



THOMAS P. DiNAPOLI
COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

GABRIEL F DEYO
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

April 2018

Kathleen Rooney, County Manager
Members of the Legislature
Schenectady County
620 State Street 6th Floor
Schenectady, NY 12305

Report Number: S9-17-15

Dear County Manager Rooney and Members of the Legislature:

A top priority of the Office of the State Comptroller is to help county officials manage their resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support county operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard assets.

In accordance with these goals, we conducted an audit of six counties throughout New York State (NYS). The objective of our audit was to determine whether counties received and expended all emergency surcharge revenue received from communication service suppliers and used these surcharges to improve their county's 911 systems and operations.

We included Schenectady County (County) in this audit. Within the scope of this audit, we examined the County's process for enhanced emergency service communication (E911) revenue collection and the expenditure of such revenues for the period January 1, 2014 through June 30, 2016. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the NYS General Municipal Law.

This report of examination letter contains our findings specific to the County. We discussed the findings and recommendations with officials and considered their comments, which are included in Appendix A, in preparing this report. County officials generally agreed with our recommendations and indicated they plan to initiate corrective action. At the completion of our audit of the six counties, we prepared a global report that summarizes the significant issues we identified at all six counties audited.

Summary of Findings

County officials made significant improvements to controls over E911 revenues, after we began our audit, and should continue with their efforts to improve controls. Officials expended all E911 surcharges to improve communication networks and surcharges received from landline, VoIP¹ and wireless communication suppliers were used for E911 center expenditures. We commend County officials for improving its E911 systems and operations, using funds from real property tax, grants and surcharges.

Officials were unable to determine whether the County received all E911 surcharges from its communication suppliers, because no resource exists to identify all the communication suppliers operating within the County. In addition, County officials accepted in good faith that supplier remittances included all applicable revenue and withheld the appropriate amount of administrative fees. As a result, officials cannot be sure that the County received all the surcharges to which it was entitled and whether amounts suppliers remitted to the County were accurate or appropriate.

Background and Methodology

Schenectady County has a population of 154,727² and is governed by a 15-member County Legislature (Legislature). The County's adopted 2016 general fund budget totaled \$259.2 million. The Finance Department is responsible for the collection of E911 revenues, while the Unified Communications Center (911 Center) is in charge of the E911 program and expenditures. The E911 services budget for 2016 was approximately \$4.6 million, funded by surcharges, real property tax and grants.

To summon emergency aid, people commonly call 911, a nationally recognized number. An E911 service program reduces response delays with rerouting and automatic number and location identification through the use of technology. The County's E911 service program has one public safety answering point,³ which is the 911 Center. In 2016, approximately 220,000 emergency E911 calls were answered in the County.

More than half of American homes, or 50.8 percent, rely solely on wireless telephone service.⁴ Furthermore, the majority of 911 calls are received from cell phones. Data from reporting states showed 70 percent of consumers use cell phones to call 911, compared to 25 percent of consumers using landline telephones. If counties want to ensure the general public has 911 access from multiple communication devices, they need to ensure that the 911 infrastructure can accommodate new technologies. If left unchanged, the current 911 systems face increasing challenges in providing service as society and technology continue to advance.

The evolution of 911 systems has had several phases including E911 Phase I, which enabled the call taker to see the wireless callback number and location of the cell tower closest to the caller. Phase II encompassed Phase I, but also allowed call takers to view the location of the caller by

¹ Voice over Internet protocol

² 2010 US census

³ Sites designated and operated by a local government to receive emergency calls from customers of a telephone service supplier.

⁴ National Health Interview Survey Early Release Program *Wireless Substitution: Early Release of Estimates from the National Health Interview Survey*, July – December 2016.

latitude and longitude with improved accuracy to within 125 meters (137 yards). Next generation 911 (NG911) is the latest phase, which allows callers to text, send pictures, videos and other data to the answering points.

