



# City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell  
Director

Ron Littlefield  
Mayor

September 9, 2011

Mayor and City Council  
City of Chattanooga  
Chattanooga, TN 37402

RE: City Cell Phones, 11-04

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's performance audit of City Cell Phones.

We thank the management and staff of the Information Services, General Services, and other city departments for their cooperation and assistance during this audit.

Sincerely,

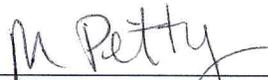
Stan Sewell, CPA, CGFM  
Director of Internal Audit

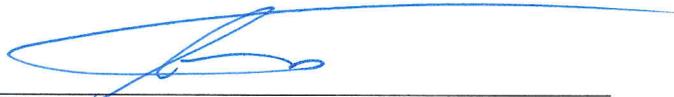
Attachment

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

**CITY CELL PHONES, 11-04**  
**AUGUST 2, 2011**

**CITY CELL PHONES, 11-04**  
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Auditor

  
\_\_\_\_\_  
Audit Director

**CITY CELL PHONES, 11-04  
AUGUST 2, 2011**

**INTRODUCTION**

City employees may be assigned a cell phone for use in the course of their employment when it provides an economic, efficient, and secure solution to the City's business needs. Requests for a city-provided cell phone are made by the department administrator based on specific needs of the department and working conditions of the employee. Each department also determines what cell phone plan to select, whether to change the selections, and how and when to retrieve and deactivate the devices. The City does not maintain an inventory of cell phones; vendors ship the phones directly to the requesting department.

Cell phones are provided under contracts with Verizon and Sprint/Nextel. These contracts are executed by the Purchasing Division of the General Services Department and are cooperative agreements based on contracts established by the State of Tennessee or Metro Nashville. The Sprint/Nextel contract is set to expire in 2013 and departments are currently transitioning all cell phones to Verizon. As of April 2011, the City had 458 cell phones through Verizon and 129 through Sprint.

Information Services (IS) has traditionally ordered, issued, activated, repaired and arranged payments to cell phone vendors on behalf of all city departments. In January 2011, IS adopted new procedures requiring each department to maintain its own cell phones to include purchases, activations and repairs. IS continues to arrange and approve payments on behalf of all departments to cell phone vendors.

**STATISTICS**

Wireless Expenditures\*, FY10-11

Vendor	FY11	FY10
Verizon	\$508,420	\$369,417
Sprint	107,392	238,645
Other Vendors	1,526	1,652
Total Expenditures	\$617,338	\$609,714

\* Includes other wireless devices such as aircards, telemetry monitors, GPS units, etc. We analyzed FY2011 expenditures and found \$329,693 (or 54%) were cell phone expenses.

Source: Oracle Financial Records and Sprint and Verizon Invoices

Number of Cell Phones by Department as of April 2011:

Police	175
Public Works	147
Parks and Recreation	95
General Government	58
Human Services	43
Neighborhood Services	23
General Services	17
Fire	13
Education, Arts and Culture	12
Personnel	3
<u>Finance and Administration</u>	<u>1</u>
Total	587

Source: Auditor Analysis of Verizon and Sprint Invoices

**STATEMENT OF OBJECTIVES**

This audit was conducted in accordance with the Internal Audit Division's 2011 Audit Agenda. The objectives of this audit were to:

1. Determine whether the City has established appropriate criteria for which employees need cell phones;
2. Determine the extent to which city departments are monitoring cell phone bills to control and reduce costs; and
3. Determine if savings could result from implementation of a stipend program as an alternative to city-provided cell phones.

**STATEMENT OF SCOPE**

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers cell phone management and invoices from May 2010 to April 2011. Source documentation was obtained from Information Services, the Purchasing Division, the Finance and Administration Department, and cell phone vendors. Original records as well as copies were used as evidence and verified through physical examination. The scope was expanded as necessary to meet the objectives of the audit.

**STATEMENT OF METHODOLOGY**

To meet audit objectives, we researched laws, rules, regulations, and department policies related to cell phones. We interviewed Information Services, Purchasing, and Personnel staff as well as selected department managers with cell phone oversight responsibilities. We surveyed and received responses from 10 city departments about their cell phone policies and

monitoring procedures.

