

CITY AUDITOR

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Honorable Cary Bozeman, Mayor
Members of the City Council

The Office of the City Auditor has completed an audit of the City Telephone System and has issued the attached report. Three recommendations were made for the Department of Public Works and Utilities to consider. Their response is included as the last page in the report.

The assistance provided by Jeff Collins, Electronics Technician who maintains the telephone system, is greatly appreciated.

Sincerely,

Gary W. Nystul

cc: Phil Williams, Director of Public Works & Utilities

AUDIT OF CITY TELEPHONE SYSTEM

Purpose

The Office of the City Auditor reviews various phases of city operations. This review of the city telephone system was scheduled on the 2008 work plan.

Scope

This review of the city telephone system includes financial transactions, operations, and policies and procedures during 2007 and 2008. Cell phones and pagers are not included.

Statement of Auditing Standards

This performance audit was conducted in accordance with generally accepted government auditing standards except Standard 3.50 requiring an external quality control review. Those standards require that the auditor plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives. The auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Objectives

The objectives of this audit were to:

- Review the financial activity including cost allocation
- Review policies and procedures
- Note opportunities for improving management or cost savings

Summary of the Results

- City policy 3-10-12 regarding telephones, is out of date, does not reflect current costs of the city telephone system, and has ambiguous provisions.
- The cost of long distance calls is allocated to each departments based on the number of phone lines and equipment they have and not on the actual costs incurred.
- There are some housekeeping tasks to be performed for system administration.

Background

The telephone system in the City of Bremerton consists of telephone lines, switches and instruments that are owned by the city as well as lines that are leased from Qwest and others. (See attached diagram). The system is essentially a private branch exchange with some off premise extensions. The city owns the main switch which is connected to Qwest and the outside world by leased lines. There are also seven smaller switches located at other facilities such as parks, and public works at Oyster Bay and Olympus. These are connected to the main switch by both city owned and leased lines. There are also several "off-premise-extensions" which are telephones using Qwest lines but connected to the city's switch.

In 2007, the city paid Qwest \$179,536 for equipment leases and long distance. The equipment and lease line charges are apportioned monthly to each department. The total Qwest cost is allocated as a percentage of the "cost" of lines and equipment each department is using. The "cost" is an amount established for the basic maintenance, basic service, voice mail, digital service, and direct inward dialing that each department uses.

For example, the auditor has one digital phone with caller ID, direct inward dial, and voice mail. The assigned cost in 2008 was \$21.90 per month. The city council, with five telephones, fax line and seven telephone numbers is charged \$113.25 per month.

Long distance service is provided by Qwest for most in-state calls and by the State of Washington, Department of Information Services on their SCAN line for all other long distance. The monthly long distance cost is allocated to each department based on the same percentage as the equipment costs. The actual cost of long distance service is not allocated to any department.

The telephone system has software that is used to allocate equipment and line charges to the departments each month. The software is capable of calculating the monthly long distance charges for each user. However, it is not used for that purpose.

One Electronics Technician spends approximately 50% of his time managing the city telephone system. He installs and moves the telephones, programs the switches, and runs the monthly billing report for the equipment percentage. The cost of his time has been paid by the Street Fund. There has not been any direct or indirect cost assessed for overhead to any other funds. The system is not operated as an internal service fund.

RECOMMENDATIONS

- 1. City Policy 3-10-12 does not reflect current telephone system use, includes undefined provisions, and needs to be updated.**

Policy 3-10-12 is entitled “City Telephone Policy” and is the only city policy that pertains to telephones. It was originally effective October 1, 1995 and was last revised November 5, 2005 to add a cell phone stipend provision. Its stated purpose is “To provide direction to City employees and elected officials regarding permissible use of city telephones including cellular communications technology.” However, the policy only addresses personal use of telephones, reimbursing the city for costs of personal use, cell phone stipend program, and city issued cell phones.

The policy does not discuss the overall administration of the telephone system. The policy references a committee to meet quarterly to review cellular telephone use but does not state who is assigned to be on the committee or who is responsible to form and head the committee. It refers to an annual report on compliance with telephone policy but does not say who is to prepare it. It requires reimbursing the city for the cost of all personal calls, placed or received, regardless of cost.

Policies should be written with sufficient clarity that city officials and employees can follow them. For example, it should be clear who establishes a committee, who is to be on it, and who is in charge. Any reports required by policy should identify what is to be reported, who is to report it and to whom.

The policy requires an unreasonable amount of record keeping for de minimus costs of personal calls by an employee. Long distance calls cost about three cents per minute. It is not practical to collect a few cents for personal calls. Much change has occurred in the nature, use, and cost for telephone service in the last few years. The policy is out of date.

Recommendation

The city administration should revise the policy to:

- Provide reasonable guidelines for use of city telephones including reimbursement for other than de minimus costs
- Assign responsibility for overall management of the telephone system
- Remove unnecessary committees and reports from the policy

2. Long distance charges are allocated to departments based on a percentage of the total cost for telephone lines and equipment. It has no correlation to actual costs incurred.

Long distance telephone charges are not a large city expense. For 2008, the city paid about \$8,300 for long distance. However, there is no correlation between a department’s actual cost of long distance and what it is assessed. Monthly costs are allocated to each department based on the percentage that the department’s charges for telephone lines and equipment are to the total city cost of equipment. For example, if a department has 0.28% of the total cost of telephones and lines, they are charged 0.28% of the monthly long distance costs, regardless of what their actual expenses were.

In addition, there is no accountability for the expense. The monthly invoice is computed by the electronics technician and is sent to the finance department. Monthly costs are charged to the departments by a journal entry by the finance department. The departments do not review and approve the monthly costs.

