



December 11, 2013

Performance Audit

Telecom Use and Expense

Department of Finance and Administrative Services

Report No. 13-104



**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT**

PERFORMANCE AUDIT REPORT
TELECOM USE AND EXPENSE
DEPARTMENT OF FINANCE AND ADMINISTRATIVE SERVICES
REPORT NO. 13-104

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Executive Summary

Background

Telecommunication (Telecom) services support the communication needs of the City. Internal controls to ensure the accuracy, efficiency, and optimization for telecom services were the focus of the audit. The audit evaluated the City's landline, cell phone and pager services. The City's 911 Emergency System is a standalone system and was not included in the audit.

The City spent an annual average of \$5.1 million on telecom services from FY11 to FY13, excluding specific network charges for internet service. Telecom services support the City's 24 departments and 5,839 full-time budgeted positions. The City maintained approximately 7,900 landlines, 1,380 cell phones and 380 pagers in FY13. The City's telecom services are inherently complex and require comprehensive internal controls to be performed on a routine basis.

Findings

City internal controls do not ensure the accuracy, efficiency or optimization of telecom charges and services. Conservative estimates indicate the City could save \$273,000 in annual recurring costs and recover \$240,000 in annual costs. The City could have avoided paying previous costs of \$428,500 if internal controls had been established and operated as intended. For example, 95 percent of pager services should have been disconnected several years ago, saving the City \$52,000 per year.

Albuquerque's telecom budget is more than three times greater than cities with similar telecom operations. The annual average telecom budget for regionally comparable cities is \$1.5 million, with the exception of Austin, TX. Albuquerque's annual average telecom budget from FY11 to FY13 was \$4.9 million. However, ITSD stated that the City could realize approximately \$2 million in annual cost savings by converting landline services to Voice over Internet Protocol.

Internal controls have not been established to ensure landline services are obtained at an optimal price or in compliance with publicly regulated rates. As a result, the City is unaware of potential cost savings offered by other services providers and cannot confirm the accuracy or determine if erroneous service costs are included in annual vendor billings of \$1.9 million.

The lack of annual analyses and reconciliations to ensure the accuracy of telecom overhead and service allocations are the primary reasons for the unpredictable cost recovery fluctuations for communication services. As a result, the City's *Communication Fund* has accumulated a \$1.3 million fund balance as of June 30, 2013 (unaudited), which represents the cumulative amount departments have been overcharged for communication services.

Internal controls are not effective for processing complete and timely telecom chargebacks to departments. The chargeback entries do not appear to be accurate because of the internal control issues mentioned above. The average processing time for telecom overhead allocations and other telecom costs (chargebacks) for FY12 through the third quarter of FY13 was 100.5 days (over 3 months). However, ITSD decreased the processing time to an average of 36 days between April 2013 and June 2013.

Recommendation and management responses are included within the audit report.



City of Albuquerque

Office of Internal Audit

December 11, 2013

Accountability in Government Oversight Committee
P.O. Box 1293
Albuquerque, New Mexico 87103

Audit: Performance
DFAS – Telecom Use and Expense
Audit No. 13-104

FINAL

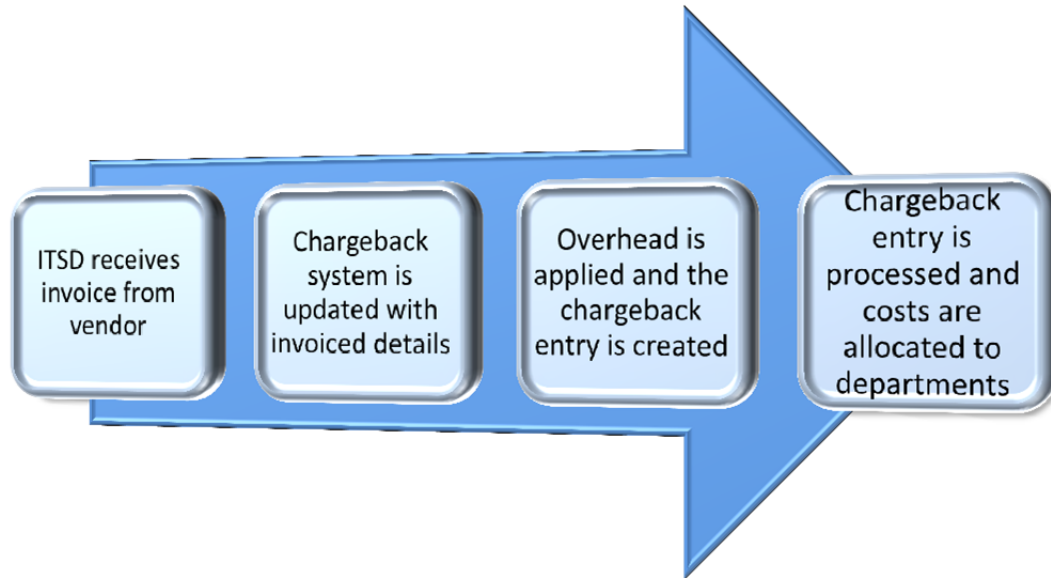
INTRODUCTION

The Office of Internal Audit (OIA) conducted a performance audit of citywide telecommunication (telecom) use and expense. The audit was included in OIA's fiscal year 2013 audit plan. The audit objectives, scope and methodology information can be found in **Appendix A**.

The Information Technology Services Division (ITSD) of the Department of Finance and Administrative Services (DFAS) manages telecom business processes. Telecom services support the communication needs of the City. Internal controls to ensure the accuracy, efficiency, and optimization for telecom services were the focus of the audit. The audit evaluated the City's landline, cell phone, and pager services. The City's 911 Emergency System is a standalone system and was not included in the audit.

