AUDIT DEPARTMENT

Audit Report

Southern Nevada Area Communications Council Revenue Cycle and Capital Assets

November 2012

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Angela M. Darragh, CPA, CFE, CISA, Director

November 20, 2012

Mr. Don Burnette
Clark County Manager
500 South Grand Central Parkway, 6th Floor
Las Vegas, Nevada 89106

Dear Mr. Burnette:

As requested by the Finance Department, we conducted an audit of the Southern Nevada Area Communications Council (SNACC).

The audit objectives were to determine whether internal controls over the revenue cycle processes and transactions are adequate to safeguard against abuse and error, processes within the revenue cycle are effective and transactions are recorded and deposited timely and in their entirety, and whether adequate inventory of capital assets is maintained.

Our audit procedures found that key controls are significantly lacking in the revenue cycle processes and transactions, leaving revenue not adequately safeguarded against abuse and errors. Processes within the revenue cycle are not effective. We found that billed amounts are reasonably recorded and deposited in their entirety. However, key controls are also lacking in the maintenance of capital asset inventory. The capital asset inventory is incomplete and $4.1 million of capital expenditures should likely have been capitalized, but were not. An additional $2.4 million should also be capitalized for a financing agreement that transfers the assets to SNACC .

A draft report was provided to the Chairman of the SNACC Board for comment and his response is included. We appreciate the cooperation and assistance provided by the SNACC staff.

Sincerely,

/s/ Angela M. Darragh

Angela M. Darragh, CPA
Audit Director

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BACKGROUND

The Southern Nevada Area Communications Council (SNACC) is a political subdivision of the State of Nevada created September 19, 1995 by a joint powers agreement among several member public agencies under the authority provided by Nevada Revised Statute (NRS) 277.110 and 277.120. The agreement was amended June 4, 1996, and is known as the Cooperative Agreement. SNACC is governed by a Board comprised of representatives from 9 public agencies. In conjunction with the joint powers agreement, SNACC entered into an agreement with Clark County for administrative support. Clark County provides administrative support for financial, budget, accounting, and reporting that includes billing and collection of payments, deposits, investments, and payment of expenditures. SNACC is liable and responsible for all matters including but not limited to debts, liabilities, and obligations. The SNACC Board has the power and responsibility for approving, authorizing, and answering for these matters.

SNACC provides 800 MHz radio communications in support of public safety agencies operating in Southern Nevada. In addressing changes in regulations and public agency struggles to communicate, due to lack of interoperability and flexibility, end of life systems, inconsistent coverage, and insufficient capacity, SNACC has taken proactive steps to take advantage of technological advancements to improve public safety radio communications through several major projects. These projects have brought SNACC operations from analog to a wider service area offering digital and interoperable service, allowing subscribers to communicate across disparate radio systems. SNACC uses three computer applications to manage radio service: the Motorola System Management (MSM) application monitors radio service, the Genesis application manages air time use and reporting, and an Access database is used for managing radio inventory.

Public agencies are required to contribute a one-time “Equity Buy-In” fee of $1,460 for each new radio service activated and a $185 annual fee for each radio service to be billed on the first day of July. Annual charges are prorated for services that are activated within the fiscal year. Charges are not refundable. Agencies that own radio service equipment receive a reduced rate. Nye County is the only public agency with SNACC that owns its own radio service equipment.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit are to determine whether:

- Internal controls over revenue cycle processes and transactions are adequate to safeguard against abuse and error.
- Processes within the revenue cycle are effective and transactions are recorded and deposited timely and in their entirety.
- Adequate inventory of capital assets is maintained.

The audit covered the period from July 1, 2011, to March 31, 2012.

To accomplish our objectives, we conducted a preliminary survey that included reviewing SNACC agreements, documents, and Board minutes. We interviewed management and staff, and performed walkthroughs and observations of revenue cycle processes. Detail testing and analyses of transactions were performed to verify revenues and capital assets. Due to the lack of sufficient supporting documentation and the lack of effective controls over the radio identification inventory, we were unable to perform audit procedures over billings for new radio service activated during the year.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS IN BRIEF

Key controls are significantly lacking in the revenue cycle processes and transactions, leaving revenue not adequately safeguarded against abuse and errors. Processes within the revenue cycle are not effective, as is evidenced by disputed annual billings and errors in data contained in MSM and the Access inventory database (Access) for radio service. Billed amounts are reasonably recorded and deposited in their entirety. Key controls are also significantly lacking in the maintenance of capital asset inventory. The capital asset inventory is incomplete. We noted that $4.1 million of capital expenditures that should likely have been capitalized, but were not. We also found that an additional $2.4 million should also be capitalized for a financing agreement that transfers the assets to SNACC .

