

Performance Audit Report

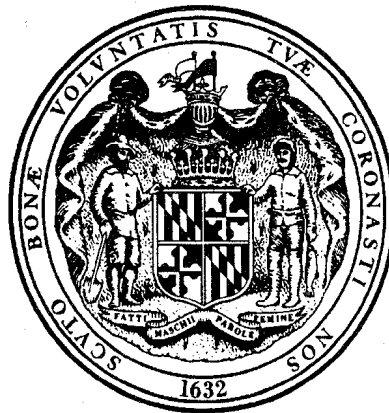
State Cell Phone Usage

Effective Statewide Oversight of Cellular Communication Services and Expenses Was
Lacking

Cell Phone Vendors Did Not Comply With Certain Contractual Requirements

State Agencies Did Not Adequately Monitor Cell Phone Usage

February 2003



Office of Legislative Audits
Department of Legislative Services
Maryland General Assembly

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

February 10, 2003

Delegate Van T. Mitchell, Co-Chair, Joint Audit Committee
Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted a performance audit to determine the adequacy of the Department of Budget and Management's (DBM) oversight of the statewide procurement and usage of cell phones and services. We also assessed State agencies' oversight procedures.

Our audit results suggest that the State's cell phone program needs to be extensively reformed. DBM and State agencies generally were not monitoring cell phone usage for cost effectiveness and efficiency. Key problems were DBM's failure to tailor the cell phone contract procurements to match the State's needs; inadequate monitoring of the four cell phone vendors; and not providing centralized oversight of agencies as required by DBM's own guidelines. Oversight was so poor that neither DBM nor the vendors could quantify such basic information as the number of cell phones in use by State agencies and the related annual cost (we estimated at least 6,700 phones at a cost of \$5.3 million). We also found that State agencies were not ensuring that cell phone users were in the proper service plans (based on features and cost) and were giving phones to employees who did not appear to meet the DBM criteria for cell phone assignment. Even though we were hampered by a lack of comprehensive usage information on which to base our testing, we still identified potential savings from our findings totaling as much as \$500,000 annually.

An executive summary can be found on page 5 of the report. Our objectives, scope and methodology of the audit are explained on page 11.

We wish to acknowledge the cooperation extended to us during our audit by DBM and the State agencies selected for review and testing.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

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Executive Summary

Background

We conducted an audit to assess the adequacy of the Department of Budget and Management's (DBM) procurement and oversight of cell phones, as well as the procedures used by selected State agencies to control and manage cell phones.

In acknowledging that cell phones have proven to be valuable tools for enhancing efficiency and productivity, DBM has contracted with several vendors to make cell phones available to State employees. The DBM is responsible for procurement of the statewide contracts and for monitoring contractor performance. In accordance with State law, which designates that DBM is responsible for developing policies for telecommunications equipment, the Department has established a policy regarding the acquisition and use of cell phones by State agencies; see Exhibit 3.

In accordance with DBM policy, State agencies are required to document compliance with certain requirements both prior to and after issuance of a cell phone to an employee. These requirements address providing justifications for assigning cell phones to employees, obtaining necessary approvals for cell phones assigned, and monitoring cell phone usage for under-utilization and personal calls. The policy also describes certain mandatory and discretionary centralized DBM oversight of agencies' cell phone assignments and usage.

Conclusions

Our audit results raise significant concerns about cell phone usage within State government. We believe that the present cell phone program as structured by DBM and implemented by State agencies and DBM has contributed to seemingly unregulated use in cell phones, leading to waste and inefficiencies.

Our testing of cell phone records at five State agencies and the limited vendor data that we were able to obtain during the audit, indicated that the State could realize considerable savings from stricter enforcement of existing policies and more effective monitoring of vendor performance and employee usage. For example, from our review of employee usage patterns we identified almost \$500,000 in potential annual savings, resulting from under-utilized phones and service plans that did not match usage patterns. Furthermore, centralized oversight is so lax that neither DBM nor the four cell phone vendors under contract to the State could determine the actual number of phones assigned to State employees or the associated statewide cost. Our review of vendor records (which were incomplete)

and the State’s accounting system (which did not specifically identify cell phone expenditures) indicated that there were at least 6,788 phones in use during fiscal year 2002 at an annual cost in excess of \$5.3 million; see Exhibit 1.

Objective 1 – Adequacy of DBM Guidance and Oversight

Our audit disclosed the need for improvement in three broad areas. In each area we identified specific conditions that collectively have led us to conclude that current processes need to be extensively reformed.

| Overview of Major Findings – Objective 1 | |
|---|--|
| Problem Area | Examples of Specific Findings |
| Contracts and Procurement | Contracts were not necessarily customized to meet the State’s unique needs. The over 100 service plans offered were similar to those offered to the public, without modifications such as price reductions for use during normal State business hours. (Finding 1) |
| | Documentation was missing for two contracts to support the basis for the contract award. (Finding 2) |
| Monitoring of Cell Phone Vendors | The State did not receive savings from new service plans, which, from our review of data from one vendor, disclosed the potential for as much as \$200,000 in annual savings. (Finding 4) |
| | Certain charges may have been inappropriately paid by the State (Finding 5), and the State did not receive all contractually required deliverables from the vendors. (Finding 6) |
| Oversight of State Agencies | DBM’s cell phone policy was not comprehensive, failing to address such issues as the use of phones while operating an automobile to limit State liability. (Finding 8) |
| | Although provided for in current policy, DBM did not monitor the assignment of State agency cell phones to ensure they met policy requirements. We identified approximately 1,600 cell phones that were used less than 3 hours in an entire year at a cost of \$122,000. (Finding 9) |

Objective 2 – Adequacy of Monitoring by Selected State Agencies

Our findings for this objective were based on reviews and testing of limited available cell phone usage data from two vendors at five judgmentally selected State agencies. These findings indicate that there is a general lack of control over the assignment and use of cell phones. For example, although statewide cell phone guidelines were issued by DBM (see Exhibit 3), the agencies had not developed internal policies and procedures addressing how the DBM policies were to be implemented (Finding 11). Furthermore, we noted:

- State agencies did not monitor cell phone usage. We identified hundreds of active phones that were not used at all during fiscal year 2002, as well as 74 high volume users that could have been in more cost effective plans saving the State \$130,000 annually. (Finding 12)
- Agencies generally did not obtain reimbursement for personal calls made with cell phones. (Finding 13)

Recommendations

We believe that the State's cell phone program needs to be reformed to ensure the efficient and effective use of cell phones by State employees. Our discussions with DBM management indicate that they share our concern and plan to (1) initiate a procurement process for new cell phone vendors in the Spring of 2003, (2) establish monitoring procedures for vendor performance and State agency compliance with cell phone assignment and usage guidelines, and (3) issue more comprehensive guidelines to State agencies. Furthermore, the agencies should establish internal policies for cell phone assignments and use, including periodic monitoring and reimbursement of personal phone calls.

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Background Information

Responsibilities of the Department of Budget and Management

The Department of Budget and Management (DBM) has the mandated authority to coordinate the development, procurement, management and operation of telecommunication equipment, systems and services by State agencies. The DBM carries out these responsibilities through the Office of Information Technology – Division of Telecommunications. In its policy, DBM acknowledges the value and usefulness of cell phones in improving efficiency and productivity. Therefore, DBM has entered into contracts with several vendors to provide cell phones and services to State officials and employees.

In order to provide guidance to State agencies as well as to assign responsibility for the operation of the State's cell phones and services, DBM issued a Telecommunications Policy Memorandum in June 1989, which was revised in February 1999 (see Exhibit 3). The current policy addresses:

- Assignment and reassignment of cell phones;
- Requests for cell phone equipment and services;
- Acquisition of cell phone equipment and services;
- Usage reviews

According to the policy, DBM is responsible for evaluating agency cell phone requests, coordinating cell phone acquisitions and reviewing agency cell phone usage. Agencies have the responsibility to initially approve all requests for cell phones and to review monthly usage and charges.

We were informed that DBM is in the process of revising the policy with an expected issuance in Spring 2003.

Cellular Service Contracts and Vendors

The DBM currently has contracts with four vendors to provide cellular equipment and services. As commented upon in this report, we were unable to obtain conclusive information regarding either the number of phones in use by State agencies or the total amount of expenditures incurred by State agencies for cellular service. Based on data we were able to obtain from DBM, three of the four vendors and the State's accounting system, we compiled certain phone and financial data, as shown in the Table 1 on the next page.

Table 1
Schedule of Current Vendors and Available Contract Information

| Vendor | Contract Award Date | Current Contract Ending Date (including approved extensions) | Number of Phones (FY 2002) | Fiscal Year 2002 Expenditures | Estimated Annual Contract Value |
|---------------|----------------------------|---|-----------------------------------|--------------------------------------|--|
| Vendor 1 | September 2, 1998 | September 1, 2003 | 2,558 | \$ 2,650,258 | \$ 2,000,000 |
| Vendor 2 | September 2, 1998 | September 1, 2003 | N/A | 294 | 500,000 |
| Vendor 3 | November 10, 1999 | November 9, 2003 | 2,125 | 1,005,729 | 500,000 |
| Vendor 4 | November 10, 1999 | November 9, 2003 | 2,105 | 1,705,983 | 500,000 |
| Totals | | | 6,788 | \$ 5,362,264 | \$ 3,500,000 |

Sources: Number of Phones – Vendor provided schedules. Vendor 2 could not provide any usable information in a timely manner.

Expenditures - Extracted from the State's accounting records for payments made to the vendors. We were unable to readily determine why only limited payment data was available for Vendor 2.