In addition, we analyzed cell phone bills and IS billing worksheets during the audit period to identify costs and to compare listed users against Personnel records of active and former employees. The total cell phone charges reviewed from May 2010 thru April 2011 were \$326,825.

In our consideration of the impacts of implementing a stipend program for city-provided cell phones, we analyzed billing worksheets from IS to identify common plans and the number of users likely participating in these plans. We compared the current cost of providing these plans and the cost of providing a stipend to cover a percentage of employee costs. We also surveyed 20 current city-provided cell phone users to determine whether they would financially benefit from implementation of a stipend. In addition to financial implications, we considered the non-financial benefits and drawbacks of stipends.

In conducting our analysis, we relied on billing worksheets created by IS. We assessed the reliability of this computer-processed data and determined it to be sufficiently reliable for the purpose of our audit objectives. We also used billing invoices from cell phone vendors as corroborating evidence in situations where billing worksheets created by IS lacked sufficient detail.

### **STATEMENT OF AUDITING STANDARDS**

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

### **AUDIT CONCLUSIONS**

Based upon the test work performed and the audit findings noted below, we recommend the City implement additional controls, as well as consider alternative approaches to providing cell phone access to its employees. Our findings indicate the City currently does not have proper controls in place to safeguard assets or control costs related to city-provided cell phones.

We identified the following control deficiencies:

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

A number of recommendations are made in the findings below to address these control deficiencies.

Alternatively, the City should consider a cell phone stipend program in lieu of city-provided cell phone access to its employees. We considered the benefits and drawbacks of implementing a cell phone stipend program and found that overall such a program may be beneficial in reducing city costs and administrative burden of cell phone management.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of city cell phones, they do present risks that can be more effectively controlled.

## **FINDINGS AND RECOMMENDATIONS**

### **The City lacks communicated cell phone policies to guide decisions about who should be issued city cell phones.**

While the City has a Telecommunications Usage Policy covering mobile telephone services, it has not been updated since October 2008, includes outdated information, and does not appear to be communicated to all employees with city-provided cell phones. The policy is not covered in routine new employee orientation or given to all new cell phone users. In addition, it does not provide guidance on the types of positions or duties that would require the need for such a device or require departments substantiate a business need for each device.

Because the City lacks such a policy, it has incurred unnecessary costs for cell phones it may not need in order to conduct its business.

- **Phones Assigned to Former Employees** - We compared Personnel records of current employees to IS records of cell phone users and found cell phones assigned to employees who were terminated, resigned, or retired. While we did not find instances where former employees continued to benefit from the cell phones, the lines remained active on the city's invoice. These lines cost the City \$3,820 during the audit period.
- **Extra and Spare Phones** – We identified 8 phone lines that were designated as “extra” or “spare.” These lines cost the City \$1,922 during the audit period to maintain.
- **Zero-Use Phones** – A report provided by Verizon in July 2011 shows that the City has 44 phone lines with an average of zero minutes and zero data usage. According to Verizon, these phone lines have an *average monthly cost* to the City of \$1,419.<sup>1</sup>
- **Phones Assigned to Individuals who are not City Employees**– We compared

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<sup>1</sup> Sprint/Nextel was unable to provide city cell phone data in a format conducive for this analysis. The cost reported here relies solely on Verizon data. Verizon cell phones comprise 78% of all city-provided cell phones.

Personnel records of current employees to IS records of cell phone users and found instances where cell phones were assigned to individuals who were not city employees or former employees.

During the course of the audit, we notified city administrators of phones assigned to former employees. In many cases, administrators, in conjunction with IS, reacted swiftly to deactivate the phone lines to prevent further costs.

### **Recommendation 1:**

IS should revise the Telecommunications Usage Policy to include guidance for departments on cell phone issuance, communicate the revised policy to each city department, and maintain it on an accessible medium such as its Intranet portal for reference. The new policy should consider items such as:

- **Who should receive a city-provided cell phone** – The Telecommunications Usage Policy should provide a framework for typical duties or positions that might require the use of a cell phone in order to guide department cell phone assignments. For example, the policy might establish types of authorized user groups such as “Administrators” and “Emergency Personnel” for which 24/7 access is required. Another user group could consist of “Field Personnel” for which a typical daily duty would be communication from a field location to administrative or supervisory staff in the office.
- **Why it is necessary** – The Telecommunications Usage Policy should recommend departments establish and maintain application forms for each issued phone that requires the supervisor or other authorizing party to justify the business need for the device based on the employee’s job duties. The application should include basic asset information such as device, model number, phone number, plan selected, and any additional features. The application should also require the employee to acknowledge receipt of the Telecommunications Usage Policy, as well as any relevant departmental policies.
- **Delineating the role of Information Services** – The revised policy should clearly delineate the duties IS intends to perform for cell phones.

