

HERNANDO COUNTY CLERK OF CIRCUIT COURT
AUDIT SERVICES DEPARTMENT

**BOARD OF COUNTY COMMISSIONERS &
CLERK OF CIRCUIT COURT
Conventional Line and Cellular Telephone Audit
April 4, 2007**

HERNANDO COUNTY CLERK OF CIRCUIT COURT
AUDIT SERVICES DEPARTMENT
MEMORANDUM

TO: Gary Kuhl, County Administrator

VIA: Karen Nicolai, CPA, Clerk of Circuit Court

FROM: Peggy Prentice, CIA, CISA, Audit Services Director

DATE: April 4, 2007

SUBJECT: Conventional Line and Cellular Usage Audit

The Audit Services Department's Audit Projects Schedule included an audit of the Clerk of Circuit Court's and the Board of County Commissioners' conventional line and cellular telephone usage. Based on testing, observations, and communications with key personnel, the Audit Services Department has produced the attached report for your review. Management's response to the recommendations is also included. A copy of this report has been forwarded to the Board of County Commissioners as an agenda "correspondence to note" item.

The purpose of this report is to furnish management independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. It is not an appraisal or rating of management.

Although the Audit Services Department exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

I would like to thank the Technology Services Department and especially Linda Mejias, MIS Records Compliance Technician, for their cooperation during this project.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact me at (352)540-6235, or just stop by my office in Room 201.

ATTACHMENT

copy: **BOARD OF COUNTY COMMISSION:**

Commissioner Christopher "Chris" Kingsley
Commissioner Diane Rowden
Commissioner David Russell
Commissioner Rose Rocco
Chairman Jeff Stabins
Garry Allen, Technology Services Director
Garth Collier, County Attorney
Barbara Dupre', Human Resources Director
Pat Fagan, Parks and Recreation Director
Jesse Goodwin, Assistant Director of Hernando County Utilities Operations
Larry Jennings, Deputy County Administrator
Jon Jouben, Assistant County Attorney
Gary Kuhl, County Administrator
Tom Leto, Emergency Management Director
Charles Mixson, Public Works Director/County Engineer
Jean Rags, Health and Human Services Director & Veterans Services Director
Grant Tolbert, Building Department Director
George Zoettlein, Office of Management and Budget Director

CLERK OF CIRCUIT COURT:

Amy Gillis, CPA, Finance Director

OTHER:

Lori Nissen, Partner, KPMG
Hernando Today
St. Petersburg Times - Hernando Edition
WWJB Radio Station
Hernando County Public Library

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Acknowledgement

Other minor findings, not included in this report, have been communicated to management and/or corrected during fieldwork. I thank management and staff for their cooperation.

Fieldwork was performed by: Peggy Prentice, CIA, CISA, Audit Services Director
Mark Marriage, Assistant Auditor

Assistance was provided by: Nancy Brown, Audit Administrative Assistant
Colin Engels, Assistant Auditor

The Clerk of Circuit Court's management response was provided by Amy Gillis, Finance Director, and it was authorized by Karen Nicolai, Clerk of Circuit Court.

The Board of County Commissioners' management responses were provided by:
Jesse Goodwin, Assistant Director of Hernando County Utilities Operations
Grant Tolbert, Building Department Director
Tom Leto, Emergency Management Director
Charles Mixson, Public Works Director/County Engineering
Pat Fagan, Parks and Recreation Director, and
Barbara Dupre', Human Resources Director,
and they were authorized by Gary Kuhl, County Administrator.

The County Attorney's Office provided a management response. The County Attorney reports directly to the Board of County Commissioners so his management response did not require the County Administrator's authorization.

This report was reviewed and authorized by Karen Nicolai on April 3, 2007.

Purpose and Scope

PURPOSE

Provide some level of assurance that Clerk of Circuit Court (Clerk) and Board of County Commissioners' (Board) personnel use their conventional line and cellular telephone privileges in compliance with applicable policies, procedures, and good business practices.