Audit Scope, Objectives and Methodology

Scope

We conducted a performance audit to assess the adequacy of oversight and monitoring of cell phone acquisitions and usage by the Department of Budget and Management and State agencies. We conducted the audit under the authority of the State Government Article, Section 2-1221 of the Annotated Code of Maryland and performed it in accordance with generally accepted government auditing standards.

Objectives

We had two specific audit objectives:

- (1) To assess the adequacy of the Department of Budget and Management's (DBM's) procurement of cell phones and services and its oversight of State agencies' cell phone usage.
- (2) To assess the adequacy of procedures used by selected State agencies to determine whether cell phones were properly controlled and managed in an effective and efficient manner.

Our audit objectives did not include an evaluation of agency justifications for cell phone assignments and the propriety of those assignments.

Methodology

To accomplish our objectives, we reviewed applicable State laws and regulations, as well as policies and procedures established by DBM and the five selected State agencies. We also interviewed personnel at DBM's Division of Telecommunications and those agencies involved in either the oversight of the State's cellular services or the procurement of State contracts. We obtained electronic files detailing cell phone usage from vendors, when available, and performed automated analyses of the data. We also reviewed the records maintained by DBM and the selected State agencies. Since our results were based on non-statistical tests and, as disclosed in the Findings and Recommendations Section of this report, the true number and cost of the cell phones and services to the State could not be determined, we could not project our results on a statewide basis. We discussed the results of our audit with the responsible agency officials.

Agency Selection Process

Although no statewide statistics were maintained regarding the number and costs of cell phones assigned to State agencies, using certain vendor supplied documents we were able to select agencies and specific users (employees) for testing.

However, only two of the four vendors under contract with the State responded in a timely manner to our request for summaries and details of fiscal year 2002 cell phone usage. For testing purposes, the remaining two vendors could not provide usable information in a timely manner. Therefore, the judgmental selection of the five agencies reviewed was based on usage data from only two of the four vendors. The agencies selected were as follows:

Department of Human Resources (DHR)

Maryland Department of Transportation - State Highway Administration (SHA)

Department of Juvenile Justice (DJJ)

Department of Health and Mental Hygiene (DHMH)

Department of Business and Economic Development (DBED)

See Exhibit 1 for a summary of the number of cell phones and related fiscal year 2002 expenditures by State agency, based on the data we were able to obtain.

Fieldwork and Agency Responses

We conducted our fieldwork from July to December 2002. During the course of our fieldwork, we obtained general agreement with our findings from all the agencies audited. The formal agency responses to our findings and recommendations that were received prior to the printing of our report appear as an appendix. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the agencies regarding the results of our review of their responses.

Findings and Recommendations

Adequacy of Department of Budget and Management's (DBM) Oversight

Conclusion

Our audit disclosed that DBM has exercised very little oversight of the usage of cellular communication equipment and services, including monitoring of State agencies and the cellular service vendors. Consequently, there were no reliable statistics maintained or otherwise available identifying the extent and cost of cell phone usage on a statewide basis, so that in many cases the financial impact of the issues addressed by this report is unknown. Problems were encountered in all facets of DBM monitoring, from the lack of comprehensive guidance, a failure to control the assignment and usage of cell phones by State agencies, to the total lack of effective monitoring of the four vendors contracted to provide cell services.

It should be noted that the findings are based on our review and testing of limited available data for only one year. Accordingly, when considered statewide and over the life of the contracts, there is the potential for significantly greater financial impact than is presented in this report.

Contract and Procurement Issues

Finding 1

The procurement process did not ensure that the four contracts were structured to best meet the State's needs.

Analysis

The procurement process used by DBM did not ensure that the four cell phone services contracts were structured to best meet the State's needs. The DBM did not formally analyze the State's needs prior to bidding the contracts. For example, the most likely use of cell phones would be during the State's normal business hours (that is, 8 a.m. to 5 p.m.). However, DBM's request for proposal was not structured to solicit proposals to target this primary need, even though we were informed by representatives from the cell phone vendors that customized business accounts are common. As a result, the bidders submitted proposals that provided the State with monthly service plans similar to those available to the general public, but at a discounted price (10% to 12% depending on the vendor). These plans included many features (such as unlimited night and weekend minutes, nationwide long distance) that may be useful but did not necessarily meet the specific business

needs of State users. The plans offered to the State generally included a specified number of free minutes per month and additional minutes at a cost of \$.04 to \$.40 per minute, depending on the plan and when the call was made (that is, peak vs. non-peak times).

In our opinion, the failure to tailor the procurement to the services required by State agencies resulted in DBM offering agencies an overwhelming array of vendors and service plans. For example, the current four contracts collectively offer users over 100 different plans from which to select when activating new

The current vendors offer over 100 different access plans complicating efficient phone management.

services or modifying existing services. While a large selection provides agencies with a great deal of flexibility, we believe that it unnecessarily complicated the selection and monitoring process for agencies. The large number of plans also makes it difficult for agencies to efficiently manage cell phone accounts. In addition, as

noted in Finding 4, we identified 440 phones using outdated or inefficient usage plans offered from one vendor resulting in the State foregoing potential annual savings of \$200,000. For the reasons commented above and in subsequent findings, it might be in the State's best interests to not renew the current cellular service contracts, but instead initiate a new procurement for these services. The DBM informed us that they intend to issue a new request for proposals for cellular services in calendar year 2003.

Recommendation 1

We recommend that DBM initiate a new procurement process for cell phone services to become effective at the end of the current renewal periods. In addition, we recommend that for this and future procurements of cell phone services, DBM formally analyze State agencies' cellular service requirements and tailor the request for proposals to meet the needs of the State agencies. We also recommend that DBM limit the number of plans to simplify the selection and monitoring of plans by State agencies.

Finding 2

Certain procurement actions and decisions were not adequately documented or justified.

Analysis

The DBM took certain procurement actions that increased the number of cell phone vendors from two to four without adequate documentation or justification. In September 1998 DBM awarded contracts to two vendors to replace the single

vendor that had been supplying cell phones under a 1995 contract. Even though the vendor under the 1995 contract had unsuccessfully bid on the September 1998 procurement, subsequent DBM actions resulted in the vendor continuing to supply cell phones to the State.

Specifically, after the award of the two 1998 contracts, DBM extended the term of the 1995 contract, resulting in three vendors providing all cell phone services. In the Request for Proposals (RFP) related to the September 1998 procurement, DBM advised bidders that the existing 1995 contract might be extended so that the State could keep cell phone numbers then in use; however, adequate justification to take this action was not evident. One of the successful bidders for the 1998 contract indicated that it would convert all cell phones served under the 1995 contract to its own network at no cost to the State, negating the need for the extension. Furthermore, there was no documentation that the extension was cost/beneficial to the State.

In November 1999, after a new procurement, DBM formally awarded new cell phone contracts to two vendors while keeping the two 1998 contracts. Since one of the two new vendors was the original 1995 vendor, that contract was terminated, leaving the State with four vendors providing cell phone services. The original reason for the November 1999 procurement was to obtain specialized communication services (such as direct dispatch services) not previously covered under the 1998 contracts. However, when little vendor interest was shown in the new procurement, DBM amended the RFP to include normal cell phone services, which were already covered by the 1998 contracts. Furthermore, DBM did not retain original documentation for the 1999 contract awards or publish these contract awards in the Maryland Register as required by State regulations. For example, the rationale for awarding contracts to two vendors instead of one was not documented.

DBM indicated that it took these actions in an effort to increase competition among vendors for State business. However, it could not quantify or otherwise document what effect these decisions had on competition. Although all of these contracts were approved by the Board of Public Works, certain decisions and actions taken appear contrary to the intent of the State Procurement Regulations.

Recommendation 2

We recommend that DBM publish contract awards and retain all critical documentation supporting the evaluation and awarding of future cell phone contracts and extensions as required by State Procurement Regulations.

Finding 3**The DBM extended contracts without evaluating vendor performance and cost/benefits.****Analysis**

The DBM has awarded 13 contract extensions totaling \$12.6 million to the four cell phone vendors without considering whether these actions were in the State's best interests. The DBM provides current cell phone services under extensions valued at \$3.5 million annually that expire either September 1, 2003 or November 9, 2003 depending on the contract. As noted in Finding 6, the vendors frequently did not comply with certain contract provisions (such as submitting required reports) designed to allow DBM to monitor the contracts. However, DBM did not take any action to identify and resolve these deficiencies prior to extending the contracts. While the contracts included provisions to assess penalties for failing to meet certain requirements, these provisions were related to actual cell phone system performance (such as system down time) and not to these administrative deficiencies.

In addition, DBM did not determine whether other vendors could provide similar services (including coverage area) to the State at a lower cost. We identified two vendors not currently under contract with the State that offered less expensive monthly access plans to the general public that were just as comprehensive as the plans provided to the State by the current vendors.

Recommendation 3**We recommend that DBM evaluate vendor performance and potential costs and benefits prior to granting contract extensions.****Monitoring Cellular Vendors****Finding 4****The DBM did not notify State agencies of changes in cell phone plans that could result in potential savings.****Analysis**

While DBM informed us that the vendors generally made DBM aware of new price plans (with either lower monthly access costs or more benefits for the same monthly access cost), DBM did not pass this information on to the agencies to determine if they could benefit from the new price plans. The contracts with all

four vendors included a provision that the State would receive any reduction in prices made to these plans, similar to those offered the general public, during the term of the contracts.

