



Review of the Telecommunication Expense Chargeback Process

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Office of the County Auditor

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County Auditor

Executive Summary

This report provides the results of our review of the telecommunication (telecomm) expense chargeback process. Staff from the Office of Information Technology (OIT) manage telecomm billings and coordinate with staff from the Accounting Division to chargeback telecomm expenses to County agencies¹ and Constitutional Offices.

The County expended approximately \$11.3 million for recurring voice services, equipment maintenance, and data cabling services during fiscal years 2005 and 2006. The telecomm bills are paid through non-departmental expense accounts. A chargeback process subsequently allocates the telecomm expenses to individual agency accounts. The chargeback process provides accountability for telecomm costs by billing each agency based on usage of telecomm services.

In our review of the telecomm expense chargeback process, we noted no deficiencies in charging the appropriate agency for telecomm expenses requiring specific agency approval, such as equipment maintenance, work orders, installations, and data cabling.

We did note, however, deficiencies in the agency and Constitutional Officer chargeback process for recurring local and long distance service charges including:

- 1. The current chargeback process fails to fairly and equitably distribute the actual telecomm expenses to County agencies and Constitutional Offices.** The chargeback process improperly allocated telecom expenses to agencies in fiscal years 2005 and 2006. The failure to properly allocate the costs misrepresents agency telecomm expenditures. This impedes fiscal management of telecomm utilization.
- 2. OIT, in conjunction with the development of a new telecomm chargeback system, discontinued the issuance of telecomm usage statements to County agencies in October 2005.** OIT staff are continuing the process of implementing a new chargeback system.
- 3. Control weaknesses over the accounts used in the chargeback process allowed improper recording of expenditures, which resulted in account balances exceeding budgeted amounts.** For fiscal years 2005 and 2006, agencies improperly recorded approximately \$769,000 in other expenses in the chargeback accounts. This resulted in chargeback accounts exceeding budgets by a total amount of approximately \$687,000.
- 4. We were unable to determine the reliability and accuracy of the planned OIT chargeback process, as staff report that it is operational for only 20% of County agencies.**

¹ The Libraries Division receives separate telecommunication bills for voice and data services, so it is not included in the County-wide allocation.

In order to address the issues identified and to promote efficiencies in the County's use of telecomm services, we recommend the Board of County Commissioners direct the County Administrator to expedite the following corrective actions:

1. Establish an effective telecomm expense chargeback process which delivers

- Consistently accurate chargeback of recurring and variable charges,
- Billing credits directly to the agencies responsible for the cost savings,
- Timely recording and reporting of expenses in appropriate periods, and
- Operational efficiency in the performance of the chargeback process.

2. Adjust improperly recorded telecomm chargeback expenses for fiscal 2007.

3. Implement controls over accounts used in the chargeback process to

- Prevent improper recording of expenditures,
- Include management review of expenditures to prevent budget overruns.

Background

The County expended approximately \$5.0 million in fiscal year 2006 and \$6.3 million in fiscal year 2005 for BellSouth provided recurring voice services, equipment maintenance, and data cabling. Office of Information Technology (OIT) staff receives, reviews, and authorizes payments of the bills received from BellSouth. In the current chargeback process, OIT staff develop an allocation schedule, which is used by Accounting Division staff to record the chargeback of telecomm expenses to individual County agencies² and Constitutional Offices.

The following describes the payment and charge back process for various services:

Recurring Voice Services

OIT staff authorizes payment of the County-wide monthly BellSouth bill for the recurring voice lines. The payments are recorded into a non-departmental expense account assigned to OIT. Subsequently, OIT calculates the distribution of expenses to be charged back to County agencies and Constitutional Officers. Using the OIT schedule, Accounting staff then record the chargebacks using a contra-expense account. The proper allocation of expenses will result in a net zero balance between the expense and contra-expense accounts.

Long Distance Services

BellSouth includes long distance charges with the bill for recurring voice services. Long distance services are processed in the same manner as recurring voice services.

Equipment Maintenance/Work Orders/Installations/Data Cabling

Equipment maintenance, work orders, installations, and data cabling charges are ad-hoc in nature. The activity requires the approval of both the ordering agency and OIT. Upon approval, OIT staff identifies the agency's expense account. Bills for these services are paid upon receipt through an OIT non-departmental account. OIT subsequently charges the costs to the approving agency's expense account via a contra-expense account.

