

County of Luzerne, Pennsylvania

Public Safety Emergency Telephone Act
Program

Special Purpose Financial Statements

Years Ended December 31, 2011, 2010, and
2009 with Independent Auditor's Reports

COUNTY OF LUZERNE, PENNSYLVANIA
PUBLIC SAFETY EMERGENCY TELEPHONE ACT PROGRAM
YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009

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Independent Auditor's Report

County Commissioners
County of Luzerne, Pennsylvania

We have audited the accompanying Public Safety Emergency Telephone Act Program special purpose financial statements (financial statements) of the 911 Fund of the County of Luzerne, Pennsylvania (County), for the years ended December 31, 2011, 2010, and 2009. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were unable to form an opinion regarding the accuracy and eligibility of the following transfers recorded in the financial statements: Transfers of \$702,276 and \$106,199 from Wireless to the County's Construction Fund during the year ended December 31, 2009, a transfer of \$241,762 from Wireline to Wireless during the year ended December 31, 2009, and a transfer of \$947,986 from Wireline to the County's General Fund during the year ended December 31, 2011.

The basis of presentation is another comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and is not intended to be a complete presentation of the County's receipts and disbursements. As described more fully in Note 2, the County prepares its financial statements in accordance with the regulatory guidelines established by the Pennsylvania Emergency Management Agency in accordance with accounting practices prescribed by 4 Pennsylvania Code, Chapter 120b and 35 Pa C.S.A. 5311.5(e), which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about the accuracy and eligibility of the

transfers referred to in the second preceding paragraph, the financial statements referred to above present fairly, in all material respects, the receipts and disbursements of Chapter 53 of Title 35 of the County for the years ended December 31, 2011, 2010, and 2009, in accordance with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2012, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of management, the County Commissioners, others within the County, the Pennsylvania Emergency Management Agency, and the Pennsylvania Utility Commission and is not intended to be and should not be used by anyone other than these specified parties.

Maier Duessel

Harrisburg Pennsylvania
November 2, 2012

COUNTY OF LUZERNE, PENNSYLVANIA
PUBLIC SAFETY EMERGENCY TELEPHONE ACT PROGRAM
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	2011			2010			2009		
	Wireline/VoIP	Wireless	Total	Wireline/VoIP	Wireless	Total	Wireline/VoIP	Wireless	Total
Beginning Cash Balance - January 1	\$ 3,090,191	\$ 2,012,495	\$ 5,102,686	\$ 2,872,743	\$ 351,634	\$ 3,224,377	\$ 3,068,743	\$ 651,769	\$ 3,720,512
Cash Receipts:									
Telephone fees	2,193,069	-	2,193,069	2,233,923	-	2,233,923	2,519,411	-	2,519,411
VoIP - Commonwealth	130,526	-	130,526	96,370	-	96,370	57,531	-	57,531
VoIP - County	44,936	-	44,936	44,907	-	44,907	-	-	-
Intergovernmental revenues	-	2,772,858	2,772,858	-	3,658,508	3,658,508	-	2,787,388	2,787,388
Interest income	1,589	2,007	3,596	7,310	3,103	10,413	11,644	2,213	13,857
Other receipts	28,816	-	28,816	26,351	-	26,351	24,116	-	24,116
Total cash receipts	2,398,936	2,774,865	5,173,801	2,408,861	3,661,611	6,070,472	2,612,702	2,789,601	5,402,303
Total beginning balance and cash receipts	5,489,127	4,787,360	10,276,487	5,281,604	4,013,245	9,294,849	5,681,445	3,441,370	9,122,815
Allowable Disbursements:									
Salaries and benefits	2,030,000	2,434,700	4,464,700	1,205,782	2,013,651	3,219,433	1,803,859	1,951,172	3,755,031
Training	22,968	3,412	26,380	-	-	-	-	-	-
Telephone and line charges	305,213	154,044	459,257	260,983	51,265	312,248	197,053	52,036	249,089
Leased equipment	8,580	-	8,580	9,438	-	9,438	10,296	-	10,296
Management and consulting services	149,885	62,125	212,010	90,057	217,934	307,991	77,163	5,624	82,787
Other contractual services	144,495	342,455	486,950	108,174	-	108,174	301,543	-	301,543
Materials and supplies	2,004	2,294	4,298	2,573	-	2,573	2,063	-	2,063
Small tools and minor equipment	500	-	500	612	-	612	-	-	-
Machinery and equipment	-	-	-	-	3,679	3,679	-	6,354	6,354
Site rental	36,761	8,570	45,331	32,362	8,570	40,932	25,122	1,000	26,122
Electricity	1,096	-	1,096	5,321	16,623	21,944	19,243	464	19,707
Repairs and maintenance	1,557	10,591	12,148	5,487	-	5,487	-	700	700

(Continued)

The accompanying notes are an integral part of the special purpose financial statements.