The impact of these conditions could be financially significant. Based on information provided by one vendor for fiscal year 2002, we identified

The State could save up to \$200,000 annually with one vendor by switching to more efficient access plans.

approximately 440 users with either outdated or inefficient monthly access plans. A comparison of the current monthly plans for these cell phones to other available plans with either lower monthly costs or more minutes for the same cost disclosed that the State could save up to \$200,000 annually by switching these 440 users to these updated plans. These potential savings would result from reduced monthly access costs and additional free minutes. We could not estimate total potential savings since the other three vendors were unable to provide this information.

Recommendation 4

We recommend that DBM inform State agencies of all current available monthly access plans and new plans as they become available. We also recommend that DBM investigate, for the next procurement process, having the vendors automatically apply plan changes to State accounts.

Finding 5

The State incurred expenditures for certain charges that may be prohibited under the contract.

Analysis

The State incurred charges for roaming on calls made by its employees. Roaming occurs when the user makes or receives calls outside of the calling area permitted by the user's monthly access plan. According to the request for proposals, DBM indicated that the State would not pay any one-time or recurring roaming or administrative fees within contracted regions. Although we could not specifically determine whether calls with related roaming charges were made outside the regions specifically covered by the contracts, such would seem unlikely. For example, our review of the one vendor's contract indicated that the vendor provided service in a network that covers the majority of the east coast where no roaming charges should apply. However, according to information provided by the vendor, the State paid \$131,000 in roaming charges in fiscal year 2002. We could not determine expenditures for roaming related to the other three vendors since

they were unable to provide us with expenditure information. The DBM informed us that it was their belief that the State should not incur any roaming charges, based on contract terms and the size of the service networks.

We also noted that this vendor billed the State \$24,000 in State and Federal taxes during fiscal year 2002. Although we sighted invoices where the agencies deducted these taxes from the invoiced amount, we also sighted instances where the agencies paid the tax. State law specifically exempts the State from payment of State sales and use taxes and the request for proposal also states that the State is generally exempt from Federal taxes.

Recommendation 5

We recommend that DBM review roaming charges incurred by the State since the start of the current contracts and, if appropriate, take the action necessary to recover these charges. We also recommend that DBM determine the extent to which the State has been billed and subsequently paid taxes prohibited under the contract, and recover such payments. Finally, we recommend that DBM advise the vendors to discontinue billing the State for prohibited charges and taxes.

Finding 6

The vendors did not provide certain contractually required information and services.

Analysis

The DBM did not enforce contract provisions that required vendors to provide certain information and services. For example, except as noted, DBM did not receive the following required information from any of the four vendors:

- except for one vendor, monthly reports of all charges for equipment and services (such as new phones and monthly access plan costs). The DBM did not use these reports for any type of monitoring.
- reports of newly activated cell phones delivered and installed.
- telephone directories of all State users.

In addition, the majority of vendors could not provide us with adequate documentation of cell phone equipment and expenditures related to the State contracts. During the audit, we contacted all four vendors and requested

Only one of four vendors could provide detailed information on the number of phones and total costs.

information related to the number of cell phones in use by State employees and expenditures for fiscal year 2002 in total and by State agency. Only one of the four vendors provided expenditure information for the fiscal year. Even this vendor could not provide assurance that the information provided represented all phones in use by State employees. Two other vendors provided us with partial data and we could not obtain any useable information from one vendor, except a statement that State colleges and universities were the primary users of its phones and services. Furthermore, although the vendor information provided indicated that 6,788 phones were assigned to the State, the vendors could not readily identify the specific agencies using 463 of these phones.

As a result of these conditions, we could not, nor could DBM, conclusively determine the number of cell phones in use or the total amount of expenditures for fiscal year 2002.

Based on conversations with the vendors, a contributing cause for the lack of information was the State's failure to require each vendor to establish a master account for all agencies. We noted in our testing of individual State agencies that each agency had established a large number of different accounts ranging from a single phone to dozens of phones. As such, the vendors had no mechanism to readily determine which accounts belonged to the State of Maryland under each of the contracts. The DBM advised that, in conjunction with awarding new cell phone contracts, it may require all employees with existing cell phones to turn those phones in to the vendors and obtain new phones under the new contracts.

Recommendation 6

We recommend that DBM ensure that the vendors comply with material contract provisions. We also recommend that DBM work with the vendors to identify all cell phones in use by State employees. Finally, we recommend that, under the newly awarded contracts for cell phone services, all existing users be required to obtain new phones under those contracts, and each vendor be required to establish a master account for all State cell phones.

Finding 7

The contracts did not require vendors to provide call detail to permit effective monitoring of cell phone usage.

The contracts did not include a provision that allowed DBM to request, as needed, detail incoming and outgoing call information for any particular user. Only after considerable effort were we able to eventually obtain this information for fiscal year 2002 activity from two of the four vendors. As a result, of these conditions, DBM could not establish monitoring procedures that would have allowed it to centrally review call activity and costs as permitted under its policy.

Recommendation 7

We recommend that DBM include a provision in future contracts specifying that the vendors provide detail call information by individual user, on an as needed basis.

Oversight of State Agencies**Finding 8**

The DBM's policy on cell phone acquisition and usage was not comprehensive.

Analysis

The Telecommunications Policy Memorandum issued by DBM was not comprehensive. The Policy, originally issued in June 1989 and revised in February 1999 (see Exhibit 3), did not include the following:

- Requirements and guidance for agency-specific policies (such as documentation and record keeping requirements).
- Procedures for terminating cellular service, including return of the phone to a telecommunications coordinator and notification of the appropriate vendor.
- A requirement that State employees sign statements acknowledging receipt of cell phones and an understanding of, and intent to comply with, the State's policy.

- Clarification of using cell phones for personal calls and the related reimbursement. Although DBM informed us that it is their intent that all personal calls made on cell phones be reimbursed, current policies were ambiguous.

Because of the lack of guidance and vague existing policy, State agencies often did not adopt practices to adequately oversee cell phones issued within the agency. Findings related to individual agency oversight of cell phones include a general lack of monitoring and failure to obtain reimbursement for personal calls. See additional details regarding these findings beginning on page 24 of this report.

Current State policy does not address potential liability issues.

We also noted that the current policy did not adequately consider the potential liability associated with cell phone usage. For example, DBM's policy does not include guidance to users of State issued cell phones specifically designed to reduce potential liability to the State in the event of an accident (such as a State employee having a vehicle accident while using the telephone). Some recent legal cases have found the employer liable for damages when an employee using a cell phone for business purposes was involved in a vehicle accident. For example, the State of Hawaii agreed to pay \$1.5 million as its share of costs in a lawsuit involving a State employee who, while talking on a cell phone, allegedly hit a tourist. We were informed by the Office of the Attorney General that any State liability would be covered under Maryland's tort claims law and capped at a maximum of \$200,000 per claimant; however, the issue has not been tested in a court case in the State.

As previously noted, DBM is currently revising the cell phone policy. Based on the comments and recommendations communicated to DBM during the audit, the revised draft policy will include guidance to employees regarding driving and using a cell phone. We provided DBM with examples of policies from other entities that included such provisions as noted above.

Recommendation 8

We recommend that DBM issue a comprehensive cell phone policy that also addresses potential liability issues.

Finding 9**The DBM did not monitor the issuance and usage of cell phones by State agencies.****Analysis**

Although DBM policy requires agencies to submit written justification that specifies that each request for a new cell phone meets certain established criteria, our review of DBM’s procedures disclosed that DBM does not obtain, request or review these justifications. As a result, DBM could not ensure that State agencies’ cell phone assignments complied with its policy. The DBM policy states that cell phones should only be assigned to employees who 1) travel from their assigned work site on State business for a significant part of their work day, 2) have a frequent and recurring need to communicate with others while away from their assigned work site, and 3) must be accessible at all times.

In addition, DBM did not monitor cell phone usage. Specifically, although the policy authorizes DBM to perform random reviews to support the usage of cell

1,600 phones with two vendors were used for three hours or less in fiscal year 2002 costing the State \$122,000.

phones, it had not performed any such reviews since the issuance of the policy. Based on information obtained from two of the four vendors for fiscal year 2002, such reviews could be critical to both ensuring that only appropriate employees receive phones and providing the lowest cost to the State in accordance with the policy.

Specifically, based on this information, we determined that approximately 1,600 employees used their cell phones for three hours or less during the entire 2002 fiscal year, at a cost to the State of \$122,000; see Table 2 below. Based on DBM policy, cell phones should be assigned to employees that have a frequent and recurring need to communicate while away from their work site.

| Minutes Used – FY 2002 | Number of Phones | Cost – FY 2002 |
|-------------------------------|-------------------------|-----------------------|
| None (0) | 651 | \$ 35,176 |
| 1 to 30 | 314 | 16,967 |
| 31 to 60 | 158 | 14,042 |
| 61 to 90 | 110 | 12,536 |
| 91 to 120 | 125 | 11,747 |
| 121 to 180 | 220 | 31,774 |
| Totals | 1,578 | \$ 122,242 |

Source: Monthly billing records obtained from vendors 1 and 4 as shown in Table 1.

We also noted that DBM did not ensure that State employees used only vendors awarded State contracts for cell phones and services. Our review of statewide expenditures for fiscal year 2002 disclosed 13 State agencies that used cell phones and services from two vendors not under contract with DBM. The agencies paid approximately \$80,000 to these two vendors during the fiscal year. Since the State receives a reduction of monthly access fees for cellular services under State contracts (compared to rates offered to the public), using other vendors may have resulted in the State incurring excess costs for these services. In addition, DBM cannot monitor this usage for propriety and it is a violation of DBM's policy which requires that all services and equipment be acquired using the open contracts established by DBM.

