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SUBJECT: HUMAN SERVICES CELLULAR PHONE AUDIT

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisors' Policy Statement on Internal Operational Auditing, we have completed our Human Services (HS) Cellular Phone Audit. We conducted the audit in three phases. In the first phase, we reviewed the authorization process over cellular phones and identified the costs of county issued cellular phones as well as subsidies paid to employees who use personal phones for San Bernardino County business. In the second phase, we completed a usage analysis on both groups of cellular phones users, and in the third phase, we tested whether HS has adequate controls over their cellular phones. Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditors.

We sent a draft report to HS administration and discussed our observations with management on November 12, 2009. Management's responses have not been altered in any way and are included below as they were provided to us.

Background

Human Services (HS) provides some of its employees with either a County-paid cellular phone or a personal cellular phone subsidy to conduct County business for the HS departments. HS administration manages cellular phones for the Transitional Assistance Department (TAD), the Department of Aging and Adult Services (DAAS) and Children and Family Services (CFS). The duties of authorizing purchases, managing billing and reviewing usage are centralized in HS administration. Each department has the responsibility of safekeeping and authorizing the use of phones. The departments assign a majority of their phones to specific staff members for business use. Some departments have a few spare/general use phones for staff to check out when going into the field. Departments issue spare/general use phones by logging the phones in and out to staff. The departments send the log to HS administration for review monthly.

HS recently switched its wireless provider from AT&T to Sprint. Sprint began porting lines over from AT&T in March of 2009. HS administration acquired all new equipment at no cost. HS has 210 wireless devices, which are comprised of 137 cellular phones, 43 "smart phones" (PDA's), and 30 direct connect phones. Of the 210 wireless devices, 182 have calling capabilities. HS had Sprint's Business Essential plan 1,000, which offered 1,000 minutes for each PDA, per month. The department was proactive in using its cellular minutes cost effectively by pooling these minutes with the other 139 phones with calling capabilities. The monthly cost of the Sprint phone bill, for the period of 6/12/09 through 7/11/09 (the June 2009 bill), was \$6,730.79. We analyzed that month as representation of the department's usage.

HS began offering a \$25.00 personal cellular phone subsidy to its employees in 2007. HS determined the amount of the subsidy by analyzing the average phone plan for County-issued phones during the 2007 fiscal year. A \$25.00 subsidy was appropriate in 2007 when the cost of wireless service was higher. To receive the subsidy employees must sign an agreement and submit a reimbursement claim with the first page of their personal cell phone bill. In addition, the employee must keep his/her phone on during business hours. There are 391 HS employees who have signed the agreement and are eligible to receive the personal cell phone subsidy.

Under the Internal Revenue Code (IRC) cell phones are considered listed property due to the potential personal use by an employee. Listed property as defined by the IRC includes automobiles, cell phones, computers, and entertainment or recreation-related items.

Employers who provide their employees with cellular telephones to conduct business can raise special tax concerns, because employees may use them for business as well as personal use. The County must report any unreimbursed, personal usage by employees as taxable income. Therefore, the County must keep records of employees' phone usage, which distinguish business from personal usage.

Objectives, Scope and Methodology

The objectives of the audit were to:

1. Assess the policy for authorizing and issuing cell phones,
2. Determine the number and cost of phones.
3. Determine the amount paid in cell phone subsidies.
4. Perform a cost analysis.
5. Analyze the usage of minutes.

7. Verify that employees don't receive both a subsidy and a County-issued cellular phone.
8. Verify that the department collects County-issued cellular phones from terminated employees.
9. Verify that the department follows IRS guidelines, tracks personal usage of County-issued cellular phones, and provides all needed information to ACR for IRS reporting.

We reviewed internal controls in regard to cellular phones for the period of July 1, 2008 through June 30, 2009. Our audit included a review of HS departments' cellular phone issuance process, inspection of cellular phones, observation of controls, cost comparisons of plan minutes, analysis of usage, and other audit procedures considered necessary.