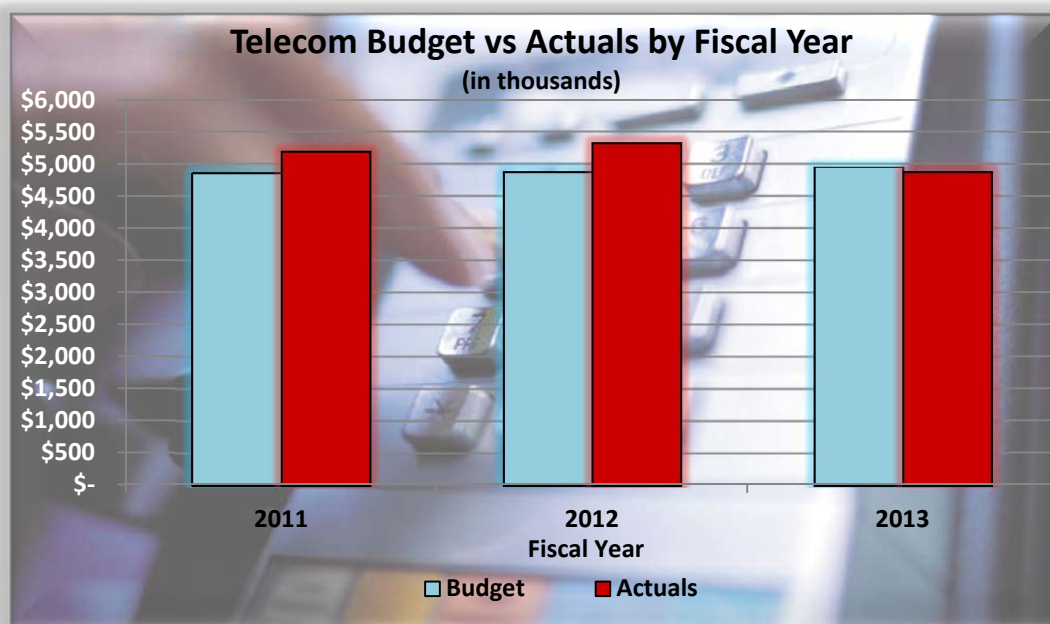
ITSD's telecom staff are responsible for administrative and chargeback operations for telecom services. Telecom staff is comprised of City employees as well as contracted staff. Administrative and maintenance overhead rates are charged to departments in order to recapture the costs of telecom services and the associated contracted staff. Administrative overhead is intended to support all personnel, operating, and internal service costs not directly applicable to landline maintenance. Maintenance overhead is intended to support all maintenance costs for landline services.

ITSD uses chargeback software to process, balance and create general ledger export files to allocate telecom charges directly applicable to City departments. A simplified understanding of ITSD's chargeback process is illustrated on Page 2.

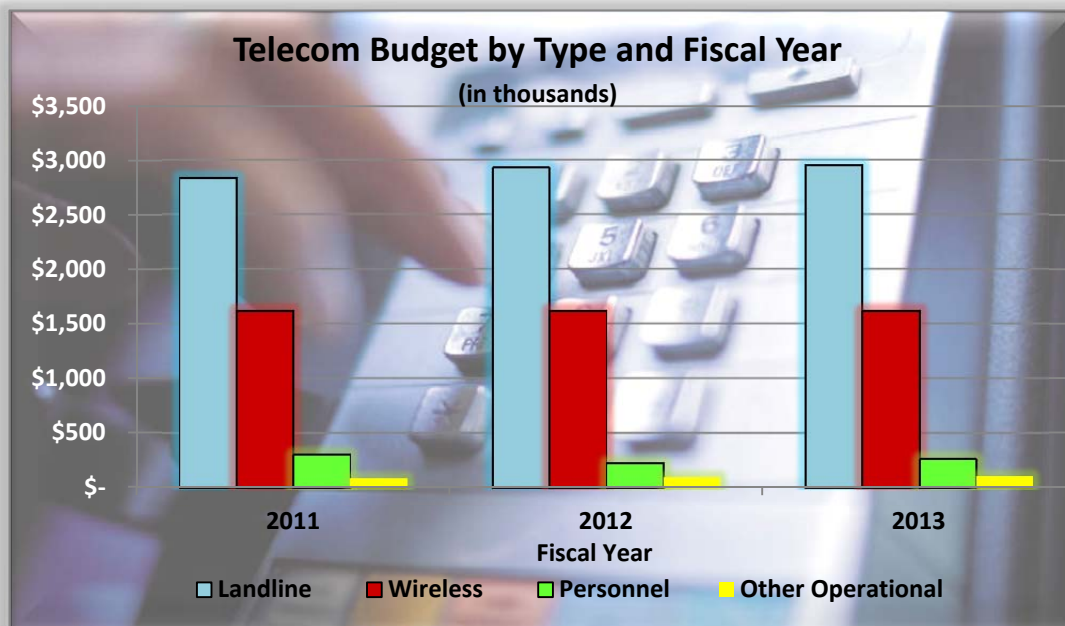


ITSD is also responsible for the administration of the City’s *Communication Fund*. The *Communication Fund* accounts for the cost of providing all communication services to City departments and is comprised of the Telecommunication, Network and Radio divisions. The Telecommunication budget represented approximately 66 percent (\$4.9M/\$7.4M) of the fund in FY13.

The City spent an annual average of \$5.1 million on telecom services from FY11 to FY13, excluding specific network charges for internet service. The graph below illustrates that telecom costs exceeded established budgets for FY11 and FY12.



Telecom services support the City’s 24 departments and 5,839 full-time budgeted positions. The City maintained approximately 7,900 landlines, 1,380 cell phones and 380 pagers in FY13. The graph below illustrates that the majority of telecom costs support landline service for the City.



Note: The graph excludes specific network charges for internet service.

FINDINGS

The following findings concern areas that OIA believes could be improved by the implementation of the related recommendations.

1. DFAS SHOULD DEVELOP, IMPLEMENT AND PERFORM INTERNAL CONTROLS TO ENSURE THE ACCURACY, EFFICIENCY AND OPTIMIZATION OF TELECOM SERVICES.

The City’s internal control processes do not ensure the accuracy, efficiency or optimization of telecom services. Conservative estimates indicate the City could save \$273,000 in annual recurring costs and recover \$240,000 in annual costs. The City could have also avoided paying previous costs of \$428,500 if internal controls had been established and operated as intended.