Recommendation 9

We recommend that DBM comply with its policy and obtain written justifications for all existing cell phones and future requests. If the agency cannot provide written justification, we recommend that DBM notify the agency to immediately discontinue cell phone service. In addition, we recommend that DBM instruct State agencies to procure cell phones and services only from vendors under contract with the State. Finally, we recommend that DBM conduct random reviews of agency cell phone usage.

Finding 10

The DBM could not identify total statewide expenditures for cell phones.

Analysis

The DBM had not established a unique accounting code for cell phone expenditures in the State's accounting records. We were informed that State agencies were instructed to charge such expenditures to an account that is also used for other telecommunications related expenditures (such as long distance charges). As a result DBM could not readily provide us with cell phone related expenditures nor was it able to obtain this information for monitoring purposes.

Our review of the State's accounting records for one vendor who advised us that it provided no services to the State other than cell phone and related services, disclosed that State agencies charged 30 different expenditure codes for payments to this vendor. State agencies paid this vendor \$1.7 million in fiscal year 2002 using these 30 codes.

We also noted that DBM used a specific vendor ID in the State's Financial Management Information System (FMIS) when it established the blanket purchase orders for State agencies to use when obtaining services and paying the related expenditures. However, State agencies often created additional vendor numbers in FMIS. Specifically, we noted that State agencies used 78 different vendor numbers to process payments to the four vendors under State contract. These conditions made it virtually impossible for DBM to accurately identify total cell phone expenditures.

Recommendation 10

We recommend that DBM, in conjunction with the General Accounting Division, establish a unique expenditure code for cell phone equipment and services. We further recommend that DBM inform State agencies of the new code and reinforce the need to charge expenditures to the proper expenditure codes using the vendor IDs established by DBM.

Agency Monitoring and Management of Cell Phones

Conclusion

State agencies reviewed generally did not adequately monitor cell phones assigned to employees within the agencies. As a result, the agencies were often unaware of the total number of cell phones and related expenditures for the agency and could not properly monitor their usage.

Finding 11

Agencies did not develop specific policies for cell phone assignment and usage.

Analysis

None of the five State agencies we reviewed had developed comprehensive internal policies or procedures to control cell phone assignments or usage. Specifically, although the agencies administered the cell phone program under general policies distributed by DBM, the agencies did not have any written procedures designed to document agency-specific policies and practices. While DBM's February 1999 memorandum on cellular telephones and services provides guidance to agencies on the assignment and usage of cellular equipment and services, it is necessary for State agencies to establish specific procedures based on these guidelines to control the procurement and management of services. For example, agency internal policies and procedures should include information related to:

- the process used to purchase phones, including written justifications and required approvals
- the agency cell phone coordinator and the duties and responsibilities of that person
- procedures designed to identify personal calls and ensure proper reimbursement to the State
- monitoring procedures to ensure that each employee assigned a cell phone has an actual need to retain the phone and is in the most appropriate plan based on phone usage

During our review and tests at five State agencies, we noted a number of issues that should be covered by such internal policies and procedures, including personal calls that were not monitored or reimbursed and employees assigned to inappropriate access plans.

Recommendation 11

We recommend that State agencies develop internal policies and procedures to govern the assignment, usage and monitoring of cell phones.

Finding 12
State agencies tested did not adequately monitor cell phone usage.

Analysis

None of the five State agencies reviewed adequately monitored employee cell phone usage. Based on information available from two of the four vendors who were able to provide us with detailed usage reports applicable to fiscal year 2002, we determined the following:

- State agencies paid for phones not actively used. Specifically, for the five agencies tested, we noted 444 phones used for 60 minutes or less during the year, including 257 that had not been used at all during this period. The agencies generally could not provide justification as to whether there was a current need to retain these phones. Based on DBM policy, cell phones should be assigned to employees that have a frequent and recurring need to communicate while away from their work site.
- The agencies did not monitor high volume users. As noted in Table 3 below, high volume users significantly exceeded the free minutes included in their monthly access plans at substantial additional cost to the State.

**Table 3
Costs Associated With High Volume Users**

| Agency | Number of Phones Tested | Total Cost - Fiscal Year 2002 | Number of Phones Exceeding Monthly Free Minutes | Number of Excess Minutes for Fiscal Year 2002 | Costs Paid by Agency For Excess Minutes |
|---------------|-------------------------|-------------------------------|---|---|---|
| DHR | 20 | \$ 76,000 | 20 | 233,000 | \$ 70,200 |
| SHA | 9 | 23,600 | 8 | 46,000 | 17,700 |
| DJJ | 10 | 23,000 | 10 | 90,000 | 22,000 |
| DHMH | 15 | 29,500 | 10 | 56,000 | 17,600 |
| DBED | 20 | 43,600 | 19 | 107,000 | 37,000 |
| Totals | 74 | \$ 195,700 | 67 | 532,000 | \$ 164,500 |

- The agencies tested did not ensure that employees had the most appropriate monthly access plans based on actual phone usage. For the 74 phones tested above, we estimated that the agencies could have saved \$130,000 by switching to more efficient calling plans. These savings are in addition to the potential savings commented on in Finding 4. State contracts permit switching between plans without penalty.

Recommendation 12

We recommend that State agencies periodically monitor all cell phone usage. Specifically, we recommend that the agencies evaluate the need and use of all phones assigned to its employees and deactivate underutilized phones. We also recommend that the agencies routinely ensure that all users are on the most appropriate (that is, cost efficient) monthly access plans based on actual usage.

Finding 13

Agencies generally did not obtain reimbursement for personal phone calls and did not monitor cell phone usage for such calls.

Analysis

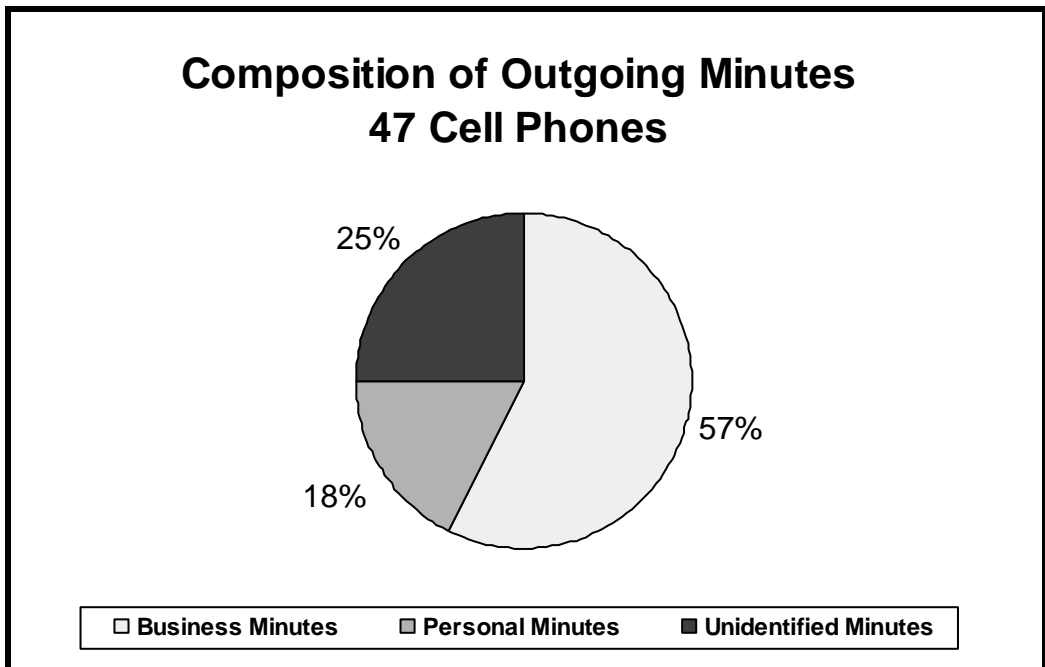
The agencies tested did not ensure that employees reimbursed the State for personal telephone calls as DBM intended. Specifically, although three agencies had procedures to identify and require reimbursement for personal calls, these agencies did not always follow the procedures. In addition, the two other agencies reviewed did not have procedures regarding the review of cell phone invoices and reimbursement to the State for personal calls.

Using information provided by one vendor, we provided detail listings to the five agencies for 47 phones of all numbers called exceeding 10 minutes for fiscal year 2002. Based on our review and information provided by the agencies, we identified 53,400 minutes related to personal calls and an additional 75,800 minutes that could not be identified as either business or personal. (We could not test incoming calls—which are counted towards monthly usage allowances—since the monthly statements did not describe where the call originated.) These personal and nonbusiness calls represented a significant portion of the calls made by these employees; see Chart 1 below. For more details on the agencies tested, see Exhibit 2.

For 47 phones tested, we identified over 53,000 minutes related to personal calls made in fiscal year 2002

Although some reimbursements were received from seven cell phone users, the agencies could not provide us with documentation that the other 40 users reimbursed the State for any personal phone calls. Based on the per-minute rates for these 40 phones, the unreimbursed personal and unidentified calls represented between \$28,500 (off peak) and \$35,400 (peak) in potential non-business related costs.

Chart 1



Recommendation 13

We recommend that State agencies develop formal procedures to ensure that all cell phone users reimburse the State for personal calls. For example, agencies could institute a monthly self-assessment for all users and periodically review cell phones with significant usage to ensure that calls either relate to business or have been reimbursed by the responsible employee.

Finding 14

Agencies did not comply with DBM documentation and approval policies when acquiring and assigning cell phones.