The County's E911 system is fully upgraded to Phase II and NG911 text and picture capabilities are currently being put in place. Officials told us that the installation of equipment and training to support text and video capabilities were scheduled to begin in February 2017 with the goal of having these functions available by April 2017. As of November 2017, these features are not yet available for public use. County officials told us that the technology has been implemented at the County level to support these features. However, they are waiting on updates from one last carrier before announcing these features are available for public use. The new estimated date of availability for these NG911 capabilities is the end of 2017.

A major obstacle of a fully upgraded E911 program is the cost of the equipment and services to operate the system. NYS legislation allows counties to fund E911 services through surcharges generated from using wireless and landline devices for communication services. Most counties are authorized to impose a surcharge not exceeding 30 cents per device per month on wireless services provided to a customer whose place of primary use (customer billing address) is a local government.

Currently, 49 counties (including Schenectady) impose the wireless surcharge, except for surcharges on prepaid wireless devices, which are currently not permitted. All surcharges are collected by the suppliers and remitted directly to the counties imposing the surcharge. Similarly, all NYS counties are authorized to impose a surcharge, up to 35 cents on landlines. For both surcharge types, communication service suppliers are allowed to keep 2 percent of the amount collected to cover administrative costs. Surcharges are currently not permitted for prepaid wireless devices.⁵

To achieve our objective, we conducted interviews with County officials and reviewed County laws, policies and procedures to gain an understanding of the County's E911 system. We also reviewed County records related to E911 operations.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). More information on the standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination.

Audit Results

Accuracy of Surcharge Remittances – Schenectady County is authorized by NYS County Law (County Law) to collect E911 surcharges for landline and wireless communication devices. The County imposes a 30 cent surcharge per device per month on wireless communication services

⁵ Budget bill (S2009-c/A3009-C, Part EEE) repeals, effective 12/1/2017, County Law 308-a through 308-y, the individual special acts authorizing county by county wireless surcharges. It also enacts a new Tax Law 186-g, which will authorize all counties to impose a wireless and prepaid wireless surcharge, to take effect on or after 12/1/2017.

provided to customers whose billing address (place of primary use) is in the County and a 35 cent surcharge on landlines. In addition, County officials accepted in good faith that supplier remittances included all applicable revenue and withheld the appropriate amount of administrative fees.

County officials told us that they were unaware if service suppliers were notified of the requirement to remit surcharges. Officials also told us there is no all-inclusive list available of all landline and wireless service suppliers providing service within the County.

The County collected 1,472 remittances totaling approximately \$1.4 million in surcharges (landline totaled about \$568,700 and wireless devices about \$826,800) for the audit period, to be used for operating and improving E911 services and expended approximately \$8.1 million (Figure 1).

Figure 1: Collections and Expenditures				
Revenues Collected	2014	2015	January 1 - June 30, 2016	Totals
Landline	\$229,902	\$241,853	\$97,039	\$568,794
Wireless	\$343,801	\$339,882	\$143,208	\$826,891
Total Revenues	\$573,703	\$581,735	\$240,247	\$1,395,685
Expenditures				
Salaries and Benefits	\$1,898,470	\$3,710,419	\$1,653,809	\$7,262,698
Office Service Equipment	\$0	\$1,282	\$0	\$1,282
E911 Equipment Lease	\$55,785	\$49,727	\$18,933	\$124,445
Natural Gas	\$401	\$999	\$477	\$1,877
Electricity	\$8,024	\$12,799	\$4,135	\$24,958
Telephone	\$2,935	\$4,306	\$1,867	\$9,108
Cell Phone Service	\$254	\$389	\$390	\$1,033
Internet Services and Modems	\$6,588	\$10,903	\$4,814	\$22,305
Fiber Lines	\$40,327	\$33,313	\$9,468	\$83,108
Insurance	\$12,562	\$14,718	\$16,428	\$43,708
Repairs to Equipment	\$567	\$8,896	\$2,101	\$11,564
Maintenance Agreements	\$80,956	\$155,298	\$133,538	\$369,792
Postage	\$54	\$298	\$65	\$417
Snow Removal and Cleaning	\$5,387	\$9,234	\$4,617	\$19,238
Professional Services	\$17,890	\$20,050	\$18,944	\$56,884
Office Supplies	\$3,986	\$3,671	\$3,663	\$11,320
Uniforms and Clothing	\$0	\$22,099	\$0	\$22,099
Seminars and Conferences	\$0	\$2,000	\$18	\$2,018
Total Expenditures	\$2,134,186	\$4,060,401	\$1,873,267	\$8,067,854