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(Continued)

	2011			2010			2009		
	Wireline/VoIP	Wireless	Total	Wireline/VoIP	Wireless	Total	Wireline/VoIP	Wireless	Total
Allowable Disbursements (Continued):									
Addressing/mapping	721	-	721	9,314	-	9,314	50	409,908	409,958
Fuel tower site	1,552	-	1,552	1,820	-	1,820	-	-	-
Inspection fees	450	-	450	1,473	-	1,473	900	-	900
Interpreter services	2,028	415	2,443	1,882	-	1,882	1,425	-	1,425
Meetings and conferences	2,161	-	2,161	21,751	724	22,455	10,027	815	10,842
Pager service	-	-	-	1,980	-	1,980	1,980	-	1,980
Public information programs	-	2,801	2,801	2,063	-	2,063	26	-	26
Telephone company administration fee	47,371	-	47,371	42,991	-	42,991	43,981	-	43,981
Other allowable disbursements	99,502	4,969	104,471	75,674	-	75,674	28,780	-	28,780
Total allowable disbursements	2,856,844	3,026,376	5,883,220	1,879,717	2,312,446	4,192,163	2,523,511	2,428,073	4,951,584
Transfers:									
Transfers in	-	-	-	-	311,696	311,696	-	241,762	241,762
Transfers out	(947,986)	-	(947,986)	(311,696)	-	(311,696)	(241,762)	(808,475)	(1,050,237)
Total transfers	(947,986)	-	(947,986)	(311,696)	311,696	-	(241,762)	(566,713)	(808,475)
Unallowable Disbursements:									
Salaries and benefits	-	33,098	33,098	-	-	-	43,429	94,950	138,379
Total unallowable disbursements	-	33,098	33,098	-	-	-	43,429	94,950	138,379
Ending Cash Balance - December 31	\$ 1,684,297	\$ 1,727,886	\$ 3,412,183	\$ 3,090,191	\$ 2,012,495	\$ 5,102,686	\$ 2,872,743	\$ 351,634	\$ 3,224,377

(Concluded)

COUNTY OF LUZERNE, PENNSYLVANIA
PUBLIC SAFETY EMERGENCY TELEPHONE ACT PROGRAM
NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009

1. PURPOSE OF PROGRAM

The County of Luzerne, Pennsylvania (County) provides emergency 911 telephone service to its residents. In accordance with Chapter 53 of Title 35, the County collects a contribution rate, approved by the Pennsylvania Public Utility Commission, of \$1.25 per wireline telephone access line through various telephone companies. Additionally, a monthly fee is assessed upon each wireless service customer for each wireless two-way communication device for which that customer is charged by a wireless provider at a fee of \$1.00 per month per device. These fees are remitted directly to the Commonwealth of Pennsylvania (Commonwealth). Voice over Internet Protocol (VoIP) is collected by the provider and remitted directly to the county in which the subscriber resides or is collected and remitted to the Commonwealth to be disbursed back to the county of the subscriber. In either case, the monies collected go directly to the county in which the subscriber resides for payment of recurring and nonrecurring costs associated with implementing, expanding, upgrading, and operating the county's emergency 911 communications system.

2. BASIS OF PRESENTATION

The special purpose financial statements of the County's Chapter 53 Program were prepared to comply with Chapter 53, Emergency Telephone Service, of Title 35 of the Pennsylvania Consolidated Statutes (35 Pa C.S.A. 5301-5312), and 4 Pennsylvania Code, Chapter 120b, and Pennsylvania Emergency Management Agency's (PEMA) Regulatory Report Format for Audits of 911 Funds, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

These statements were prepared on the cash basis of accounting. Under the cash basis of accounting, receipts and disbursements are recognized when they result from cash transactions.

This presentation differs from a presentation in accordance with accounting principles generally accepted in the United States of America for governments as it excludes required disclosures such as a presentation of assets, liabilities, and other financial statement elements and excludes required footnote disclosures, such as deposits, capital assets, capital and operating leases, debt, and other disclosures.

3. REVENUE RECOGNITION

The County accounts for and recognizes revenue on the cash basis. Wireline, wireless, and VoIP revenues are recognized as revenue when received by the County.