Conclusion

Our analysis and tests performed resulted in the following:

1. There was no formal written policy for the authorization and issuance of cellular phones or cellular phone subsidies.
2. HS acquired 210 new phones at no cost to the departments by switching cellular phone provider from AT&T to Sprint. The following is what HS has paid for the year for their cellular phone usage:

Vendor	Month	Cost
AT&T	July 2008	\$ 6,902.78
	August 2008	7,360.41
	September 2008	7,080.63
	October 2008	7,568.17
	November 2008	6,888.81
	December 2008	6,880.05
	January 2009	6,851.42
	February 2009	6,635.78
	March 2009	6,851.66
	April 2009	5,327.84
Sprint	March 2009	3,125.04
	April 2009	2,558.94
	May 2009	4,269.66
	June 2009	6,729.00
Cellular Phone Cost, FY 2009		\$ 85,030.19
Subsidy Cost, FY 2009		51,975.00
Total Wireless Service, FY 2009		\$ 137,005.19

3. In the 2008-2009 fiscal year:
 - HS paid \$85,030.19 for cellular phone usage, approximately \$7,085.85 per month
 - HS paid \$51,975.00 in cellular phone subsidies, approximately \$4,331.25 per month
 - HS paid a total of \$137,005.19 for the year in cellular phones and subsidies, approximately \$11,417.10 per month

4. We prepared 6 possible cost analysis scenarios which are detailed in Attachment A. The best possible cost savings method (Scenario #6) takes into account IRS regulations on personal usage. In this scenario we eliminated all subsidies and cell phones that were used less than 60 minutes per month. In addition we calculated the rates for the "Pay As You Go" option to eliminate General Use phones. See the Wireless Service Cost Analysis for details on Scenario #1-6.

5. HS underutilized its cellular plan minutes. The HS departments have a total of 210 cell phones of which 182 have calling capabilities. The department has 43,000 pooled minutes per month, which staff shared between 182 phones with calling capabilities. HS used 14,201 of the 43,000 available plan

6. HS paid for 132 phones lines with less than 60 minutes of usage or zero usage on the June 2009 bill.
7. In our sample, no employee received both a \$25 subsidy and a County-issued cellular phone.
8. In our sample, the HS departments collected 100% of County-issued cellular phones from terminated employees.
9. HS administration did track personal usage of County-issued cellular phones when the total minutes used exceeded 500 minutes. At that point, employees would be questioned if there was any personal usage; however, HS was not in compliance with IRS regulations.

Cost Analysis and Comparisons

Wireless Service Cost Analysis

We conducted a cost analysis of the wireless service plan, subsidy program and prepaid phones to determine the most cost effective options for HS. The results of our analysis are below.

We compiled the information in this chart to compare the cost of the plan minutes and subscribers for each service provider that HS has used in the audit period. We did not include any related taxes or fees in the amounts listed at the "Monthly Rate". However, we did include the National Discount that would be applied by both wireless service providers.

Monthly Rate Plan Comparison			
Service Provider	Subscribers	Plan Minutes	Monthly Rate
Sprint	210	43,000	\$ 5,268.37
AT&T	191	100,000	\$ 6,551.74

We analyzed the monthly cost of the HS departments' usage detail for the fiscal year. Illustrated in the chart below is a comparison of the monthly cost and minutes used with both AT&T and Sprint. Our review of the departments' records indicated that the transition from AT&T to Sprint began during the month of March 2009. The transition was executed over a period of billing cycles; therefore in the monthly cost analysis below we included only the months which have a full month's billing to calculate the average monthly cost.

Month	AT&T	Minutes Used	Sprint	Minutes Used
July 2008	\$ 6,902.78	16,697		
August 2008	7,360.41	15,231		
September 2008	7,080.63	15,978		
October 2008	7,568.17	14,439		
November 2008	6,888.81	13,296		
December 2008	6,880.05	12,217		
January 2009	6,851.42	10,857		
February 2009	6,635.78	12,049		
March 2009	6,851.66	12,266		
April 2009*	5,327.84	7,423		
May 2009**			\$ 6,668.66	16,656
June 2009			6,729.00	14,201
Totals for FY 2009	\$ 68,347.55	130,453	\$ 13,397.66	30,857

*The minutes usage was significantly low this month due to the transition to Sprint.