DETAILED RESULTS

Agreement Provisions Need to be Changed

Agreement Not Amended for Change in Fee Structure

The amount charged to subscribers for the "Equity Buy-In" one-time fee and the annual fees are not in accordance with the Cooperative Agreements with the various public agencies. The fee structure was changed in 2006 from a complex formula that consisted of proportionately billing out airtime to subscribers to a flat $1,460 Equity Buy-in Fee and $185 annual charge for each new radio service.

Not amending the agreements for the current fee structure may lead to potential litigation and liability for SNACC. Even though the public agencies are represented on the SNACC Board and the Board should have approved the fees, the Cooperative Agreements must ultimately be approved by the authorized body of each public agency.

SNACC recently contracted with a consultant to propose a new fee structure that will support current operations and future technological infrastructure needs.

Recommendation

We recommend that that the SNACC Administrator amend Cooperative Agreements with the public agencies to reflect the rate structure. The amendments should be approved by the SNACC Board. We further recommend that the Cooperative Agreements incorporate a provision for flexibility of changing the rate structure in the future.

Communications Equipment Fund Provision

We identified several areas of non-compliance with the Cooperative Agreement. SNACC is not currently maintaining an inventory list of capital equipment items owned with their life expectancies and current replacement cost. In accordance with Cooperative Agreement provision 15(c), the inventory list is to be provided to the SNACC Board in December of each year. However, a list of capital assets does exist as part of the financial records. In addition, a separate fund does not exist in financial records for communications equipment and funding as implied by the provision. Equipment is tracked as a line item in budget and as capital assets by type in financial records.

The agreement provision also calls for a capital plan for each participating public agency. However, we believe the capital plan is no longer needed.

The capital plan for each participating public agency provision was placed in the agreement due to the complex rate structure previously mentioned. The rate structure was subject to large fluctuations based on usage and the acceptance of public agencies for new service. The capital plans were needed by the public agencies to formulate their own budgets. Since the SNACC Board changed the fee structure to a flat fee, the capital plan for each participating agency, this portion of the provision is not meaningful to current accepted practices.

We believe that a separate fund is not needed for tracking of equipment as these may be tracked within the SNACC fund.

Recommendation

We recommend that the SNACC Administrator amend, with SNACC Board approval, the Communications Equipment Fund provision of the Cooperative Agreement to reflect approved practices. We further recommend that a cost center within the SNACC fund be established to account for capital funding, expenditures, and projects to be capitalized.

Capital Asset Balances Understated with Processes Lacking Key Controls

Capitalized assets amounting to $14 million as of March 31, 2012, do not include all equipment that should be capitalized in accordance with standard accounting practices. We determined that approximately $4.1 million of equipment purchased throughout the years was expensed rather than capitalized. An additional $2.4 million should also be capitalized due to a capital lease financing agreement that transfers the assets to SNACC. The capitalized asset amount also erroneously contained an expense for a service contract agreement payment in the amount of $212,218.

This list of capital assets is the only record that SNACC has for identifying equipment. If this list is inaccurate, SNACC will be unable to effectively determine future project costs or replacement costs.

SNACC purchases a significant amount of equipment through vendor agreements with Motorola that are processed primarily through change orders. We compared the capitalized equipment list maintained in financial records to historical and current Motorola purchase orders since the inception of SAP in 2005. We also compared Motorola project agreements and change orders.

We found a significant lack of key controls over equipment purchases and inventory lists. The following areas were noted as deficiencies that lead to the inaccurate reporting of capital assets:

- Board minutes showing approval of significant projects were not available.
- Capital projects are not tracked within SNACC financial accounting records maintained in SAP to accumulate capitalized amounts and control project expenses. Assets are capitalized through purchase orders. Purchase orders contain a mixture of line items that may include expenses for projects, change orders, and other amounts that should be expensed, such as service contract agreement amounts. Several purchase orders may also be opened for the same project. Purchase orders may also expense rather than capitalize items.
- Projects are controlled inconsistently through change orders rather than by a hierarchical arrangement where project agreements are approved and then change orders to these projects approved.
- Certificates of Completion and signed final acceptance documents were not available for all projects. These documents would support the capitalization of assets.
- Capitalized assets may be capitalized on either a system basis or as individual equipment making it difficult to identify whether the list of assets is complete or accurate.

