



Program Evaluation and Audit

Cellular Phone Usage and Administration

May 13, 2008

INTRODUCTION

Background

Many areas of the Metropolitan Council use cellular telephones to enhance and improve critical communications. The Council currently provides approximately 550 cellular phones to employees for business use. The phones are an effective tool, but also carry a risk of being misused for personal calls. Also, billing plans can be complex and confusing, and it is important for the Council to ensure that its communication funds are well spent.

Cellular phone usage at the Council was last reviewed in 2004, and regular recurring reviews were recommended. As a result, it was included in the 2008 Audit Plan.

Assurances

This audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and the U. S. Government Accountability Office's *Government Auditing Standards*.

Purpose

The purpose of this audit was to review the issuance, use and billing practices of Council issued cellular phones to determine:

- The conformance of the Council's practices with applicable laws and regulations,
- Employee compliance with Council policies and procedures,
- The efficiency and effectiveness of review and billing processes for cellular phones, and
- The cost-effectiveness of Council cell phone contracts.

Scope

This review examined cellular phones in use during the last quarter of 2007 by all divisions of the Metropolitan Council.

Methodology

To evaluate the effectiveness of the Council's deployment and usage of cellular phones, the following activities were performed.

- The Council's policies and procedures were reviewed, along with IRS and other applicable state and federal requirements,
- Cellular phone contracts were reviewed to determine cost efficiency.
- Interviews were conducted with Information Systems (IS) personnel responsible for cellular phone contract administration,
- A random sample of cellular phones was selected and call records reviewed to assess appropriate business use, level of overall usage, and cost.
- The billing and approval process was reviewed for efficiency, effectiveness and internal controls.

OBSERVATIONS

Cellular phones for Environmental Services, Community Development, Regional Administration and Metropolitan Transportation Services are administered by the Information Services Division. Metro Transit cell phones are administered by the Metro Transit Facilities Department.

The Council currently has two vendors for cellular phones, Verizon and Sprint/Nextel. There is no stated preference toward either vendor in the selection process. It is generally left to the employee, manager and/or the Council's representative for that division to select the vendor and discuss usage plans. Moreover, there was no involvement by the Council's Procurement function in cellular phone contracts or administration, so the Council was not handled by the vendors as a single customer, but as many separate users and accounts with different contracts and end dates, until recently when IS began to try to simplify and consolidate the Council's cellular phone vendor arrangements.

Recently, Blackberries, which are cell phones that also have data transmission (internet) capabilities, were added to the Council's cellular phone contracts. Some Blackberry phone usage was reviewed as part of the sample selected for this audit. However, because the data usage charge is a set amount each month without any variance for the amount of usage, it was not included in our review. Presumably, no matter how much it is used, the cost is the same. For information security reasons, all Blackberries are administered by IS and access the internet through the Council's network.

In addition to this general information, the review disclosed the following detailed observations:

- 1. The current Council Procedure applicable to cell phone usage is inconsistent with itself and with the current practices for using and managing cell phones.*

Council Procedure 4-6-3b states "an employee shall not use or allow the use of Council time, supplies or Council-owned or leased property or equipment for the employee's private interests..." indicating that employees are not to use Council-issued cell phones for personal calls.

However, in the section marked "Employee Responsibilities," the procedure says that employees are responsible for "reimbursing the Council for the cost of any personal calls made," which implies that personal calls may be allowed if the cost of those calls is reimbursed to the Council. The Council Procedure is also silent regarding record keeping requirements to distinguish private from business calls.

The procedure also states that IS and Metro Transit Facilities are responsible for providing employees with a list of all cellular phone usage and charges each month. As the number of calls has increased, this paper intensive process has become unwieldy. In addition, one vendor identifies phones only by phone number and not by user, so sorting

was cumbersome. As a result, the routing process now happens inconsistently. Since bills are not regularly sent to users and managers, it is clear that they are neither reviewed nor approved on a monthly basis as the policy would require. This also creates an internal control weakness that could delay or prevent detection of the misuse of cellular phones intended for the business use of the Council.

2. The current Council Procedure is inconsistent with Internal Revenue Service regulations on employee usage of employer cellular phones.

IRS Publication 4267-A on employee cell phones defines them as “listed property” because they can be easily lent to personal use. As such, the employer is required to ensure that the employee keeps records differentiating between business and personal use of the employer-issued phone. Personal use is taxable as income to the employee. Without verification, the value of the phone and the calling plan are both to be treated as taxable income to the employee. As noted above, the Council Procedure does not expressly forbid personal use of Council-issued cell phones or provide guidance on keeping records to distinguish between personal and business calls.

Also noted above, the Council does not currently send out monthly bills to employees and managers on a consistent basis to facilitate a monthly review of the charges because the process is paper-intensive and cumbersome.

If the current procedure and practices were maintained, Council employees with a business need for a cellular phone might be taxed on the value of that phone and the usage of it as income, unless bills could be routed and approved every month. This would pose cost to the employees and also create an additional administrative burden for the Council.