City policies and procedures outline the importance of performing internal controls to manage telecom services. City information technology policies state that ITSD’s Telecommunication Management Group (TMG) “is responsible for monitoring, evaluating and reporting to the City Administration on all telecommunications usage and telecommunications related expenditures to ensure the cost effectiveness of the City’s telecommunications systems and networks.”

ITSD personnel stated that there was no past focus to ensure efficiency or optimize telecom services, but these are now current priorities for the division. Some ITSD personnel were also unaware of the division’s responsibility for cost effectiveness and reporting as outlined in the City’s policies and procedures.

The City Code of Resolutions 3-1-3 states “It shall be the policy of city government to attempt to continually operate as efficiently as possible and that pursuant to this end on-going studies should be conducted to help achieve efficient and effective government functioning.”

Analyses were performed to determine the impact of performing oversight control activities for landline, cell phone and pager services. The table below contains detailed analysis information by service type, and potential cost savings, which can be achieved.

Internal Control Findings, Impacts and Estimated Savings by Telecom Service

Service Type	Finding	Operational Impact	Estimated Annual Cost Savings
Landline	A process has not been established for recovering landline service charges from a governmental entity that separated from the City on June 30, 2013.	The City currently pays for but does not recover landline service costs for the separated entity.	\$240,000
Landline	A complete and accurate inventory of employee extensions, fax and alarm numbers does not exist. A review of two City departments identified that 6 of 23 (26%) extensions were not needed. Of the six extensions, four contained no activity and two were disconnected.	Departments are paying for unused or unneeded landline services. Based on the excess percentage identified (26%) and the City’s 7,900 internal extensions, the City may have as many as 2,054 excess landline extensions.	Unknown
Cell Phone	163 zero and 502 low use cell phones with excessive calling plans were identified. We considered voice “plan” use between 1 and 100 minutes per month as low use.	The City is paying additional costs for unused services. If controls were actively performed to match cell phone use with cost effective plans, the City could have saved approximately \$276,000 since the inception of the City’s latest contract (March 2012 to August 2013).	\$184,000

Cell Phone	Two out of a statistical sample of 24 cell phone billings contained unneeded monthly service costs totaling \$15. City departments promptly removed the unneeded services.	The City is paying for unneeded cell phone service charges.	\$21,000
Cell Phone	Departments have continued to use 44 cell phones from an unauthorized wireless vendor. Continued use was the result of a historic continuation of service. Departments agreed to disconnect one and transfer the remaining 43 cell phones to the City's authorized vendor.	Services provided by the unauthorized vendor were substandard and more costly when compared to the City's authorized cell phone vendor.	\$13,500
Cell Phone	Duplicative cell phone assignments were identified for five individuals. As a result, five cell phones have been disconnected.	The City has incurred unnecessary cell phone costs because of the issuance of multiple cell phones to individuals.	\$2,500
Cell Phone	31 excessive use cell phones were identified. We considered voice "plan" use above 1,000 minutes per month as excessive use. Additional details are contained in Appendix B .	Individuals may be using City cell phones for excessive personal use.	Unknown
Cell Phone	City policies and procedures have not been followed for the issuance of cell phones. Departments were unaware of the cell phone issuance process or could not locate authorization documentation for thirteen out a statistical sample of 23 (57%) cell phones.	Circumventing the cell phone issuance process may lead to the issuance of unnecessary cell phones and associated costs.	Unknown
Pager	The City has incurred costs for pager services that have not supported City operations for years. Of the City's 380 pagers, departments have agreed to disconnect 360 (95%). The Albuquerque Police (APD) and Fire (AFD) Departments stated that they have not used pager services for approximately four and 10 years, respectively.	The City is incurring costs for unnecessary pager services. APD and AFD could have saved approximately \$152,500 in pager service costs over the inactive duration.	\$52,000
Total			\$513,000

Source: OIA Analysis

Governmental Accounting, Auditing, and Financial Reporting (GAAFR) published by the Government Finance Officers Association states that internal controls must be comprehensive in order to fully achieve their intended purpose. A comprehensive framework must possess five essential elements, which are outlined below.

- Provide a favorable *control environment*,
- Provide for the *continuing assessment of risk*,
- Provide for the design, implementation and maintenance of effective *control-related policies and procedures*,
- Provide for the effective *communication* of information and
- Provide for ongoing *monitoring* of the effectiveness of control policies and procedures.

RECOMMENDATIONS

DFAS should:

- Use the comprehensive internal control framework outlined by GAAFR to develop, implement, and perform comprehensive internal controls that ensure the accuracy, efficiency and optimization of telecom services. Internal controls should be documented within City policies and procedures.
- As outlined in City policy, report to the City Administration on all telecom usage and related expenditures to ensure the cost effectiveness of the City's telecom systems and networks.
 - Reports should contain enough detail to allow the City's Administration to understand key use and cost efficiency issues and help them manage the telecom services of the City by department and as a whole.
- Update the City's Wireless Request Form (WRF) to capture relevant use and data needs that would allow ITSD to match wireless use with the most cost effective plans. An example of an updated form can be found in **Appendix C**.
- Work with the City Administration to update the City's policies and procedures to reflect the wireless device issuance process and approval requirements.

The Chief Administrative Officer (CAO) should:

- Update Administrative Instruction 8-1 to include a wireless business need definition and associated minimum requirements that must be complied with for the issuance and retention of cell phones and other wireless devices. The update should also require a complete and approved WRF prior to the issuance of any wireless device.

RESPONSE FROM DFAS

“DFAS agrees with the findings. DFAS will scope and develop a detailed Telecom process improvement plan to implement the recommendations in the audit findings. DFAS/ITSD will need to procure outside services for this project (to develop and implement the financial controls and business processes). DFAS/ITSD will look to current budget for the professional/technical monies to fund this project.

“A recent upgrade to the Telecom Expense and Billing Software system, AnchorPoint, will facilitate many of the recommendations (as AnchorPoint

can now provide the management and usage reports required to identify and report costs to departments).