SCOPE

The Audit Services Department (ASD) selected a sample of conventional long-distance and cellular calls placed during calendar year 2006. Testing included the following:

- ❖ To test for compliance with applicable policies, procedures, and best business practices, the auditors tested samples of conventional long-distance calls that:
 - exceeded eight (8) minutes in duration and placed on weekends;
 - exceeded eight (8) minutes in duration and placed on holidays;
 - exceeded eight (8) minutes in duration and placed after normal working hours (between 5:00 p.m. and 7:00 a.m.);
 - exceeded 30 minutes in duration;
 - were placed 25 times or more to the same telephone number;
- ❖ To test for compliance with applicable policies, procedures, and best business practices, the auditors tested samples of cellular telephone calls; and
- ❖ Using a global perspective, the auditors addressed if user's cellular telephone plans are appropriate for the user's business needs (business use is aligned with selected service provider plan).

Scope Limitation

Due to a lack of ASD staff independence, the ASD's conventional long-distance and cellular telephone usage was reviewed by Karen Nicolai, Clerk of Circuit Court.

Baseline

SUNCOM is the provider of conventional long-distance service for the Clerk and the Board operations. The Call Detail Reporting (CDR) Database, which is administered by the Technology Services Department, maintains a record of these calls. Several vendors provide cellular telephone service for Clerk and Board operations. These services allow for receiving and placing local and long-distance calls. The ASD reviewed conventional long-distance calls and calls placed utilizing cellular telephones. Conventional local calls were not included in the scope of work.

Per Technology Services, if there are a significant number of non-business telephone calls placed via SUNCOM and if a State audit identified this abuse, the entire County's SUNCOM privileges could be revoked which could have a significant negative impact for the County.

Cellular communications have revolutionized the way business is conducted, enabling relatively inexpensive real-time communication between field workers, office staff, on-call personnel, etc., without the need for an extensive radio infrastructure. The technology surrounding cellular telephones continues to improve with data transmissions, email, and PDA functionality being added to an increasing number of telephones. However, cellular telephones can be costly and at risk for misuse. Administrative controls are therefore required to ensure that cellular telephones are issued based on a demonstrated business need and to ensure that the equipment is used in an approved manner.

The ASD used the appropriate policies for the Clerk and the Board [including Spring Hill Fire Rescue District (SHFRD)] as a basis for performing the audit. The following is a brief synopsis of the policies utilized during this audit as they apply to non-business usage:

Clerk:

➤ Telephone Policy 3000.11

Personal use of office telephones should be limited to pressing or emergency needs. Violations may lead to disciplinary action. Personal long-distance calls are not permitted.

➤ Cellular Telephone Use Policy 115

Personal use of a Clerk cellular telephone is inappropriate and discouraged. However, it is recognized that a limited number of personal telephone calls may be unavoidable. Therefore, the following shall apply to personal use of County cellular telephones:

- A limited number of personal telephone calls may be made.
- In no instance should a personal telephone call exceed three (3) minutes.
- In no instance should the total time of personal telephone calls exceed 10% of the plan's minutes.

Per the Clerk's Cellular Telephone Use Policy 115, Clerk departments will conduct an analysis of all cellular telephones that are assigned to the department for use. For each unit that falls below an average usage of more than 10% out of range of the calling plan for that unit, formal justification, or a request to change calling plans for the unit will be made by the respective Department Director for continuation of that particular unit.

Board:

➤ **Telephone Policy HR07-13**

The policy states that, "In order to maintain control over the County's telephone related expenses and to ensure that all telephone costs are business related and comply with audit requirements for both the County and the State of Florida, **no personal long-distance calls or cellular calls are to be placed and charged to the County**, including but not limited to regular long-distance, faxes, cellular telephones (incoming or outgoing calls), collect calls, calling card calls, and/or SUNCOM."

However, the procedure states that. "Personal telephone calls should be limited to those which are absolutely necessary and should be as brief as possible. When necessity requires that an employee make a personal long-distance call, that call should be placed on a personal calling card or charged to the individual's home number, or placed collect. **Personal long-distance calls should not be charged to Hernando County.**" This applies to all calls which incur a charge, including SUNCOM, conventional long-distance, calling cards, cellular telephones, modems and fax machines. "Use of the County's SUNCOM line for personal calls is **expressively prohibited**. Employees that violate this Policy may be subject to disciplinary action up to and including termination for abuse."