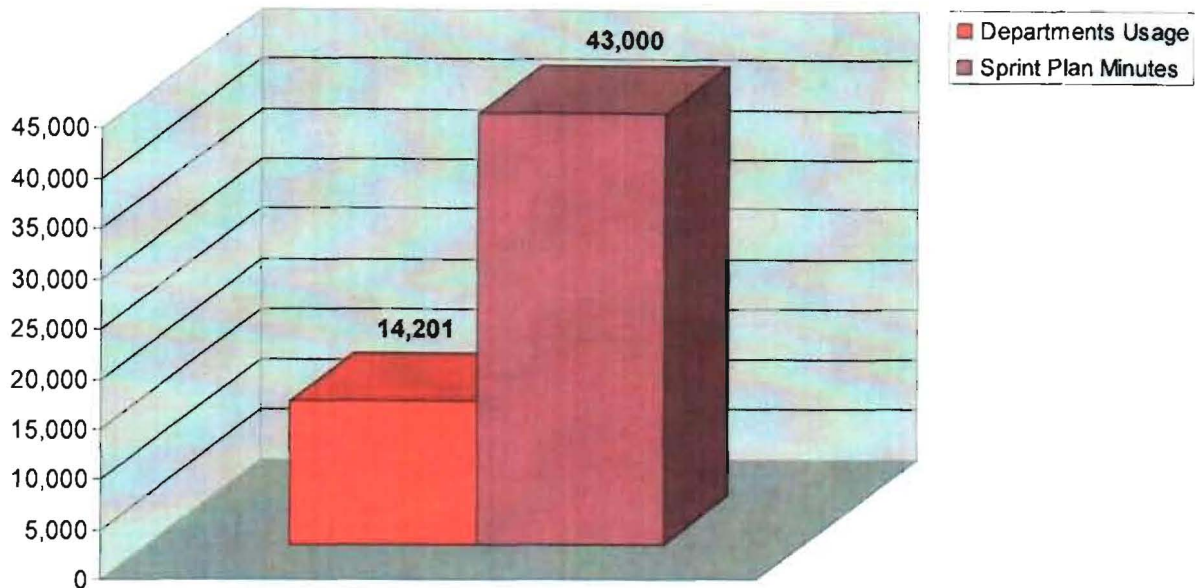
**The new contract discounts offered by Sprint were excluded from the wireless service cost for comparative purposes.

Although the average monthly cost was relatively close for each service provider, it appears that the departments were able to consume more cellular minutes with Sprint at a slightly lower cost. The table below illustrates the average monthly cost and the average minutes used by each subscriber for both Sprint and AT&T in the 2009 fiscal year.

AT&T		Sprint	
Average Monthly Cost	Average Minutes Used (based on 191 subscribers)	Average Monthly Cost	Average Minutes Used (based on 182 subscribers)
\$ 6,834.76	68.30	\$ 6,698.83	84.77

According to the Sprint billing statement for the period of June 12, 2009 – July 11, 2009, the HS departments used 14,201 cellular minutes of the 43,000 minutes available, which represented approximately 33% of the pooled plan minutes. This information is depicted in the graph below. Of the 14,201 cellular minutes used, 4,862 (34%) cellular minutes were used by smart phones and 9,339 (66%) cellular minutes were used by the other cellular phones with calling capabilities.

Human Services



Reducing the Cell Phone Subsidy

HS currently offers a \$25 subsidy for employees who opt to use their personal cell phones rather than a County-issued phone. The subsidy is provided to supplement the cost of adding additional cellular minutes to their personal cell phones to conduct County business. However, after reviewing the cost of purchasing additional cellular minutes, the amount of the subsidy can possibly be reduced. After reviewing the number of minutes used on County issued cell phones, the percentage of business calls to personal should be relatively low.

The chart below compares the monthly cost of different minute plans for Verizon, Sprint, and AT&T that any individual can acquire for their wireless plan. We used this chart to analyze if the cell phone subsidy is appropriate. HS used 14,201 minutes for the month of June 2009 for 182 subscribers with calling capabilities for an average of 67 minutes per line. The lowest cost option would be the plan with Sprint, with 200 minutes at \$29.99 per month. The percentage of minutes needed with the lowest cost plan is 34% (67 minutes/200 minutes) of minute's available times the monthly fee of \$29.99 is \$10.20. Therefore, HS should consider reducing the subsidy to \$15, which is 50% of the lowest cost option. This reduction could potentially result in a cost savings of approximately \$3,900 a month.

	Monthly Anytime Minutes	Monthly Price	Per Minute Rate After Allowance
Verizon	450	\$39.99	\$0.45
	900	\$59.99	\$0.40
Sprint	200	\$29.99	\$0.45
	450	\$59.99	\$0.40
AT&T	450	\$39.99	\$0.45
	900	\$59.99	\$0.40

Note: The monthly price does not include the government discount.