### **Recommendation 2:**

Department heads should periodically review their full roster of assigned cell phones to ensure the City does not pay greater costs for cell phones than are necessary for its business. In particular, department heads should:

- 1) **Determine whether they can deactivate phones that have no or minimal use** - Departments may wish to consider replacing low-use phones with phones that incur charges on a per minute basis.

- 2) **Determine whether they can deactivate “spare” and “extra” phones** - Department heads should consider deactivating “extra” and “spare” phones in favor of per minute rate plans, as these phones are presumably not intended for regular use, but for use in emergency situations.
- 3) **Determine whether all cell phones listed are for current employees with a justified business need** – Departments should conduct a periodic review to ensure individuals listed are currently employed by the department and continue to perform duties that require the use of a cell phone.

**Departments have poor record keeping related to cell phones, leaving these city assets vulnerable to theft and abuse.**

Per the *Internal Control and Compliance Manual for Tennessee Municipalities*, cities are required to maintain a record of “moveable, high-risk, sensitive property” and ensure that employees turn in “any city property, including keys, equipment, uniforms, etc.” before their final paycheck is processed.

*Inventory Records*

The City does not maintain a central inventory of cell phones. Rather, in accordance with the City’s Sensitive Minor Equipment Policy, each department maintains a list of their assets valued under \$5,000 and “moveable and vulnerable to theft”. A review of current department listings indicates that departments do not generally include cell phones as sensitive minor equipment. Of the 587 city cell phones we identified, 24 were on the sensitive minor equipment lists we reviewed.

*Return of Asset (and Deactivation) Procedures*

To comply with the *Internal Control and Compliance Manual for Tennessee Municipalities*, the Personnel Department requires that departments submit a termination form for all employees leaving city employment. The form requires the return of all city-owned equipment. While departments may maintain their own lists of employees with cell phones, Personnel records do not indicate whether an employee has an assigned cell phone. We found evidence that departments may not routinely check cell phone lists when an employee terminates employment.

As noted in the previous finding, we found that phones assigned to former employees were still incurring monthly charges despite non-use. We also found that, rather than deactivating and reactivating a cell phone, departments allow cell phones to be passed down to new employees when employees were terminated, resigned, or retired without updating cell phone records. In addition, we found instances where phones were assigned to positions or entire divisions. It should be noted that under current contracts, the City does not incur activation or deactivation charges; therefore, the practices highlighted above are not cost-driven.

**Recommendation 3:**

Departments should include cell phones on departmental sensitive minor equipment lists and

inventory them annually, in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*.

**Recommendation 4:**

Departments should ensure cell phones are assigned to an individual, except in the rare case when it is most economical to assign a cell phone to a position where the phone is shared by shift workers in the same position (e.g., on-call maintenance services).

**Recommendation 5:**

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

**Department managers lack key information on employee cell phone use to enable adequate monitoring of costs.**

Currently, cell phone invoices are received by Information Services (IS) and costs are distributed to each department through an internally-generated program. IS then posts cell phone expenses to the General Ledger and authorizes payment by the Finance and Administration Department on behalf of all departments. IS saves the billing worksheet showing charges by line and cost center to an internal server. IS does not generally review the cell phone bill to identify cost savings opportunities for each department.

According to the Telecommunication Usage Policy, department managers are responsible for this type of review and any corrective actions required. However, based on our survey and interviews with administrators, few department administrators are aware of or have access to this worksheet. Individuals tasked with managing purchases in each department have been provided access to the internal server location. It should be noted that these individuals are likely not the same individuals who would monitor cell phone costs. Only two of the ten departments responding to our survey indicated they reviewed billing worksheets provided by IS on a periodic basis.