Employees who are issued cellular telephones by the County may only use the cellular telephone for business use. **No personal calls may be placed or received on a County issued cellular telephone unless it is an emergency.**

Per the Board's Telephone Policy HR07-13, each department is required to use stipends in lieu of County issued cellular telephones whenever possible. When it is determined by the department director that it is essential that a certain position carry a cellular telephone, the department director must then, based upon expected use, determine a stipend amount to be paid to the employee, not to exceed \$50 per month. If due to excessive use, the stipend is to be more than \$50 per month, approval by the County Administrator is required.

Per the Board's Telephone Policy HR07-13, Board departments are required to review on an annual basis the continued need for cellular telephones within their departments. If it is determined that a position no longer requires the use of a cellular telephone, Human Resources must be notified immediately (to initiate termination of any stipend being paid to an employee in that position.)

SHFRD: *a dependent entity under Board jurisdiction*

➤ **Use of Communication Equipment 01.106**

Excessive use of communications equipment for personal use by members is not permitted and may be cause for disciplinary action if abused. Long-distance telephone and cellular calls must be logged.

**DISCUSSION POINTS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSE**

CONVENTIONAL LINE

Discussion Point 1, Conventional Long-Distance Calls

The Clerk and Board have policies that prohibit, at some level, employees' non-business placement of conventional long-distance telephone calls on County owned telephones. To gauge compliance with these policies, the auditors performed several tests of employees' conventional long-distance usage.

A. Weekend Calls - The auditors selected for testing, the entire population of the CDR database of conventional long-distance calls placed between January 1 and October 4, 2006, which exceeded eight (8) minutes in duration, were placed on weekends, and were dialed from a Clerk or Board telephone. There were 11 calls that met these criteria.

Comment - No material concerns were identified during testing.

B. Holiday Calls - The auditors selected for testing the entire population of the CDR database of conventional long-distance calls placed between January 1 and October 4, 2006, which exceeded eight (8) minutes in duration, placed on holidays, and were called from a Clerk or Board telephone. There were two (2) calls that met these criteria.

Comment - No material concerns were identified during testing.

C. After Hours Calls - The auditors selected for testing the entire population of the CDR database of conventional long-distance calls placed between January 1 and September 26, 2006, which exceeded eight (8) minutes in duration, placed between 5:00 p.m. and 7:00 a.m., and were called from a Clerk or Board telephone. There were 26 calls that met these criteria.

Comment - No material concerns were identified during testing.

D. Calls Exceeding 30 Minutes in Duration - The auditors selected for testing a sample of 33 phone numbers from the CDR database of conventional long-distance calls placed between January 1 and December 6, 2006, which exceeded 30 minutes in duration, and were called from a Clerk or Board telephone. (*Note: this finding is also included in Table 1.*)

Comment - During testing, a Utilities Department employee was identified as abusing conventional long-distance telephone privileges. The employee concurred with the auditor's finding. The scope of work was expanded from October 17, 2005, to December 6, 2006, and included all conventional calls placed to the identified non-business phone number for any duration. During this 14 month time period, this employee placed 313 non-business conventional long-distance calls totaling 17 hours and 53 minutes. When the concern was brought to management's attention, management took immediate disciplinary action, provided all customer service staff members with Telephone Policy HR07-13 training, and

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compelled the employee to reimburse the County for the cost of these calls. The employee reimbursed the County. *(Included in Table 1 below.)*

E. Calls Placed Multiple Times to the Same Telephone Number

1. The auditors judgmentally selected for testing a sample of 47 long-distance telephone numbers from the CDR database of calls placed between January 1 and September 28, 2006, exceeded eight (8) minutes in duration, dialed multiple times to the same telephone number, and were dialed from a Clerk or Board telephone.

Comment – No material concerns were identified during testing.