COUNTY OF LUZERNE, PENNSYLVANIA
PUBLIC SAFETY EMERGENCY TELEPHONE ACT PROGRAM
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4. ADMINISTRATIVE FEES AND LIMITATIONS ON RECOVERY OF CERTAIN RECURRING COSTS

Section 120b.106 of PA Code 120b provides for the 911 contribution rate to be used for specified recurring and nonrecurring costs associated with implementing, expanding, upgrading, and operating a 911 emergency communications system. The Code limits recovery of certain recurring costs as follows:

Section 120b.106(2)(ii) – Telephone company administrative costs for billing and collection of the wireline contribution rate are limited to a maximum of 2% of the wireline contribution rate monies collected. During 2011, such costs totaled \$43,861 or 2.0% of the contribution rate monies collected. During 2010, such costs totaled \$40,211 or 1.8% of the contribution rate monies collected. During 2009, such costs totaled \$42,830 or 1.7% of the contribution rate monies collected.

Section 120b.106(2)(iii) – County costs for the administration of the wireline contribution rate are limited to a maximum of 1% of the wireline gross receipts collected by the County. No such costs were collected by the County during 2011, 2010, or 2009. During 2010, the County set aside \$23,176 for the County administration fee, but the amount has not yet been paid to the County.

Section 120b.106(2)(vii) – Personnel salary, training, and benefit costs directly related to the provision of 911 services are subject to a maximum of 70% of the wireline contribution rate revenue (surcharge funds collected by the County). The sum of the funds applied to personnel salary, training, and benefits cannot exceed 100% of the total cost of personnel salary, training, and benefits. During 2011, such costs totaled \$1,632,968 or 68.9% of the wireline contribution rate. During 2010, such costs totaled \$1,625,782 or 68.4% of the wireline contribution rate. During 2009, such costs totaled \$1,847,288, with \$1,803,859 or 70% of the wireline contribution rate being allowable and \$43,429 being unallowable and subject to reimbursement by the County.

35 Pa C.S.A. 5308(B)(3) provides that no more than 70% of the wireless disbursements which a county receives from the Commonwealth during the Commonwealth's fiscal year may be utilized to fund personnel salary, training, and benefit costs. During 2011, such costs totaled \$1,890,807 or 68.2% of the wireless funds received. During 2010, such costs totaled \$2,594,054, with \$2,560,956 or 70% of the wireless funds received being allowable and \$33,098 being unallowable and subject to reimbursement by the County. During 2009, such costs totaled \$2,046,122, with \$1,951,172 or 70% of the wireless funds received being allowable and \$94,950 being unallowable and subject to reimbursement by the County.

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35 Pa C.S.A. 5311.14(A)(5) – As reimbursement for administrative costs, VoIP providers are allowed to retain 2% of total fees collected if remitted directly to the County, or up to 1% if remitted to the Commonwealth. The Commonwealth may then retain up to 1% of the VoIP remittances received for administrative costs. During 2011, such costs totaled \$3,510 or 2.0% of VoIP remittances. During 2010, such costs totaled \$2,780 or 2.0% of VoIP remittances. During 2009, such costs totaled \$1,151 or 2.0% of VoIP remittances.

5. CALCULATION OF ALLOWABLE PERSONNEL EXPENSE

Of the \$2,052,968 included in wireline personnel costs for 2011, \$420,000 applies to 2010 personnel costs. For purposes of the Limitation on Recovery of Certain Recurring Costs percentages listed above at Section 120b.106(2)(vii), this \$420,000 was included in the calculation for 2010 wireline personnel costs, and was not included in the calculation for 2011 wireline personnel costs.

Of the \$2,471,210 included in wireless personnel costs for 2011, \$580,403 applies to 2010 personnel costs. For purposes of the Limitation on Recovery of Certain Recurring Costs percentages listed above at Section 120b.106(2)(vii), 35 Pa C.S.A. 5308(B)(3), this \$580,403 was included in the calculation for 2010 wireless personnel costs, and was not included in the calculation for 2011 wireless personnel costs. As this \$580,403 was paid in 2011, the unallowable portion of \$33,098 is presented as a 2011 unallowable expenditure.