Landline and wireless surcharge revenues were received and verified by County officials for completeness and accuracy. A list of all suppliers remitting surcharge payments to the County has been maintained since 2008. Officials used this list to ensure suppliers were sending surcharge payments on a monthly basis and for trend analysis to identify any fluctuations in payment amounts that might have been made in error. Officials explained that their trend analysis has remained

undocumented, because they have not found any fluctuations in payment amount that necessitate any inquiry.

Periodic remittance recalculations can be performed to verify that the suppliers are billing accurately and keeping the 2 percent administrative fee they were permitted to retain. County officials told us that they recalculated the administrative fees, and the amounts billed and received. Although officials did not document their results during our audit period, they began doing so in December 2016.

We reviewed 179 remittances⁶ totaling \$154,576 to determine whether the amounts received were accurate (Figure 2).

Figure 2: Collections						
	Total Collections		Collections Tested			
Year	Amounts		Landline	Wireless	Total Number	Total Amount
2014	\$573,703		39	14	53	\$53,105
2015	\$581,735		56	18	74	\$53,058
2016	\$240,247		37	15	52	\$48,413
Totals	\$1,395,685		132	47	179	\$154,576

We found that 49 remittances totaling \$2,969 showed no amount of administrative fees withheld. County officials explained that the suppliers were not withholding a percentage of collections. We recalculated the administrative fees for the remaining 130 remittances totaling \$151,607 and found no discrepancies.

Separate Accounting– County Law requires that the surcharges (landline, VoIP or wireless) received by counties be accounted for separately and used to provide an enhanced 911 emergency telephone system including costs related to the design, installation, operation and system maintenance. Annually, the County is required to reserve any revenues that exceed expenditures.

The E911 center needed approximately \$8.1 million (annual average of about \$3.2 million) to fund operations during our audit period (Figure 1). The County records separately tracked revenues by surcharge type (landline, VoIP or wireless) and disbursements as an E911 center expenditure. We reviewed 50 expenditures⁷ (22 personnel and 28 non-personnel) totaling \$281,374 to determine whether they were appropriate expenditures (Figure 3).

⁶ See Appendix B for information on our methodology.

⁷ Ibid.

Figure 3: Expenditure Testing Summary			
E911 Center Expenditures		Testing Results	
Description	January 1, 2014 – June 30, 2016^a	Number of Expenditures Tested	Amount of Expenditures Tested
Salaries and Benefits	\$7,262,698	22	\$212,495
Insurance	\$43,708	2	\$13,468
Professional Services	\$56,884	5	\$6,905
Office Supplies	\$11,320	4	\$499
Telephone	\$9,108	7	\$4,149
Natural Gas	\$1,877	2	\$821
Cell Phone Service	\$1,032	3	\$109
Maintenance Agreements	\$369,793	5	\$42,928
Totals	\$7,756,420	50	\$281,374
^a Includes expenditures only for the categories selected as part of the audit sample. See Appendix B for more information our sampling methodology.			

All 50 expenditures tested (i.e., personnel services, equipment, travel, service contracts, office expenses and professional development) were for appropriate E911 goods and services.

County officials told us that historically, the funding streams from the E911 surcharges for landline, VoIP and wireless devices were insufficient to fully fund the NG911 upgrades. Officials told us that real property tax and grants were also used to pay for upgrades to the E911 system, including NG911 upgrades. As a result, there was no reserve of excess surcharge revenues, because expenditures exceeded revenues. For example, the surcharge revenue in 2015 totaled approximately \$582,000, while the 911 center expenditures totaled about \$4.1 million.

Annual Reporting - County law requires all landline and wireless suppliers to annually submit an accounting report of surcharge amounts billed and collected. County officials have not notified the suppliers of this requirement and told us that historically they have never received any landline or wireless annual accounting reports.