2. The auditors judgmentally selected for testing a sample of 35 telephone numbers from the CDR database of long-distance calls dialed at least 25 times during the 15 month period ending December 2006.

Comment – The Board’s Telephone Policy HR07-13 which states that in order to maintain control over the County’s telephone related expenses and to ensure that all telephone costs are business related and comply with audit requirements for both the County and the State of Florida, no personal long-distance calls are to be placed and charged to the County. Contrary to this Policy, eight (8) of the 35 long-distance numbers tested were identified as non-business in nature. The six (6) employees who placed these calls confirmed the auditor’s findings. When these Policy violations were brought to management’s attention, most of the managers took immediate disciplinary action, all of them provided their employees with Telephone Policy HR07-13 training, and all of them compelled their employee(s) to reimburse the County for the cost of these calls. All six (6) employees reimbursed the County.

Table 1

Department	Number of Non-Business Long-Distance Calls Identified	Duration	Estimated Cost of Calls
Utilities <i>(Included in Section D above.)</i>	313	17 hours, 52 minutes	\$54.61
Development	235	13 hours, 21 minutes	\$42.85
Development	311	10 hours, 56 minutes	\$34.57
Emergency Management	212	8 hours, 10 minutes	\$25.37
County Attorney’s Office	76	5 hours, 1 minute	\$14.75
Public Works	27	7 hours, 37 minutes	\$24.50
TOTAL:	1,174	62 hours, 57 minutes	\$196.65

Recommendation: The County is only charged about 4.9¢ per minute for long-distance telephone calls; therefore, the significant loss for the County is not the telephone provider's charge per minute but rather the lost labor/production hours and negative public image. Employees should have a good understanding of the Telephone Policy and be encouraged to comply with that Policy. Non-business calls should be strongly discouraged. In those instances when a long-distance non-business call is placed, the employee who placed the

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call should reimburse the County for the cost of that call and be warned of potential disciplinary action for repeated violation of the Policy.

Management's Response - Utilities, Development, Emergency Management, County Attorney's Office, and Public Works Management Response (provided by: Jesse Goodwin, Grant Tolbert, Tom Leto, Garth Coller, and Charles Mixson):

Management concurs that when there is personal/non-business use of County owned telephones, the potential loss for the County is not the service provider charges but rather the lost labor/production hours and negative public image. During fieldwork, management took immediate corrective action that eliminated the concern. Management committed to encouraging all employees to comply with the Telephone Policy and will discipline employees who repeatedly violate this Policy, as applicable.

CELLULAR TELEPHONE

Discussion Point 2, Stipends

As of December 7, 2006, the Payroll Division's Earnings Analysis Report listed 67 Board employees who receive a monthly stipend to cover the cost of allowing County business use of their personal cellular telephone. Per the Board's Telephone Policy, HR07-13, the monthly stipend cannot exceed \$50 unless the employee receives approval from the County Administrator. The auditors reviewed the stipend amounts to test for consistency with the Policy. The Clerk does not have any employees who receive a stipend.

Comment: The Report indicated that employees received various stipend amounts none of which exceeded \$50. The various amounts are an indication that Department Directors may have taken into consideration each employee's projected monthly business use when determining the stipend amount. No material concerns were identified during testing.

Discussion Point 3, Departmental Annual Cellular Telephone Analysis

A. Board: The Board's Telephone Policy HR07-13 helps to ensure that management addresses the continuous need for employees to receive stipends. This Policy requires department heads to review on an annual basis the continued need for cellular telephones within their departments. If it is determined that a position no longer requires the use of a cellular telephone, Human Resources must be notified immediately so that any stipend being paid to an employee in that position be terminated.

Comment - It has been less than a year since revising Telephone Policy HR07-13 for the stipend program; therefore, not enough time has passed to audit for compliance with the Policy.

