



State of North Carolina

Department of State Treasurer

*State and Local Government Finance Division
and the Local Government Commission*

Memorandum No. 952

September 12, 2001

TO: Local Government Officials and Certified Public Accountants

FROM: T. Vance Holloman, Director
Fiscal Management Section

SUBJECT: Audit Issues (including use of 911 funds)

Statement on Auditing Standards (SAS) No. 89, Audit Adjustments

As stated in Memorandum No. 932, *Contract to Audit Accounts and Approval of Interim and Final Invoices*, SAS No. 89 will be in effect for audits of financial statements with periods beginning on or after December 15, 1999. SAS No. 89 amends SAS No. 83, *Establishing an Understanding with the Client*; SAS No. 85, *Management Representations*; and SAS No. 61, *Communications with Audit Committees*.

Management is ultimately responsible for the financial statement of the unit. Therefore, management is responsible for determining the treatment of financial statement misstatements aggregated by the auditor. In the engagement letter, management should acknowledge their responsibility for adjusting financial statements. Units should also acknowledge their responsibility to represent to the auditor in the management representation letter that uncorrected misstatement aggregated by the auditor during the audit are immaterial, both individually and in total, to the financial statements taken as a whole.

This SAS provides guidance to the auditor regarding misstatements discovered during the audit. An auditor can set a minimum threshold under which adjustments do not need to be accumulated. For items over this threshold, the auditor should present the proposed adjustments to management. Because management is ultimately responsible for the audited financial statements, they will be required to represent to the auditor in the management representation letter a *Summary of Uncorrected Misstatements*. This summary can either be included in the letter or can be an attachment. According to SAS No. 89, the summary should include the *nature, amount, and effect of uncorrected amounts*. Management should represent that the unadjusted amounts are immaterial to the financial statements as a whole either individually or in the aggregate. If management disagrees with the auditor regarding a misstatement on the list, they can indicate in the management letter that they do not believe that the item is a misstatement.

The auditor is responsible for communicating the misstatements to the audit committee. The communication should include a list of misstatements, whether they have been adjusted or not, that could individually or in the aggregate materially affect the reporting of the audited financial statements. This communication can take the same form as the *Summary of Uncorrected Misstatements*. The audit committee in conjunction with management should consider whether the misstatements indicate problems that, although they may not be material in the current year, could indicate issues that would be material in the future.

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Use of G.S. Chapter 62A Article I (Wired) Emergency Telephone System Service Fees

During the summer members of the Research Division of the General Assembly have been looking at the use of 911 service fees authorized by Article I of General Statutes Chapter 62A. Their staff conducted a survey of units concerning the use of these funds and is concerned about many of the responses received.

G.S. 62A-7 requires each unit receiving these funds to place them in a special revenue fund entitled the Emergency Telephone System Fund. Proceeds of these fees must be spent in accordance with G.S.62A-8. Steven Rose, Utilities Committee Counsel, has issued an opinion summarizing the allowable and unallowable uses of those funds under G.S. 62A-8. That Statute limits the uses of these monies to pay for emergency telephone equipment, that would include hardware, software and databases. The expenses of addressing, nonrecurring cost of establishing the system and rates charged by the service suppliers and other recurring service supplier charges are also allowable. Expenses such as real estate; remodeling of dispatch centers; hiring, firing or compensation of dispatchers and mobile communication, fire, ambulance, police or other emergency vehicles are not allowable.

Responses to the survey by some units indicate that funds may have been used for purposes not permitted by G.S. 62A-8. We encourage units to confer with their attorney and determine if funds have been expended in compliance with this law. A copy of Mr. Rose's opinion is attached to assist you in making this determination. If units discover they have not expended funds in compliance with the law, they should reimburse the Emergency Telephone System Fund for any misspent amounts. Also, units should disclose the misuse of these funds in their annual audit report and report an amount due to the Emergency Telephone System Fund from the General Fund for any misspent funds as of June 30, 2001.

Units with Unauditable Records

Each year a limited number of units issue their audited financial several months after the end of the fiscal year because their accounting records are unauditable. Typical problems include trial balances that are out of balance by significant amounts, failure to properly record all transactions on a timely basis, failure to perform essential account reconciliations or failure to maintain necessary supporting documents. Financial difficulties, violations of General Statutes or weaknesses in internal controls are brought to the attention of the governing board too late in the next fiscal year to correct the deficiencies before the end of that fiscal year.

For units with a June 30th year-end, the auditor has submitted a contract calling for the audit to be completed by October 31st. Auditors should have reviewed the condition of the unit's records well before that date. By October 1st auditors should inform, in writing, this office and the governing board of the unit if they find the unit's records to be unauditable. The auditor should describe the unit's problems in sufficient detail to allow our staff and the governing board to fully understand the problems found. At that point, members of our staff will contact the unit and work with the unit and the auditor to determine the best course of action.

If you have any questions concerning this memorandum, please contact Jim Burke at (919) 807-2383 or Samantha Cox at (919) 807-2394.



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July 10, 2001

MEMORANDUM

TO: House Public Utilities Committee
Subcommittee on 911 Bills

FROM:  Steven Rose, Committee Counsel

RE: Use of 911 Charge Funds

Representative Saunders requested Committee Counsel to render an opinion of what funds collected pursuant to Article I of Chapter 62A may be used for. It is the opinion of Committee Counsel that the legislative intent was that these funds may be used for the establishment and maintenance of a system for the receipt and organization of incoming calls requesting emergency assistance, but may not be used for the dispatch of emergency assistance to respond to the incoming calls.

G.S. 62A-2 describes the legislative purpose of Article I of Chapter 62A. That purpose is to provide a toll free number allowing an individual to gain rapid, direct access to public safety aid.

G.S. 62A-3 is the definition section of Article I of Chapter 62A. G.S. 62A-3(1) defines a "911 System" or "911 Service" as an emergency telephone system that provides the user of the public telephone system the ability to reach a public safety answering point (dispatch center) by dialing 911. This includes equipment that will direct 911 calls to the appropriate public safety answering point based on the geographical location from which the call originates. G.S. 62A-3(2) further defines "911 charge" to mean contributions to the local government for 911 service startup and addressing costs, billing costs, and nonrecurring and recurring installation, maintenance, service, and network charges of a service supplier providing the 911 service.

G.S. 62A-8 provides that money from an Emergency Telephone System Fund can be used only to pay for emergency telephone equipment, including hardware, software and databases. This includes the expense of addressing and the nonrecurring costs of establishing a 911 system. The fund may also be used to pay the rates charged by the service supplier, (the telephone company) and other service supplier recurring charges. Items specifically not eligible are real estate, cosmetic remodeling of emergency dispatch centers, hiring, training, and compensating dispatchers, and the purchase of mobile communications vehicles, ambulances, fire engines, or other emergency vehicles.

Reading G.S. 62A-2 G.S. 62A-3(1) and (2), and G.S. 62A-8 together, leads to the conclusion that Article I of Chapter 62A was enacted to authorize a charge for the purpose of having a rapid, highly automated system providing access to a public safety answering point (a dispatch center) for the telephone subscriber and that the charge was not meant to be used for the dispatch of the emergency aid or expenses associated with the dispatch of emergency aid. The financing of the dispatch and provision of emergency aid would, therefore, be left to the normal financing methods available to local, governments, including the use of tax revenues. Thus, items such as the radio system used by the public safety answering point to dispatch the appropriate emergency help would not be able to be financed using the charge allowed under Article I of Chapter 62A.