

Cellular Phones

March 1, 2006

Report #616

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OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



March 1, 2006

Report #616

EXECUTIVE SUMMARY

INTRODUCTION

The City currently utilizes approximately 1,400 cellular devices. Approximately 900 of the 1,400 are Nextel phones. Cingular and Verizon are our next largest providers, with the City having approximately 270 and 220 phones, respectively. The cellular phones used by the Jacksonville Sheriff's Office (JSO) are not included in the above count as the JSO manages its cellular phones separately. The City (excluding the JSO) spent approximately \$590,000 on Nextel cellular service during FY04/05. Across all cellular providers, the City spent approximately \$790,000.

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine adequacy of and compliance with the City's cellular phone policy.
2. To quantify the "usage" charges incurred in FY04/05 and to determine departmental/divisional oversight over the cellular bills.

"Usage" charges should be taken to mean charges in excess of the defined regular monthly plan. Such charges would include, amongst others, excess minute charges (i.e. overages), 4-1-1 access charges, long-distance fees and text message charges.

3. To quantify the dollar amount paid for cellular phones that went unused (i.e. "non-usage" charges).

"Non-usage" charges should be taken to mean monthly charges the City incurred for cellular phones that were not used during the month.

AUDIT CONCLUSIONS

By Objective

1. The current cellular policy, issued in mid-2002, is outdated and in need of review and modification. In our testing we found a low rate of compliance with the current cellular policy. We also found that no organization within the City was exerting sufficient oversight over the totality of the City's cellular operations.
2. We estimate the net cost of "usage" charges in FY04/05 to be \$18,000 for Nextel accounts.
3. The total amount of "non-usage" charges the City paid was approximately \$50,000. Of this amount, \$34,354 was generated by phones that were not used for six months or more.

AUDIT FINDINGS

- Non-compliance with the Internal Revenue Code (1 - 1)
- Incomplete or lack of observance of policies & procedures (1 - 2, 1 - 3, 1 - 5, 1 - 6, 1 - 7, 1 - 8, 2 - 2, 3 - 4)
- Information system limitations (1 - 4)
- Approximately \$18,340 of net usage / overage charges (2 - 1)
- Insufficient detail in repayment records (2 - 3)
- Non-compliance with City SOPs regarding cash receipts (2 - 4)
- The City incurred approximately \$35,000 for cellular phones with six (6) months or more of non-usage. (3 - 1)
- Electronic bill data is not used to analyze cellular phones (3 - 2)
- Inconsistent review of cellular expenses by departments / divisions (3 - 3)

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



March 1, 2006

Report #616

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Jacksonville Municipal Code, we conducted an audit of cellular phone usage for the fiscal year beginning October 1, 2004 and ending September 30, 2005.

The City currently utilizes approximately 1,400 cellular devices. Approximately 900 of the 1,400 are Nextel phones. Cingular and Verizon are our next largest providers, with the City having approximately 270 and 220 phones, respectively. The cellular phones used by the Jacksonville Sheriff's Office (JSO) are not included in the above count as the JSO manages its cellular phones separately. The City (excluding the JSO) spent approximately \$590,000 on Nextel cellular service during FY04/05. Across all cellular providers, the City spent approximately \$790,000.

Cellular communications have changed the way business is accomplished, enabling relatively inexpensive real-time communication between field workers and office staff, foremen and executives, without the need for extensive radio infrastructures. The technology surrounding cellular phones continues to improve with data transmission, email and PDA functionality being added to an increasing number of phones.

The universal nature of cellular phones, coupled with the improvements they have bestowed upon business operations and the relatively inconsequential annual cost of each phone, could lead to a management environment that views the resultant expenditure(s) as undeserving of analysis.

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3. To quantify the dollar amount paid for cellular phones that went unused (i.e. “non-usage” charges).

“Non-usage” charges should be taken to mean monthly charges the City incurred for cellular phones that were not used during the month.

STATEMENT OF SCOPE AND METHODOLOGY

The scope of our work included fiscal year 2004 / 2005 cellular bills from one of the City’s providers, Nextel (now Sprint). We chose Nextel for two reasons; (1) Nextel provides more phones to the City than do the other cellular vendors combined and (2) Nextel provides the City billing data on a CD-ROM.

Our population did not include the JSO as their cellular phones are managed internally. Our population did not include the Fire and Rescue Department as they did not use Nextel phones during fiscal year 2004 / 2005.