“DFAS will also provide the input to AI 8-1 (as recommended) such that the CAO can update the Instruction.”

ESTIMATED COMPLETION DATE

“Timeline: Obtain professional services and develop the Telecom process improvement plan by June 30th, 2014. Upon completion of the plan, execute the plan with intentionality to complete the plan by December, 2014.”

2. DFAS SHOULD DETERMINE AND ADDRESS WHY ALBUQUERQUE’S TELECOM SERVICE COSTS ARE MORE THAN THREE TIMES THE COST OF REGIONALLY COMPARATIVE CITIES.

Other cities in the western United States were surveyed to benchmark Albuquerque’s telecom operations and identify common and best practices. Additional oversight and operational information can be found in **Appendix D**.

The chart below illustrates that Albuquerque’s telecom budget is more than three times greater than cities with similar telecom operations. With the exception of Austin, the average annual telecom budget for comparable cities is \$1.5 million. Albuquerque’s annual average telecom budget from FY11 to FY13 was \$4.9 million. Austin’s telecom budget is \$6.7 million; however, Austin’s telecom operations are more than 2.5 times larger than Albuquerque’s.

Budget and Service Data for Telecom Services by City

City	Budget	Number of Telecom Services			Cell Phone/Wireless Issuance Process
		Landlines	Cell Phones	Pagers	
Albuquerque, NM	\$4.9 M	7,900	1,380	380	Request form submitted, wireless set-up by telecom staff and paid by the City. Governed by policy, paid by stipend and processed by telecom staff.
Austin, TX	\$6.7 M	17,000	5,000 Bring Your Own Device	3,000	
Denver, CO	\$2.15 M	8,941 VoIP 1,542 Centrex	2,600	0	

Oklahoma City, OK	\$2 M	10,000 line capacity (VoIP)	2,000	Very Few	Controlled and facilitated by telecom staff after request is submitted and approved by department.
Salt Lake City, UT	\$800 K	2,500	800	Very Few	Each department is responsible for wireless devices and some stipends are now utilized.
Tucson, AZ	\$1.2 M	7,000 Phone ports	Unknown – Managed by Departments	Unknown – Managed by Departments	Tucson changed to a decentralized wireless model in 2006.
Tulsa, OK	\$1.3 M	4,300 Centrex lines prior to VoIP deployment	1,970	700	Request form submitted, wireless device set-up by telecom staff and paid by the City.

Source: OIA surveys

Several of the surveyed cities have realized significant cost savings by converting their landline service to Voice over Internet Protocol (VoIP). Although there are significant transition costs to convert to VoIP, the continued cost savings are also significant. ITSD currently has pilot VoIP projects at several remote sites and has expressed the need to convert all landline services to VoIP. ITSD stated that the City could realize approximately \$2 million in annual cost savings by converting landline services to VoIP.

Other Observations and Information from Comparative City Surveys

- Like Albuquerque, four of the six cities surveyed use a centralized process for the issuance and administrative maintenance of cell phone and other wireless devices. Individual city departments in Salt Lake City and Tucson are responsible for the issuance of cell phone and other wireless devices for their department’s staff members.
- Similar to Albuquerque, all cities surveyed administratively centralize landline telecom services. Central administration for landline services are managed by each city’s information technology department. Cost effectiveness, resource efficiency, economies of scale and in-house expertise are the primary reasons for centrally operating landline services.
- Like Albuquerque, three of the six cities surveyed use specialized software to process telecom expense activity. The remaining cities use Microsoft Office products like Excel and Access to process telecom expense activity. Although, the majority of other cities state that current software is adequate, many expressed a need for advanced software to manage telecom expense processes.

RECOMMENDATIONS

DFAS should:

- Continue to leverage technology to reduce the City’s landline service costs by implementing VoIP services throughout the City.
 - A strategic plan should be developed and proposed to the City Administration for the full conversion to VoIP.
- Contact regionally comparative cities that have leveraged technology to reduce the costs of landline services in an effort to identify disparities that could have positive cost and efficiency impacts on Albuquerque’s services.

RESPONSE FROM DFAS

“DFAS agrees with the finding and as described, the cost difference is primarily due to the City’s dependence on leased lines and legacy PBX phone switches. The ability for the City to move to owned fiber and VOIP will drastically reduce the expenses that make up the \$5.1m operating budget.

“It is likely that we will need to go to the GO Capital Bond program to finance the capital cost of a fiber/VOIP system that will service the inventory of City service buildings and facilities. We will continue to leverage the current VOIP build-out (doing what we can now). We will also contact those City’s that appear to have better cost optimization practices in place.”

ESTIMATED COMPLETION DATE

“Timeline: The City is currently in the process of developing a strategic VOIP master plan that includes budget requirements and a step-wise process for implementation. The VOIP plan will be completed by February 28th, 2014.”

3. DFAS SHOULD ESTABLISH AND PERFORM INTERNAL CONTROLS TO ENSURE THE CITY’S ANNUAL \$1.9 MILLION LANDLINE SERVICE CHARGES ARE COMPETITIVELY OBTAINED AND COMPLY WITH PUBLICLY REGULATED RATES.

Internal controls have not been established to ensure landline services are obtained at an optimal price or in compliance with publicly regulated rates. As a result, the City is unaware of potential cost savings offered by other services providers and cannot confirm the accuracy or determine if erroneous service costs are included within annual vendor billings of \$1.9 million.

ITSD personnel stated resource limitations hinder the division's ability to reconcile landline invoice charges to publicly regulated rates on a routine basis. ITSD personnel also stated that new service charges are validated but the division simply does not have the resources to validate the accuracy of all invoiced charges.

The City relies on the State of New Mexico (State) procurement evaluation process to obtain the best price for landline services. Multiple service providers are included in the State's price agreement and are subject to the State's rate regulations. Regulated rates set maximum allowable charge rates but do not prevent service providers from offering discounted service rates. ITSD currently has no method to verify that landline services are obtained at the most advantageous price.