Recommendation

We recommend that the SNACC Administrator implement key controls for expenditures related to equipment that follow standard accounting practices. We further recommend that the SNACC Board determine the best method for capitalized equipment accountability: system or individual equipment. The SNACC Board should then notify the County for application of this method.

Revenue Cycle Controls

Formal Requests for New Service, Deactivation, Reactivation, Transfers, and Cancellations Do Not Exist

The revenue cycle for SNACC consists of three major types of activities for service:

- New Service
- Transfers
- Deactivation/Reactivation while maintaining service
- Cancellation

The Cooperative Agreement does not have provisions for deactivation/reactivation, transfers of radios to other public agencies, or cancellation of radio service. According to SNACC administration, transfers of radios may occur between public agencies without notification to SNACC. SNACC also does not have a formal process that includes supporting documentation, policies, or procedures for providing these services.

The revenue cycle process for SNACC generally includes orders for new service, transfers, deactivation, reactivation, and cancellations that are informally taken over the phone, in-person, or by e-mail. The public agencies do not provide purchase orders for new service. Radios, to be activated or whose activation is complete for new service, are dropped off by the agency or are picked up by a SNACC employee without supporting documentation such as an acknowledgement by both agencies of the number of radios with serial numbers and assigned radio identifications to be serviced. There is also no consistent formal documented acknowledgement of public agency requests for transfers, deactivation, reactivation, or cancellation.

Since MSM does not report critical date data, SNACC maintains an Access database of radio identification numbers, dates, status, and other information. This inventory is used to support the number of radios that will be billed to the public agencies. Without adequate supporting documentation available to verify the inventory database, the incorrect number of radios could be billed and the activation status could be incorrect. This would affect billing, causing disagreement with public agencies. Realization of revenue and amounts available for expenditures will also be affected by billing delays. We noted that annual billing, amounting to $1.4 million, was delayed 94 days due to disagreement on number of radios to be billed. We further noted collection of annual billings is slow. Of the $1.4 million annual billing, $1.2 million, or 86%, was collected between 30 to 90 days. Critical radio service may also be affected if the incorrect radio identification is deactivated or cancelled.

Recommendation

SNACC issued letters to public agencies requesting that purchase orders be provided for requesting radio service. We recommend the SNACC Administrator, with SNACC Board approval; include provisions in the Cooperative Agreement to address specific requirements for all services (new, transfers, deactivation, reactivation, and cancellations). The provisions for cancellation of service should discuss timeframes and requirement for Equity Buy-In when the service is cancelled or radios are transferred between public agencies. We further recommend that SNACC increase effectiveness of the revenue cycle by adopting and implementing written policies and procedures, that includes acknowledgement forms for the receipt/delivery of radios for new service, deactivation, reactivation, and cancellation.

No Fee Service

Radio service for 4,589 of 12,659 (36%) of radios are not charged to subscribers. The Cooperative Agreement does not address No Fee services. Since SNACC is not charging fees in accordance with the Cooperative Agreement, there is no consistency, and established guidelines are not used to determine whether fees should or should not be charged. No Fee services represent a significant activity for SNACC and could cause a loss of revenues if services are not in line with SNACC Board intentions.

SNACC policy is to not bill for radio service for consoles. We were not able to verify this policy through SNACC Board minutes. We were able to identify 3,352 consoles of the 4,589 (73%) radios that are not billed. The remainder of 1,237 were either No Fee service for events or public agencies that are not charged, in process of being billed, or should likely be billed. There is a high probability that radios with No Fee service are activated. However, we did not perform an analysis to determine the number. We do not believe the results would provide current meaningful information, as there are no formal procedures supported by agreement provisions for the current fee structure.

Recommendation

We recommend that in the interim, a list of all radio identifications that are not currently being charged be discussed by the SNACC Administrator with the SNACC Board to establish policies for what services should be No Fee. We further recommend that the SNACC Board include provisions in the Cooperative Agreements for No Fee service.

Reassignment or Deletion of Radio Identifications

Radio identification numbers may be reassigned to a new radio if the number is inactive for two years. Radio identification numbers may also be deleted from MSM. We found 34 blank radio identification numbers with some remaining data in MSM.