Suggested Additional Audit Work

In limiting the scope of this audit, we did not pursue the following areas, and as such they should be considered for future audit work:

- Analysis of low usage phones (i.e. is there a business reason for the phone).
- Analysis of any remaining pagers and other cellular devices such as EVDO data cards.
- Analysis of billing data provided by the other cellular vendors (e.g. Cingular, etc.)

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. This audit also included an assessment of applicable management controls and compliance with requirements of laws and regulations when necessary to satisfy audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from ITD, via Mike Marino, Asst. Information Technology Officer in a memorandum dated April 21, 2006.

AUDIT CONCLUSIONS

By Objective

1. The current cellular policy, issued in mid-2002, is outdated and in need of review and modification. In our testing we found a low rate of compliance with the current cellular policy. We also found that no organization within the City was exerting sufficient oversight over the totality of the City's cellular operations.
 2. We estimate the net cost of "usage" charges in FY04/05 to be \$18,000 for Nextel accounts.
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AUDIT OBJECTIVE #1

To determine adequacy of and compliance with the City's cellular phone policy.

Finding 1 – 1 *Internal Revenue Code*

The City's current cellular policy does not appear to satisfy the Internal Revenue Code's (IRC) requirements regarding personal use of an employer provided cellular phone. As such the Internal Revenue Service (IRS) could require the re-issuance of "corrected" W-2s or the imposition of fees and penalties against the City.

According to the IRC, personal cellular calls that are placed on an employer provided phone are income to the employee. Cellular phones are considered "listed property" (see Attachment A).

With listed property, personal use and business use must be segregated and the employee should have income attributed to them and taxes withheld from their paycheck for any personal use (or the employee can repay the employer).

According to the Taxable Fringe Benefit Guide, January 2006¹,

Personal use is included in the wages of the employee.

¹ Obtained from http://www.irs.gov/pub/irs-tege/fringe_bnft_flgsg.pdf

If substantiation requirements are not met, all use is included in the wages of the employee.

Substantiation Requirements :

Records of business and personal use must be kept by the employee in order to determine whether the value of any of the use is included in the employee's wages.

Recommendation to Finding 1 – 1

We recommend the Administration obtain further advice on this matter. We recommend the cellular policy comply with IRS regulations.

Auditee Response to Finding 1 – 1

ITD will work to strengthen the language of the cellphone policy to ensure employees repay all overages. Based upon ITD's investigation we believe this will meet the intent of the IRS code.

Finding 1 – 2 *No Justification for Service*

The current cellular policy does not address justification requirements for activating new cellular service. Departments are not required to provide justification.

Recommendation to Finding 1 – 2

We recommend that the Administration require all Departments to perform a reasonableness examination of the cellular accounts they have open. If a realistic business justification cannot be made, the cellular account should be terminated. This exercise would be consistent with the Mayor's request from July 2005; "I am also asking that cell phones...be cut by 10 percent across the government."

Going forward, Departments should be required to supply a justification on the service request as to the need for the cellular phone.

Auditee Response to Finding 1 – 2

We concur with the recommendations and will work with departments to ensure all current cellular accounts have a business need. The justification must be provided by the departments. During this fiscal year, we have reduced cell phone spending by 30% by negotiating pooling plans and ensuring our customers are on the correct cell plans.

Finding 1 – 3 *Missing Cellular Policies*

Forty-one percent (41%) of the accounts we tested did not have a signed copy of the cellular policy in the departmental / divisional personnel file. The current cellular policy requires a signed copy of the policy to be stored within the departmental personnel file. This is to show the employee's acknowledgement and understanding of the policy.

Recommendation to Finding 1 – 3

We recommend the Administration enforce the “signed policy” requirement of the cellular policy. Each Department should initiate a review of their employee records to ensure that all current employees with a phone have a signed policy.

We further recommend that the cell phone policy be included in the employee “new-hire” packet, with language stating the policy would be enforceable in the event the employee was given a cellular phone. The policy should also be addressed during new employee orientation. As such, the signed policy would be placed in the employee’s official personnel file.

Auditee Response to Finding 1 – 3

ITD believes that no current or future employee should possess a cell phone without a signed copy of the “Cellular Policy.” We believe cell phone policies should be distributed at employee orientation regardless of employee expectations to receive a cell phone. Departments and divisions should ensure all current employees have a signed copy of the “Cellular Policy” on file. This could be accomplished by department or division cell phone coordinators.

