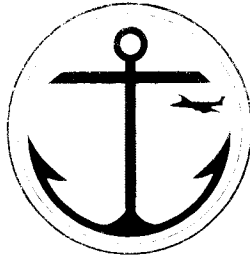


Municipality of Anchorage



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George P. Wuerch, Mayor

OFFICE OF THE INTERNAL AUDITOR

July 26, 2000

Internal Audit Report 2000-7 Enhanced 911 Surcharge Payments Anchorage Police Department

Introduction. The Enhanced 911 (E-911) surcharge was established in 1993 to fund the E-911 system. The E-911 system is a telephone system consisting of network, data base and E-911 equipment that uses the single three-digit number "911" for reporting a police, fire, medical or other emergency situation and includes the personnel required to acquire, install, operate and maintain the system. A surcharge of \$.50 per month is collected per local access line. Local exchange access lines do not include public pay phones, interoffice trunks, toll trunks, direct inward dialing trunks or cellular or wireless telephones. Customers with more than 100 local exchange access lines from a local exchange telephone company are liable for the E-911 surcharge only on 100 lines. E-911 surcharge is collected by Alaska Communications System (ACS), GCI Communication Corp. (GCI), AT&T Alascom (AT&T) and Matanuska Telephone Association, Inc. (MTA). The first full year of surcharge revenue was collected in 1994.

Scope. The objective of this audit was to determine whether E-911 surcharge payments made by local exchange telephone companies were in compliance with the Anchorage Municipal Code (AMC) and the Alaska State Statutes. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of April through May 2000. The audit was requested by the Administration.

Overall Evaluation. E-911 surcharge payments made by four local exchange telephone companies were generally in compliance with the AMC and the Alaska State Statutes. However, the responsibility for reviewing and monitoring the E-911 surcharge payments was not clearly

established, deductions for the cost of collecting the E-911 surcharges were allowed even though payments were not always submitted in a timely manner by local exchange telephone companies, and the E-911 surcharge amounts charged-off as uncollectible were not always adjusted to reflect actual collections. The amount of E-911 surcharge payments has increased approximately 20% since 1997. See Appendix A, attached, for a chart of the payments. There were four noticeable decreases due to the following:

1. In June 1999, AT&T's surcharge payment was less than the previous month by \$3,219.30. According to AT&T, the decrease was a clerical error. The error will be corrected and the revised return will be prepared and submitted to the Municipality's Treasury Division.
2. In September 1999, a prior period adjustment of approximately \$3,000 was made by GCI to exempt businesses with more than 100 lines as allowed by AMC 26.65.050(A).
3. In October 1999, ACS made an adjustment of \$1,874.81 for actual uncollectible accounts that had accumulated since May 1999.
4. In February 2000, ACS made an adjustment of \$3,721.00 for a billing error from June 1, 1999, to December 31, 1999, for public pay phone access lines.

FINDINGS AND RECOMMENDATIONS

1. **Responsibility for Monitoring E-911 Payments Not Clear.**

- a. **Finding.** The responsibility for reviewing and monitoring the E-911 surcharge payments was not clearly established. Currently, payments are received in the Treasury Division where a cash receipt is issued, the money is deposited in the appropriate account and a copy of the return is forwarded to the Anchorage Police Department (APD) where the returns are placed in a file. Both agencies believed that

the other was reviewing the return. As a result, no one reviewed the returns for accuracy and compliance with the AMC. For example, we found one instance where the wrong amount was deposited into the E-911 account. The payment included a credit for a right-of-way payment from another Municipal department. However, this credit was not detected even though the E-911 return reflected a different amount than what was on the check.

- b. **Recommendation.** APD personnel should review and monitor the E-911 surcharge payments and corresponding returns to ensure that they are reasonable and in compliance with AMC requirements.
- c. **Management Comments.** Management stated, "The management at APD concurs with this recommendation."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Surcharges Not Submitted Timely.**

- a. **Finding.** Deductions for the cost of collecting the E-911 surcharges were allowed even though payments were not always submitted in a timely manner by three out of four local exchange telephone companies paying E-911 surcharges. During the period of 1998 through the beginning of 2000, we identified deductions totaling \$4,448.74 that should not have been allowed. According to the AMC, the local exchange telephone companies should remit surcharge payments no later than 60 days after the end of the month. For each remittance made in a timely manner, the company is entitled to deduct the greater of 1% of the amount collected or \$150 per month as the cost of administration for collecting the E-911 surcharge.