In addition, the worksheet prepared by IS in some cases unnecessarily restricts or complicates management review. For example, equipment charges are not separated from other miscellaneous charges on an IS billing worksheet. This restricts management ability to validate charges for equipment received. Also, the IS billing worksheet converts voice minutes used to a timestamp (hh:mm:ss) format, which complicates management review because in order to determine whether an individual exceeded their allotted minutes, the manager would need to first look up the rate plan and then convert the timestamp back to minutes used.

As a result, the City has incurred unnecessary costs due to:

- Directory Assistance Calls
- Premium Texting
- Ringtone Downloads
- Other Downloads
- Roaming
- Voice, Text, and Data Overages

A cost calculation for the directory assistance, premium texting, downloads, and roaming charges was difficult because these charges are combined in vendor invoices with other voice charges. However, a review of invoices during the audit period shows the City paid \$26,786 (8% of cell costs) towards voice, data, and text overages.

**Recommendation 6:**

IS should consider an alternative arrangement with the city's cell phone vendors to provide direct billing to large city departments. Such an arrangement has been successful in reducing cell phone costs for the Chattanooga Police Department (CPD).

Unlike other departments, the CPD has established a subaccount through Verizon. This type of arrangement allows department managers to review monthly detailed charges directly at the Verizon website. The CPD performs an individual review of any cell phone line that incurs \$3 in text and data overages or exceeds their voice allotment by 100 minutes. The reviewer makes a recommendation to prevent further overages on that line, to include adding features to the plan, blocking additional charges, or pursuing disciplinary action on the employee. The CPD's monthly overages have decreased from over \$2,500 in November 2009 to \$186.68 in April 2011 as a result of its review process.

**Recommendation 7:**

If direct billing is not pursued, IS should revise its monthly reports to be more useful for departmental cell phone management. The reports should be consistent among vendors, separate overages by type (data, text, voice) where possible, and show plan details such as the number of minutes or texts in the individual's plan.

**Recommendation 8:**

In addition, IS should revise the Telecommunications Usage Policy to clearly identify the location of monthly cell phone billing worksheets or reports should be available via the City's Intranet. It should also ensure individuals with oversight authority of cell phones have access to the reports. The location of this monthly report and authorized viewers should be communicated regularly to all departments.

**Departments are not routinely monitoring their cell phone bills for personal use of city cell phones.**

Cell phones are city property and are issued to employees for city business. Departments must have effective policies and procedures in place to ensure city-provided equipment is used appropriately and charges paid by the City or other funding sources relate only to that business use. The Telecommunications Usage Policy prohibits “inappropriate or excessive personal use” of mobile phones. We found departments have not established written policies to detail expectations of what would be considered “inappropriate or excessive personal use”.

As noted in the previous finding, with the exception of the Police Department, departments do not receive detailed calling or data usage information from either the cell phone vendor or IS. Employees also do not receive their cell phone bills directly; therefore, any charges of a personal nature are not readily identifiable.

While a business need may arise for directory assistance or roaming, premium texts and some types of downloads (e.g., Get It Now) would be exclusively of a personal nature. During the course of the audit, Internal Audit informed IS of these types of charges. In response, IS has taken action to block all premium texts and ringtone downloads on the City’s account.

**Recommendation 9:**

Departments should clearly establish criteria for what constitutes “inappropriate or excessive personal use” of city-provided cell phones. As noted in the previous finding, department administrators currently lack the capability to review employee cell phone usage in detail. Once this information is made available, department administrators should establish a detailed monthly review of charges to identify users who incur charges over a designated threshold. Managers should work with the employee to identify personal use and take disciplinary action or demand reimbursement from the employee for the “inappropriate or excessive” personal use.

**The City has not optimized its cell phone plans since 2008.**

Typically, an employee’s direct supervisor determines what cell phone plan the employee requires for the intended use of the device. Prior to January 2011, Information Services (IS) required an application for a city cell phone that identified default plans to select from, but did not require a justification for selecting a more expensive plan. As of January 2011, each department is managing its own cell phone purchases. In our discussions with cell phone managers, we found departments did not require written justification of the plan selected prior to issuing a city-provided cell phone.

While both cell phone vendors are able to produce reports showing the optimal voice plan for each city phone line, the IS department has not requested such a report since 2008. At the request of Internal Audit, Verizon provided an optimization report for voice plans on city phone lines. The report recommended adjustments that Verizon estimated could produce

average monthly savings of \$1,597. In general, these savings resulted from lower usage by the employee than the paid-for plan allowed.