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6. WIRELESS SURCHARGE GRANT REMITTANCES

The County received the following remittances of wireless surcharge funding from the Commonwealth during the triennial reporting period:

<u>Received</u>	<u>Amount</u>
January 2009	\$ 440,802
April 2009	440,802
July 2009	952,892
October 2009	952,892
January 2010	952,892
April 2010	952,892
July 2010	876,362
October 2010	876,362
January 2011	876,362
April 2011	876,362
July 2011	510,067
October 2011	510,067

County of Luzerne, Pennsylvania

Public Safety Emergency Telephone Act
Program

Independent Auditor's Report in
Accordance with *Government Auditing
Standards*

Years Ended December 31, 2011, 2010, and
2009

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of the Special Purpose Financial Statements
Performed in Accordance with *Government Auditing Standards*

County Commissioners
County of Luzerne, Pennsylvania

We have audited the special purpose financial statements (financial statements) of the Public Safety Emergency Telephone Act Program of the County of Luzerne, Pennsylvania (County), for the years ended December 31, 2011, 2010, and 2009, and have issued our report thereon dated November 2, 2012. We conducted our audits 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

Management of the County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the County'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 County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 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. 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. We consider the deficiencies described in the accompanying schedule of findings and responses as Findings 2011-01 and 2011-02 to be material weaknesses.

County Commissioners
County of Luzerne, Pennsylvania
Independent Auditor's Report on Internal
Control Over Financial Reporting

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as Findings 2011-01 and 2011-02.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the County's responses and, accordingly, we express no opinion on them.

* * * * *

This report is intended solely for the information and use of management, the County Commissioners, others within the County, the Pennsylvania Emergency Management Agency, and the Pennsylvania Public Utility Commission and is not intended to be and should not be used by anyone other than these specified parties.

Maker Duessel

Harrisburg, Pennsylvania
November 2, 2012

COUNTY OF LUZERNE, PENNSYLVANIA

PUBLIC SAFETY EMERGENCY TELEPHONE ACT PROGRAM

SCHEDULE OF FINDINGS AND RESPONSES

YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009

Finding 2011-01: Personnel Costs

Condition: 71.7% of the wireline contribution rate was paid by wireline for personnel costs and 73.4% of wireless disbursements received from the Commonwealth of Pennsylvania (Commonwealth) were paid by wireless for personnel costs during the year ended December 31, 2009. Additionally, 70.9% of the wireless disbursements received from the Commonwealth were paid by wireless for personnel costs for the year ended December 31, 2010.

Criteria: Personnel costs directly related to the provision of 911 services are subject to a maximum of 70% of the contribution rate revenue for wireline, and 70% of the wireless disbursements received from the Commonwealth for wireless.

Cause: There was limited monitoring of the percentage of contribution rate revenue and wireless disbursements from the Commonwealth paid for personnel costs.

Effect: The maximum amount of personnel costs allowable for the year ended December 31, 2009 was \$1,803,859 for wireline and \$1,951,172 for wireless. For the year ended December 31, 2009, wireline money paid \$43,429 in excess of the allowable amount and wireless money paid \$94,950 in excess of the allowable amount. The maximum amount of personnel costs allowable for the year ended December 31, 2010 was \$2,560,956 for wireless. For the year ended December 31, 2010, wireless money paid \$33,098 in excess of the allowable amount.

Recommendation: We recommend that the County reimburse the wireline and wireless accounts for the unallowable portion outstanding at December 31, 2009 and 2010. Additionally, we recommend that the amounts paid from 911 for personnel costs be monitored monthly to ensure that the payments remain within allowable limitations.

Auditee Response: Luzerne County 9-1-1 shall institute a procedure beginning January 1, 2013 for salary, benefits and training costs to be monitored and reimbursed to the general fund on a monthly basis, as opposed to quarterly basis. This will ensure accuracy of transferred amounts so the County does not exceed the 70% allowable threshold.

Finding 2011-02: Supporting Documentation for Eligibility of Transfers

Condition: During our testing, we noted four transfers for which documentation supporting eligibility could not be obtained.

Criteria: The Pennsylvania Emergency Telephone Acts define eligible and ineligible costs for the maintenance and operation of 911 systems.

Cause: There were limited controls in place to ensure that documentation supporting eligibility requirements was maintained.

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SCHEDULE OF FINDINGS AND RESPONSES
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Effect: Due to the lack of supporting documentation, it is possible that transfers could be made for ineligible expenditures.

Recommendation: We recommend that controls be put in place to ensure that documentation supporting the eligibility of all transfers be maintained.

Auditee Response: All transfers were based on the findings and recommended by the prior County fee accounting firm. All transfers were approved at a public meeting and included on the agenda as presented, with appropriate documentation. Specifically, transfers were for debt repayment to specific funds as deemed eligible by PEMA and the prior accounting firm. Luzerne County will ensure that any future transfer of funding is thoroughly documented, maintained and deemed eligible, as recommended in this report.