Analysis

None of the agencies tested complied with certain provisions as required by DBM policy (see Exhibit 3). Specifically, we noted:

- None of the five agencies reviewed submitted justifications for new cell phones to DBM. In many cases, the agencies did not prepare such justifications.
- None of the agencies tested notified DBM of cell phone reassignments or deactivations.
- Three of the five agencies tested did not maintain adequate records of cell phones in use by the agency.

As a result, of these conditions, neither the agencies nor DBM could accurately monitor phone assignments and usage.

Recommendation 14

We recommend that State agencies comply with DBM policy requirements regarding cell phone assignment and usage. We also recommend that agencies maintain accurate records of all cell phone assignments.

Exhibit 1
Assignment of Cell Phones and Related Costs by Agency and Vendor

| Agency | Vendors ^① | | | Total Phones | Fiscal Year 2002 Expenditures |
|--|----------------------|--------------|--------------|--------------|-------------------------------|
| | Vendor 1 | Vendor 3 | Vendor 4 | | |
| Department of Human Resources | 444 | 131 | 518 | 1,093 | \$ 974,380 |
| State Highway Administration | 417 | 476 | 126 | 1,019 | 869,650 |
| Department of Public Safety and Correctional Services | 234 | 245 | 84 | 563 | 227,450 |
| Department of State Police | 360 | 155 | 16 | 531 | 364,411 |
| Department of Juvenile Justice | 152 | 237 | 35 | 424 | 462,231 |
| Department of Health and Mental Hygiene | 114 | 36 | 137 | 287 | 257,251 |
| Maryland Department Of Transportation – unknown administration | 73 | 54 | 65 | 192 | N/A |
| Motor Vehicle Administration | 29 | 0 | 159 | 188 | 110,120 |
| Department of the Environment | 1 | 158 | 27 | 186 | 156,279 |
| Department of Natural Resources | 32 | 26 | 98 | 156 | 25,862 |
| Department of Budget and Management | 62 | 28 | 47 | 137 | 154,954 |
| Department of Business and Economic Development | 19 | 64 | 38 | 121 | 110,389 |
| Department of Labor, Licensing and Regulation | 12 | 29 | 74 | 115 | 84,972 |
| Judiciary | 41 | 0 | 65 | 106 | 41,865 |
| State Lottery Agency | 3 | 75 | 25 | 103 | 47,878 |
| Department of Agriculture | 67 | 19 | 14 | 100 | 63,285 |
| Other State Agencies | 301 | 277 | 426 | 1,004 | 1,411,287 |
| Unidentified | 197 | 115 | 151 | 463 | N/A |
| TOTALS | 2,558 | 2,125 | 2,105 | 6,788 | \$5,362,264 |

Sources: Number of Phones – Vendor Supplied Reports

Fiscal Year 2002 Expenditures – Expenditures Charged to Certain Vendor Codes in the State’s Accounting Records

① We received data regarding the number of phones from three of the four vendors currently under State contract. The remaining vendor could not provide us with any information.

N/A No expenditure data was available for these phones since the phones could not be attributed to a specific agency.

Selected for testing

Exhibit 2
Personal, Unidentified and Business Usage for Selected Cell Phones

(As referred to in Finding 13)

| Agency | Number of Cell Phones Tested | Incoming Minutes (not tested) | Outgoing Minutes | | | | | | |
|---------------|------------------------------|-------------------------------|----------------------|---------------|---------------------|---------------|---------------------|----------------|---------------------|
| | | | Total Minutes Tested | Personal | | Unidentified | | Business | |
| | | | | Minutes | % of Minutes Tested | Minutes | % of Minutes Tested | Minutes | % of Minutes Tested |
| DHR | 10 | 51,367 | 78,602 | 20,759 | 26.4% | 22,603 | 28.8% | 35,240 | 44.8% |
| SHA | 9 | 39,646 | 53,647 | 12,279 | 22.9% | 18,334 | 34.2% | 23,034 | 42.9% |
| DJJ | 10 | 20,679 | 62,010 | 3,557 | 5.7% | 22,787 | 36.8% | 35,666 | 57.5% |
| DHMH | 9 | 20,101 | 53,556 | 6,405 | 12.0% | 1,107 | 2.0% | 46,044 | 86.0% |
| DBED | 9 | 20,305 | 56,051 | 10,419 | 18.6% | 10,977 | 19.6% | 34,655 | 61.8% |
| Totals | 47 | 152,098 | 303,866 | 53,419 | 17.6% | 75,808 | 24.9% | 174,639 | 57.5% |

Exhibit 3
Department of Budget and Management Memorandum #2 –
Cellular Telephones and Services

Purpose:

Pursuant to **Section 3-702 of the State Finance and Procurement Article**, the Department of Budget and Management (DBM), Telecommunications Division is responsible for developing policies pertaining to the acquisition and use of telecommunications equipment, systems and services by units of State government. The purpose of this policy is to provide guidance to State employees and supervisors concerning authorized and prohibited use of cellular telephone equipment and services. Cellular telephones have proven to be valuable tools for enhancing the efficiency and productivity of State Officials and employees. The cost of cellular telephones and service, however, exceed the cost of direct calls over the switched public telephone network. Accordingly, acquisition and use of cellular telephones shall be controlled and limited as set forth in this telecommunications policy memorandum.

This policy shall apply to cellular telephones for use by all departments and agencies of the Executive Branch of State Government except: statewide elected officials, cabinet secretaries, agency heads, the chancellor of the University of Maryland System and the presidents of public institutions of higher education.

I. Assignment and Reassignment of Cellular Telephones

- A. Assignment of cellular telephones shall be restricted to the business uses of officials and employees who travel from their assigned work site on State business for a significant part of their normal work day, have a frequent and recurring need to communicate with others while away from their assigned work site, and must be accessible at all times. Personal use of cellular telephones shall be permitted only as provided in a State of Maryland Telephone Directory, Telecommunications Policy Memorandum #1.
- B. Installation of cellular telephones in personal vehicles shall be discouraged. If a cellular telephone must be installed in a personal vehicle, a waiver of liability from the insurer of the personal vehicle relieving the State of liability associated with the use of the cellular telephone must be included with request for acquisition of the equipment.
Reassignment of cellular telephones to a different employee, vehicle, agency, or service provider, and discontinuance of service, shall be reported to the Department of Budget and Management, Telecommunication Division, Wireless Support Services.

II. Request for cellular Telephone Equipment and Services

- A. All requests for cellular telephones and services shall be authorized by the agency head in accordance with the criteria set forth in this policy memorandum. The agency telecommunications coordinator shall coordinate all requests with the Department of Budget and Management, Telecommunications Division, Wireless Support Services.

- B. Department and agency heads shall consider the assignment of pagers in lieu of cellular telephones.
- C. Where possible, agencies shall include requests for cellular telephones in their annual budget submissions for the Department of Budget and Management, along with a justification for the request and listing of all cellular telephones currently in use in the department or agency.
- D. Approved requests for cellular telephones and services shall be submitted along with justification, to the Department of Budget and Management, Telecommunications Division. Written justification certifying the criteria established for cellular telephones have been met must accompany the request. The justification must include the name and title of the user and a statement indicating why a cellular or portable telephone is needed.
- E. Request for cellular telephones and services shall be submitted along with justification, to the Department of Budget and Management, Telecommunications Division. Written justification certifying the criteria established for cellular telephones have been met must accompany the request. The justification must include the name and title of the user and a statement indicating why a cellular or portable telephone is needed.

III. Acquisition of Cellular Telephone Equipment and Services

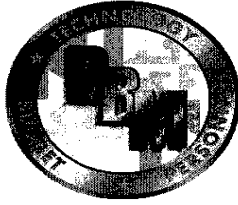
- A. The Department of Budget and Management, Telecommunications Division, Wireless Support Services shall coordinate the acquisition of cellular telephone equipment, service and maintenance.
- B. Cellular telephone equipment, service and maintenance shall be acquired using the open contract for cellular telephone equipment service and maintenance established by the Department of Budget and Management.

IV. Usage Review

- A. Cellular telephone usage and charges shall be reviewed monthly by the agency telecommunications coordinator for compliance with this policy memorandum and for compliance with Telecommunications Policy Memorandum #1- General Guidelines, as published in the State Telephone Directory. Under-utilized phones shall be removed from the vehicle in which installed and service shall be discontinued.
- B. As part of the monthly review, agency telecommunications coordinators shall be responsible for identifying personal calls and collecting the amounts so identified from the assigned cellular phone user in accordance with Telecommunications Policy Memorandum #1 – General Guidelines, as published in the State Telephone Directory.
- C. Wireless Support Services of the Department of Budget and Management may conduct random reviews of cellular telephone usage and charges to verify continuation of the justification supporting the need for a cellular phone. Any review indicating that the justification is no longer valid will be reported to the Department of Agency head.

Date Published: June, 1989

Date Revised: February, 1999



Maryland Department of **APPENDIX**
Budget & Management

*DEM - people and technology...
a partnership for the new millennium*

Office of the Secretary

ROBERT L. EHRLICH, JR.
Governor

MICHAEL S. STEELE
Lieutenant Governor

JAMES C. DIPAULA
Secretary

February 10, 2003

Mr. Bruce A. Myers, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Myers:

The Department of Budget and Management has reviewed your draft audit report on State Cell Phone Usage. We appreciate the opportunity to provide responses and information pertaining to the findings noted during your audit. As requested, our responses to findings 1 through 10 in the report, which pertain to the Department's oversight of State cell phone usage, are attached.

