



City of Chattanooga

Stan Sewell
Director

INTERNAL AUDIT
City Hall
Chattanooga, Tennessee 37402

Ron Littlefield
Mayor

July 25, 2012

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Post Audit Review of City Cell Phones, Audit #11-04

Dear Mayor Littlefield and Council Members:

On September 9, 2011, the Internal Audit Division released an audit on City Cell Phones. We delayed our Post Audit Review because implementation of the cell phone allowances was underway at the scheduled six month review date. As of July 2012, Information Services continues to work out administrative issues related to the transition.

We performed certain procedures, as enumerated below, with respect to activities of Information Services and other city departments in order to render a conclusion on the status of the recommendations to date made as a result of the audit. This Post Audit Review consisted principally of inquiries of City personnel and examinations of various supporting documentation. It was substantially less in scope than an audit in accordance with generally accepted government auditing standards. The evidence obtained provided a reasonable basis for our conclusions; however, had an audit been performed, other matters might have come to our attention that would have been reported to you and our conclusions may have been modified.

Audit #11-04 concluded that there were a number of control deficiencies related to City Cell Phones, as described below:

- No communicated cell phone policies to guide assignment and use of the devices,
- No business justification for each cell phone assigned,
- No documentation in the employee's personnel file that a phone was issued,
- No regular review of phone bills to control costs and identify personal use,
- Lack of an adequate inventory list, and
- Lack of termination procedures to ensure the phone is returned to the City when an employee leaves city employment.

The audit contained 13 recommendations that addressed the audit's findings. Based on the review performed, we concluded that 6 recommendations were implemented, 2 recommendations were

partially implemented, and 2 recommendations were not implemented.

In addition, we were unable to determine whether departments included all cell phones on departmental sensitive minor equipment lists (Recommendation 3) as the lists are submitted to the Finance Department in March, during the peak of the cell phone allowance transition. Employees opting into the cell phone allowance plan were allowed to keep their City-issued equipment. Therefore, the final number of City-issued cell phone devices should be significantly less than should have been reported on these lists in March.

Recommendations 7 and 8 were contingent on the City maintaining an internal general billing process; they were not considered in this review. As noted in the status update on Recommendation 6, IS is pursuing direct billing for each City department.

Recommendations Implemented [1, 2, 4, 5, 9, 13]

We recommended (Recommendation 1) IS revise the Telecommunications Usage Policy to include guidance for departments on cell phone issuance, communicate the revised policy to each city department, and maintain it on an accessible medium such as its Intranet portal for reference. We also recommended (Recommendation 13) City Administration consider implementing a stipend program.

In February 2012, the City adopted the *Cell Phone Policy* and *Cell Phone Agreement* identifying eligibility requirements for employees to receive either a cell phone allowance or City-issued cell phone. The policy includes management tasks required of Information Services, Payroll and Finance as well as oversight requirements of all city departments with cell phone users. City employees can find the policy on the City's Intranet portal under 'Finance Forms and Documents'. In April 2012, employees were offered an allowance for using personal cell phones for city business, at which time 507 employees transitioned to the allowance plan.

IS continues to work out administrative complexities of the transition. For example, June billing statements showed 16 lines as active on City bills for employees who were paid allowances. IS has since requested deactivation of these lines. At this time, we are unable to render an opinion about whether the allowance plan resulted in reduced costs to the City.

We recommended (Recommendation 2) department heads periodically review their full roster of assigned cell phones to ensure the City does not pay greater costs for cell phones than are necessary for its business. Departments should ensure cell phones are assigned to an individual, except in the rare case when it is most economical to assign a cell phone to a position where the phone is shared by shift workers in the same position (e.g., on-call maintenance services). (Recommendation 4) In addition, departments should clearly establish criteria for what constitutes "inappropriate or excessive personal use" of city-provided cell phones. (Recommendation 9)

The following provisions of the new *Cell Phone Policy* address recommendations 2, 4, and 9:

- *Cell Phone Policy* Sections III(g) and V stipulate continued need for an employee allowance or city-issued phone will be reviewed by the employee's department head on an annual basis.