3. The pricing structure of the Council’s current calling plans results in purchasing more minutes than the organization needs per month and creating additional costs to the Council.

Most of the Council’s cellular phones from Environmental Services, Regional Administration, Community Development and Metropolitan Transportation Services, have been consolidated under IS. Metro Transit’s cell phones are still managed by the Facilities Department, but are transitioning to IS later this year.

IS has begun to evaluate structures of minutes and pricing and has made some changes for the cell phone plans it administers. However, there is still some work to be done. Currently, Verizon phones administered by IS share a single pool of minutes among them. The number of minutes purchased for that pool greatly exceeds those used. In October, 55% of the minutes purchased were used. In November, the percentage dropped to 44%, and in December, it was 33%. Although “overage” minutes (those minutes used that exceed the number purchased) are generally quite expensive, in the months studied, the Council unnecessarily expended funds to procure more than twice as many minutes as were needed for its Verizon cell phone service.

Sprint/Nextel plans assign a set of phones to an account and the account has a defined number of minutes from which all the phones draw. The group of phones is often assigned by work area. This plan has been more efficient in usage than the Verizon total minutes plan. Seven of the 12 plans reviewed were in the right increment of use (for 410 minutes used, the most efficient plan is 450 minutes, not 300 minutes where 110 minutes of overage charges would be incurred). Five of the plans were purchasing significantly more minutes than were needed.

Metro Transit had more cell phones on individual rate plans with assigned minutes. The minutes used ranged from 11% to 52% of the minutes purchased. These plans seemed to be among the least efficient. As in the other divisions, the shared minute plans (where workgroups share a pool of minutes) were the most cost-effective of all the plans used at Metro Transit.

Both current vendors have “free” minutes for calls within their network. So, if a Verizon cell phone calls another Verizon cell phone, no minutes are charged for either phone. In other instances, the same minutes may be paid twice. If a Verizon customer calls a Sprint customer, both will pay for the minutes used. In some workgroups at the Council, where all members of a workgroup have the same vendor, paid minutes are few because most calls are in the network. However, there has been no deliberate attempt to examine calling patterns to assess where in network calling might provide advantages to the Council and to make the appropriate vendor and calling plan changes to realize those advantages. Further, no consideration has been given to potentially having a single vendor for all Council cell phones so that all calls among Council users would be free minutes, potentially saving significant money in usage charges.

4. Cellular phone service has not been treated as a procurement at the Council, and has potentially missed some of the advantages of competitively procured or negotiated procurement.

Council procurement policies and procedures have not been consistently followed for cellular phone service. Originally an isolated need, the phones have become common, but never been viewed from a procurement perspective. However, competitive procurement could provide a number of advantages for the Council related to cellular service, including:

- Negotiated group rates/discounts for a large organization using 550 phones (lower rates per user/minute),
- Maximization of “in” calling by limiting the number of vendors, potentially to one vendor,
- Customized billing and reporting tools to meet the Council’s needs to monitor service usage and information needs.

CONCLUSIONS

Current Council cell phone procedures provide inadequate guidance to employees and managers regarding appropriate cell phone procurement and usage.

The current procedure is part of a broader procedure on the use of Council property. However, given the current emphasis on cell phones and the growing capability of cell phone technology, the procedure is non-specific on many key details and is inaccurate or inconsistent on some others.

- The procedure does not satisfy the requirements of the IRS for listed property,
- It is contradictory on the issue of whether and how much personal use is permitted, and
- Current operating practices do not provide for routing the bills for review and approval by the employee and the supervisor or manager, a significant internal control weakness.

The Council's cell phone plans are not administered as a business contract with cell phone providers, but as a set of contracts with providers. This structure results in over purchasing minutes and the incomplete consolidation of cell phone administration.

- Generally, the Council has erred on the side of over-purchasing minutes, which is understandable since overage minutes are quite expensive. However, the over-purchasing has reached such a level that the Council is currently purchasing twice as many (or more) minutes as are needed for most phones, resulting in an unnecessarily high level of monthly costs for cell phones.
- IS has made headway on consolidating the Council's cell phone plans and working with the vendors to find more cost-effective ways to purchase individual and group usage plans in the few months that it has administered the cell phone contracts. IS has also been working with both of the Council's vendors to develop capability for billing and reporting electronically, which would allow for faster, paperless access to reports and bills.
- The plans could also make better use of in-network calling to maximize available free minutes among groups who frequently use their cell phones to contact each other.