Prepaid Cell Phone Cost Comparison

During the course of our audit, we observed that the HS departments have numerous General Use phones listed on their Sprint wireless account. General use phones are checked out by staff on an as needed basis. Another cost effective alternative that HS could consider is replacing their "General Use" cell phones with prepaid cell phones. In the charts below, we have listed the calling plan options for AT&T, Verizon, and Sprint. These calling plans reflect the "Pay As You Go" service for each service provider.

AT&T			
Calling Plans*	Daily Access	Anytime Minutes	Night and Weekend Minutes
\$3 Unlimited Calling Plan	\$3.00 per day	\$0.00 per minute	\$0.00 per minute
\$1 Mobile to Mobile Plan	\$1.00 per day	\$0.10 per minute	\$0.10 per minute
\$.25 Simple Plan	N/A	\$0.25 per minute	\$0.25 per minute

Verizon			
Calling Plans*	Daily Access	Anytime Minutes	Night and Weekend Minutes
Unlimited Talk	\$3.99	Unlimited	Unlimited
Plus	\$1.99	\$0.05	Unlimited
Core	\$0.99	\$0.10	\$0.10
Basic	\$0.00	\$0.25	\$0.25

Sprint/Nextel (Boost Mobile for Prepaid Phones)			
Calling Plans*	Daily Access	Anytime Minutes	Night and Weekend Minutes
Pay As You Go	\$0.00	\$0.10	\$0.10

Both AT&T and Verizon require a daily access fee to gain access to their network each day the phone is used. Sprint does not require the customer to pay a daily access fee. The customer does, however, pay 10¢ for each cellular minute that is used, regardless of the time of day. For comparative purposes, we calculated the cost of service based on a 30-minute cellular usage for a 5-day period. The results are illustrated below for each service provider:

	AT&T	Verizon	Sprint
Calling Option	Unlimited Talk	Unlimited Talk	Pay As You Go
Cost	\$3.00 per day	\$3.99 per day	\$0.10 per minute
5-day Usage	\$15.00	\$19.95	\$15.00

Based on the results cost analysis above, either AT&T or Sprint would be cost effective alternatives for the "Pay As You Go" wireless phone service.

Subsidy Agreement and Wireless Service Cost Comparison

Using the monthly rate plans provided by the Sprint account representative and the documentation obtained from HS, we developed the cost scenarios on Attachment A to illustrate more practical and cost-efficient options that can possibly be utilized by HS. With regards to each cost scenario, the "Currently monthly cost" in the Cost Savings Calculation represents the cost if HS incurred the total potential liability of \$16,474 for all employees eligible to receive the Subsidy reimbursement (\$9,775), plus the Sprint average monthly wireless cost (\$6,699).

Cost Analysis Conclusion

- A. The HS department should analyze its subsidy cost periodically to reflect current market pricing of cellular service. When the department first implemented the subsidy in 2007, staff performed some analysis to determine the amount. However, the department has not analyzed the subsidy amount subsequently. Today, the \$25.00 cell phone subsidy accounted for slightly more than half of the average cell phone plan cost. The subsidy amount may be out dated and not cost effective if the department does not analyze the amount periodically.
- B. The HS department should manage its cellular phone cost effectively by analyzing usage. Maintaining some of the department's County-owned cellular phones, which were not PDA's, were not cost effective due to lines not being used or minutes were underutilized. The monthly cost of wireless service is \$16,474.00.
- C. HS may have the potential to reduce the monthly wireless charges by \$11,562.00 or \$138,744.00 annually based on the "Pay As You Go" cost scenario option #6

D. HS may have the potential to reduce the number of wireless lines that are currently active with Sprint. At a minimum, HS should be able to reduce their wireless service by 132 lines. HS is incurring a monthly fee of \$19.50 for each line not being used or currently underutilizing the minutes. By reducing the number of lines and keeping the existing cell phone plan, the potential annual cost savings for HS would be \$34,632.00.

The chart below shows all the potential savings per Cost Scenario as detailed in Attachment A.

Cost Scenario #1	Cost Scenario #2	Cost Scenario #3
Monthly Savings \$3,894	Monthly Savings \$6,468	Monthly Savings \$6,279
Yearly Savings \$46,728	Yearly Savings \$77,616	Yearly Savings \$75,348
Cost Scenario #4	Cost Scenario #5	Cost Scenario #6
Monthly Savings \$8,259	Monthly Savings \$7,848	Monthly Savings \$11,562
Yearly Savings \$99,108	Yearly Savings \$94,176	Yearly Savings \$138,744

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

Findings and Recommendations for HS Current Practice

Finding 1: Policies and Procedures could be improved

1. Good business practice dictates that the qualifications for an employee to receive a county cell phone or the personal mobile cell phone subsidy should be documented in a formal written policy. Further, management should base these qualifications on work related factors, such as an employee's job duties or classification.