City Ordinance §5-5-20 (D) established an exemption for regulated utilities. However, the exemption does not apply if the amount is over \$75,000 annually and competition is available. Furthermore, City Ordinance §5-5-32 (C) requires purchases to be acquired at the best obtainable price.

Ambiguous billing documents and lack of support from the City's landline service provider also hinder the City's ability to ensure the accuracy of \$1.9 million in annual service charges. The City receives paper invoice summaries that do not contain the detail necessary to enable the City to reconcile invoiced charges to the rates established by the State. The City does not receive electronic detail for the monthly paper summary invoices that would allow the City to ensure the accuracy of the invoice summaries. OIA received little support from the service provider and was directed to the website that contained the publicly regulated rates during the audit.

The New Mexico Telecommunication Slamming and Cramming Act (17.11.8 NMAC) states that any corporation placing a charge on a customer's bill shall include a brief, clear and conspicuous description of the product or service placed on the customer's bill, including the amount charged for each product, service, or change in provider or service (including taxes and surcharges). The description must be sufficiently clear in presentation and specific enough in content so that customers can accurately assess that the services for which they are billed correspond to those that they have requested and received, and that the costs assessed for those services conform to their understanding of the price charged.

ITSD is responsible for ensuring contract compliance for telecom activities. The City's Administrative Instruction 3-4 outlines departmental responsibilities for ensuring contract compliance and states the following:

- It is the City of Albuquerque's policy that services purchased and received shall be in accordance with all provisions set forth in the contract.

- It is the responsibility of the receiving department to inspect the work being performed on behalf of the City to ensure that it is being completed in accordance with contractual commitments.

RECOMMENDATIONS

DFAS should:

- Work with the landline service provider to establish a master contract for the City's landline service needs. The contract should contain the elements required by the City Purchasing Ordinance (Scope of Services, Vendor Compensation, Liability, etc.) and include the appropriate City Approval. Contracts should clearly disclose the cost of services and provide a mechanism for reconciliation with publicly regulated rates.
- If a contract cannot be established, then DFAS should work with the City's Purchasing Division to establish an annual review process that ensures the City is obtaining the most advantageous price for landline services.
- Establish internal controls to work with the City's telecom service provider to determine if landline service charges comply with publicly regulated rates and are free of erroneous service costs.
- Ensure the City's landline service provider includes the detail outlined within the New Mexico Slamming and Cramming Act that would allow City staff to verify the cost and accuracy of billings. Electronic detail for paper summary invoices should be a strict requirement in order to streamline the verification process.

RESPONSE FROM DFAS

“DFAS agrees with the findings. We will work with incumbent telecom provider(s) and the City Purchasing Division to implement the recommendations. This will be an element in the overall Telecom process improvement plan.”

ESTIMATED COMPLETION DATE

“Timeline: Obtain professional services and develop the Telecom process improvement plan by June 30th, 2014. Upon completion of the plan, execute the plan with intentionality to complete the plan by December, 2014.”

4. DFAS SHOULD ANALYZE, RECONCILE AND ADJUST TELECOM OVERHEAD AND SERVICE ALLOCATIONS TO ENSURE THEY ACCURATELY CAPTURE THE COST OF SERVICE THEY ARE INTENDED TO SUPPORT.

The lack of annual analyses and reconciliations to ensure the accuracy of telecom overhead and service allocations are the primary reasons for the unpredictable cost recovery fluctuations for communication services. Telecom overhead rates have not been analyzed for at least eight years and do not accurately capture the cost of service they are intended to support.

As a result, the City's *Communication Fund* has accumulated a \$1.3 million fund balance as of June 30, 2013 (unaudited). The fund balance represents the cumulative amount departments have been overcharged for communication services and is classified as an internal service fund that should operate on a cost-recovery-basis, without a significant fund balance.

ITSD personnel stated that current overhead rates are based on past analyses and methodologies for cost recovery that have been carried over from previous management. And, they are currently performing various process improvements that will enable a greater understanding of overhead rates that will help the division establish future overhead rates with greater accuracy.

However, to achieve accurate collection rates, the overhead allocation process must be well designed. Using the following practices can ensure the accuracy of overhead allocations:

- Develop and maintain allocation plans that specify how overhead costs will be allocated. Plans should be updated annually and should clearly state which overhead costs will be allocated, how the process works, rationale for key decisions, and be incorporated into City policies and procedures.
- Charge only for actual costs incurred. Estimates used for initial calculations should be reconciled against actual costs at year-end.
- Maintain appropriate, and thorough documentation to support the allocation process. Proper documentation will allow ITSD to provide accurate allocation information to City departments.

The City's Office of Management and Budget (OMB) is aware of the *Communication Fund's* accumulated balance and recognizes the need to work with ITSD to determine a course of action for the reduction of the balance. However, OMB's initial concern is to ensure the accuracy and adjustment of the *Communication Fund's* overhead rates.

The GAAFR states that an internal service fund, by definition, operates on a cost-recovery-basis and a significant and growing surplus or deficit over time is incompatible with the cost-reimbursement character of the fund type.

OIA worked with ITSD and OMB to quantify and confirm the resources pertaining to each telecom overhead rate. The table below illustrates overhead needs vs. collection amounts.

Telecom Overhead Needs vs. Collection

Overhead Budget Item	FY14 Telecom Administrative Overhead	FY14 Telecom Maintenance Overhead
Personnel	\$274,676	-
Operating	\$376,610	\$1,015,135
Internal Service	\$59,178	-
Total Overhead Budget	\$710,464	\$1,015,135
Average Overhead Collection - FY12 and FY13	\$190,013	\$1,362,833
Variance – Under/Over Collection	\$(520,451)	\$347,698
Variance Percentage	73.25%	34.25%

Source: OIA Analysis

RECOMMENDATIONS

DFAS should:

- Establish internal controls and methodologies for the annual analysis and adjustment of telecom overhead rates.
- Work with OMB to analyze and adjust telecom administrative and maintenance overhead rates to ensure they accurately capture the cost of service they are intended to support.
- Work with OMB and the City Administration to determine a course of action for reducing the *Communication Fund's* \$1.3 million balance.
- Evaluate the *Communication Fund* balance on an annual basis and address recovery variances with OMB in an effort to remain compatible with the characteristics of the fund.