The Department would like to acknowledge the value the legislative auditor's review of this area has been. As a result of this audit, significant areas lacking adequate contract monitoring and monitoring of State cell phone usage were identified and are now in the process of being improved. The Department is taking a strong position in increasing personnel and agency accountability, which will especially contribute to improvements in this area. We believe that with the new cellular services RFP to be issued, along with the revised Cellular Telephone Policy and agency reviews being conducted by the Division of Telecommunications, the audit findings and recommendations will adequately be addressed.

If you have any questions or need additional information, you may contact the Director of the Division of Telecommunications, Gilbert Becker at 410-767-4204 or me at 410-260-7041.

Sincerely,

James C. DiPaula
Secretary

cc: Mr. Thomas K. Lee, Deputy Secretary
Mr. Gilbert Becker, Director, Division of Telecommunications

45 Calvert Street • Annapolis, MD 21401-1907
Tel: (410) 260-7041 • Fax: (410) 974-2585 • Toll Free: 1 (800) 705-3493 • TTY Users: call via Maryland Relay
<http://www.dbm.state.md.us>

Contract and Procurement Issues

Finding 1

The procurement process did not ensure that the four contracts were structured to best meet the State's needs.

Recommendation 1

We recommend that DBM initiate a new procurement process for cell phone services to become effective at the end of the current renewal periods. In addition, we recommend that for this and future procurements of cell phone services, DBM formally analyze State agencies' cellular service requirements and tailor the request for proposals to meet the needs of the State agencies. We also recommend that DBM limit the number of plans to simplify the selection and monitoring of plans by State agencies.

DBM's Response:

DBM disagrees with this finding. At the time the RFPs related to the existing contracts were developed, the cellular industry was much different than it is today. The Department did establish Prime and Non-Prime calling periods within the RFP that were appropriate at that time (i.e., approximately six years ago). In addition, the Department did involve agency personnel in the development and the review of the Requests for Proposals. The rate plans were based upon agency consensus. Due to the rapid evolution of cellular technology and the proliferation of vendors, types of service, flexibility and competition, the industry has been continuously evolving.

Thus, DBM does strongly agree with the audit recommendation that, in light of the current market, the current RFP is not adequate and is not structured to best meet the State's needs. A new RFP will be released during spring of 2003 that will address the audit recommendations noted above. State agencies' cellular service needs are being reviewed so that the new RFP will be structure to best meet the State's needs. We are considering structuring the new RFP to include plans that use a "pooling of minutes". This may not only help to ensure we receive plans to adequate address our users needs but will also help in DBM's as well as agencies' monitoring efforts.

Finding 2

Certain procurement actions and decisions were not adequately documented or justified.

Recommendation 2

We recommend that DBM publish contract awards and retain all critical documentation supporting the evaluation and awarding of future cell phone contracts and extensions as required by State Procurement Regulations.

DBM's Response

DBM agrees with the audit recommendation. The Department will retain all critical documentation supporting the evaluation and awarding of future cellular telephone contracts and extensions. We will also ensure that contract awards are published in the Maryland Register as required by State Procurement Regulations.

Finding 3

The DBM extended contracts without evaluating vendor performance and cost/benefits.

Recommendation 3

We recommend that DBM evaluate vendor performance and potential costs and benefits prior to granting contract extensions.

DBM's Response

DBM concurs with the audit recommendation. Although some vendors have complied with contract requirements, the Department has met with each vendor and notified them in writing to ensure that all contract reporting and provisions are being satisfied. In the future, the Department will evaluate vendor performance and determine if it is in the best interest of the State prior to granting contract extensions.

In addition, the Department will be writing a new RFP and will ensure that market conditions are thoroughly reviewed before the RFP is released. In evaluating what is in the best interest of the State, it is important to note that there is a flexible or significant transition period required when changing vendors, since the Federal Communications Commission has not yet established rules and regulations regarding telephone number portability. As previously stated, DBM is considering structuring the new RFP to include plans that use a "pooling of minutes". This may not only help to ensure we receive plans to adequately address our users needs but will also help in DBM's as well as agencies' monitoring efforts.

Monitoring Cellular Vendors

Finding 4

The DBM did not notify State agencies of changes in cell phone plans that could result in potential savings.

Recommendation 4

We recommend that DBM inform State agencies of all current available monthly access plans and new plans as they become available. We also recommend that DBM investigate, for the next procurement process, having the vendors automatically apply plan changes to State accounts.

DBM's Response

DBM concurs with this finding. DBM Telecom has begun an aggressive campaign to visit each of the agencies in order to conduct an inventory and review of expenditures. DBM is taking a strong position to enforce accountability from both DBM personnel and State agencies. During these visits, DBM Telecom will ensure that pricing plans are reviewed. We will also ensure that price decreases offered by cellular telephone vendors are applied to the State accounts where applicable. In addition, the Department will obtain reports from each vendor detailing high usage to ensure appropriate monthly access plans are utilized. As the Department is made aware of new price plans, the Department will pass this information on to agency coordinators. Plan changes (and updates to State accounts) will be addressed in the new RFP being developed.

Finding 5

The State incurred expenditures for certain charges that may be prohibited under the contract.

Recommendation 5

We recommend that DBM review roaming charges incurred by the State since the start of the current contracts and, if appropriate, take the action necessary to recover these charges. We also recommend that DBM determine the extent to which the State has been billed and subsequently paid taxes prohibited under the contract, and recover such payments. Finally, we recommend that DBM advise the vendors to discontinue billing the State for prohibited charges and taxes.

DBM's Response:

DBM concurs. However, in some instances the State may incur minimal roaming charges in cases where cellular users are outside of the contracted regions in accordance with contract specifications. The Department will review the current contract language to ensure only those allowable roaming charges are incurred. If inappropriate roaming fees were charged, actions will be taken to recover those fees. The State is not exempt from all federal and State charges (911 fee; Universal Service Fee; etc.) assessed on cellular telephone service accounts. The Department

will clarify with contractors which charges are appropriate to bill to State Cellular service accounts and will seek recovery of any such charges which have been inappropriately billed.

Finding 6

The vendors did not provide certain contractually required information and services.

Recommendation 6

We recommend that DBM ensure that the vendors comply with material contract provisions. We also recommend that DBM work with the vendors to identify all cell phones in use by State employees. Finally, we recommend that, under the newly awarded contracts for cell phone services, all existing users be required to obtain new phones under those contracts, and each vendor be required to establish a master account for all State cell phones.

DBM's Response:

DBM concurs. Letters to each of the vendors requiring contract compliance have been sent, and follow-up meetings have been held with each of the vendors. Reports of newly activated units and delivery and installation reports that are not currently received will be required from each vendor. When the new cellular contract is awarded, it will address reporting and identifying all cellular phones, requiring vendors to establish a master account for all State cell phones. The new contract will also provide for the transition of all existing users.

Finding 7

The contracts did not require vendors to provide call detail to permit effective monitoring of cell phone usage.

Recommendation 7

We recommend that DBM include a provision in future contracts specifying that the vendors provide detail call information by individual user, on an as needed basis.

DBM's Response

DBM concurs. Letters to each of the vendors requiring contract compliance have been sent and follow-up meetings have been held with each of the vendors. Vendors are currently supplying detailed call information for each end user. The new cellular contract will include detailed reporting requirements to ensure that the Department receives detail call information by individual user.

Oversight of State Agencies

Finding 8

The DBM's policy on cell phone acquisition and usage was not comprehensive.

Recommendation 8

We recommend that DBM issue a comprehensive cell phone policy that also addresses potential liability issues.

DBM's Response:

DBM concurs. We are revising the Cellular Telephone Policy, incorporating the audit recommendations, and will require each recipient of a cell phone to acknowledge receipt and understanding of the policy. This policy will be maintained and updated on an annual basis. The policy will be distributed to all agency telecommunication coordinators and to State agency Chief Information Officers for distribution to all State employees. In addition, the Cellular Telephone Policy will be posted on the Department's web site.

Finding 9

The DBM did not monitor the issuance and usage of cell phones by State agencies.

Recommendation 9

We recommend that DBM comply with its policy and obtain written justifications for all existing cell phones and future requests. If the agency cannot provide written justification, we recommend that DBM notify the agency to immediately discontinue cell phone service. In addition, we recommend that DBM instruct State agencies to procure cell phones and services only from vendors under contract with the State. Finally, we recommend that DBM conduct random reviews of agency cell phone usage.

DBM's Response:

DBM concurs. The Department will establish a list of agency representatives who will be registered with the Department to approve the acquisition by identified agency employees of cellular telephone equipment and service. For those agencies that use the ADPICS system, the registered approver must be in the approval path. The registered approver shall use the notepad function of the ADPICS system to record the justification. For those agencies not using the ADPICS system, a written justification will be required and must be received and approved by the Department prior to the acquisition of the requested equipment and service.

The Department is in the process of conducting agency meetings to accomplish a cellular telephone equipment and service account inventory review, including review of appropriate justifications for all existing cell phones and expenditure reviews. Upon completion of these

reviews, DBM Telecom will submit recommendations for plan revisions and discontinuance of service and any other abnormalities discovered during our review. State agencies, as well as DBM personnel, will be held accountable to ensure that contract requirements and the State Cellular Telephone Policy are being followed.

The revised Cellular Telephone Policy, distributed to all State agencies, will instruct State agencies to procure cell phones and services only from vendors under contract with the State.

Finding 10

The DBM could not identify total statewide expenditures for cell phones.

Recommendation 10

We recommend that DBM, in conjunction with the General Accounting Division, establish a unique expenditure code for cell phone equipment and services. We further recommend that DBM inform State agencies of the new code and reinforce the need to charge expenditures to the proper expenditure codes using the vendor IDs established by DBM.