We found that HS does not have a formal written policy on issuing County cellular phones to employees that clearly identifies the departmental needs.

HS has a formal written policy for the \$25.00 subsidy that HS offers to their employees. HS policy, 3-3 for the personal mobile cell phone subsidy, states, "To

approvals must be obtained.” However, we found this policy does not specify the criteria the employee must meet in order for management to approve the subsidy. HS administration allows the departments to make the determination as to who receives a cell phone subsidy, but this is not documented in policy 3-3. Additionally, the policy does not provide any details related to the procedures that should be taken when an employee no longer qualifies for the subsidy (i.e., termination, resignation, etc.).

2. In addition, the master list of employees receiving the subsidy does not list the employees' personal cellular phone numbers and is not updated when an employee:
 - a. Transfers to another department,
 - b. Terminates employment, or
 - c. Opts to use a County-issued cellular phone rather than their personal cellular phone.

If HS does not document some specific criteria in a formal policy, any employee could be authorized to receive the \$25.00 subsidy and the risk that the department could incur unnecessary costs for employees whose job duties do not require the use of a cell phone increases.

Recommendation:

1. We recommend that HS or the County create a formal written policy establishing who qualifies for a County issued cell phone, and who has authority to approve the issuance.
2. We recommend that HS revise its current subsidy policy, 3-3, to include the specific criteria for receiving the subsidy. We also recommend that management document personal phone numbers on the HS master list of employees receiving the subsidy and on its subsidy agreement form. In addition, HS should reconcile and update the master list when individuals no longer need the subsidy, have left HS, terminated with the county, etc.

Management's Response:

- HS management concurs with the finding that there is currently no official written policy that pertains to the qualifications, authorization or issuance of a County issued cell phone. This is currently left to the discretion of each department head. Until such time as the County creates an "All County" formal written policy, HS will create an internal policy and include it in the HS Policy and Standard Practice Manual. HS will take the auditor's suggestions/concerns into consideration while creating the policy.

The "Amplification" section of the cell phone subsidy policy 3-3 includes four

1. Review and amend the policy, taking into consideration auditor's suggestions/concerns, and will attempt to clarify how authorization for a subsidy is granted.
2. Update the "Use of Personal Mobile Telephone Agreement" form to include the employee's cell phone number to be used.
3. Establish procedures that will address the need to update the master subsidy list to remove employees who should no longer receive the subsidy.

Auditor's Response:

HS' response addresses planned action to prevent reoccurrence of this finding.

Finding 2: Plan Minutes Underutilized

The HS departments should periodically review the cellular phone minutes used by its staff and manage its phone usage. We found that HS employees used very little or zero plan minutes on a large portion of the departments' cellular phones. HS had 182 phones with calling capabilities. These phones share a pool of 43,000 plan minutes. Of the 182 phones with calling capabilities, we noted 132 or 73% had less than 60 minutes of usage in June 2009. We also noted that 124 of the 182 phones had not been used at all during the billing period of June 12, 2009 and July 11, 2009. The majority of the underutilized phones were general-use phones. HS employees may check out these phones for business use. During our field visits, we observed that several of the general-use phones had been used very little or not at all. On some occasions, the phones were still in their original boxes and appeared to have never been opened. In addition, HS has several spare phones, which were stored in the administration office. These spare phones were idle phones that HS has not assigned to a person or specific department. In addition, no one reviewed staff's usage periodically to determine whether the department can save costs by increasing or lowering plan minutes.

HS spent approximately \$4,181 in June 2009 to keep the 132 phones with less than 60 minutes of use active. Of the \$4,181, HS spent \$1,855 on phones that had not been used at all during the June 2009 billing period.

Recommendation:

We recommend that management eliminate all non-PDA phones from shared minutes plan. We also recommend that management assign an administrative staff member to review phone usage, and adjust plan minutes accordingly to save costs. We further recommend that all users of underutilized phones be switched to Sprint pay as you go, cost scenario option #6 (see Attachment A).