RESPONSE FROM DFAS

“DFAS agrees with the findings. We will work with OMB to implement the recommendations. This will be an element in the overall Telecom process improvement plan.”

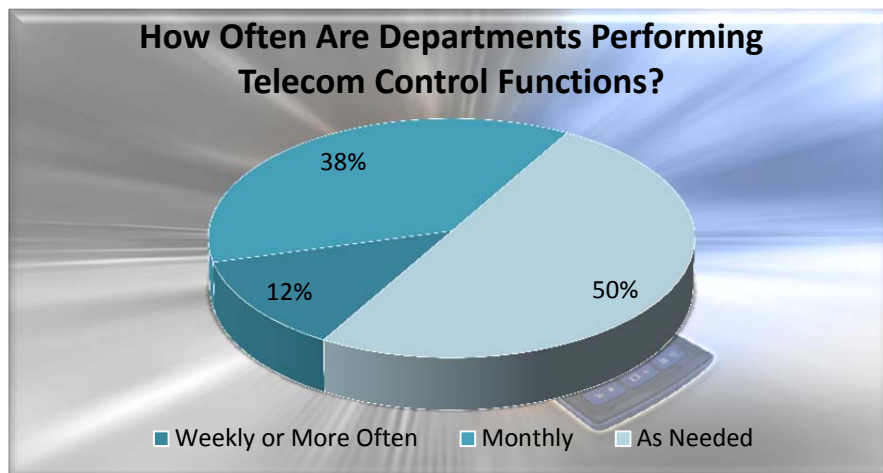
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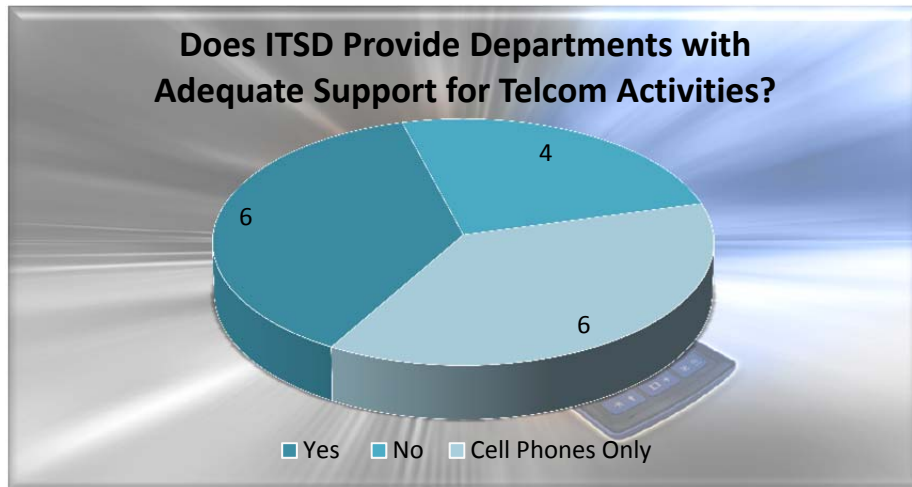
5. DFAS SHOULD PROVIDE CITY DEPARTMENTS WITH COMPLETE AND TIMELY INFORMATION THAT WOULD ENABLE THEM TO MANAGE AND OPTIMIZE THEIR TELECOM COSTS.

OIA conducted departmental surveys to identify individual departments’ telecom control functions and the quality of support received from ITSD. Sixteen of 24 departments responded to the survey.

Half of the responding City departments reported that they perform telecom control functions on an as needed basis, as shown below. Performing telecom control functions on an as needed basis reduces the likelihood that erroneous or unneeded service charges are identified timely.



Departments were asked if ITSD provides the support and tools needed to perform telecom use and expense controls and optimization functions. The chart on page 15 illustrates that six of the 16 (37.5%) responding departments believe ITSD provides adequate telecom support and another six departments (37.5%) indicated that ITSD provides adequate support for cell phones only. The data suggests that ITSD needs to provide greater support for landline services and increased communication about the tools available to departments to perform control and optimization functions for telecom use and expense activity.



Twelve of the 16 (75%) responding departments indicated that the landline charges are ambiguous. They indicated that additional reports and data for landline service charges would greatly enhance their ability to analyze and optimize landline services.

Currently, the telecom information available to the departments is not timely. The average processing time for telecom overhead allocations and other telecom costs (chargebacks) for FY12 through the third quarter of FY13 was 100.5 days (over 3 months). However, ITSD decreased the average processing time to 36 days between April 2013 and June 2013.

Lack of timely chargeback postings hinders the ability of City departments to identify erroneous or unneeded services on a routine and timely basis. Telecom chargeback processing times have improved and must be maintained to provide useful information to departments. Additionally, all journal entries should be entered no later than 30 days after the end of each month to allow the City's Accounting Division to provide accurate monthly financial reports.

ITSD personnel stated that they have taken steps to streamline the time consuming manual process of the past. They stated that the division has worked with vendors to align telecom invoice billing dates and are in the process of upgrading the capabilities of the City's automated chargeback system, which will enhance the accuracy and timeliness of the chargeback journal entries.

The GAAFR stresses the importance and need for accurate and timely information and states that information is useful to financial report users only if it can make a difference in how the users assess a problem, condition or event. Inaccurate or untimely data can impair management's decision making processes.

RECOMMENDATIONS

DFAS should:

- Continue to streamline telecom chargeback processes with a goal to post chargeback entries no later than 30 days after the end of each month.
- Provide City departments with greater support and information for landline services.

RESPONSE FROM DFAS

“DFAS agrees with the findings. We will work with City Departments to implement the recommendations. This will be an element in the overall Telecom process improvement plan.”

ESTIMATED COMPLETION DATE

“Timeline: Obtain professional services and develop the Telecom process improvement plan by June 30th, 2014. Upon completion of the plan, execute the plan with intentionality to complete the plan by December, 2014.”