Finding 1 – 4 *TSR System*

The prior telephone service request (TSR) system did not house records in a manner that enabled effective use of the data within. Originally, we had planned on testing for TSRs authorizing the existence of cellular phone accounts. However, upon discussion with the City’s Information Technologies Division (ITD), we learned that the previous TSR system would not allow us to search for TSRs by phone number.

Recommendation to Finding 1 – 4

ITD has implemented a new TSR system. We have been assured that any field on the system is fully searchable. We recommend that any applicable data (telephone number, account number, etc) be included in the database. If feasible, appropriate fields should be mandatory. This database should be usable as a directory of the City’s cellular phones; whereby through appropriate filters, one could quickly determine the cellular phones assigned to a particular department or division along with the employee to which a phone is directly assigned.

Auditee Response to Finding 1 – 4

ITD concurs with the recommendation and will ensure all mandatory information is being captured and searchable in the Computer Associates HelpDesk System.

Finding 1 – 5 *Generic Account Names*

With respect to the Nextel cellular phones, each individual phone can be and is given a name that appears on the billing records. This name is typically the full name of the individual to which the phone is assigned. However we found:

- 11 accounts names that were actually a number (e.g. “661” or “237”)
- 1 account called “BB Demo 2”
- 19 accounts with the word “spare” in the name
- 2 accounts called “Office Staff”
- 21 phones assigned to the same individual
- 168 phones that had account names that were either a first name with a last initial or a first initial with a last name (e.g. “B. Smith” or “Bobby S.”)

This same finding was previously noted in a 2002 review conducted by the Council Auditor’s Office.

Recommendation to Finding 1 – 5

The cellular policy should be modified to require full names on cellular phone accounts. We also recommend each Department Head initiate a thorough review of the account names on their cellular bills. Any account names that are not a person’s full name should have a TSR sent to ITD requesting a modification.

For accountability purposes, generic “floating” phones should be removed.

Auditee Response to Finding 1 – 5

ITD concurs with the recommendation; however, we believe there is a need in certain circumstances for spare or stand-by phones. These phones should be assigned to department or division cell phone coordinators.

Finding 1 – 6 *Contacting the Vendor*

We found that Departments have been making direct contact with the cellular provider(s). This arrangement takes control from ITD and could easily render ITD’s records obsolete or erroneous. Part of the reason for the TSR system is to record changes to telephone services for tracking and recording purposes. Direct contact to the vendor circumvents this system.

Recommendation to Finding 1 – 6

For ease of monitoring, logistical planning and record keeping, ITD should be the sole contact for cellular phone changes. This should be addressed in the official cellular policy.

Auditee Response to Finding 1 – 6

ITD concurs with the recommendation. All vendors were directed to secure accounts to allow for adds, moves, and changes to be made by authorized ITD personnel only.

Finding 1 – 7 *Policy Not Available*

The current cellular phone policy was not available on the City’s intranet website. One department representative asked us, “What cell phone policy?”.

Without making the policy readily available, one could envision how employee turnover could result in an area without knowledge of the policy’s existence.

Recommendation to Finding 1 – 7

We recommend that the cellular policy be placed on the City’s intranet website. The Administration should consider placing reminders in the eNews employee newsletter.

Auditee Response to Finding 1 – 7

ITD concurs with the recommendation.

Finding 1 – 8 *Wireless Data*

The current cellular policy does not address the recent advent of wireless data cards capable of providing Internet access to a laptop from anywhere with the appropriate cellular signal.

Recommendation to Finding 1 – 8

We recommend that the cell phone policy address means of communication beyond cellular voice communication.

Auditee Response to Finding 1 – 8

ITD is currently working on an “Acceptable Use Policy for Computers” and a “Wireless Technologies Policy” with General Counsel. We believe data wireless cards should be covered under these Policies. Once implemented, these policies should be presented to employees to be signed during employee orientation. In addition, data cards are a fixed price and are not based upon usage.

AUDIT OBJECTIVE #2

To quantify the “usage” charges (charges in excess of the defined monthly plan) incurred in FY04/05 and to determine Departmental / Divisional oversight over the cellular bills.

Finding 2 – 1 *Usage Amount*

We calculated the usage charges billed to the City by Nextel to be \$54,745 in FY04/05. City employees repaid an estimated \$15,645. These repayments included cellular repayments and

repayments for long-distance usage of a desktop phone. We were unable to efficiently separate these and therefore the estimate of \$15,645 may be high. In addition, Nextel afforded the City credits totaling \$20,760 (primarily for service related issues). The net of the above figures is \$18,340.