Management's Response:

- As recommended, HS will establish procedures to periodically review all County issued cell phones as to their usage and need. It should be noted that, for certain emergency situations and general use phones, some departments, such as Children and Family Services, might require cell phones that may not be used more than 60 minutes per month.
- HS will work with our carrier to reduce the number of pooled minutes to a level that best meets our service needs and reduces costs whenever possible.
- HS will also explore the possibility of activating/deactivating underutilized "general use" cell phones as necessary to reduce costs. We appreciate the work that the auditors put into the scenarios identified in Attachment A and will explore the use of "Pay as You Go" plans for future cost-saving consideration.

Auditor's Response:

HS' response addresses planned action to prevent reoccurrence of this finding.

Finding 3: Inadequate Record Keeping of Issuance of Phones and Subsidies

1. Current records regarding placement and movement of sensitive equipment, such as cellular phones, should be maintained in such a manner that any item can be located for inspection, audit, or inventory purposes within a reasonable time to maintain accountability. HS did not always keep accurate records of its phone placement and movement. HS has a master list of cellular phones, which corresponds with the 210 active phone lines on the department's phone bill of which only 182 have calling capabilities.

HS centralizes its cellular phone billing at the department's administrative office. However, each department is responsible for safekeeping and issuing phones to its respective staff. There is insufficient communication between the departments and administration of the location and staff assignment of phones. For example, if an HS employee with a phone leaves a department, the department may not notify administration that the phone was reassigned as a general-use phone, as a spare or to another employee. Further, when HS obtained new phones from Sprint, some departments incorrectly assigned phones to some of its staff based on administration's records. In addition, HS administration does not conduct a periodic inventory of cellular phones to ensure the phones in the departments still exist and the locations and staff assignments are correct.

We tested a sample of 82 phones from the bill and noted the following deficiencies:

- 9 phones had inaccurate records:
 - 4 phones had been incorrectly assigned either to the wrong individual or location

- 5 phones were located in a different place than the records indicated (2 phone were returned to the administration office because they were no longer needed)
 - 8 active direct connect lines had wireless devices that were never placed into service. Consequently, the department was paying a total of \$289.03 per month for the 8 active lines.
2. General-use phones were checked out by employees who also have a signed subsidy agreement in place. The subsidy agreement allows employees to receive a \$25 subsidy for business use of personal cell phones. The administration office maintains the Cell Phone Agreement (subsidy) listing, which has not been updated since its inception in 2007. In the departments, employees are also able to checkout general use phones for business use. Department staff logs the use of these phones and sends the logs to the administration office. Administrative staff spot-checks the logs that the departments send to them and compares the logs to the subsidy listing. Nevertheless, when we compared the same information from the locations we visited, we found 16 employees that were on both the log and the subsidy list.

Recommendation:

We recommend that management:

1. Require administration to conduct an inventory of cellular phones at least annually. After the inventory, administration should update its records to reflect the results of the inventory and cancel any active lines for misplaced or unused phones.
2. Create a form that documents the movement of cellular phones. This form should be completed by any department that reassigns phones to different staff members, as spare or general use. This form can also be used when departments return unnecessary phones or phones from employees who are on extended leave to administration. The form should be sent to administration to update their records.
3. Cancel the wireless service for the 8 active lines that do not have any wireless devices associated with them.
4. Require staff who receives the \$25 subsidy to sign and turn in a new agreement to administrative staff at the start of every new fiscal year. In addition, administrative staff should update the master list with this information and communicate it to department staff who issue general-use phones. The department staff member should compare the employees on the list to the person requesting to use a general-use phone prior to issuing the phone.
5. Research and verify if the 16 employees that were on both the log and the subsidy list received both a cell phone and the subsidy, and report the results to IAS.

Management's Response:

- HS management will establish procedures to conduct an annual inventory of cell phones issued to individuals as well as those maintained in the general use pool. Records will be updated accordingly and lines will be deactivated as necessary. The procedure will include a newly created document that will identify the chain of possession by signature and date of movement. As of 12/11/2009, the 8 active lines without assigned devices have been deactivated.
- While amending the "Use of Personal Mobile Telephones – Approved Subsidy of Access Fees" policy addressed in HS' response to Finding 1, HS will include language that requires an annual recertification of the subsidy for all authorized staff. HS administrative staff will coordinate with each department to insure that a master list is updated and will direct department staff to reference the master list before issuing general use phones.

Auditor's Response:

HS' response addresses planned action to prevent reoccurrence of this finding.