Also, additional savings could be realized from optimizing add-on features such as text and data plans. We reviewed the April 2011 invoices and identified 59 instances where city employees incurred more than \$5 in data or text overages, and four instances where employees incurred over \$100 in overages. The vast majority of these costs were related to text messaging. It should be noted that adding a 250 message text plan would cost \$5 a month and unlimited text messaging would cost \$10 per line.

In our conversations, the City's Verizon representative recommended that such a report be produced and reviewed quarterly to minimize city costs.

**Recommendation 10:**

IS should request optimization reports from each vendor and review them on a quarterly basis to reduce costs.

**Recommendation 11:**

Departments should establish policies to select the least expensive plan available for the employee's cell phone needs. More expensive plans should be authorized only by a supervisor's approval and subject to revision based on actual use.

**Sprint improperly charged the City 911 fees.**

During the audit period, we identified \$2,725 in questionable charges from Sprint labeled "State Taxes." The charges appear to be related to 911 services. Tennessee Code Annotated §7-86-108 authorizes 911 fees on residential and business wireless customers for the purpose of funding the 911 telephone service. The Code section does not intend the fee for government customers and §67-6-329 excludes Tennessee municipalities from all sales and use taxes.

**Recommendation 12:**

IS should contact Sprint to ensure no additional fees are charged to the City and seek reimbursement for fees paid.

**The City should consider implementing a stipend program to reduce costs and ease administration related to providing employee cell phones.**

Cell phone stipends are taxable payments added to each participating employee's paycheck to cover the business portion of an employee's cell phone use. Under a stipend program, employees contract directly with cell phone providers of their choosing for their desired phone and plan. Each employee is responsible for paying his own cell phone bill. We considered this approach because cities adopting stipends cite reduced costs as well as other

efficiencies, since staff would no longer monitor plans for their employees. The graphic below shows the benefits and potential drawbacks we considered related to the implementation of a stipend program.<sup>2</sup>

### Benefits and Drawbacks of a Stipend Program

Benefits	Drawbacks
<p><u>To City:</u></p> <ul style="list-style-type: none"> <li>* Potential for Reduced Costs</li> <li>* Predictability in Monthly Costs</li> <li>* Less Administrative Oversight Required</li> <li>* Employee Maintains Equipment</li> <li>* Employee Incurs Overages</li> <li>* Employee Pays Bill</li> <li>* Employee Manages Own Plan</li> <li>* Monitoring of Personal Use Unnecessary</li> <li>* Automatic Deactivation of City Costs upon Termination</li> </ul> <p><u>To Employee:</u></p> <ul style="list-style-type: none"> <li>* Potential for Reduced Costs</li> <li>* Consolidation of Personal and Business Cell Phones</li> <li>* Employee Keeps Phone and Number upon Termination</li> </ul>	<p><u>To City:</u></p> <ul style="list-style-type: none"> <li>* Time and Cost of Managing the Transition to Stipends</li> <li>* Employees May Lose Service Due to Lack of Payment</li> </ul> <p><u>To Employee:</u></p> <ul style="list-style-type: none"> <li>* Potentially Higher Cost for Employees Currently without a Personal Cell Phone</li> </ul>

Source: Auditor Analysis

Moving to a stipend program would reduce indirect costs of administering cell phones. Department managers would no longer issue and troubleshoot cell phones. Managers would no longer monitor bills to identify personal use and to reduce overall cost to their departments. IS would no longer process cell phone bills for all city departments. However, the transition to stipends would require planning and oversight, and departments would rely on employees to maintain cell phone coverage during their employment.

Employees may realize reduced cell phone costs thru a stipend program. We surveyed 20 employees to determine whether they would benefit financially from a stipend. According to our survey, almost half (9 of 20) already use their personal phone to conduct some city business. Of the 20 respondents, 13 employees (65%) would likely benefit financially from a cell phone stipend. In addition, another 3 employees (15%) indicated they would prefer a stipend plan over a city-provided phone. Five of the seven employees who would not financially benefit from the program do not currently have a personal cell phone. The remaining two did have a personal cell phone, but would require additional features and/or equipment in order to use their personal phone for city business.