B. Clerk: The Clerk's Cellular Telephone Policy 115 is similar to the Board's Telephone Policy. The Clerk's Policy requires each Department Director to conduct an analysis of all cellular telephones that are assigned to the department. The analysis must be completed by January 31st in order to coincide with budget preparation. A copy of the analysis and justification for continuation of each unit must be forwarded to the Clerk of Circuit Court. For each unit that falls below an

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average usage of more than ten percent of the plan's minutes, formal justification, or a request to change calling plans for the unit, must be made by the representative Department Director for continuation of that particular unit.

Comment – The Blackberry mobile communication and business tool devices were implemented in late 2005 to early 2006; therefore, January 31, 2007, will be the first annual analysis date. Fieldwork was completed prior to the analysis due date; therefore, this Policy statement was not audited for compliance.

Discussion Point 4, Wireless Plans

Cellular telephone service providers offer wireless plans that may include or exclude mobile-to-mobile minutes, night and weekend minutes, shared minutes, and various coverage areas such as roaming, local, national, and international calls. When choosing a wireless plan for any Board or Clerk cellular telephone user, it would be logical to assume that management considers these options and chooses a plan that is economical and appropriate for the user/department.

The auditors reviewed wireless plans utilized by the following Board departments: Parks and Recreation, Development, Veterans Services, Utilities, and Department of Public Works. The auditors also reviewed the shared plan utilized by the Clerk of Circuit Court, Finance Director, Audit Services Director, and MIS Manager. The Audit Services Director had a conflict of interest of self auditing; therefore, another auditor was assigned to review the shared plan and then report any concerns to the Clerk of Circuit Court.

Comment – Department of Public Works: There were five (5) users who shared a 1,000 minutes plan. During the three month period ending November 2006, these users' expended about half of the plan's allotted minutes. No material concerns were identified when comparing the cellular plan to actual usage.

Comment - Parks and Recreation: There were seven (7) users that had plans. During the two month period ending August 2006, four (4) of these users expended significantly less than their plan's minutes (used 7%, 9%, 13%, and 19% of the plan's minutes), one (1) used a reasonable amount of minutes, and two (2) expended significantly more than their plan's minutes (130% and 120% of the plan's minutes). Based upon this analysis, it appears that the plans may require adjustment to better align them to users'/department's needs.

Recommendation – Parks and Recreation: To ensure wireless plans are aligned with County users'/department needs, consideration should be given to comparing actual needs to the wireless plans offered by cellular telephone service providers. Consideration should not only be given to the historical amount of minutes expended, but also to the user's required coverage area and the time/day of the week the user places and receives calls. For some users/departments, a shared plan may be more economical than individualized plans. There should be some level of assurance that whatever plan is chosen, that it is economical and appropriate for the user/department.

Management's Response - Parks and Recreation (provided by Pat Fagan): A few years ago, the Director made the decision that key staff in Parks and Facilities Maintenance would

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all change to Nextel plans due to the walkie-talkie feature. In addition, the Director's phone has e-mail capability which he has found to be a very useful feature. Due to the fact that these employees deal with outside vendors and contractors on a regular basis (the majority of whom use Nextels), a major benefit of these plans is the free incoming calls and unlimited direct connect (walkie-talkie).

All but the Director's plans have expired, but he has been reluctant to renew due to the 2-year contract requirement and recent service issues. We have analyzed all seven (7) plans and have come to the following conclusions.

Of the four (4) users expending significantly less minutes than allotted, one will be changed to a stipend for his personal Nextel at the end of the current billing cycle. The remaining three (3) are being enrolled in a new plan that has just become available within the past month. This new plan offers 200 total minutes for \$29.99 per month and \$5 unlimited direct connect, less the 18% government discount. This will provide a savings of about \$64 per month on these three phones.

The phone that had a low usage (29%) but was still considered reasonable belongs to the Director, who normally uses his phone on a regular basis; however, during the period audited, he was in and out of the hospital due to major health issues. That phone is also already under a 2-year contract and cannot be changed due to the e-mail capability.

The two (2) phones that expended significantly more than their plans' minutes belong to Craig Becker and Jim Dart of Facilities Maintenance. During the audit period, the Government Center Security Project was out for bids and calls were admittedly more than normal. These two employees estimate that about 60% of their phone usage is from incoming calls, which are free under the current plan. The shared plan is not considered a viable option since we would lose the free incoming calls, which is a majority of the usage on all phones. Recent usage is in line with the current plan and we do not see a need to change their service at this time. However; we will continue to monitor their phone usage.