Finding 4: Inadequate Controls Over General Use Phones

An employee of higher rank should authorize the general-use cellular phones before the Custodian issues the phones to staff. There should also be a log with adequate information to document this transfer of accountability. In addition, when staff is not using the general-use phones, they should be stored in a safe keeping device.

In the HS departments, Social Workers or other staff that go in the field use the majority of cellular phones. However, we found that any employee, including clerical staff, could check out a general-use phone in many of the departments. The checkout of general-use phones was not always authorized. We reviewed the check out process of 13 locations that had general-use phones, 12 of the 13 locations did not have proper authorization in place when general-use phones were checked out.

We also reviewed the logs used to checkout the phones for adequacy. HS did not have a uniform log for all departments; rather, several departments had logs with different information required to checkout phones. Some logs did not have relevant information such as a place for the person checking out the phone to sign or the name of the person issuing the phone.

Of the 13 locations we visited that used general-use phones, 5 locations did not secure the phones; 4 locations stored the phones in a safekeeping device but the device was unlocked, and 1 location stored the device in a bin that could not be locked. If the issuance of phones is not authorized and phones are not secured when not in use, unauthorized personnel could gain access, which increases the potential for theft and abuse

Recommendation:

We recommend that management include in its cellular phone policy a directive for authorizing, and securing general-use cellular phones and communicate this to staff.

We also recommend that management create a uniform log with relevant information to document the transfer of accountability of the general-use phones clearly for instance have a place for the Custodian to sign that the phone has been issued and have the recipient sign that they have received the phone. The log should also document the purpose, date, and duration of time staff used the phone.

Management's Response:

- HS management concurs that there is need for stricter control for the secure location of general use cell phones and for the authorization of their use. Specific requirements addressing secure storage and detailed issuance logs will be included in the policy that will be developed as referenced to HS' response to Finding 1.
- HS management does not necessarily agree that the authorization/approval for the use of general use cell phones needs to be by an employee of a higher rank than the user. The responsibility for issuing general use cell phones is currently, and will continue to be, with the clerical staff assigned that task. HS contends that tighter control of the issuance logs should counter the need for further authorization.
- Procedures will be implemented that will require more detailed logs that will document the transfer of accountability for the general use cell phones. Further, HS will attempt to insert into the policy a requirement that a supervisor will review all general use cell phone logs on a periodic basis prior to submission to management. Recommendations made by the auditors will be addressed as the log is developed.

Auditor's Response:

HS' response addresses planned action to prevent reoccurrence of this finding.

Finding 5: Noncompliance with IRS Regulations

According to the Internal Revenue Code, an employer must have some method to distinguish business from personal phone charges. An employee must keep a record of each call and its business purpose at a minimum. If calls are itemized on a monthly statement, they should be identifiable as personal or business, and the employee should retain any supporting evidence of the business calls. This information should be submitted to the employer, who must maintain these records to support the exclusion of the business phone use from the employee's wages.

HS staff did attempt to check for personal usage of County-owned cell phones. However, HS practice is to question personal usage when the total minutes used is above 500 minutes. Employees did not reimburse the department for the use of personal minutes. In addition, the value of the personal use was not included in employees' wages as required by the IRS code.

This occurred because HS staff was unaware of the all the specific requirements of the IRS regulation. They did not know staff needed to maintain evidence to show proof of business and personal calls. In addition, the department's cell phone billing is centralized in HS administration. Therefore, each employee did not have access to his/her phone bill to identify whether calls were personal or business.

If HS does not have a policy requiring employees to keep records, or employees do not keep records, the value of the use of the phone will be considered income to employees. Furthermore, the County could incur fines and penalties for excluding this income from employee's wages.

Recommendation:

We recommend that management create and implement a policy that:

1. Prohibits personal use of cell phones;
2. Routinely audit the employee's phone billings to confirm that personal calls were not made;
3. Require the employee to timely reimburse the department for the cost of the personal calls, and charge the employee a pro rata share of the monthly charge;
4. In the event of repeated non-reimbursement or untimely reimbursement for personal calls consider suspending the use of County owned cell phones; and
5. Require staff to document and retain supporting evidence for all business and personal calls.

Management's Response:

- The policy and procedure to be developed as referenced in HS' response to Finding 1 will:
 1. Include language that prohibits personal use of county issued cell phones;
 2. Include procedures that require HS administrative staff to perform periodic audits of cell phone billings to confirm business/personal use;
 3. Require prompt reimbursement by employees for personal calls, including a pro rata share of the monthly charge;
 4. Require staff to document and retain supporting evidence for business and personal calls.