If radio identification numbers are not reassigned within the same public agency, trending analysis and historical reporting for formulating strategic plans will not be accurate. Reassignment and deletion of radio identification numbers without adequate controls in place may lead to errors in radio inventory and the lack of sufficient information to settle billing disputes.

Recommendation

We recommend that the SNACC Administrator develop written policies and procedures with SNACC Board approval for reassignment of radio identification numbers. We further recommend that radio identification numbers not be deleted until a record retention policy is approved by the SNACC Board. We further recommend that Cooperative Agreement provisions include a limit as to how long a participating entity may dispute a billed amount as historical information may not be available.

Radio Identification Inventory Controls

We compared MSM radio identification to the Access database and found the following errors:

- Of the 12,659 radios maintained in MSM, 1,300 are not included in the Access database. Some of these are attributable to the practice of excluding No Fee consoles from the database.
- Status on 251 radios conflicted as to “Disabled” and “Enabled” between MSM and the Access database.
- 290 radios were in the Access database inventory but not on MSM. Of these, 33 radios have a blank field in the “Comments” column and a blank field in the “Date Disabled” column indicating the radio should be enabled in MSM.

However, these radios are not in MSM and are not active for radio service. All of the 33 radios were identified in the Access database inventory as user enabled except for 3. Of these 3, 2 have a date disabled. None of the 290 radios are receiving active radio service as these are not in the MSM.

- Dates are not always included and are not consistently entered in the "Date Added", "Date Disabled", and "Date Modified" column.

Due to the lack of controls, supporting documentation, and errors in Access inventory database, we were unable to verify billings for new radio service during the year. The total amount of prorated billings for the audit period was not significant and amounted to $41,386. The lack of controls over prorated billing is considered a significant weakness in controls.

Among other key controls lacking, MSM is not periodically reconciled to the Access database. MSM and Access data is not complete in either application due to the unwritten policies of deleting radio identification numbers in certain instances. This data is also inconsistent as some but not all No Fee service radio identification numbers are in the Access.

The maintenance of complete and consistent information between the two systems is important to both the generation of revenue and operations. It is critical that these services be provided precisely as these services are used by public safety organizations such as emergency, fire, and police. If the data is not consistent, it becomes difficult to operate services and accurately bill subscribers.

Recommendation

We recommend that the SNACC Administrator implement key controls to ensure completeness of radio identifications and supporting information for billing and reporting in MSM and Access, as appropriate.

Revenue Cycle Process Errors and Inefficiencies

Annual Billing Radio Identification Count Discrepancies

We compared the number of radios on the October 2011 annual billing to the radios in MSM and Access. MSM and Access Inventory contained 8,097 radios that were identified as belonging to public agencies that are charged for services. Public agencies were billed for

7,447 radios. The difference of 650 represents radios that were disputed. Further, no reconciliation was performed subsequent to the annual billing to determine the appropriate status of the disputed radios.

Recommendation

We recommend that SNACC administration implement key controls as recommended in other findings to assure accurate annual billing and revenue that is generated consistent with SNACC Board approved policies and procedures. Cooperative agreement provisions should be amended to include provisions for annual billing.

MEMORANDUM

DEPARTMENT OF FINANCE

GEORGE W. STEVENS
Chief Financial Officer

YOLANDA T. KING
Director of Budget & Financial Planning

TO: ANGELA DARRAGH, AUDIT DIRECTOR
RACHAEL BERNAL, PRINCIPAL AUDITOR

CC: CHRIS D. IDEKER, SNACC BOARD CHAIRMAN
DAVID L. GOSS, SNACC SYSTEM ADMINISTRATOR
BRIAN L. NEBEKER, SNACC BOARD VICE CHAIRMAN
MICHAEL L. FOLEY, SNACC APPOINTED COUNCIL

FROM: DAMON HARRIS, SENIOR FINANCIAL ANALYST

SUBJECT: SNACC AUDIT RESPONSE

DATE: OCTOBER 10, 2012

On behalf of the SNACC Chairman, Chris Ideker, in response to the final findings and recommendations of the recent SNACC audit, please note the corrective action responses by SNACC management:

Audit Finding: The amount charged to subscribers for the "Equity Buy-In" one-time fee and the annual fees are not in accordance with the Cooperative Agreements with the various public agencies. The fee structure was changed in 2006 from a complex formula that consisted of proportionately billing out airtime to subscribers to a flat $1,460 Equity Buy-in Fee and $185 annual charge for each new radio service.