6. DFAS SHOULD INCREASE ACCOUNTABILITY FOR TELECOM OPERATIONS TO ENSURE THE ACCURACY, EFFICIENCY AND OPTIMIZATION OF TELECOM ACTIVITIES.

The various issues in this audit illustrate the lack of accountability for administering and optimizing telecom services. Many of the findings within this audit could have been proactively addressed had internal control functions outlined in City policies and procedures been performed. Ensuring ITSD staff understand their responsibilities and are held accountable for the accuracy and efficiency of telecom activities will prevent future issues.

City policies and procedures assign telecom oversight responsibilities to ITSD and stress the importance of efficiently managing the communication functions of the City. However, ensuring the accuracy, efficiency and optimization of telecom services has remained secondary to ensuring the stability and availability of telecom services.

According to ITSD personnel, there was no past focus to ensure efficiency, and no intent to optimize telecom services, but these are now priorities for the division.

The examples below illustrate accountability lapses for telecom services.

- ITSD personnel were aware of 44 cell phones from an unauthorized wireless vendor but did not initiate action to address the issue.
- Approximately 95 percent of the City's pagers were not being used but ITSD did not consult with departments about their use of pagers.
- In FY13, ITSD discontinued the practice of maintaining and analyzing landline traffic statistics. Traffic statistics allow users to analyze and ensure optimal use and cost efficiencies for landline services.
 - ITSD is responsible for monitoring, evaluating and reporting to the City Administration on all telecommunications usage and telecommunications related expenditures to ensure the cost effectiveness of the City's telecommunications systems and networks.
- ITSD's management approved \$1.9 million in landline service charges in FY13 without assurance to the accuracy or necessity of invoiced services.
 - The City's Administrative Instruction 3-4 states it is the responsibility of the receiving department to inspect the work being performed on behalf of the City to ensure that it is being completed in accordance with contractual commitments.
- ITSD's management did not know who maintains cell phone issuance and authorization documentation. Issuance and authorization documentation could not be located for 57 percent of cell phones sampled.
 - City retention schedules mandate *Information Technology Service Requests* to be maintained for three years after the date the request was completed.

RECOMMENDATIONS

DFAS should:

- Ensure ITSD's Telecommunications Management Group understands their responsibilities for proactively addressing and ensuring the accuracy, efficiency and optimization of the City's telecom services.
- Develop quarterly telecom use and expense reporting requirements for ITSD's Telecommunications Management Group to ensure compliance with City's policies and the intent to optimize the cost effectiveness and efficiency of telecom services.

RESPONSE FROM DFAS

“DFAS agrees with the findings. We will use the management reports provided within AnchorPoint to implement the recommendations. This will also be an element in the overall Telecom process improvement plan.”

ESTIMATED COMPLETION DATE

“Timeline: Obtain professional services and develop the Telecom process improvement plan by June 30th, 2014. Upon completion of the plan, execute the plan with intentionality to complete the plan by December, 2014.”

CONCLUSION

By accepting and implementing the findings and recommendations in this report, the City can realize annual cost savings of \$273,000, annual cost recoveries of \$240,000 and continue the proactive approach to reduce the costs of telecom operations through the implementation of innovative technologies.

The recurring theme throughout the report was the City’s lack of internal controls to ensure the accuracy, efficiency and optimization of telecom services. The overall lack of internal controls is a major factor for the accumulated balance of \$1.3 million in the City’s *Communication Fund* as of June 30, 2013 (unaudited). The fund balance represents the amount departments have been overcharged for communication services.

We greatly appreciate the assistance and cooperation of the Department of Finance and Administrative Services, City Departments and other western cities that took the time to respond to our surveys.

Internal Audit Manager

Senior Information Systems Auditor

REVIEWED and APPROVED:

APPROVED FOR PUBLICATION:

Debra Yoshimura, CPA, CIA, CGAP, CICA
Director, Office of Internal Audit

Chairperson, Accountability in
Government Oversight Committee

APPENDIX A

OBJECTIVES

The objectives of the audit were to determine:

- Are ITSD and City department internal controls effective for controlling and reducing landline use and expense activity?
- Are ITSD and City department internal controls effective for controlling and reducing cell phone and pager use and expense activity?
- Are ITSD's internal controls effective for processing accurate and timely telecom chargebacks to departments?
- Do telecom administrative and maintenance overhead rates accurately capture the cost of service they are intended to support?

SCOPE

Our audit did not include an examination of all functions and activities related to ITSD's telecom activities. The City's 911 Emergency System is a standalone system and was not included in the audit. Our scope was limited to the objectives above for fiscal years 2012 and 2013.

This report and its conclusions are based on information taken from a sample of transactions and do not represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork on September 16, 2013 and does not reflect events or accounting entries after that date.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

METHODOLOGY

Methodologies used to accomplish the audit objectives include but are not limited to the following.

- Reviewing State and City regulations, policies, procedures and other standards applicable to telecom operations,

- Interviewing key personnel to gain a better understanding of telecom operations and processes,
- Conducting regional and comparative City surveys to identify common and best practice information for telecom operations,
- Conducting departmental surveys to determine what oversight and efficiency functions are performed by department telecom liaisons,
- Identifying internal controls for landline, cell phone and pager services, and
- Testing of internal controls to ensure the accuracy, efficiency and optimization of the City's telecom services.

Audit sampling software was used to generate statistical and random attribute test samples to accomplish audit objectives. Sequential sampling was used to complete detailed test work for applicable audit procedures. Population data was derived from City telecom, Enterprise Resource System (ERP) and vendor systems.