Comment – Development Department: There were 15 users that shared a 4,500 minute plan. During the two (2) month period ending August 2006, these users expended about half of the plan's allotted minutes. No material concerns were identified when comparing the cellular plan to actual usage.

Comment - Veteran Services: There were three (3) users that had plans. During the two (2) month period ending August 2006, these users expended significantly less minutes than their plan's minutes (0% to 2% of the plan's minutes). Based upon this analysis, it appears that the plans may require adjustment to better align them to the user's/department's needs.

Recommendation – Veteran Services: To ensure wireless plans are economical and aligned with County user's/department's needs, consideration should be given to comparing actual needs to the wireless plans offered by cellular telephone service providers. Consideration should not only be given to the historical amount of minutes expended, but also to the user's required coverage area and the time/day of the week the user places and

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receives calls. For some users/departments, a shared plan may be more economical than individualized plans. There should be some level of assurance that whatever plan is chosen, it is economical and appropriate for the user/department.

Management Response - Veteran Services (provided by Jean Rags): The cell phones in question are used by the volunteer drivers of the vans to James Haley Hospital and are only utilized if the drivers should need to be in contact with the office or for emergency use. We currently have Cingular of which our obligated contract ended on 12/21/05.

The current plan we have is 250 minutes per month for \$26.24, totaling \$78.72 a month for 3 phones.

We have contacted Cingular and our current plan is no longer offered. The least amount of minutes offered currently is 450 minutes for \$39.95 a month. We have inquired about another option of switching to a pre-paid plan. We would be able to use the same phones as long as they were not analog, and we would be able to keep the same phone numbers, and get 200 prepaid minutes for \$29.99 (per phone). These minutes rollover month to month and expire a year after purchase. One charge of \$29.99 per phone until the minutes either are used up or expire - this is not a monthly charge.

We have learned that our phones are analog and will need to be replaced at an approximate cost of \$20-30. We are in contact with Cingular in an effort to purchase new phone and prepaid minutes which would lower our cell phone expense considerably.

Comment – Utilities Department: Two (2) types of users were identified in this department (employees on-call, and employees not on call).

The employees on-call have 60 allotted minutes in their plans. During the two month period ending October 2006, these users expended a minimal amount of the plan's allotted minutes. However, these plans appear to align with the user's/department's needs. Based upon the job functions, immediate contact is required but extensive telephone usage is not anticipated. No material concerns were identified when comparing the cellular plan to users'/department's needs.

The 13 users who are not on call share a 1,400 minutes plan. During the two month period ending October 2006, these users expended about half of the plan's allotted minutes. No material concerns were identified when comparing the cellular plan to the users'/department's needs.

Comment - Clerk: Four (4) users share a 400 minutes plan. During the two month period ending October 2006, these users expended about 34% of the plan's allotted minutes. When considering usage, the auditors took into consideration the Blackberry mobile communication and business tool features. The overall package appeared to be economical and appropriate for the users/departments.

Discussion Point 5, Cellular Telephone Usage

The Board and Clerk have policies and procedures that, at some level, prohibit employees' non-business placement of telephone calls on County owned cellular telephones. To gauge compliance with these policies, the auditors performed several tests of employees' cellular telephone usage.

A. Board Cellular Telephone Usage - The auditors judgmentally selected for testing a sample of 47 Board cellular telephone calls that were billed in July 2006 and exceeded eight (8) minutes in duration.

Comment - Of the 47 calls tested, the auditors were not able to identify 29 of the call destinations. Of the remaining 18 calls tested, 72% appeared to be business in nature and 28% were inconclusive or had the potential of being non-business in nature.

Due to the cost of tracing each call to its destination, testing was discontinued when the cost of testing outweighed the benefit of the test performed.

B. Clerk Employee Cellular Telephone Usage -

1. The auditors tested the entire population of four (4) Clerk employees' cellular telephone calls placed between August 26 and September 25, 2006 that exceeded eight (8) minutes in duration.