However, after we began our audit in December 2016, they requested the annual accounting reports for 2014 and 2015 reporting years from the suppliers they were aware operated within the County. They received 52 annual accounting reports from the 62 suppliers from 2014, and 65 annual accounting reports from the 75 suppliers in 2015. Annual accounting reports would help the County ensure that the supplier accurately remitted the correct amount of revenue for the year. The County could compare these amounts to payment tracking sheets or to deposits to confirm all surcharge revenues have been deposited.

If the County is not receiving all surcharges collected by suppliers, the County may not be able to finance its E911 service as intended or upgrade to the latest available technology, such as NG911, due to insufficient funds.

Recommendations

The Finance Department should:

- 1 Continue to contact the wireless communication, major landline and VoIP suppliers to request all annual reports accounting for surcharges billed and collected.
- 2 Continue to perform trend analysis from the monthly payments and the annual accounting reports.

The Legislature has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Legislature to make this plan available for public review in the Clerk's office.

We thank the officials and staff of the County for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM COUNTY OFFICIALS

The County_officials' response to this audit can be found on the following pages.

COUNTY OF SCHENECTADY



KATHLEEN ROONEY
COUNTY MANAGER

OFFICE OF THE COUNTY MANAGER
620 STATE STREET
SCHENECTADY, NEW YORK 12305

TELEPHONE: (518) 388-4355
FAX: (518) 388-4590

November 27, 2017

Ms. Ann C. Singer, Chief Examiner
New York State Office of the State Comptroller
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417

Dear Ms. Singer:

This letter is in response to the New York State Comptroller's audit related to the emergency service communication surcharge revenues and includes Schenectady County's plan to implement recommendations and/or corrective actions.

Response Summary

The defined objective of the Comptroller's multi-county audit was to determine whether counties received emergency surcharge (E-911) revenues from the communication providers that serve their residents, and that these revenues were expended by counties to support and enhance emergency communication systems. We were pleased that for Schenectady County, the transaction testing performed during the audit reflected the following:

- *Communication providers remitted surcharges in a timely manner, and the County verified the accuracy of these remittances.*
- *Schenectady County has procured and installed new technologies (i.e., electronic switching mechanisms) to enable text, picture and video capabilities- which will enhance our ability to respond and assist in emergency situations.*
- *Of the 50 expenditures tested, the County appropriately expended these revenues solely for purpose of procuring goods and services related to the E-911 communication services.*

As noted by the Comptroller, there is currently no existing mechanism or database at the state or local level to identify all communication suppliers operating in a county at any given time. A statewide solution to monitor and track landline and VOIP suppliers by county would be extremely beneficial in optimizing E-911 surcharge collections.

NYS Office of the Comptroller Audit Recommendations

Recommendation: The Finance Department should continue to contact the wireless communication, major landline and VOIP suppliers to request all annual reports accounting for billed and collected surcharges and the Finance Department should continue to perform trend analysis from the monthly payments and the annual reports.

Recommendation Response: The Finance Department shall continue to implement its existing practices recommended by the audit.

We would like to extend our appreciation to the audit team for the professionalism afforded us during the process.

Sincerely,

Kathleen Rooney
County Manager

CC: Honorable Anthony Jasenski, Chair, Schenectady County Legislature
Geoffrey Hall, Clerk to the County Legislature
Deborah Mancini, Commissioner of Finance
Julie McDonnell, County Auditor
Jeffery Cunningham, UCC Director

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed County officials and reviewed the Legislature's minutes, resolutions and policies to gain an understanding of the process and procedures over the County's E911 revenues and expenditures.
- We performed a walkthrough of the emergency communications center to observe and document the E911 capabilities.
- We reviewed 179 remittances from December 2014, December 2015 and June 2016 to determine whether suppliers properly retained the 2 percent administration fee.
- We judgmentally selected and reviewed a sample of 28 non-personnel expenditures and 22 personnel expenditures to determine whether the purchases were appropriate.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.