APPENDIX B

Potential Excessive Use Cell Phones

3 Month “Plan” Min. Use Average	Job Title	Department
1,031	Intelligent Trans Systems Mgr	Department of Municipal Development
1,043	Residential Building Insp	Planning Department
1,045	Operations/Maint Supv	Department of Municipal Development
1,050	Police Officer 1/c	Albuquerque Police Department
1,054	Police Officer 1/c	Albuquerque Police Department
1,060	Assistant Park Superintendent	Parks & Recreation Department
1,085	Lead Mechanic	Solid Waste Management Department
1,087	Fleet Maint Spec/AFD	Albuquerque Fire Department
1,097	Marketing Manager	Animal Welfare Department
1,110	Accountant II	Solid Waste Management Department
1,118	Solid Waste Supv	Solid Waste Management Department
1,126	Child Dev & Ed Prog Mgr	Department of Family and Community Services
1,140	Lieutenant	Albuquerque Police Department
1,150	Solid Waste Supv	Solid Waste Management Department
1,166	Sergeant	Albuquerque Police Department
1,204	Commercial Building Insp	Planning Department
1,209	Solid Waste Supv	Solid Waste Management Department
1,256	Events Mgr	Cultural Services Department
1,263	Solid Waste Supv	Solid Waste Management Department
1,290	Solid Waste Supv	Solid Waste Management Department
1,295	Director	Environmental Health Department
1,347	Electrician II	Department of Municipal Development
1,381	Lieutenant – 40 HR	Albuquerque Fire Department
1,402	Lead Striper	Department of Municipal Development
1,504	Solid Waste Supv	Solid Waste Management Department
1,673	Program Manager	Albuquerque Police Department
1,690	Police Officer 1/c	Albuquerque Police Department
1,692	Operations/Maint Supv	Department of Municipal Development
1,695	Environ Health Supervisor	Environmental Health Department
1,700	Solid Waste Supv	Solid Waste Management Department
3,337	Crisis Outreach/Support Spec	Albuquerque Police Department

APPENDIX C



City of Albuquerque
Mobile Device Authorization Form **DRAFT**

Section 1 –To be filled out by Department Director

Please check the appropriate box.

Pager

Cell Phone

Employee Name:	_____	Department:	_____
Employee Number:	_____	Director Name:	_____
Employee Contact: PH#:	_____	Director Contact: PH #:	_____
Email:	_____	Email:	_____

Desired Start Date: _____

During working hours, what percent of your employee's time is spent away from a desk or in the field?

- Less than 10%
- 10% to 49%
- 50% or more

How long is this mobile device needed?

- Project/Grants, End date _____
- Ongoing

Describe the use of the mobile device?

Pager:

Numeric Alpha/Numeric 2 – Way

Please provide justification for pager use:

Cell Phone:

How often does this employee have a business need to use the following features on his/her mobile device?

Phone Calls:

- Rarely or never
- 1 to 2 calls per day
- 3 to 5 calls per day
- More than 5 calls per day

Internet:

- Rarely or never
- 1 to 2 times per day
- 3 to 5 times per day
- More than 5 times per day

Text Messages:

- Rarely or never
- 1 to 50 texts per day
- 51 to 100 texts per day
- More than 100 texts per day

Push to Talk:

- Rarely or never
- 1 to 2 times per day
- 3 to 5 times per day
- More than 5 times per day

Please list any necessary applications or accessories needed.

Please provide a justification for cell phone use.

Director's Signature: _____

Date: _____

Section 2- To be filled out by employee

Please read the following statements and initial to indicate your understanding of the below responsibilities.

- Personal calls are not allowed on the City of Albuquerque’s cellular device, regardless of length or frequency.
- Due to security concerns, only work-related applications are allowed to be installed on the mobile device.
- Streaming music or video for personal use is prohibited.
- A detailed report of mobile device usage will be reviewed by management.

Employee’s Signature: _____ Date: _____

Authorization Signatures:
Department Director Signature: _____
Chief Information Officer Signature: _____
Chief Administrative Officer Signature: _____

APPENDIX D

Operational Structure and Oversight Practices for Telecom Services by City

City	How Are Telecom Services Administered	Primary Reasons for Current Administration of Telecom Services	Oversight and Optimization Activities for Telecom Services	Type and Usefulness of Software Used for Chargeback Processes
Albuquerque, NM	Centralized	Resource efficiency and economies of scale	Pooling of cell phone minutes and limitation to two cell phone plans .	AnchorPoint chargeback software – the purchase of additional modules would enhance the functionality and support of AnchorPoint.
Austin, TX	Primarily Centralized	Cost effective	Monthly bill review for landline services that routinely identify “phantom” lines. No review for Bring Your Own Device cell phones.	Microsoft Excel and Access – very manual process.
Denver, CO	Primarily Centralized	Cost and support efficiency	Vendor tracks and monitors individual cell phone use. Occasionally monitors landline activity because overall landline cost is very low.	Currently does not have this service but used to use Avotos software.
Oklahoma City, OK	Centralized	Realized benefit of centralization, economies of scale and oversight aspects	A strenuous and lengthy clean-up/true-up process to identify needed landlines was performed prior to the implementation of new service software, which now continuously monitors landline activity. Cell phone options are limited to two plans.	City developed network and database – functions well but is scheduled to be replaced in the near future.
Salt Lake City, UT	Centralized – Landlines Decentralized – Cell Phones and pagers	Cost effective, in-house expertise and efficiency	Landline long distance usage is continuously monitored and actual costs are charged to applicable departments. Pooling of cell phone data and minutes allows flexibility for cell phone use.	Genesis call accounting system – meets the telecom needs of the City.
Tucson, AZ	Centralized – Landlines Decentralized – Cell Phones and pagers	Cost effective, budget management and economies of scale	Monitor and perform landline use and cost audits on a monthly basis, which includes reviewing charge rates, converting services, canceling unused lines and the reconfiguration of under-utilized services.	Microsoft Excel – used to monitor most telecom services.
Tulsa, OK	Centralized	Cost effective and natural evolution of service needs	Enterprise-funded departments are directly billed, while general-fund departments are tracked and indirectly billed. Long distance is spot-checked to verify the business need. Pooling of cell phone data and minutes allows for consistent billing. Centrex Lines are problematic and a lot of research must be performed to identify abandoned lines.	VeraSmart for PBX and Microsoft Excel for remaining telecom charges – the purchase of additional modules would enhance the functionality and support of VeraSmart.

Source: OIA surveys