A following table shows actual Qwest long distance costs for August 2008 compared to what the department was charged.

Department	Actual	Amount Charged	% of Actual Charged
Auditor	\$1.76	\$1.16	66.06%
City Clerk	\$3.36	\$2.70	80.42%
City Council	\$0.64	\$4.69	732.06%
Block Grant	\$1.15	\$3.16	274.59%
Community Development	\$30.82	\$17.94	58.20%
Conference Center	\$45.81	\$9.59	20.94%
Municipal Court	\$22.99	\$21.88	95.16%
Economic Development	\$7.19	\$3.45	47.99%
Human Resources	\$4.53	\$7.22	159.31%
Finance	\$9.06	\$13.25	146.18%
Fire	\$30.59	\$24.41	79.81%
Golf Course	\$31.30	\$23.63	75.50%
Legal	\$31.95	\$11.71	36.65%
Executive	\$4.66	\$4.15	89.01%
Parks	\$13.70	\$40.61	296.36%
Police	\$57.01	\$73.91	129.65%
Water	\$58.15	\$79.06	135.97%
Engineering	\$24.84	\$14.99	60.34%
Equipment Services	\$5.92	\$6.19	104.56%
Gen Fac	\$0.42	\$6.31	1519.60%
Information Services	\$0.24	\$7.02	2958.53%
Streets	\$10.84	\$10.26	94.62%
Electronics	\$4.24	\$8.68	204.94%
Wastewater	\$13.93	\$19.22	137.99%
Telephone System	\$0.00	\$0.00	0.00%
Long Distance Total	\$415.09	\$415.19	

The monthly “invoice” of long distance calls is created by the telephone software. It shows the actual cost and detail of each long distance call. The “invoice” is distributed to the departments but is not generally used to review costs. For example, from April to November 2008, this report contained a programming error. The error made it impossible for any department to verify numbers called on the scan line. None of the departments complained. The error was corrected after the auditor pointed it out during the field work for this audit.

Few managers or employees seem to understand how the telephone charges are computed. The annual budget and monthly department charges are established with little transparency. The proprietary software system is used to calculate the monthly equipment charges to arrive at the department's percentage. The same software is capable of calculating long distance costs which could then be used to allocate actual costs to the departments. There is essentially no cost to implement this change.

The usual procedure is that each city department pays for the supplies and services they actually use. Department managers are accountable for and manage their expenses. Similar accountability and cost allocation should apply to long distance costs.

Recommendation

- The city administration should change cost allocation procedures so that each department pays for its actual long distance telephone costs.
- The telephone software the city already has should be utilized to calculate costs.
- Departments should review monthly invoices to verify the appropriateness of the expenditure of public funds.

Note: After the draft of this report was completed, Public Works changed their procedures so that actual long distance costs area now allocated to all users.

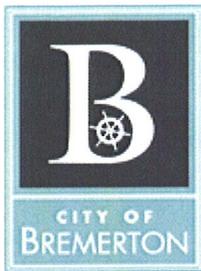
3. There are several financial and management issues that should be considered.

- A. The Street Fund has been paying the costs to maintain and operate the city telephone system. Some telephone improvement projects have been paid for by the department the work was done for. Most other telephone maintenance and improvement costs are paid for by the Street Fund. In 2008, according to a project cost report, the cost of telephone system maintenance, including labor and materials, was \$66,179. The rate structure to the various departments could be constructed to recover this cost. An Internal Service Fund could also be created.
- B. In case of power failure, the main telephone switch has a battery backup that may supply up to four hours of power. The switch and batteries are in the police headquarters building which has a standby generator. However, this generator was configured for the prior building owner. It has not been tested for telephone use although the police and switch have occupied the building since February 2007.

This telephone switch is the main connection between all city telephones, including police and fire, to the outside world. In case of a power failure, after about four hours, the police, fire and all city telephones would not function. The city should know if the generator will work to supply electricity to charge the batteries. Public Works & Utilities and Police should work together to verify the ability of the generator to supply the telephone batteries.

NOTE: In a report reviewing police property room procedures, issued December 12, 2008, it was pointed out that the standby generator had not been tested or configured for police use. The police moved into the remodeled building in February 2007.

- C. Some instances were noted where a review of monthly billing detail and financial entries is needed to correct some oversights. Care should be taken to ensure costs are appropriately charged. Procedures should be in place to ensure any changes in the system are fully implemented and costs appropriately adjusted.
- A city telephone line to an office building on Kitsap Way used by the EMS Council was not disconnected when they moved about two years ago. The monthly cost is \$41.67. It is now disconnected.
 - A foreign exchange line and two off premise extensions for the golf course are not charged to the golf course but are part of the common allocated costs.
 - The T1 line for the wastewater treatment plant is billed twice. The monthly cost is \$254.12.
- D. Most departments do not know how their telephone charges are determined. Better transparency and accountability could be accomplished by providing each department annually with copies of their equipment and line charges. This could be part of the annual budget process.



Friday, April 10, 2009

To: Gary Nystul
From: Phil Williams, Director of Public Works & Utilities

SUBJECT: Response to Telephone System Audit

In response to your Audit, We agree the current city policy on phone usage needs to be updated to reflect current conditions and possibly have a separate Cell phone policy. Public Works will take the lead to start drafting a new policy by EOY 2009.

In the case of the long distance costs as of January 2009 Electronics has changed the reporting to have one report each for each phone bill so the cost will be allocated to the correct users. The known house keeping issues have been taken care of and public works will continue to work with the Finance Dept. towards an enterprise fund for the phone system.

We will also work with the police department on the backup generator testing. Electronics will contune to go over the bills so the correct lines are all billed out at the correct rates and make certain that Finance has correct billing information in the budget development process for 2010.