DBM's Response:

DBM concurs with this finding. The Department has contacted the GAD requesting a unique expenditure object code. Upon approval, the Department will instruct all relevant executive branch agencies of the requirement for the appropriate use of this sub-object code.

When a Blanket Purchase Order (BPO) is established in the system, the appropriate vendor's identification number will be associated with the BPO established by the Department to ensure proper coding of vendor identification numbers. Letters are being sent to the agencies to stress the importance of using the correct vendors identification number.

Robert L. Ehrlich, Jr.
Governor

Michael S. Steele
Lt. Governor

Christopher J. McCabe
Secretary

February 6, 2003

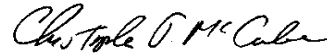
Mr. Bruce A. Myers, CPA
Department of Legislative Services
Office of Legislative Audits
Maryland General Assembly
301 West Preston Street, Room 1202
Baltimore MD 21201

Dear Mr. Myers:

As requested in your letter of January 23, 2003, I am enclosing the Department of Human Resources' (DHR) response to the findings applicable to DHR that are contained in the draft performance audit report on State Cell Phone Usage. We have reviewed the report excerpts and agree with the findings and recommendations as reported. In response to these findings, DHR has initiated corrective actions aimed at eliminating these findings from future audits. In addition to our response, I have enclosed the corrective action matrix enumerating the steps we are taking to correct the audit findings.¹

The Department appreciates the cooperation and efforts of the audit staff in completing this audit and providing recommendations for improved performance. I look forward to working with you to ensure that our resources are properly and responsibly managed and administered. Please contact me at 410-767-7109, if I may be of further assistance.

Sincerely,



Christopher J. McCabe
Secretary Designee

Enclosures

¹Matrix not included in the printed report.

Agency Monitoring and Management of Cell Phones

Finding 11

Agencies did not develop specific policies for cell phone assignment and usage.

Recommendation 11

We recommend that State agencies develop internal policies and procedures to govern the assignment, usage and monitoring of cell phones.

Department's Response

The Department of Human Resources (Department) agrees with the recommendation. During SFY 2000 the Department implemented a cellular telephone procurement policy which required a justification of need and a management approval process. Cellular telephones procured prior to SFY 2000 do not meet these internal policy requirements.

In response to the Legislative Auditor's findings and recommendation, the Department has initiated a review, analysis and revision of its cellular telephone policy to include:

- the duties and responsibilities of the Department's cell phone coordinator
- procedures designed to identify personal calls and ensure proper reimbursement to the State
- monitoring procedures to ensure that each employee assigned a cell phone has an actual need to retain the phone and is in the most appropriate plan based on phone usage.

The Department's revisions to its existing internal policy and procedures to include more detailed acceptable use, management and monitoring procedures will bring the Department into compliance with the Department of Budget and Management's cellular phone policies and guidelines.

Finding 12

State agencies tested did not adequately monitor cell phone usage.

Recommendation 12

We recommend that State agencies periodically monitor all cell phone usage. Specifically, we recommend that the agencies evaluate the need and use of all phones assigned to its employees and deactivate underutilized phones. We also recommend that the agencies routinely ensure that all users are on the most appropriate (that is, cost efficient) monthly access plans based on actual usage.

Department's Response

The Department agrees with the recommendation. The Department acknowledges that it has not adequately monitored cell phone usage.

The Department will develop and implement a management process that will include a monthly review of cellular phone usage and monitoring for compliance with the Department's cellular phone policies and procedures.

The Department will identify those phones not actively used, and those phones used for less than 60 minutes or not at all during the year, and will terminate service where warranted.

The Department will develop and implement a management process to monitor high volume users. The Department will review each cellular phone user to determine continued need, usage and monthly access plan. The Department will, when warranted, switch users to the most cost efficient calling plan.

Finding 13

Agencies generally did not obtain reimbursement for personal phone calls and did not monitor cell phone usage for such calls.

Recommendation 13

We recommend that State agencies develop formal procedures to ensure that all cell phone users reimburse the State for personal calls. For example, agencies could institute a monthly self-assessment for all users and periodically review cell phones with significant usage to ensure that calls either relate to business or have been reimbursed by the responsible employee.

Department's Response

The Department agrees with the recommendation. The Department does not have a separate policy and procedure that specifically addresses cell phone users reimbursing the State for personal calls.

The Department of Human Resources, Administrative Procedures Manual, Division: Office of Technology for Human Services, § 1, Subject: Telephone Policy, addresses reimbursing the State for personal calls. However, this policy does not specifically identify cellular phone calls.

The Department will follow the Legislative Auditor's recommendation and will develop and implement formal procedures to ensure that all cellular phone users reimburse the State for personal calls as required by the Department of Budget and Management.

Finding 14

Agencies did not comply with DBM documentation and approval policies when acquiring and assigning cell phones.

Recommendation 14

We recommend that State agencies comply with DBM policy requirements regarding cell phone assignment and usage. We also recommend that agencies maintain accurate records of all cell phone assignments.

Department's Response

The Department agrees with the recommendation. The Department acknowledges that it did not adequately monitor its cellular assignment and usage. In response to the Legislative Auditor's recommendation the Department will compile and maintain a central record database for all of its cellular phones and it will implement a management process for cell phone user management, monitoring and payment authorization.



DEPARTMENT OF JUVENILE JUSTICE
One Center Plaza
120 West Fayette Street
Baltimore, Maryland 21201

"Together...ReShaping Young Lives"

Robert L. Ehrlich, Jr.
Governor

Michael S. Steele
Lt. Governor

Kenneth C. Montague, Jr.
Secretary

February 4, 2003

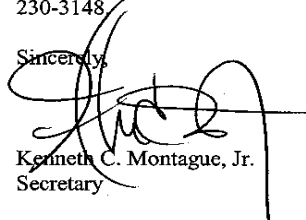
Mr. Bruce Myers, Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Myers:

Enclosed is the Department of Juvenile Justice's (DJJ) response to the Office of Legislative Audits Draft Report on Agency Monitoring and Management of Cell Phones. The responses are "Management Responses" previously discussed at the Exit Conference. DJJ will take intermediate steps to improve oversight of cellular telephone usage pending the revision of Department of Budget and Management policy.

If you have questions, please contact Philip A. O'Donnell, Acting Assistant Secretary, DJJ Office of Professional Responsibility and Accountability at (410) 230-3148.

Sincerely,



Kenneth C. Montague, Jr.
Secretary

Enclosure

Cc: Bro. Frank O'Donnell, Special Assistant to the Secretary
Denise C. Sulzbach, Deputy Secretary
Vickie Colter, Deputy Secretary, Restorative Justice Operations
Philip A. O'Donnell, Acting Assistant Secretary, Office of Professional Responsibility and Accountability (OPRA)
Melinda E. Jones, Director, Audit and Compliance Unit, OPRA
John T. Clendenin, Acting Chief Information Officer



PHONE: (410) 230-3333 TOLL FREE: 1 (888) 639-7499 TTY: 1 (800) 735-2258



Agency Monitoring and Management of Cell Phones

Finding 11

Agencies did not develop specific policies for cell phone assignment and usage.

Recommendation 11

We recommend that State agencies develop internal policies and procedures to govern the assignment, usage and monitoring of cell phones.

Response 11

DJJ will begin developing policy and procedures for the procurement, use, and monitoring of cellular telephones. In the meantime, the DJJ Telecommunications Unit will continue to follow Department of Budget and Management policy and procedures governing cellular telephones.

Currently, all cellular accounts are monitored for usage and to ensure that each employee assigned a cellular telephone is in the appropriate plan based on phone usage.

Accounts are flagged when:

- 1) Usage exceeds plan/rate minutes;
- 2) There is no activity on cellular phone; and
- 3) There is no reimbursement for personal calls.

The DJJ Telecommunications Unit will continue to monitor cellular telephone usage and take the appropriate action when necessary.

Finding 12

State agencies tested did not adequately monitor cell phone usage.

Recommendation 12

We recommend that State agencies periodically monitor all cell phone usage. Specifically, we recommend that the agencies evaluate the need and use of all phones assigned to its employees and deactivate underutilized phones. We also recommend that the agencies routinely ensure that all users are on the most appropriate (that is, cost efficient) monthly access plans based on actual usage.

Response 12

The policies and procedures developed will include a section on monitoring cellular telephone usage. Currently, the DJJ Telecommunications Unit reviews cellular telephone plans in conjunction with actual usage. Cellular telephone plans are constantly reviewed and plans are adjusted based on usage and the most cost-efficient monthly access plan.

Forty-three (43) phones used less than 60 minutes; and 40 of the phones had no usage. Approximately 40 cellular phones are in State vehicles for safety and emergency use when DJJ employees are transporting youth. The Department of Budget and Management was contacted for clarification on the policy for cell phones in State vehicles, and we were informed that a specific policy for cellular telephones in State vehicles does not exist. There are only general policies and procedures. The DJJ Telecommunications Unit will continue to monitor the situation and de-activate cellular phones when State vehicles are no longer in service and do not require a cell phone for safety and emergency.

Finding 13

Agencies generally did not obtain reimbursement for personal phone calls and did not monitor cell phone usage for such calls.

Recommendation 13

We recommend that State agencies develop formal procedures to ensure that all cell phone users reimburse the State for personal calls. For example, agencies could institute a monthly self-assessment for all users and periodically review cell phones with significant usage to ensure that calls either relate to business or have been reimbursed by the responsible employee.