Audit Recommendation: We recommend that the SNACC Administrator amend Cooperative Agreements with the public agencies to reflect the rate structure. The amendments should be approved by the SNACC Board. We further recommend that the Cooperative Agreements incorporate a provision for flexibility of changing the rate structure in the future.

Management Response: The SNACC Board had previously approved setting a fixed-rate Equity Buy-In Fee of $1,460 effective November 19th, 2003 (per agenda item #8 at their 11/19/03 board mtg.) through August 31st, 2005, though a formal amendment to the Cooperative Agreement was never initiated. Despite the expiration date, the rate has been maintained ever since. It should be noted that the approving body (i.e. the SNACC Board) is comprised of representatives from the same agencies included within the Cooperative Agreement.

The SNACC Administrator will propose an amendment to the current Joint Powers Agreement (JPA) that affirms the currently imposed $1,460 Equity Buy-In Fee for new radios added onto the SNACC system as well as the $185 annual operating charge for each radio identified as having an active ID. The amendment will be retroactive to July 1, 2012 and will contain a provision that will maintain those rates indefinitely until either an additional amendment is approved by the SNACC Board or a new JPA is entered into by the member agencies that contains updated rates.
It is the SNACC Board's intention to draft, distribute, and approve an updated JPA effective with fiscal year 2015 that will overhaul the current fee structure to better align with SNACC's long-term capital replacement plan currently in the final stages of development.

Management Due Date: The amendment will be proposed at the November 7th, 2012 SNACC Board mtg. The updated JPA is intended to be drafted, distributed, and approved by the end of calendar year 2013.

Audit Finding: SNACC is not currently maintaining an inventory list of capital equipment items owned with their life expectancy, and current replacement cost. In accordance with the Cooperative Agreement provision 15(c), the inventory list is to be provided to the SNACC Board in December of each year. A list of capital assets does exist as part of the financial records. The agreement provision also calls for a capital plan for each participating public agency that we believe is no longer needed. In addition, a separate fund does not exist in financial records for communications equipment and funding as implied by the provision. Equipment is tracked as a line item in the budget and as capital assets by type in financial records.

Audit Recommendation: We recommend that the SNACC Administrator amend, with SNACC Board approval, the Communications Equipment Fund provision of the Cooperative Agreement to reflect approved practices. We further recommend that a cost center within the SNACC fund be established to account for capital funding, expenditures, and projects to be capitalized. We do not believe, however, that a separate fund is needed for tracking of equipment as these may be tracked within the SNACC fund.

Management Response: The SNACC Administrator is currently developing a database that will contain all of SNACC's current and future capital assets and will include the following (amongst other) information:

- Asset description
- Asset # (as created by SAP for financial statement reporting)
- Physical location of the asset
- Vendor name
- Asset PO#(s)
- Asset PO funding source (operating, grant, etc.)
- Asset PO date(s)
- Asset purchase price
- Estimated asset replacement date
- Estimated asset replacement cost

A separate cost center has been created effective July 1, 2012 to segregate all SNACC Equity Buy-In fees and capital purchases. A long-term capital plan is currently in the final stages of development that addresses future technology needs, replacement costs, and an implementation timeline.

It is anticipated that the planned JPA update effective with fiscal year 2015 will address asset inventory procedures, reports, and long-term capital planning processes as a whole.

Management Due Date: The capital asset inventory database will be completed by the end of December 2012. A separate cost center to segregate SNACC Equity Buy-In fees and capital purchases has been created and utilized effective July 1st, 2012. The updated JPA is intended to be drafted, distributed, and approved by the end of calendar year 2013.

Audit Finding: Capitalized assets amounting to $14 million as of March 31, 2012, do not include all equipment that should be capitalized in accordance with standard accounting practices. We determined that approximately $4.1 million of equipment purchased throughout the years was expensed rather than capitalized. An additional $2.4 million should also be capitalized due to a capital lease financing agreement that transfers the assets to SNACC. The capitalized asset amount also erroneously contained an expenditure for a service contract agreement payment in the amount of $212,218 that was fully depreciated.

