board has delegated the general administration of the Plan to a third party but has retained all statutory authority and fiduciary responsibility for major decisions of the 457 plan. All costs of administering and funding the Plan are the responsibility of the Plan participants. There were no costs incurred by the 911 Fund in the current year.

NOTE 5 - OTHER POSTEMPLOYMENT BENEFITS

- A. **Health Benefits** - The 911 Fund participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers’ and State Employees’ Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan’s benefit and contribution provisions are established by Chapter 135, Article 3B, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers’ and State Employees’ Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year the 911 Fund contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The 911 Fund made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$14,742, \$12,561, and \$9,845, respectively. The North Carolina 911 Fund assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The 911 Fund participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2014, the 911 Fund made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The 911 Fund made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$1,201, \$1,043, and \$1,024, respectively. The 911 Fund assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 6 - COMMITMENTS

The 911 Fund has outstanding commitments on cost-reimbursement grants and contracts to Public Safety Answering Points (PSAPs) totaling \$29,631,856 at June 30, 2014.

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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**INDEPENDENT AUDITOR'S 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**

North Carolina 911 Board
North Carolina 911 Fund
Raleigh, North Carolina

We have audited, in accordance with the 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, the financial statements of the North Carolina 911 Fund (the Fund) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated August 27, 2015.

As discussed in Note 1 to the financial statements, the financial statements present only the North Carolina 911 Fund and are not intended to present fairly the financial position of the State of North Carolina and the results of operations in conformity with accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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 and correct, 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 Fund's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Audit Findings, Recommendations and Responses section, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from 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*.

Fund's Response to Finding

The Fund's response to the finding identified in our audit is described in the accompanying Audit Findings, Recommendations, and Responses section. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

August 27, 2015



FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes conditions that represent a deficiency in internal control.

INADEQUATE REVIEW ALLOWED ERRORS AND OMISSIONS IN THE FINANCIAL STATEMENTS TO GO UNDETECTED

The financial statements and related notes to the financial statements prepared for the North Carolina 911 Fund contained errors and omissions that were corrected as a result of our audit. Auditors identified the following:

- The Fund did not disclose \$29,631,856 of the fund balance as committed for future liability related to outstanding cost-reimbursement grants and contracts.
- The Fund's expenditures and accounts payables were understated by \$863,465 due to unrecorded liabilities.
- The Fund's revenues and due from other funds were understated by \$293,049 due to the revenues being recorded to the wrong fund classification. The incorrect classification resulted in the monies being transferred to another agency in error and a request for refund from that agency.

Without these corrections, users of the financial statements could be misinformed about the NC 911 Fund's financial condition and results of operations.

The errors occurred because journal entries, financial statements and notes to the financial statements were finalized without appropriate review which evidences the internal controls over financial reporting for the NC 911 Fund were not effective. According to management, an adequate review was not in place due to recent changes in roles and responsibilities in the accounting and financial reporting office.

The NC 911 Fund's management is responsible for the fair presentation of the financial statements and related notes to the financial statements in conformity with accounting principles generally accepted in the United States. Specifically, the Office of State Controller requires State agencies to establish a system of internal controls, which includes appropriate management review, to ensure the accuracy and completeness of the financial statements and related notes to the financial statements.

Recommendation: The North Carolina 911 Fund management should implement the necessary review procedures to ensure the completeness and accuracy of journal entries, financial statements and related notes to the financial statements.

Response: The North Carolina 911 Fund management is implementing a more structured and formal review process to ensure the completeness and accuracy of journal entries, financial statements and related notes to the financial statements. See also Appendix: NC 911 Fund Response Letter.



State of North Carolina
Office of Information Technology Services

Pat McCrory
Governor

Chris Estes
State Chief Information Officer

August 26, 2015

The Honorable Beth A. Wood
Office of the State Auditor
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Ms. Wood:

We have reviewed the North Carolina 911 Fund Audit Findings and Recommendations for Fiscal Year 2014 and respond as follows:

Finding: Matters Related to Financial Reporting

- 1) **Observation #1:** The Fund did not disclose \$29,631,856 of the fund balance as committed for future liability related to outstanding cost-reimbursement grants and contracts.
OITS Response: OITS agrees and will update the FY 2014 notes to the financial statements. OITS will include the commitments note disclosure in all future financial reports.
Responsible Person: OITS Accounting Manager
Expected Completion Date: August 28, 2015
- 2) **Observation #2:** The Fund's expenditures and accounts payable were understated by \$863,465 due to unrecorded liabilities.
OITS Response: OITS agrees and all outstanding invoices during the accrual period for the previous Fiscal Year will be reviewed to ensure proper accrual. \$286,630.74 of the understated amount was related to Commercial Mobile Radio Service (CMRS) reimbursements that have historically been accounted for in the period of payment rather the period of obligation, as a matter of board policy. OITS will accrue these payments in the period of obligation, instead of the period of payment, in all future financial reports.
Responsible Person: OITS Account Manager
Expected Completion Date: August 28, 2015
- 3) **Observation #3:** The Fund's revenues and due from other funds were understated by \$293,049, due to the revenues being recorded to the wrong fund classification. The incorrect classification resulted in the monies being transferred to other agency in error and a request for refund from that agency.
OITS Response: Review procedures are in place to ensure proper accounting for transfers and to prevent duplicate entries. OITS disclosed the transfer error in the notes to the financial statements, but agrees that the correction should have been shown on the face of the financial statements.
Responsible Person: OITS Account Manager
Expected Completion Date: Complete

Thank you again for the opportunity to respond to the draft audit. The North Carolina 911 Fund management is implementing a more structured and formal review process to ensure the completeness and accuracy of journal entries, financial statements and related notes to the financial statements. OITS looks forward to working with the Office of State Auditor to improve the efficiency and effectiveness of information technology in delivering services to the state's citizens.

Sincerely,


Chris Estes

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