RECOMMENDATIONS

Program Evaluation and Audit recommendations are categorized according to the level of risk they pose for the Council. The categories are:

- **Essential** – Steps must be taken to avoid the emergence of critical risks to the Council or to add great value to the Council and its programs. Essential recommendations are tracked through the Audit Database and status is reported twice annually to the Council’s Audit Committee.
- **Significant** – Adds value to programs or initiatives of the Council, but is not necessary to avoid major control risks or other critical risk exposures. Significant recommendations are also tracked with status reports to the Council’s Audit Committee.
- **Considerations** – Recommendation would be beneficial, but may be subject to being set aside in favor of higher priority activities for the Council, or may require collaboration with another program area or division. Considerations are not tracked or reported. Their implementation is solely at the hands of management.
- **Verbal Recommendation** – An issue was found that bears mentioning, but is not sufficient to constitute a control risk or other repercussions to warrant inclusion in the written report. Verbal recommendations are documented in the file, but are not tracked or reported regularly.

1. The Council should adopt a revised procedure for cell phone provision and usage. (Essential)

The existing procedure is part of one that deals with several different types of Council property. Given the expanding capability of and access to cellular phones, it would be prudent to have a section specific for cell phones. The section could include:

- Requirements and approvals needed to obtain a Council-issued phone,
- Definitions of allowable and unallowable use of a Council-issued phone,
- A standard reporting format that meets IRS requirements for recording personal calls,
- The consequences for unallowable use, and
- A requirement for monthly review and approval by the user and the next level manager.

Employees should receive and sign for the cellular phone procedure when they are provided with a phone to ensure that requirements are clear at the time of phone issuance.

***Management Response:** Management is considering technical options for addressing cell phone usage and will revise our current procedure as needed to clarify cell phone provision and usage.*

*Responsible: Mary Bogie, Controller & Dave Hinrichs, Chief Information Officer
Estimated Completion: 4th quarter 2008*

2. The Council should implement monthly review and approval of cell phone bills by the user and the manager. (Essential)

To ensure compliance with the IRS as well as effective stewardship of the public monies spent, employees should review and approve their cell phone bills for accuracy each month. The bills should also be reviewed and approved by the employee's supervisor for accuracy and completeness.

As noted above, IS has been working with both of the Council's cell phone vendors on electronic billing and reporting to eliminate the paper-intensive routing and approval process. To the extent possible, electronic processes should be used to provide the necessary internal control as efficiently as possible.

***Management Response:** Information Services will continue working with both vendors to separate main accounts into smaller sub-accounts. Managers of these newly formed sub-accounts (workgroups) will be given electronic access to their individual workgroup accounts. When managers review their workgroups, they will be allowed to make minor administration changes (e.g. name changes), and create and print reports that they can review and approve.*

*Responsible: Dave Hinrichs, Chief Information Officer
Estimated Completion: 2nd quarter 2009*

3. The Council should continue to consolidate the administration of cell phone contracts in the Information Services Department. (Significant)

Under current business pricing structures with most cellular phone carriers, as with many other items, larger volume provides options for lower costs. It would be efficient for the Council to consolidate its cell phones in one place administratively to capitalize on the cost efficiencies afforded by its size and the number of cell phones it uses. The Council is already moving in this direction and will likely complete the consolidation by year's end.

Cellular phones and phones generally are becoming more technologically sophisticated. Cell phones can send instant messages, surf the internet, receive and broadcast music, and take photographs. Increased technical ability can also pose new risks for information

security and access. These types of technology and the oversight of them are the focus of Information Services. Therefore, IS seems the best place to oversee this rapidly changing technology and how it is used to conduct the business of the Council. IS personnel are already overseeing Blackberries for the entire Council. It would be advisable for them to oversee all cell phones for consistency in administration and for technical expertise.

***Management Response:** In August 2008, all cellular phone billing and plan maintenance for Metro Transit was merged into Information Services for review and processing (with exception of the Metro Transit Police). This completes the consolidation of cell phone administration.*

*Responsible: Pancho Henderson
Estimated Completion: August 2008*

4. Information Services should work with the Central Procurement Unit (CPU) to negotiate with cell phone carriers to procure an efficient, effective cell phone plan for the Metropolitan Council. (Significant)

Current minutes purchased far exceed the minutes actually used for most Council plans. The smaller group plans with shared minutes were more likely to demonstrate cost-effectiveness than individual or division-wide plans.

In addition, both of the Council's current vendors offer free calls within their own networks. In situations where employees primarily call other employees, purchased minutes may be minimal as long as all of the phones are on the same network. However, currently, nearly every division of the Council has a mix of Sprint and Verizon phones. At a minimum, Audit would advise that IS and CPU try to ensure that workgroups or others who are in frequent phone communication obtain their phones from the same vendor to take advantage of "free" calling and minimize the number of paid minutes used each month.

It is also recommended that IS closely watch lines that are consistently being under-utilized and that CPU work to adjust calling plans to avoid paying for significantly more minutes than are likely to be used.

***Management Response:** Information Services will continue to work with both vendors to consolidate workgroups and take advantage of free calling plans. Information Services will consult with vendor account managers to use their expertise in "Rate Plan Analysis" and make adjustments where necessary.*

*Responsible: Dave Hinrichs, Chief Information Officer
Estimated Completion: 2nd quarter 2009*