Response 13

The policies and procedures to be developed will include guidance on reimbursement for personal telephone calls. Currently, all cellular phone bills are reviewed monthly. Personal calls are reimbursed on an honor system established by the DJJ Telecommunications Unit and agreed to by management. If excessive activity is found, it is reported to the cellular telephone user (account holder) and the user's supervisor.

For reimbursement for personal calls, the Telecommunications Unit concentrated on accounts where the cellular telephone user (account holder) had made no reimbursement. From Fiscal Year 2002 to the present, the Telecommunications Unit has collected \$11,624.84 in reimbursements for personal calls. Due to staffing

shortages, we are not able to monitor all cellular phones and all cellular phone calls for suspected personal calls. However, the DJJ Telecommunications Unit will continue to diligently monitor cellular telephone usage for personal calls.

Finding 14

Agencies did not comply with DBM documentation and approval policies when acquiring and assigning cell phones.

Recommendation 14

We recommend that State agencies comply with DBM policy requirements regarding cell phone assignment and usage. We also recommend that agencies maintain accurate records of all cell phone assignments.

Response 14

The DJJ Telecommunications Unit will continue to follow the Department of Budget and Management policy and procedures governing cellular telephones. Justifications for cellular phones are provided by the Area Directors for field workers. The Telecommunications Unit currently maintains a real-time database of all cellular phone assignments, activations and deactivations.



STATE OF MARYLAND

DHMH

Maryland Department of Health and Mental Hygiene

201 W. Preston Street • Baltimore, Maryland 21201

Robert L. Ehrlich, Jr., Governor - Arlene H. Stephenson, Acting Secretary

February 6, 2003

Bruce A. Myers, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Baltimore MD 21201

Dear Mr. Myers:

This letter is in response to your January 23, 2003 letter that included the draft audit report on State Cell Phone Usage. Attached you will find the Department of Health and Mental Hygiene's plan of correction that addresses each audit recommendation. I will work with the appropriate Directors of Administration, Program Directors and Deputy Secretary to promptly address all audit exceptions. In addition, our Division of Internal Audits will follow-up on the recommendations to ensure compliance.

If you have any questions or require additional information, please do not hesitate to contact me at (410) 767-6505 or Larry Triplett of my staff at (410) 767-5228.

Sincerely,

Arlene H. Stephenson
Acting Secretary

Attachment

cc: Mr. Robert W. Beasman, Director, General Services Administration, DHMH
Mr. Richard A. Proctor, Chief of Staff, DHMH
Mr. Jonathan R. Seeman, Deputy Secretary for Operations, DHMH
Mr. Lawrence P. Triplett, Inspector General, DHMH

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Web Site: www.dhmh.state.md.us

DHMH RESPONSE TO CELLULAR PHONE AUDIT

Finding 11

Agencies did not develop specific policies for cell phone assignment and usage.

Recommendation 11

We recommend that State agencies develop internal policies and procedures to govern the assignment, usage, and monitoring of cell telephones.

Response

We concur with the recommendation and will develop and implement by April 1, 2003 the appropriate policies as follows:

- A. The General Services Administration (GSA) will develop agency internal policies and procedures for purchasing and assigning phones, including written justification and required approvals.
- B. The policies and procedures will designate a Telecommunications Coordinator in the GSA's Central Services Division and will require each unit to have a cellular telephone coordinator and will define their duties and responsibilities. GSA will maintain a list of unit coordinators and work with them on cellular phone procurements and monitoring.
- C. Procedures will be designed to identify personal calls and ensure proper reimbursement to the State.
- D. Monitoring procedures will be developed to ensure that each employee assigned a cellular telephone has an actual need to retain the phone and is using the most appropriate plan based on phone usage.

Finding 12

State agencies did not adequately monitor cell phone usage.

Recommendation 12

We recommend that State agencies periodically monitor all cell phone usage. Specifically, we recommend that the agencies evaluate the need and use of all phones assigned to its employees and deactivate underutilized phones. We also recommend that the agencies routinely ensure that all users are on the most appropriate (that is, cost efficient) monthly access plans based on actual usage.

Response

We concur with the recommendation. The General Services Administration will establish procedures to monitor cellular phone use, including provisions to deactivate underutilized phones

that cannot be justified for emergency use. Unit level coordinators will be required to review cellular phone usage on a monthly basis. The Telecommunications Coordinator will conduct spot checks to ensure monitoring is being done as required and is accurate. A procedure will be developed to routinely ensure that all users are on the appropriate plan based on actual usage.

Finding 13

Agencies generally did not obtain reimbursement for personal phone calls and did not monitor cell phone usage for such calls.

Recommendation 13

We recommend that State agencies develop formal procedures to ensure that all cell phone users reimburse the State for personal calls. For example, agencies could institute a monthly self-assessment for all users and periodically review cell phones with significant usage to ensure that calls either relate to business or have been reimbursed by the responsible employee.

Response

We concur with the recommendation. Procedures will be developed and implemented to ensure that private calls on State cellular phones are reimbursed. The policy will require all cellular phone users to review their bills each month, identify personal calls, and reimburse the Department accordingly. Selected cellular phone bills, particularly those showing significant use, will be reviewed for this purpose as part of the monitoring process discussed above.

Finding 14

Agencies did not comply with DBM documentation and approval policies when acquiring and assigning cell phones.

Recommendation 14

We recommend that State agencies comply with DBM policy requirements regarding cell phone assignment and usage. We also recommend that agencies maintain accurate records of all cell phone assignments.

Response

We concur with the recommendation. The procedures that are being developed by the General Services Administration will address compliance with the Department of Budget and Management's policy, including providing written justification for new cellular phones, and notification of reassignments and deactivations. The Telecommunications Coordinator will consult with DHMH headquarters programs to identify all cellular phones issued to employees and will develop a central record of all cellular phones in use by Department personnel. The policy will include the procedure to be followed by all units to ensure that the list remains current.



Robert L. Ehrlich, Jr.
Governor

Michael S. Steele
Lieutenant Governor

Aris Melissaratos
Secretary

February 7, 2003

Mr. Bruce A. Myers, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Baltimore, Maryland 21201

Dear Mr. Myers:

Enclosed is the Department of Business and Economic Development's Response to the Legislative Auditor's Draft Performance Audit Report on State Cell Phone Usage. The Draft Audit Report is dated January 23, 2003. As you requested, we are responding only to those draft findings and related recommendations that pertain to our Department. Only the four findings in the Draft Report numbered 11 through 14 pertain to our Department.

In Attachment A, "Department of Business and Economic Development's Response to the Legislative Auditor's Draft Audit Report," we have listed each finding. The findings are listed in the same order as they are shown in the Draft Audit Report. In the interest of brevity, we have utilized the brief descriptions provide at the beginning of each finding in your Draft Report to summarize the findings. Each finding summary is followed by the related Departmental response. There are a total of four responses.

If you have any questions, please contact either Michael McManus at 410-767-2286 or Marcus Kumeh at 410-767-2292.

Sincerely,



Vernon J. Thompson
Acting Deputy Secretary

Enclosures

Department of Business and Economic Development's

Response to the

*Legislative Auditor's Draft Report On
Their Performance Audit of
State Cell Phone Usage*

February 7, 2003

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT'S
RESPONSE TO THE LEGISLATIVE AUDITOR'S DRAFT AUDIT REPORT

DEPARTMENT-WIDE FINDINGS AND RECOMMENDATIONS

Finding #11

Agencies did not develop specific policies for cell phone assignment and usage.

RESPONSE TO FINDING #11

The Department of Business and Economic Development concurs with the Legislative Auditor's recommendation. We will continue to develop and implement internal policies and procedures to govern the procurement, assignment, use, and monitoring of cellular telephones. Much more comprehensive internal policies and procedures have been or will be drafted and implemented by February 28, 2003.

Finding # 12

State agencies tested did not adequately monitor cell phone usage.

RESPONSE TO FINDING #12

The Department of Business and Economic Development concurs with the Legislative Auditor's recommendation. We have drafted procedures to periodically monitor all cellular telephone use. Our procedures will include provisions to evaluate the need and use of all cellular phones assigned to our employees, and deactivate underutilized cellular phones. The Department will routinely ensure that all users are on the most appropriate monthly access plans based on actual usage. These procedures will be fully implemented by February 28, 2003.

Finding # 13

Agencies generally did not obtain reimbursement for personal phone calls and did not monitor cell phone usage for such calls.

RESPONSE TO FINDING #13

The Department of Business and Economic Development concurs with the Legislative Auditor's recommendation. We will take the actions necessary to formalize and enforce our existing policy regarding reimbursement of personal telephone calls as required by the Department of Budget and Management.

Finding # 14

The Department did not comply with certain requirements of the Department of Budget and Management's policy governing cellular phone assignment.

RESPONSE TO FINDING #14

The Department of Business and Economic Development concurs with the Legislative Auditor's recommendation that the Department comply with the provisions of the Department of Budget and Management's policy. We now provide written justification for cellular phone assignments and will notify the Department of Budget and Management of cellular phone deactivations and permanent reassignments. We will also continue to maintain our accurate records of all cell phone assignments.

AUDIT TEAM

Edward L. Shulder, CPA
Audit Manager

Amando J. Virata, CPA
Senior Auditor

Mario E. Buelto
Jason A. Gomes
Julia Gorner, CPA
Roger E. Jaynes III
Lisa M. Pawlowski
Staff Auditors

OTHER STAFF WHO CONTRIBUTED TO THIS REPORT

Albert E. Schmidt, CPA
Information Systems Auditor