- The *Cell Phone Policy* establishes procedures for employees approved for cell phone allowances and for City-issued phones. Both procedures require completion of the *Cell Phone Agreement*, which identifies the individual employee responsible for the phone.
- *Cell Phone Policy* Section V (d) and (e) require employees who have city issued phones review their detailed monthly statement and “reimburse the City immediately for any personal usage, even if their usage does not exceed the cellular telephone plan’s monthly allocation of minutes” (emphasis added). In addition, all City-issued cell phone records are subject to managerial review and if abuses are found the employee may be subject to disciplinary action under the City’s *Code of Ethics Policy*. However, as noted below, currently employees and managers do not have access to detailed statements in a medium that promotes this type of review.

We recommended (Recommendation 5) Departments should comply with the Internal Control and Compliance Manual for Tennessee Municipalities and require employees to return their cell phones prior to receiving a final paycheck. Departments should immediately deactivate the cell phones upon their return.

Cell Phone Policy Section III(g) requires departments to “notify the Payroll Division within three days of any changes to an employee’s status that would affect the employee’s eligibility to continue receiving a cell phone allowance” such as promotions, demotions, terminations, transfers or utilization below that expected when the cell phone allowance was approved. Cell phone allowances for terminated employees will not continue past the date of their last paycheck and the employee’s phone is not a City asset.

For City-issued phones, a process must be in place to ensure the person performing termination procedures is aware the employee has been assigned a cell phone. According to department heads, procedures are now in place in each department with City-issued phones to ensure phones are properly returned upon an employee’s termination.

Recommendations Partially Implemented [6, 10]

We recommended (Recommendation 6) IS consider an alternative arrangement with the city’s cell phone vendors to provide direct billing to large city departments.

According to IS management, the City continues to transfer all City-issued cell phones to Verizon. IS is working with Verizon to set up direct billing subaccounts for city departments. Completion is expected by August 2012. Currently, the Parks and Recreation Department receives a direct bill from Verizon. Other departments may access the City’s full invoice from Finance, but electronic access of detailed billing statements is not currently available.

Once direct billing is established, billing statements for city departments will be available on Verizon’s website. Education from IS may be needed to ensure all departments are informed on how to access the reports from Verizon’s website.

We recommended (Recommendation 10) IS request optimization reports from each vendor and review them on a quarterly basis to reduce costs.

IS plans to request optimization reports from cell phone vendors for the City's remaining City-issued cell phone accounts beginning in October 2012 - six months from the date many employees transitioned to the cell phone allowance plan in April 2012.

Recommendations Not Implemented [11, 12]

*We recommended (**Recommendation 11**) departments establish policies to select the least expensive plan available for the employee's cell phone needs. More expensive plans should be authorized only by a supervisor's approval and subject to revision based on actual use.*

We found departments have not adopted policies to select the least expensive plan available for the employee's cell phone needs. Program managers and departments exercise discretion on the plans selected.

*We recommended (**Recommendation 12**) IS should contact Sprint to ensure no additional fees are charged to the City and seek reimbursement for fees paid.*

We reviewed the billing statement for May 2012 and found Sprint continued to charge the City "state taxes." The City is exempt from all state sales and use taxes per Tennessee Code Annotated 67-6-329. In addition, we found that, to date, IS has not recovered past erroneous "state tax" charges.

We thank the personnel in Information Services and other city departments for their assistance in conducting this review. Internal Audit plans to open a special project to look at the results of the allowance plan for City employees once the plan has been in place long enough to accurately determine its full impact.

Sincerely,



Stan Sewell, CPA, CGFM
Director of Internal Audit

cc: Dan Johnson, Chief of Staff
Mark Keil, Information Services Director
Daisy Madison, Chief Financial Officer
Dan Thorton, General Services Director
Artie Prichard, Purchasing Director
Bobby Dodd, Police Chief
Randy Parker, Fire Chief
Administrators
Audit Committee