Recommendation to Finding 2 – 1

We recommend that, as part of a re-working of the City's cellular policy, ITD be tasked with a more detail oriented analysis of the cellular bills. ITD has a unique vantage point over the City's cellular expenditures, as it has access to the entire cellular bill. This is in contrast to the individual Departments / Divisions who only see the expenditures attributed to their area.

We expect that a revised cellular policy would still make ITD the central cellular management point. As such, the revised cellular policy should allow ITD to exercise a level of control over the operations of the City's cellular services. In doing so, ITD must be ensured of the backing of upper management, as frequent overrides and exceptions make for a weakened control environment.

We must also note that ITD has placed the City's Nextel cellular service into a "pooling plan." As such, the City should not incur excess minute overage charges for its Nextel phones.

Auditee Response to Finding 2 – 1

We agree completely with the findings of this objective. ITD must be given full control over operations to ensure all repayments are received.

Finding 2 – 2 *Repaying Overage Minutes*

Only one department indicated to us that employees are required to pay all excess minute charges. All others indicated that only *personal* calls that contributed to an overage situation were required to be repaid.

The memorandum attached to the July 17, 2002 cellular policy states:

"Essentially, the revision requires that the employee to whom the cellphone is issued must reimburse all airtime minutes in excess of the allowed minutes within a respective rate plan."

The policy itself states:

"In the event that monthly cellular plan minutes are exceeded, the cost of the excess minutes will be reimbursed to the City of Jacksonville."

The above mentioned language was a result of purposeful changes to the original cellular policy which was dated just nine (9) days prior (July 8, 2002). The previous language required an employee to repay any personal usage regardless of whether it was "normal" plan minutes or excess overage minutes.

Recommendation to Finding 2 – 2

We recommend the policy be revised to comply with the Internal Revenue Code.

Auditee Response to Finding 2 – 2

ITD welcomes guidance from the IRS.

Finding 2 – 3 *Records*

The records that ITD maintains relative to reimbursement of cellular phone expenses are kept in the same spreadsheet as reimbursements for long-distance desktop phone charges. There is nothing in the spreadsheet to distinguish the various types of reimbursements that are recorded.

Recommendation to Finding 2 – 3

We recommend that ITD immediately begin detailing the reason for the reimbursement in their records. Other pertinent information such as the land-line phone number or the cellular phone number should be included in the electronic records as well.

Going forward, we recommend that ITD meet with those Divisions responsible for the City's financial transactions (Accounting, Treasury, Tax Collector, etc) to investigate more effective and efficient ways to accept employee reimbursement for telecommunication expenses. For example, the City should have each Department / Division prepare its own deposit (and forward copies of the completed deposit information to ITD) rather than forwarding monies to ITD for deposit.

Auditee Response to Finding 2 – 3

We concur with this recommendation.

Finding 2 – 4 *Cash Receipts*

ITD is not in compliance with the City's standard operating procedures governing cash receipts. Specifically:

1. No prelist is being created; against which to compare actual deposits
2. Checks are not being restrictively endorsed; ITD had no such deposit stamp
3. Checks are not being deposited with scheduled regularity
4. Reimbursement monies arrived at ITD via inter-office mail
5. The drawer containing checks was unlocked

Recommendation to Finding 2 – 4

We recommend that ITD management review and comply with the cash receipts standard operating procedures.

Auditee Response to Finding 2 – 4

Please see comments made in 2-3.

Auditor’s Clarification to Finding 2 – 4

We must note that, provided the recommendations from 2 – 3 are implemented, ITD would likely still receive monies for other purposes and therefore should insure compliance with the City’s cash handling policies.