This list of capital assets is the only record that SNACC has for identifying equipment. If this list is inaccurate, SNACC will be unable to effectively determine future project or replacement costs. SNACC purchases a significant amount of equipment through vendor agreements with Motorola that are processed primarily through change orders. We compared the capitalized equipment list maintained in financial records to historical and current Motorola purchase orders since the inception of SAP in 2005. We also compared Motorola project agreements and change orders. We found a significant lack of key controls over equipment purchases and inventory lists. The following areas were noted as deficiencies that led to the inaccurate reporting of capital assets:

- Board minutes showing approval of significant projects were not available.
- Capital projects are not tracked within SNACC financial accounting records maintained in SAP to accumulate capitalized amounts and control project expenses. Assets are capitalized through purchase orders. Purchase orders contain a mixture of line items that may include expenses for projects, change orders, and other amounts that should be expensed, such as service contract agreement amounts. Several purchase orders are opened for the same project. Purchase orders may also expense rather than capitalize items.
- Projects are controlled inconsistently through change orders rather than by a hierarchical arrangement where project agreements are approved and then change orders to these projects are approved.
- Certificates of Completion and signed final acceptance documents were not available for all projects. These documents would support the capitalization of assets.
- Capitalized assets may be capitalized on either a system basis or as individual equipment making it difficult to identify whether the list of assets is complete or accurate.

Audit Recommendation: We recommend that the SNACC Administrator implement key controls for expenditures related to equipment that follow standard accounting practices. We further recommend that the SNACC Board determine the best method for capitalized equipment accountability: system or individual equipment. The SNACC Board should then notify the County for application of this method.

Management Response: The SNACC Administrator will meet with County representatives from the Budget Office, Comptroller's Office, and Audit Dept. (per the existing administrative agreement with Clark County) to identify specific assets or purchases that have been erroneously expensed and/or capitalized and correct within the County's financial systems accordingly for future reporting purposes.

Moving forward, capital assets will be accounted for in a newly created cost center (effective July 1, 2012) to more appropriately follow standard accounting practices. Capitalized equipment will be identified by assets (system level) and subassets (individual equipment level) as deemed appropriate by the Clark County Comptroller's Office in conjunction with the County's Purchasing & Contracts and Budget & Financial Planning divisions.

Management Due Date: The identification and correction will occur by October 31st, 2012. A new cost center to account for capital assets has been utilized effective July 1st, 2012.

Audit Finding: The revenue cycle for SNACC consists of four major types of activities for service: New Service, Transfers, Deactivation/Reactivation while maintaining service, and Cancellation.

The Cooperative Agreement does not have provisions for deactivation/reactivation, transfers of radios to other public agencies, or cancellation of radio service. According to SNACC administration, transfers of radios may occur between public agencies without notification to SNACC. SNACC also does not have a formal process that includes supporting documentation, policies, or procedures for providing these services.

The revenue cycle process for SNACC generally includes orders for new service, transfers, deactivation, reactivation, and cancellations that are informally taken over the phone, in-person, or by e-mail. The public agencies do not provide purchase orders for new service. Radios, to be activated or whose activation is complete for new service, are dropped off by the agency or are picked up by a SNACC employee without supporting documentation such as an acknowledgement by both agencies of the number of radios with serial numbers and assigned radio identifications to be serviced. There is also no consistent formal documented acknowledgement of public agency requests for transfers, deactivation, reactivation, or cancellation.

Since MSM does not report critical date data, SNACC maintains an Access database of radio identification numbers, dates, status, and other information. This inventory is used to support the number of radios that will be billed to the public agencies. Without adequate supporting documentation available to verify the inventory database, the incorrect number of radios could be billed and the activation status could be incorrect. This would affect billing, causing disagreement with public agencies. Realization of revenue and amounts available for expenditures will also be affected by billing delays. We noted that annual billing, amounting to $1.4 million, was delayed 94 days due to disagreement on number of radios to be billed. We further noted collection of annual billings is slow. Of the $1.4 million annual billing, $1.2 million, or 88%, was collected between 30 to 90 days. Critical radio service may also be affected if the incorrect radio identification is deactivated or cancelled.

Audit Recommendation: SNACC issued letters to public agencies requesting that purchase orders be provided for requesting radio service. We recommend that the SNACC Administrator, with SNACC Board approval, include provisions in the Cooperative Agreement to address specific requirements for all services (new, deactivation, reactivation, transfers and cancellations). The provisions for cancellation of service should discuss timeframes and requirements for Equity Buy-In when the service is cancelled or radios are transferred between public agencies. We further recommend that SNACC increase effectiveness of the revenue cycle by adopting and implementing written policies and procedures, that includes acknowledgement forms for the receipt/delivery of radios for new service, deactivation, reactivation, and cancellation.