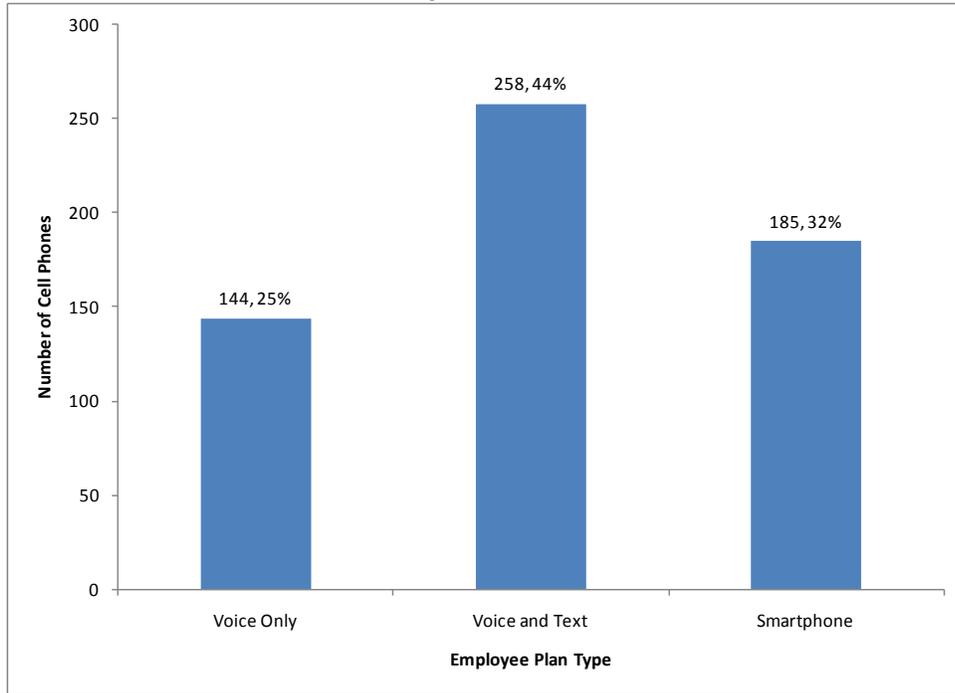
The City could also realize reduced monthly cell phone costs. To determine the amount of potential cost savings to the City, we analyzed current City cell phone plans and costs and

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<sup>2</sup> We considered the impact of stipends on Open Records requests but found a move to stipends would not change personal protections from disclosure or transparency in government business. Recent opinions from the Attorney for the Tennessee Office of Open Records Counsel indicate cell phone records are subject to Open Records requests in both stipend and employer-paid programs. According to the City Attorney, the City or any citizen would not have a right to personal emails, texts, or phone calls in a stipend or paid for environment under the Open Records Act (T.C.A. §10-7-503).

compared them to potential costs under a stipend program. We determined city employees had basically three types of plans: Voice Only, Voice and Text, and Smartphone. The Voice Only plan covers up to 400 minutes of peak call time in a month. The Voice and Text plan covers up to 400 minutes of peak call time and unlimited texting. The Smartphone plan allows unlimited minutes of peak call time, unlimited texting, and unlimited data use.

**Employee Plan Types and Number of Cell Phones  
as of April 2011**



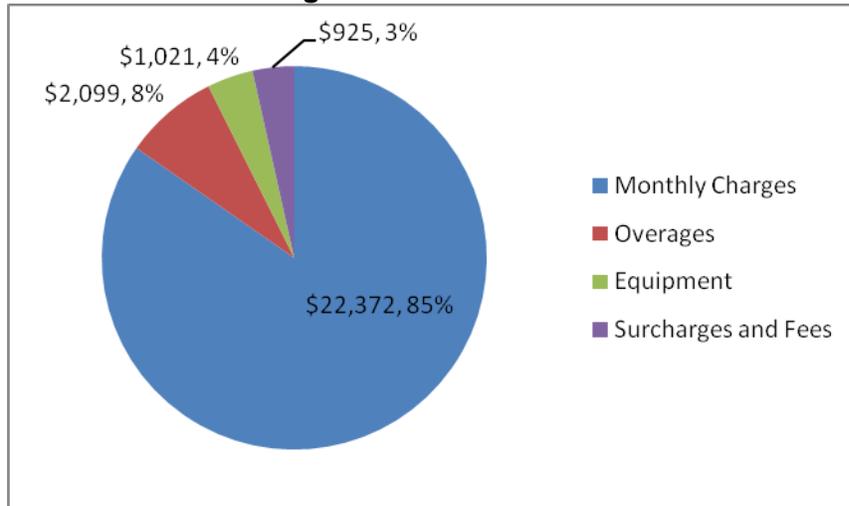
Source: Auditor Analysis of IS Billing Worksheets