Comment - No material concerns were identified during testing.

2. The auditors reviewed six (6) cellular service provider invoices dated January 29, March 1, March 29, April 29, July 29, and August 29, 2006, and tested frequently called numbers and calls exceeding eight (8) minutes in duration.

Comment - No material concerns were identified during testing.

3. The auditor, under the direction of the Clerk, performed a test of the Audit Services Director's cellular telephone usage during the 10 month period ending November 25, 2006.

Comment: No material concerns were identified during testing.

Discussion Point 6, Policies and IRS Rules

During fieldwork, the Finance Director requested the auditors' assistance with researching and interpreting the Internal Revenue Services' (IRS) rules in regard to employee fringe benefits as they relate to personal use of County owned cellular telephones. Once interpreted, the Director requested suggestions for editing Board's and Clerk's telephone policies, as applicable.

The auditors consulted with two IRS points of contact that provided guidance referencing IRS Publication 15B, page 2 which states that, "any fringe benefit you provide is taxable and must be included in the recipient's pay unless the law specifically excludes it." More specific valuation information is as follows, "You must include in a recipient's pay the amount by which the value of a fringe benefit is more than the sum of the following amounts: 1) any amount the law excludes from pay, and 2) any amount the recipient paid for the benefit." Essentially, this means that any personal use of a County issued cellular telephone constitutes a taxable employee fringe benefit, and

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therefore, any charges incurred for personal use must be included in the employee's regular wages so that it can be taxed. However, if the employee reimburses the County for the charges, it then becomes unnecessary to include the charges in the employee's regular wages. In terms of valuation of the fringe benefit, there is no standard table used to calculate personal cellular telephone use charges. The IRS states that the fringe benefit amount should be calculated at what the recipient would pay a third party for the benefit in an "arms length business transaction" or Fair Market Value (FMV). That is to say that, at a minimum, the charges should be levied at the same rate the County pays for the services provided.

Comment: The Clerk's and Board's telephone policies do not adequately provide a standard procedure on how to calculate personal cellular telephone usage and how to report it to the Payroll Division for processing.

Recommendation: As with all recommendations, situations that could result in financial or legal liability should be reviewed by a licensed field professional prior to the implementation of any plan.

Consideration should be given to one or more of the following:

1. Devise and implement 'Accountable Plan' in regard to County issued cellular telephones i.e. - require employees to submit documentation identifying and justifying personal use along with full reimbursement for any such use or estimating the personal use and prorating it on a quarterly basis for payroll purposes (show on paycheck, employee charged taxes for fringe benefit i.e., federal, Medicare, and FICA). Estimate usage first year then audit each one to two years thereafter. Adjust estimate as needed.
2. Consider a 'mandatory stipend' cellular telephone policy. *(At the end of fieldwork, the Board's Telephone Policy HR07-13 was in the process of being updated.)*
3. Explore potential for personal cellular telephone usage to be classified as 'de minimis' under the Internal Revenue Code using policies designed to limit and track personal cellular telephone usage.

Management's Response - Human Resources and Finance (provided by Barbara Dupre' and Amy Gills):

Pursuant to your comments and recommendations in the above noted audit, the following are the steps taken by the Human Resources Department in conjunction with Finance.

Human Resources has revised the existing Telephone Policy to include a section that requires stipends in lieu of county issued cellular telephones whenever possible. Since the implementation of this policy, most of the county issued telephones have been turned off and stipends have been started for employees whose Department Directors feel it is necessary to have a cellular phone in order to conduct county business.

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In addition, although there are no personal phone calls allowed to be made on either the conventional phone line or any county issued cellular phone line, the policy addresses how these calls, if they are made in case of an emergency, are to be reported and/or reimbursed to the county pursuant to IRS regulations. Personal cellular phone calls should be reimbursed on a pro-rata share of the total charges for the time period, based on personal minutes as a percentage of total minutes. This reimbursement clarification will be included in the next distribution of the Accounts Payable Manual.