AUDIT OBJECTIVE #3

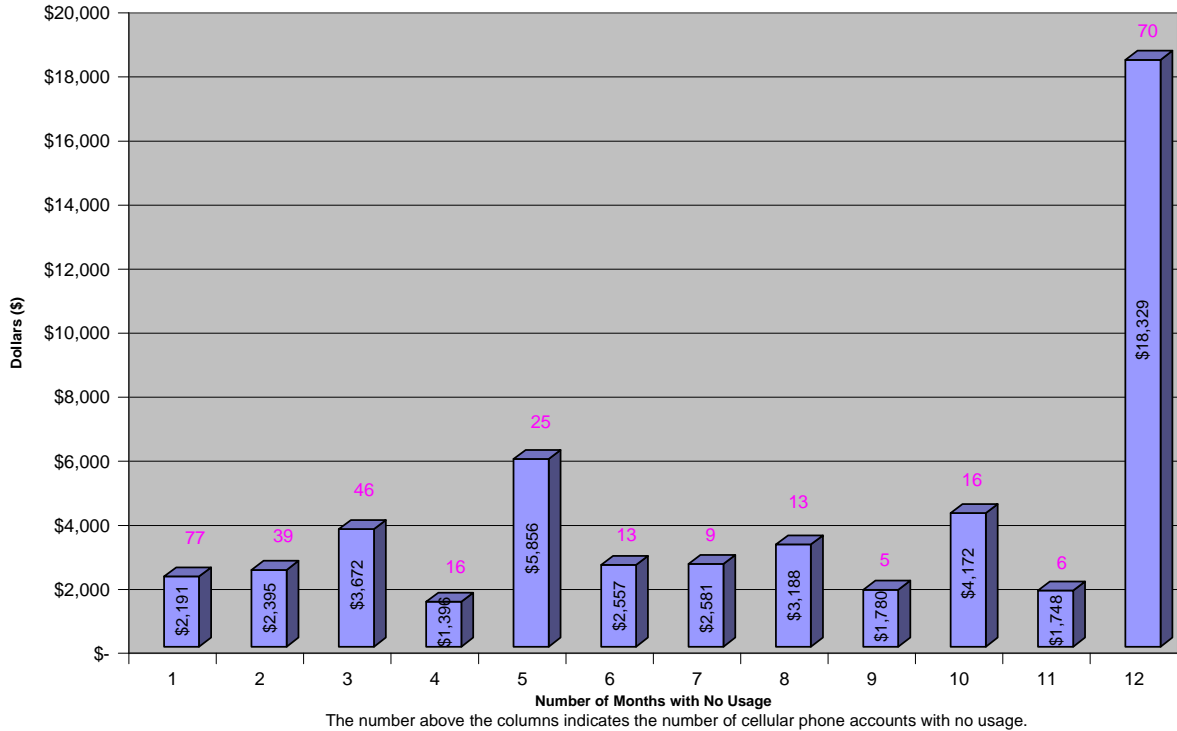
To quantify the dollar amount paid for cell phones that went unused.

Finding 3 – 1 *Non-usage Amount*

The City incurred approximately \$50,000 worth of cellular charges related to phones with no usage. Based on the number of months (during the fiscal year) that a phone had zero usage, approximately \$35,000, of the \$50,000, was attributable to cellular phones with six (6) months or more of non-usage.

The following chart displays the total dollar amount attributed to unused phones segregated by the number of months the phone account went without usage. The figure above the column is the number of accounts with no usage for that particular number of months.

Non-Usage Dollars



Recommendation to Finding 3 – 1

We recommend the cellular policy include an automatic termination clause. For example, if ITD determines that a phone has gone without usage for three consecutive months, then ITD will terminate the service to the phone. Exceptions will certainly exist, such as phones for the Emergency Preparedness Division. ITD should keep a formal list of all exceptions.

We further recommend that Departments / Divisions begin submitting telephone service requests (TSRs) the day an employee terminates (or prior if notice is given). The wait to hire a replacement often leads to extended periods of non-usage. Terminating the account would also provide a clearer distinction between employees. Rather than just the name on an account changing to another person, the account number would change as well.

Auditee Response to Finding 3 – 1

ITD concurs with the recommendations.

Finding 3 – 2 *Analyzing the Bills*

ITD is not utilizing the electronic bill data to analyze trends or spot waste.

Recommendation to Finding 3 – 2

We recommend that ITD make use of the electronic bill data to perform analyses such as spotting unused phone accounts. Further analyses such as calculating 4-1-1 charges, phones with less than *x* minutes over the course of a year and examining excess minute charges should be programmatically accomplished. We are not expecting ITD to make judgment calls on particular accounts, but ITD could effectively apply parameters to the data contained within the cellular bills to efficiently identify extraordinary occurrences which warrant further review.

These occurrences could be presented to both Department and Division management as well as the Chief Administrative Officer in the form of reports or graphs.

Auditee Response to Finding 3 – 2

During the current fiscal year, ITD has utilized the electronic bills to perform overage analysis. This analysis has led to significant cost reductions, specifically in the Nextel Account. Further savings will be realized after we complete the same initiative with our Cingular account.

