

To: Members of the Legislative Audit Committee

From: Kundinger, Corder & Engle, P.C.

Date: June 9, 2005

Re: Public Safety Communications Trust Fund

Background

The Public Safety Communications Trust Fund (Fund) was established pursuant to House Bill 98-1068 to purchase and maintain public safety radio communications systems for use by state agencies including, but not limited to, the Departments of Public Safety, Transportation, Natural Resources, and Corrections. Monies appropriated to the Fund come primarily from state capital construction funds and are used to pay for the installation of a new Digital Trunked Radio System, replacing the State's analog radio system. Replacement of the State's analog radio system was prompted by obsolescence issues, interoperability concerns, and coverage problems. Colorado's actions to replace its analog radio system parallel those being under taken by other federal, state, and local public entities throughout the United States. The purpose of the new system is to provide a statewide wireless system that allows direct communications among agencies that must share information during an emergency. All Colorado state agencies and any local government agency desiring to participate will share the Digital Trunked Radio System once it is completed.

The Fund is administered by the Department of Personnel & Administration. When authorizing distributions from the Fund, the Executive Director of the Department of Personnel & Administration is directed by statute to consider the following factors:

- The need for achieving functional interoperability among local, state, and federal public safety radio communications systems by acquiring equipment that meets emerging technical standards for systems interoperability and open network architecture.
- The needs of local government entities that have recently invested in new radio systems, particularly with regard to interoperability.
- The promotion of an orderly transition from analog-based to digital-based radio systems.

Statutes also direct the Executive Director to keep an accurate account of all activities related to the Fund, including its receipts and expenditures. The State Auditor is further authorized to investigate the affairs of the Fund, severally examine the properties and records relating to the Fund, and prescribe accounting methods and procedures for rendering periodical reports in relation to disbursements and purchases made from the Fund.

Digital Trunked Radio System (DTR)

Planning for a digital radio system first began in 1991 in response to a Long Bill footnote and a performance audit of the Division of Telecommunications that was conducted that year by the Office of the State Auditor. In the Long Bill footnote, the Joint Budget Committee requested that the Division of Telecommunications, the Information Management Commission, and the Colorado State Patrol develop a statewide telecommunications plan to replace and update their existing communications systems. The 1991 audit of the Division found that the Public Safety radio system that existed at the time was “old, costly and inefficient” and was “based on analog technology, which does not allow simultaneous interagency communications or sharing of resources.” These factors, as well as anticipated changes in the Federal Communications Commission’s rules aimed at making better use of the radio frequency spectrum, led to the changes that are under way.

A users’ group comprising state and local representatives developed the plan that is being used to govern system implementation. The plan, as updated in June 2005, includes seven phases, which are described in the following table.

Department of Personnel & Administration Digital Trunked Radio System Implementation Phases and Status as of June 2005			
Fiscal Year¹	Project Phase	Counties	Status
1999	I	Arapahoe, Denver, Douglas, Jefferson.	Completed in Fiscal Year 2000.
2000	II	Adams, Broomfield, Boulder, Clear Creek, Gilpin.	Completed in Fiscal Year 2000.
2001	III	Elbert, Weld, Morgan, Larimer, Phillips, Sedgwick, Yuma, Washington, Kit Carson, Cheyenne, Lincoln, Logan.	Completed in Fiscal Year 2001.
2002	IV	El Paso, Pueblo, Fremont, Teller, Custer, Otero, Las Animas, Huerfano, Baca, Prowers, Bent, Kiowa, Crowley, Park, Chaffee.	Completed in Fiscal Year 2002.
2002	V	Mesa, Garfield, Rio Blanco, Routt, Moffat, Grand, Jackson, Pitkin, Lake, Eagle, Summit.	Some build-out; completion date to be determined.
2002	VI	Archuleta, San Juan, Hinsdale, Montrose, Gunnison, Ouray, La Plata, San Miguel, Dolores, Montezuma, Delta.	Some build-out; completion date to be determined.
2004	VII	Costilla, Conejos, Saguache, Alamosa, Rio Grande, Mineral.	Completed in Fiscal Year 2004.
<p>Source: Department of Personnel & Administration / Division of Information Technologies. Note: Completion dates for Phases V and VI are depended upon the availability of future funding. ¹ Initial projected fiscal year of completion.</p>			