Management Response: The SNACC Administrator will propose an amendment to the current JPA that affirms the process for requesting new service, deactivation/reactivation, and cancellation of service. The amendment will be retroactive to July 1, 2012 and will contain language that addresses the financial implications of those service requests. Furthermore, those service requests will be recorded into a radio inventory database being developed by the SNACC Administrator.

A radio inventory database currently being developed by the SNACC Administrator will generate a report to be distributed to each participating agency each May 1st for their reconciliation prior to the next fiscal year's invoicing. While agencies will be encouraged to notify SNACC of any radio transfers throughout the fiscal year, SNACC will formally be notified as part of the reconciliation process during the approximate 60 days between the inventory mailing and the beginning of the next fiscal year (additional details regarding the radio inventory database contained in a separate audit finding management response).

Management Due Date: The amendment will be proposed at the November 7th, 2012 SNACC Board mtg.

Audit Finding: Radio service for 4,589 of 12,659 (36%) of radios are not charged to subscribers. The Cooperative Agreement does not address no fee services. Since SNACC is not charging fees in accordance with the Cooperative Agreement, there is no consistency, and established guidelines are not used to determine whether fees should or should not be charged. No Fee services represent a significant activity for SNACC and could cause a loss of revenues if services are not in line with SNACC Board intentions.

SNACC policy is to not bill for radio service for consoles. We were not able to verify this policy through SNACC Board minutes. We were able to identify 3,352 consoles of the 4,589 (73%) radios that are not billed. The remainder of 1,237 were either No Fee service for events or public agencies that are not charged, in process of being billed, or should likely be billed. There is a high probability that radios with No Fee service are activated. However, we did not perform an analysis to determine the number. We do not believe the results would provide current meaningful information, as there are no formal procedures supported by agreement provisions for the current fee structure.

Audit Recommendation: We recommend that in the interim a list of all radio identifications that are not currently being charged be discussed by the SNACC Administrator with the SNACC Board to establish policies for what services should be No Fee. We further recommend that the SNACC Board include provisions in the Cooperative Agreements for No Fee service.

Management Response: Currently, SNACC does not charge fees for consoles, cache radios, or radios used strictly for interoperability. The SNACC Administrator will propose an amendment to the current JPA that establishes formal guidelines for "no fee" services to be retroactive to July 1, 2012. Furthermore, radios and consoles currently indentified as "no fee" eligible per the formal guidelines will be recorded as such into a radio inventory database being developed by the SNACC Administrator (additional details regarding the radio inventory database contained in a separate audit finding management response). However, SNACC will retain the right to charge fees for all SNACC ID#s assigned within its system.

It is the SNACC Board's intention to draft, distribute, and approve an updated JPA effective with fiscal year 2015 that will overhaul the current fee structure to better align with SNACC's long-term capital replacement plan currently in the final stages of development. The new JPA will incorporate language specific to "no fee" eligibility.

Management Due Date: The amendment will be proposed at the November 7th, 2012 SNACC Board mtg. The updated JPA is intended to be drafted, distributed, and approved by the end of calendar year 2013.

Audit Finding: Radio identification numbers may be reassigned to a new radio if the number is inactive for two years. Radio identification numbers may also be deleted from MSM. We found 34 blank radio identification numbers with some remaining data in MSM. If radio identifications are not reassigned within the same public agency, trending analysis and historical reporting for formulating strategic plans will not be accurate. Reassignment and deletion of radio identifications without adequate controls in place may lead to errors and the lack of sufficient information to settle billing disputes.

Audit Recommendation: We recommend that the SNACC Administrator develop written policies and procedures with SNACC Board approval for reassignment of radio identification numbers. We further recommend that radio identification numbers not be deleted until a record retention policy is approved by the SNACC Board. We further recommend that Cooperative Agreement provisions include a limit as to how long a participating entity may dispute a billed amount as historical information may not be available.

Management Response: The SNACC Administrator will propose an amendment to the current JPA that establishes formal guidelines for radio identification reassignments or deletions in MSM. Specifically, radios that have been lost or stolen may not have their ID#s reused for a period of two years. However, if a radio is physically damaged beyond repair, upon the SNACC Administrator's verification of the evidence, the ID#(s) can be reused immediately.

Management Due Date: The amendment will be proposed at the November 7th, 2012 SNACC Board mtg.