Monthly Cost Scenario #1:
 We calculated the monthly wireless service cost by adding the 391 subsidy recipients to the existing 139 basic wireless service subscribers, resulting in a total of 530 subscribers. The cost of the basic rate service is \$19.50 per month. All other services and costs remain the same for this cost scenario.

Monthly Cost Scenario #2:
 We examined the Sprint phone bill and determined subscribers using less than 60 minutes can possibly. Therefore, we concluded that 132 subscribers did not meet the minute threshold. We calculated the monthly wireless service cost for this scenario by decreasing the number of basic subscribers in Scenario #1 from 530 to 398. All other services and costs remain the same for this scenario.

Plan Details	Qty.	Rate	Monthly Total
1000 Anytime Cellular per user pooled per month (1000 x 43 = 43,000 Total Minutes Monthly Pool)	43	\$ 46.79	\$ 2,011.97
Direct connect	19	12.26	232.94
Anytime Cellular pools current with 1000 minute plans (Total HSS Pool of 43,000 per month)	530	19.50	10,335.00
Monthly Cost for Wireless Service - Scenario #1			\$ 12,579.91

Plan Details	Qty.	Rate	Monthly Total
1000 Anytime Cellular per user pooled per month (1000 x 43 = 43,000 Total Minutes Monthly Pool)	43	\$ 46.79	\$ 2,011.97
Direct connect	19	12.26	232.94
Anytime Cellular pools current with 1000 minute plans (Total HSS Pool of 43,000 per month)	398	19.50	7,761.00
Monthly Cost for Wireless Service - Scenario #2			\$ 8,005.91

Cost Savings Calculation	
Current monthly cost	\$ 16,474
Monthly Cost for Wireless Service - Scen. #1	(12,580)
Cost Savings for Scenario 1	\$ 3,894

Cost Savings Calculation	
Current monthly cost	\$ 16,474
Monthly Cost for Wireless Service - Scen. #2	(10,006)
Cost Savings for Scenario 2	\$ 6,468

Monthly Cost Scenario #4:
 In considering a reduction of the amount provided for the subsidy agreement to \$15, we determined the monthly wireless service cost by using the same reduced number of subscribers in Cost Scenario #2, which was 398. All other services and costs remain the same.

Monthly Cost Scenario #5:
 We determined the monthly wireless service cost for both the Sprint "Pay As You Go" plan and the current agreement option. For this cost analysis, we saw the Department's General Use/Spare wireless lines "Pay As You Go" plan. After reviewing the Sprint invoice for the current month, we determined that the number of General Use/Spare wireless lines is 77. We based the rate of the "Pay As You Go" option on a single subscriber by evenly allocating the total general use minutes in June 2009, 14,201, to the 77 subscribers. The "Pay As You Go" option charges a rate of 10¢ per minute of the time of day. In addition, we included the cost of the subsidy to the 391 eligible employees. However, the amount provided to the subsidy recipients to \$1 per minute. All other services and costs remain the same.

Plan Details	Qty.	Rate	Monthly Total
1000 Anytime Cellular per user pooled per month (1000 x 43 = 43,000 Total Minutes Monthly Pool)	43	\$ 46.79	\$ 2,011.97
Direct connect	19	12.26	232.94
Subsidy Recipients	398	15.00	5,970.00
Monthly Cost for Wireless Service - Scenario #4			\$ 8,214.91

Plan Details	Qty.	Rate	Monthly Total
1000 Anytime Cellular per user pooled per month (1000 x 43 = 43,000 Total Minutes Monthly Pool)	43	\$ 46.79	\$ 2,011.97
Direct connect	19	12.26	232.94
Pay As You Go Option (76 minutes @ 10¢ per minute)	77	10.00	770.00
Subsidy Recipients	391	15.00	5,865.00
Monthly Cost for Wireless Service - Scenario #5			\$ 8,884.91

Cost Savings Calculation	
Current monthly cost	\$ 16,474
Monthly Cost for Wireless Service - Scen. #4	(8,215)
Cost Savings for Scenario 4	\$ 8,259

Cost Savings Calculation	
Current monthly cost	\$ 16,474
Monthly Cost for Wireless Service - Scen. #5	(8,626)
Cost Savings for Scenario 5	\$ 7,848