Finding 3 – 3 *Departmental Reviews*

We found inconsistent levels of review in the areas interviewed. While reviews do occur in some of the Departments, if the bills were being reviewed effectively, one would expect the \$50,000 of non-usage charges to have been a much smaller figure.

ITD does not currently possess a list of the “wireless coordinators.” The current cellular policy requires Departments to designate a “wireless coordinator.” This individual acts as the liaison between ITD and their Department. The current cellular policy also makes the coordinator responsible for monitoring the bills for accuracy (accurate number of phones, plan amounts, etc). This person also is tasked with “disseminating [the] monthly wireless billings to supervisory personnel for review.”

Recommendation to Finding 3 – 3

We recommend that the “wireless coordinator” (as is created by the current cellular policy) and the supervisory personnel responsible for review be required to sign-off on the bill indicating their review.

The cellular policy should clearly dictate what the individual is accepting responsibility for when “signing-off” on the bill.

We further recommend that ITD create a list of the current wireless coordinators and that the cellular policy make the Departments responsible for notifying ITD in the event of personnel changes in that position.

Auditee Response to Finding 3 – 3

ITD concurs with the recommendation of establishing a “Wireless Coordinator”, however, we believe it should be [a] division-wide coordinator.

Finding 3 – 4 *Standby*

Some divisions are placing cellular phone accounts into a “standby” or “seasonal” mode. This moves the account to a low cost (\$5 - \$6 per month) mode. The cellular policy does not speak to this practice, and we question the visibility of the “standby” phones. While \$6 per month per standby phone is not a material amount, aggregating these “standby” phones across the City may lead to a more substantial amount. For Fiscal Year 2004/2005, we estimate the cost of the City’s standby phones to be \$3,200.

Recommendation to Finding 3 – 4

We recommend ITD develop a method for isolating those accounts that are in a standby mode when reviewing the cellular bill data. We further recommend that the cellular policy address this practice. While we understand the reasoning behind putting a phone on standby (e.g. quicker reactivation) other methods to accomplish the same goal may exist without the expenditure of funds.

Auditee Response to Finding 3 – 4

ITD concurs with the recommendation and will [be] working with the departments and divisions to minimize the impact.

We appreciate the assistance and cooperation we received from the Information Technologies Division as well other City staff through the course of this audit.

Respectfully submitted,

Kirk A. Sherman

Kirk A. Sherman, CPA
Council Auditor

Audit Performed By:

Adam Mathews

ATTACHMENT (A)

Internal Revenue Code (IRC) §280F² describes “listed property.” It states:

(4) Listed property

(A) In general

Except as provided in subparagraph (B), the term “listed property” means—

- (i) any passenger automobile,*
- (ii) any other property used as a means of transportation,*
- (iii) any property of a type generally used for purposes of entertainment, recreation, or amusement,*
- (iv) any computer or peripheral equipment (as defined in section 168 (i)(2)(B)),*
- (v) any cellular telephone (or other similar telecommunications equipment), and*
- (vi) any other property of a type specified by the Secretary by regulations.*

IRC §274(d) describes the disallowance of certain business expenses with respect to deductions, but plays a role in documenting the substantiation requirements. It states:

(d) Substantiation required

No deduction or credit shall be allowed—

...

- (4) with respect to any listed property (as defined in section 280F (d)(4)), unless the taxpayer substantiates by adequate records or by sufficient evidence corroborating the taxpayer’s own statement*
- (A) the amount of such expense or other item,*
 - (B) the time and place of the travel, entertainment, amusement, recreation, or use of the facility or property, or the date and description of the gift,*
 - (C) the business purpose of the expense or other item, and*
 - (D) the business relationship to the taxpayer of persons entertained, using the facility or property, or receiving the gift. The Secretary may by regulations provide that some or all of the requirements of the preceding sentence shall not apply in the case of an expense which does not exceed an amount prescribed pursuant to such regulations. This subsection shall not apply to any qualified nonpersonal use vehicle (as defined in subsection (i)).*

IRC §132(d) states:

(d) Working condition fringe defined

For purposes of this section, the term “working condition fringe” means any property or services provided to an employee of the employer to the extent that, if the employee paid for such property or services, such payment would be allowable as a deduction under section 162 or 167.

² The Internal Revenue Code in this report was obtained from the Legal Information Institute, Cornell Law School <http://www.law.cornell.edu/uscode/>