Initially, statewide installation of the Digital Trunked Radio System was expected to be completed by the end of Fiscal Year 2004 at a cost of nearly \$79 million. As shown in the table above, completion of the project has been delayed. According to the Department, the delay is due to funding constraints under the current budget environment. As a result, installation continues but a final completion date has not yet been determined. The Department anticipates that the final cost will not increase from what was originally planned.

In 2005 the Department of Local Affairs (DoLA) announced a new Wireless Interoperability Network (WIN) initiative making available \$13 million in Homeland Security grant funds allowing local governments in rural areas to apply for new Digital Trunked Radio site infrastructure equipment. These funds are available statewide but will primarily to be used for phases V and VI.

Purpose and Scope of Review

This review was conducted under the authority of Section 24-30-908.5, C.R.S., which authorizes the Office of the State Auditor (OSA) to review the activities of the Public Safety Communications Trust Fund. The OSA completed a financial and performance audit of the Public Safety Communications Trust Fund in January 2002. In May 2004, a review was conducted by Kunding, Corder & Engle, P.C., under contract with the Office of the State Auditor, covering the period from December 1, 2001 to March 31, 2004. In addition, the May 2004 review assessed the implementation status of the three recommendations related to financial issues from the January 2002 Financial and Performance Audit and included an updated status report on the implementation of the seven performance recommendations by the Department of Personnel & Administration from the audit.

The present review covers the period from April 1, 2004 to April 30, 2005, and was conducted by Kunding, Corder & Engle, P.C., under contract with the Office of the State Auditor. Kunding, Corder & Engle, P.C., was engaged to perform certain agreed upon procedures including interviewing Department staff to determine how the Department monitors and accounts for Fund activities; performing procedures to evaluate the adequacy of internal controls applicable to receipts and expenditures; and testing samples of receipts and expenditures to determine compliance with internal policies and contractual agreements. For the expenditures tested, we verified that the payments agreed to the supporting invoices or other documentation, were properly classified, that evidence of receipt of goods or services was obtained, and that the expenditure was consistent with Fund objectives. In addition we assessed the implementation status of the recommendation we made in our prior report dated May 10, 2004.

Appendix A contains a status report from the Department, updated as of November 2005, on the implementation of the seven recommendations from the January 2002 audit related to performance issues.

Financial Overview

As stated previously, the total cost for the Digital Trunked Radio System is estimated to be approximately \$79 million. The Fund is primarily funded through capital construction appropriations. From Fiscal Year 2000 through April 30, 2005, a total of \$50.9 million has been expended for the Digital Trunked Radio System.

The following is a summary of revenue and expenditures for Fiscal Years 2002 through the first ten months of Fiscal Year 2005, or April 30, 2005:

Public Safety Communications Trust Fund				
Revenue and Expenditure Summary				
For Fiscal Years 2002 through 2005				
	Fiscal Year 2002¹	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005²
Revenue				
Capital construction appropriation	\$21,933,395	\$5,143,400	\$1,198,729	\$205,218
Federal grants	-	-	2,451,053	1,755,217
Interest income	1,116,417	355,235	121,471	103,479
Total Revenue	\$23,049,812	\$5,498,635	\$3,771,253	\$2,063,914
Expenditures				
Capitalized equipment ³	\$21,396,849	\$4,741,555	\$3,271,357	\$1,786,467
Transfers out ⁴	-	444,753	-	-
Noncapitalized equipment ⁵	209,898	12,258	9,363	6,134
Equipment maintenance and repair ⁶	116,792	160,630	164,344	158,349
Travel ⁷	8,734	954	1,399	-
Construction expenses ⁸	106,801	140,870	-	-
Professional services ⁹	65,306	83,036	193,250	-
Miscellaneous operating expenditures ¹⁰	29,015	4,096	10,069	9,485
Total Expenditures	21,933,395	5,588,152	3,649,782	1,960,435
Excess of Revenue Over (Under) Expenditures	<u>\$1,116,417</u>	<u>\$(89,517)</u>	<u>\$121,471</u>	<u>\$103,479</u>
Source: COFRS reports and Department of Personnel & Administration. Revenue and expenditures reflect adjustments identified during review of Fiscal Years 2002, 2003 and 2004, performed by Kundinger, Corder & Engle, P.C. under contract with the Office of the State Auditor.				
¹ July 1, 2001 through November 30, 2001 amounts were reviewed by the Office of the State Auditor; December 1, 2001 through June 30, 2002 amounts were reviewed by Kundinger, Corder & Engle, P.C.				
² Through April 30, 2005 (ten months of Fiscal Year 2005).				
³ Includes items such as antennas and power supply equipment.				
⁴ Payments to the General Fund for salaries related to the Fund.				
⁵ Includes items such as connectors and cables.				
⁶ Includes system parts and payments to Motorola, Inc. for maintenance and monitoring services.				
⁷ Includes employee lodging and per diem reimbursements.				
⁸ Includes construction to house part of the Digital Trunked Radio System.				
⁹ Includes payments for engineers.				
¹⁰ Includes items such as advertising, equipment rental, communication services, freight, software, vehicle leases and rentals, utilities, office supplies, dues and memberships and other purchased services.				
¹¹ The cumulative excess of revenue over expenditures remains in the Fund and does not revert to the General Fund per Section 24-30-908.5,C.R.S.				

Financial Comments and Recommendations

Status of Prior Recommendations

Our prior report dated May 10, 2004 contained one recommendation related to financial issues, as discussed below:

Inventory Policy. We recommended that the Department of Personnel & Administration implement year-end physical inventory procedures over radios in the possession of other state agencies that include obtaining signed reports annually from agencies that have been assigned radios attesting that such radios exist and are in their possession and comparing these results with the internal Subscriber Inventory listing and the State's accounting system.

Partially implemented. For the fiscal year 2005, the Department of Personnel & Administration sent letters to state agencies listing the radios issued to each respective agency and asked for confirmation that the radios still exist and are in the agency's possession. The Department has researched discrepancies and made adjustments as necessary to their internal listing. Adjustments were not made to the State's accounting system until Fiscal Year 2006.

Appendix A

Public Safety Communications Trust Fund Performance and Financial Audit Status Report from Department of Personnel & Administration Update on Performance Recommendations, November 2005

The Office of the State Auditor (OSA) completed Public Safety Communications Trust Fund Performance and Financial Audit in January 2002. In January 2003 the Department of Personnel & Administration provided the OSA with a status report on all recommendations in the report. During 2004 and 2005, Kunderling, Corder & Engle, P.C., was engaged by the OSA to complete specific agreed upon procedures on the Public Safety Communications Trust Fund (Fund), which included assessing the implementation status of the financial recommendations contained in the January 2002 report. In November 2005, the OSA requested that the Department provide an updated status report on the performance recommendations from the original audit that the Department had not assessed as implemented previously.

The following is a summary of all performance recommendations from the January 2002 Financial and Performance Audit and the Department's assessment of their implementation status, including the date of the Department's assessment.

Recommendation No. 1:

The Department of Personnel & Administration should improve its efforts to identify, secure, and communicate potential funding sources for Digital Trunked Radio System implementation costs. This should include:

- a. Making a formal request through the budget process for funding to provide loans or other types of financial assistance to local governments desiring to participate in the system. If funding for loans is obtained, the Department should develop detailed procedures for loan administration. If funding for grants is obtained, the Department should work with the General Assembly to ensure it has the proper statutory authority to operate a grant program.
- b. Continuing to investigate potential alternative funding mechanisms for both state and local entities desiring to participate in the system and communicating this information via its Web site and other means such as newsletters and/or email.

