



Clerk of the Circuit Court
Board of County Commissioners
Marion County
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Internal Audit Division

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MEMORANDUM

TO: Dick Nelson, 9-1-1 Director

FROM: David R. Ellspermann, Clerk of the Circuit Court

DATE: February 27, 2006

RE: **SPRINT 911 FEE REMITTANCE LIMITED REVIEW**

Pursuant to your request, the Internal Audit Division has completed a limited review of the remittance of the 911 fee by Sprint to Marion County.

Background

Florida Statute 365.171 enables telephone companies to bill a 911 fee to subscribers not to exceed \$0.50 per line per month up to 25 access lines per account. Governments are exempted. The fees collected by the telephone service provider are to be remitted to the County, less an administrative fee of 1% retained by the provider. These fees are to be appropriated for 911 purposes. Marion County receives 911 fees from all telephone companies with customers in Marion County, including Sprint, Bellsouth, Alltel, and several other Competitive Local Exchange Carriers (CLECs). It should be noted that this review only pertains to fees collected for traditional landline service. Wireless 911 fees are covered under a separate statute (F.S. 365.172) and were not included in this review. The wireless 911 fees are remitted directly to the State Treasury and only a certain percentage is then returned to the counties.

Marion County also pays Sprint for services related to different aspects of the 911 system. Sprint charges a fee based on all of the access lines from which 911 fees are generated. Sprint calculates the projected number of access lines for an upcoming year and notifies the County of the billing amount for the next fiscal year. Sprint is the only telephone service provider that charges for all access lines within the County. Thus, Marion County receives 911 fee remittances from all telephone companies but only pays one company, Sprint, for access lines. In addition to the access line fee, Sprint charges the County for circuits that connect each central office to the tandem and for circuits that connect the tandem to the Public Safety Answering Points (PSAPs). Other charges include a charge for the Automatic Location Information (ALI) links that connect the 911 Database to the PSAP, circuits dedicated to companies with an in-vehicle safety and security system (e.g. OnStar), and a charge for transporting wireless ALI data to the PSAP. According to 911 staff, all of these services are necessary for an effective 911 system.

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The 911 Management Director performed an analysis of access lines paid and Sprint's remittance of the 911 fee. This information was compared to the estimated single family homes Certificates of Occupancy issued over the past several years as well as Sprint's remittance of the 911 fee. This analysis raised questions as to whether the County was receiving the appropriate amount of 911 fees from Sprint.

Activities Performed

The Internal Audit Division conducted a limited review of the remittances of the 911 fee and the expenditures for access lines to determine if the amount remitted to Marion County in 911 fees is reasonable. As part of our review activities, we discussed the pertinent issues with the management and staff of the 911 Management Department and we met with and corresponded with four Sprint representatives. We analyzed and examined pertinent documentation related to the 911 fee, including revenues received from telephone companies, expenditures to Sprint for access lines and other 911 system services, and tariff rates currently applicable to 911 systems in Florida. We surveyed 6 other Florida counties, 5 of which have Sprint as the principal provider of the 911 system. We also researched related topics such as population growth in Florida and Marion County and Certificates of Occupancy issued by the Marion County Building Department.

Findings and Conclusion

There is a significant difference between the number of issued Certificates of Occupancy compared to the change in remittances from Sprint. The number of Certificates of Occupancy has increased dramatically over the last few years while Sprint's remittances of the 911 fee have essentially remained unchanged. The number of access lines billed to the County by Sprint increased 13% from FY 00 to FY 05. However, since all telephone companies remit the fee to Marion County, the total remittances by all vendors increased 5% from FY 00 to FY 05 (see Attachment A). We were unable to precisely reconcile any reason why there should be differences in these rates of increase. One strong possibility is that the initial access line quantity (154,000 for 1999 through 2002) was not calculated in the same manner as the last number (174,000 for 2005). We have doubts about the consistency. For example if the 2000 actual quantity was greater than the billed amount of 154,000, there could be a significant impact on the percentage increase compared to 2005.

When we questioned Sprint why their remittances of the 911 fee had not increased with the population or Certificates of Occupancy, Sprint cited four reasons. One, a revision of Florida Statute (effective January 1, 1996) allowed more competition from Competitive Local Exchange Carriers (CLECs). Auditors found that the increase in total fee remittance in the last few years was due to an increase in the fees remitted by CLECs. Second, Sprint stated that cable companies have begun to offer local telephone service as a bundled package to customers. At the time of this review, this service was not offered in Marion County. Third, Sprint stated that use of Voice Over Internet Protocol (VOIP), or phone via the internet, has been increasing rapidly. This service only recently became available in Marion County. The fourth reason offered was that some customers were opting to use only wireless telephones instead of a traditional landline. Sprint could not give us an estimate of how many people in Marion County were opting to discontinue landline service to use wireless or VOIP. We were able to find a 2004 federal study that estimated 6.7% of telephone customers in the southern United States have cell phone service only, and another 6.0% do not have any phone service.

We have concluded that the 911 Director's concerns are valid. The telephone industry does appear to be undergoing changes due to technology. Increases in cell phone (and VOIP) usage may well have had considerable impact on Sprint's remittances. This has been offset in good part by increases in

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remittances from other providers. Our review indicated that the amount Sprint has remitted is reasonable. Information and documentation provided by Sprint seemed complete and reliable and their methodology and process for collecting and remitting the fees seemed appropriate. We could not determine precisely why the growth in Certificates of Occupancy was not reflected in the Sprint remittances of the 911 fee, after accounting for population growth and the number of access lines billed to the County. We were, however, able to perform an analytical review of total remittances from all providers to determine reasonableness.

Our analysis included statistics on population and telephone use reported by the United States Census Bureau and the Bureau of Labor and Statistics (BLS). This allowed us to conclude that the total amount remitted by all providers is materially accurate. We were able to account for much of the significant increases in Certificates of Occupancy by using information from BLS regarding cell phone usage and other statistics regarding telecommunication services (see Attachment B).

We surveyed 5 Florida counties that also had Sprint as the principal provider of their 911 system. We reviewed the tariffs that govern rates and charges for Sprint 911 systems to determine if the charges to the County are necessary and to ensure that Marion County is charged the same tariff rates as these other counties. Based on the results of the survey and tariff review, we concluded that these expenses are ordinary and necessary to maintain a 911 system and that the Sprint rates invoiced to the County are equitable and are in compliance with the tariff.

During the course of our review, Sprint discovered two mistakes in billing. On May 9, 2005, Sprint notified the County that in FY 06, the County would be billed for 203,000 access lines, an increase of 29,000 lines. On July 9, 2005, after a review, Sprint reduced the figure to 179,000. During our review, Sprint also discovered that 4,000 lines were counted twice and subsequently reduced the number of access lines to 175,000. Sprint is currently working with 911 Management staff on the resulting credit.

We suggest that the 911 Management Department continue to monitor the amount remitted by Sprint and other vendors in order to detect any future major variances in remittances. To assist in this monitoring, the Department could request Sprint to periodically provide relevant information on the types and number of Sprint customers. Further, the Department could request the detail of access line owners as part of the annual computation of access line charges.

This review was performed by Kathy Fitzhugh and Sachiko Leon, Staff Auditors under the direction of Wallace Watford, Internal Auditor. We would like to express our appreciation to you and your staff for your cooperation and assistance in conducting our review.

c: Patrick G. Howard, County Administrator
Gisela R. Salas, Deputy County Administrator
M. Stuart McElhaney, Life Safety Services Bureau Chief