Given our current mix of employee plans, we estimated costs to the City if it were to cover a designated percentage of employee cell costs in a retail environment.<sup>3</sup> We compared estimated costs to the City under a stipend program to the average amount expended on cell phones in January, February, and March 2011.<sup>4</sup> As shown in the exhibit below, monthly charges comprise an average of 85% of cell costs in a month. The other 15% is made up of equipment purchases, overages, and vendor surcharges and fees. Average monthly cell phone costs were \$26,419.

<sup>3</sup> We were unable to include costs related to vendor surcharges and government taxes and fees in our analysis. However, we based our assessments on employee costs before any discounts. Employees currently have a 19% discount through Verizon.

<sup>4</sup> We used January to March instead of February to April because the Police Department had unusually large equipment purchases in April 2011 (\$4,979). The Police Department upgraded a number of officers to Droid phones in that month.

**Cell Phone Cost Components  
Average Jan – Mar 2011**



Source: Auditor Analysis of Sprint and Verizon Invoices

The greatest factor determining whether cell phone stipends are cost-effective is the amount of the stipend. We estimate the City could save up to \$5,238 a month (or 20% of its current costs) if it were to cover 60% of projected employee costs in a retail environment. Based on our calculations, the City could cover up to 74% of estimated employee costs and still reduce its average monthly costs.

**Recommendation 13:**

City Administration should consider implementing a stipend program. If a stipend appears to be the best option, they may also wish to consider:

- *Linking Stipends to Job Titles* - The City currently has other allowance programs that operate similar to a stipend program. For example, uniformed personnel in the Police and Fire Departments may be eligible for a uniform allowance. IS has developed a program to run eligibility requirements against active employee lists to identify employees who are authorized for a uniform allowance. The allowance is processed via Payroll and is subject to taxes.
- *Minimizing City Administration via a Nonaccountable Plan* - IRS regulations allow the City to establish either an accountable or a nonaccountable stipend plan. Under an accountable plan, employees would reimburse the City for any unused portion of the stipend, as proven by monthly statements reviewed for personal use. The stipends would not be subject to taxation. A nonaccountable plan would be processed via Payroll and subject to taxation as wages and supplements. The City would not be required to maintain records of monthly statements from employees or substantiate the employee's business use. However, some employees could later deduct the business use of their cell phone as an unreimbursed business expense from his or her individual taxable income.

- *Allowing Employees to Keep Current Devices* – Rather than collecting all city-provided phones, the City could allow employees to keep their currently assigned phone. Doing so would decrease transition time from city-provided phones to stipends and reduce initial employee costs.

***Auditee Response (IS):** Information Services (IS) would like to thank Internal Audit for the diligence, thorough analysis and the ultimate result of the cell phone audit conducted over the past few months. Cell phones have fast become an integral, if not required, component for daily personal and business interaction. The City of Chattanooga is no exception. Based on information gathered and presented within the audit findings there are several options for managing this communication requirement. Information Services is in full support of their final recommendation (#13) of implementing a Stipend Program as a cost and a resource savings action that benefits both the City of Chattanooga and many of its employees.*

*As stated in the audit findings, the current method of cell phone management lacks proper controls and departmental monitoring. Currently there are approximately 600 city issued phones that have minimal, if any, actions taken to insure that they are being properly used and that the City is not incurring unnecessary costs. The City could implement a sweeping management and monitoring initiative that would encompass every department. This would initiate an inestimable management cost that would require management in every department of inventory controls, vendor communication controls, billing controls, issuance and collection controls, etc. Internal Audit's findings include recommendations that could work given that the city is willing to commit resources.*

*By deciding to determine which city jobs have a critical communication mandate, and then requiring that the incumbents to those positions provide their own communication device and service, the city will be eliminating an overhead cost that does not return a favorable benefit. Information Services is prepared to respond immediately to the decisions made regarding the findings of this audit.*