Department's Assessment of Implementation Status:

- a. **Implemented and ongoing.** (November 2005)
The Department did not specifically seek funding for loans in Fiscal Year 2007 because the Department of Local Affairs Office of Emergency Management made available Homeland Security grants that may be used for participation in Digital Trunked Radio (DTR). Many local governments have taken advantage of this funding stream.

The Department will continue to work with the Office of State Planning and Budgeting and evaluate the need for and feasibility of providing funding for financial assistance to local governments desiring to participate in the system.

- b. **Implemented.** (August 2004)
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Recommendation No. 2:

The Department of Personnel & Administration should improve its efforts to identify and resolve potential problems with the Digital Trunked Radio System. This should include:

- a. Continuing to test the system to ensure that it is providing 95 percent coverage along all major roads and highways across Colorado and periodically reviewing the cost-benefit of extending that coverage.
- b. Developing a formal approach for handling complaints and other feedback about the system. This approach should include, at a minimum, the following components: a standardized, well-publicized intake process; requirements for logging and periodically monitoring the status of complaints received; a standardized procedure for communicating with individuals who initiate a complaint; and guidelines for the timely investigation and disposition of complaints.

Department's Assessment of Implementation Status:

- a. **Implemented.** (January 2003)
 - b. **Implemented.** (January 2003)
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Recommendation No. 3:

The Department of Personnel & Administration should develop a fiscal plan that encompasses the life cycle of the Digital Trunked Radio System. This should include:

- a. Estimating the costs for radio and infrastructure maintenance, replacement, and monitoring post-implementation.
- b. Making a formal request through the budgetary process as appropriate to gain ongoing funding for post-implementation needs.

- c. Working with the General Assembly in determining whether user fees should be implemented and, if necessary, in making statutory changes to allow the Department to charge user fees.

Department's Assessment of Implementation Status:

- a. **Implemented.** (August 2004)
 - b. **Implemented.** (January 2003)
 - c. **Implemented.** (November 2005)
House Bill 05-1286 was enacted which allows the Department to charge user fees.
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Recommendation No. 4:

The Department of Personnel & Administration should improve the performance measures for the Digital Trunked Radio System. This should include:

- a. Developing performance measures that address the ongoing performance of the system. These measures should be periodically reviewed and updated throughout the life of the system.
- b. Clearly and formally reporting performance annually to the General Assembly.

Department's Assessment of Implementation Status:

- a. **Implemented.** (January 2003)
 - b. **Implemented.** (January 2003)
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Recommendation No. 5:

The Department of Personnel & Administration should work with the General Assembly to introduce legislation to eliminate the statutory requirement for the Executive Director to report all Public Safety Communications Trust Fund activity to the State Auditor on an annual basis (Section 24-30-908.5(6), C.R.S.)

Department's Assessment of Implementation Status:

- Implemented.** (August 2004)

Recommendation No. 6:

The Department of Personnel & Administration should work with the Digital Trunked Radio System users' group to develop, implement, test, and periodically update a comprehensive disaster recovery plan for the Digital Trunked Radio System.

Department's Assessment of Implementation Status:

Partially Implemented. (November 2005)

The technical aspects of this requirement are implemented. The Digital Trunked Radio System was designed with multiple levels of redundancy to minimize catastrophic failure. The system can assign resources dynamically during natural and man-made disasters to provide communications when you absolutely must have them.

The operational disaster plan is in progress it is expected to be completed in December 2006. The Department drafted a basic plan consistent with the original 1995 "Digital Trunked Radio Plan" and continues to work with all state and local government participants of the DTR users group to finalize the plan.

Recommendation No. 7:

The Department of Personnel & Administration should establish agreements with all local governments sharing Digital Trunked Radio System infrastructure and/or equipment sites. At a minimum, such agreements should define each party's responsibilities for providing, installing, and maintaining equipment; establish fee schedules for sharing equipment and/or space; and specify procedures for accessing sites.

Department's Assessment of Implementation Status:

Implemented. (January 2003)

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