Audit Finding: We compared MSM radio identifications to the Access inventory database and found the following errors:

- Of the 12,659 radios maintained in MSM, 1,300 are not included in the Access database. Some of these are attributable to the practice of excluding No Fee consoles from the database.
- Status on 251 radios conflicted as to "Disabled" and "Enabled" between MSM and the Access database.
- 290 radios were in the Access database inventory but not on MSM. Of these, 33 radios have a blank field in the "Comments" column and a blank field in the "Date Disabled" column indicating the radio should be enabled in MSM. However, these radios are not in MSM and are not active for radio service. All of the 33 radios were identified in the Access database inventory as user enabled except for 3. Of these 3, 2 have a date disabled. None of the 290 radios are receiving active radio service as these are not in the MSM.
- Dates are not always included and are not consistently entered in the "Date Added", "Date Disabled", and "Date Modified" column.

Due to the lack of controls, supporting documentation, and errors in the Access inventory database, we were unable to verify billings for new radio service during the year. The total amount of prorated billings for the audit period was not significant and amounted to $41,386. The lack of controls over prorated billing is considered a significant weakness in controls.

Among other key controls lacking, MSM is not periodically reconciled to the Access database. MSM and Access data is not complete in either application due to the unwritten policies of deleting radio identification numbers in certain instances. This data is also inconsistent as some but not all No Fee service radio identification numbers are in the Access database.

The maintenance of complete and consistent information between the two systems is important to both the generation of revenue and operations. It is critical that these services be provided precisely as these services are used by public safety organizations such as emergency, fire, and police. If the data is not consistent, it becomes difficult to operate services and accurately bill subscribers.

Audit Recommendation: We recommend that the SNACC Administrator implement key controls to ensure completeness of radio identifications and supporting information for billing and reporting in MSM and Access, as appropriate.

Management Response: A radio inventory database is currently being developed by the SNACC Administrator that will be reconciled against MSM radio identifications as part of the development process. Furthermore, the inventory database will be reconciled against the MSM identifications on an annual basis just prior to the inventory distribution to all participating agencies that will be performed every May 1st. The radio inventory database will contain the following (amongst other) information:

- Agency/Division Name
- Customer # (as created in SAP utilized for invoice creation)
- Contact Name (who's responsible for managing the agency's/division's radios)
- Radio ID #s for each individual radio assigned to that particular agency/division
- Serial #s for each individual radio assigned to that particular agency/division
- Date each radio was "bought in"
- Vendor PO# associated with each radio (going forward)
- Date each radio was added to the system
- Annual billing rate
- Notes (would detail reason for no fees, deletions, transfers, etc.)

When radios are activated on the SNACC system, the practice has been to initiate a monthly pro-rated billing based on the annual operating rate of $185 beginning with the next month (ex: radios activated on March 15th would incur an operating charge effective April 1st). A PO is currently required by the pertinent agency/division for any radios added/activated. The SNACC Administrator will propose an amendment to the current JPA that formalizes the current practice effective with the passage of the amendment.

Management Due Date: A current radio inventory database has been completed effective Sept. 30th, 2012.

Audit Finding: We compared the number of radios on the October 2011 annual billing to the radios in MSM and Access. MSM and Access Inventory contained 8,097 radios that were identified as belonging to public agencies that are charged for services. Public agencies were billed for 7,447 radios. The difference of 650 represents radios that were disputed. Further, no reconciliation was performed subsequent to the annual billing to determine the appropriate status of the disputed radios.

Audit Recommendation: We recommend that SNACC administration implement key controls as recommended in other findings to assure accurate annual billing and revenue that is generated is consistent with SNACC Board approved policies and procedures. Cooperative agreement provisions should be amended to include provisions for annual billing.

Management Response: A radio inventory database is currently being developed by the SNACC Administrator that will be reconciled against MSM radio identifications as part of the annual reconciliation process. The radio inventory database will generate a report to be distributed annually to each participating agency on May 1st for their reconciliation prior to the next fiscal year's invoicing. Agencies will be given approximately 60 days to submit any updates/disputes in regard to the radio inventory. The SNACC Administrator will propose an amendment to the current JPA that establishes formal guidelines for the inventory reconciliation process effective with the fiscal year 2014 billings.

Management Due Date: A current radio inventory database has been completed effective Sept. 30th, 2012. The amendment will be proposed at the November 7th, 2012 SNACC Board mtg.