- b. **Recommendation.** Deductions for the cost of administration should not be allowed for those companies that submit their payments late. In addition, the MOA Enhanced 911 System Surcharge Return form should be revised to clearly state that administrative costs cannot be deducted if the local exchange telephone company remits the surcharge payment later than 60 days after the end of the month.
 - c. **Management Comments.** Management stated, “The management at APD concurs with this recommendation.”
 - d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
3. **Amounts Charged-Off Did Not Reflect Actual Collections.**
- a. **Finding.** The estimated E-911 amounts charged-off as uncollectible by one local exchange telephone company was not adjusted to reflect actual collections at year end. Anchorage Municipal Code of Regulations 26.65.001 requires that the amount charged-off as uncollectible, initially calculated on an estimated basis, should be adjusted periodically to reflect actual experience. The adjustment had not been made since 1995.
 - b. **Recommendation.** The local exchange telephone company should be requested to adjust any estimated uncollectible amounts to reflect actual experience.
 - c. **Management Comments.** Management stated, “APD personnel will work with the treasurer’s office to develop a strategy that will adequately address the uncollectible amount adjustment to actual issue.

“Under AMCR, 26.65.003 Remittance A., B. 1-9, C, the municipal treasurer’s office has the primary responsibility of receiving the surcharge payment and return. This section of the code creates a direct relationship between the local exchange telephone company and the municipal treasurer’s office.”

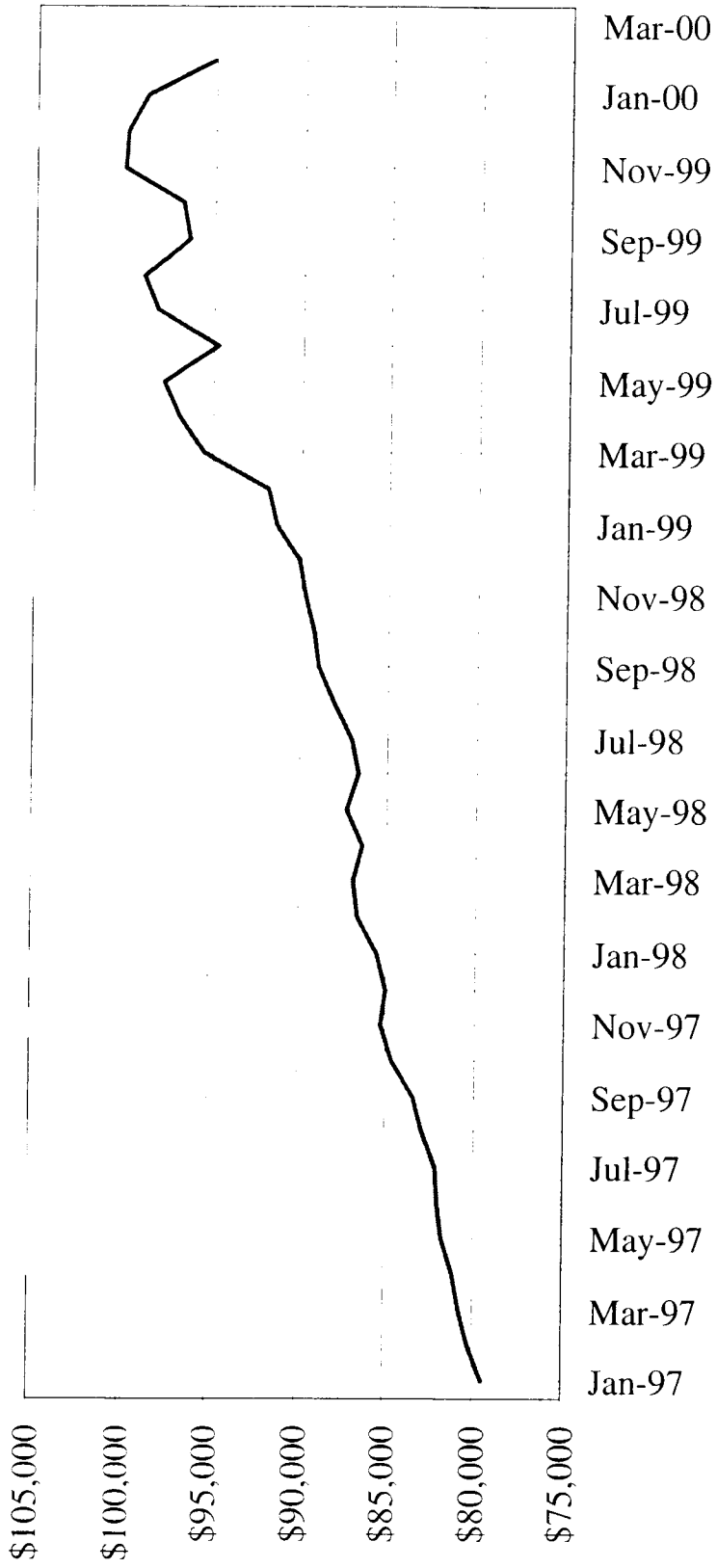
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on May 30, 2000.

Audit Staff:
Lily Li, CPA

Surcharge Payments January 1997 - February 2000

Payments Are Net of Amounts Charged of As Uncollectable
and Administrative Costs by Telephone Companies



ATTACHMENT A

Audit Report 2000-7

Enhanced 911 Surcharge Payments, Anchorage Police Department

July 26, 2000