Prior to 2006, the County used a third party to import Bellsouth bills, calculate individual agency cost of services, and provide the associated charge back statements. Upon expiration of the third party agreement, OIT staff assumed responsibility for calculating the agency chargeback amounts.

Scope and Procedures

This review focused on telecomm expenses from fiscal years 2005 and 2006 charged to the general fund OIT non-departmental telephone chargeback accounts and individual agency accounts established for telephone allocation charges.

² The Libraries Division receives separate telecommunication bills for voice and data services, so it is not included in the County-wide allocation.

We interviewed staff from the Accounting Division and the OIT Business Office. We reviewed documentation provided, the fiscal year 2006 estimated allocation schedule, journal entries, payment vouchers, correspondence, procedures and workflows.

We reviewed account details recorded in the Advantage Financial Management System and analyzed transactions to determine proper classification of telecomm expenses for fiscal years 2005 and 2006.

Findings

In our review of the telecomm expense chargeback process, we noted no deficiencies in charging the appropriate agency for telecomm expenses requiring specific agency approval, such as equipment maintenance, work orders, installations, and data cabling.

We noted the following deficiencies in the process for allocating recurring charges and long distance services:

1. The current chargeback process fails to fairly and equitably distribute the actual telecomm expenses to County agencies and Constitutional Offices.

BellSouth issues a combined bill of the County's costs for recurring voice services, equipment maintenance, and other services. Accounting is the agency responsible for the timely and accurate allocation of telecomm costs to each County agency and Constitutional Officer. Accounting staff allocated fiscal year 2006 agency telecomm expenses based upon estimates rather than actual amounts. This method fails to accurately chargeback telecomm expenses for the following reasons:

- **Inaccurate Data** - For fiscal year 2006, Accounting staff used estimates based on historical averages from fiscal year 2005. However, the fiscal year 2005 historical data contained inaccuracies. For example, the 2005 allocation basis includes an un-reconciled difference of \$145,366 between actual expenses and chargeback amounts. In addition, use of the 2005 averages fails to consider agency service level changes in subsequent periods.
- **Allocation of Agency-specific Costs** – Expenses for long distance, maintenance and pay phone costs were improperly included in the allocation in the approximate amounts of \$726,000 and \$722,000 for fiscal years 2005 and 2006, respectively.
- **Inequitable Distribution of Billing Credits** - In the case of service reductions, Bellsouth issues billing credits as a result of service changes within specific agencies. The use of an estimated allocation lumps BellSouth billing credits into the net allocated amount rather than applying the credits directly to the agencies responsible for the cost savings.
- **Over Estimation of Actual Costs** - Accounting staff estimated the telecomm cost allocation process for fiscal year 2006. However, the estimated amounts exceeded the actual costs. As a result, the County over-allocated monthly costs in the total amount of \$1.5 million. The cost over allocation resulted in agencies telecomm monthly charges exceeding the amounts actually incurred. The Accounting Division reversed the overage during the year-end process of closing fiscal year 2006 accounts.

As result, individual agency allocations recorded for fiscal year 2006 failed to represent the actual costs of telecomm services. This impedes the accurate fiscal management of telecomm utilization and precludes continued accountability for incurred expenses. The noted chargeback deficiencies remain unchanged during the first quarter of fiscal year 2007.

2. OIT, in conjunction with the development of a new telecomm chargeback system, discontinued the issuance of telecomm usage statements to County agencies in October 2005.

For fiscal year 2005 and prior years, an outside vendor provided allocation services to Accounting Division staff to enable agency charge backs. The third party imported the electronic Bellsouth bills, calculated individual agency costs of services, and provided the associated charge back amounts and agency statements. Accounting staff, however, reported difficulty reconciling the vendor provided chargeback amounts with the Bellsouth bills. A review of the fiscal year 2005 accounts found an un-reconciled difference of \$145,366 between actual expenses and chargeback amounts. When the third party contract expired at the end of fiscal 2005, the Accounting Division determined the best available basis for continuing chargebacks was the historical amounts.

For fiscal year 2006, Accounting staff reported that telecomm charge back expenses were based on historical averages from the fiscal year 2005 chargebacks. The charge back amounts remained constant throughout fiscal 2006 for each agency. As the fiscal year 2006 chargebacks were estimated allocations, detailed statements of telephone and long distance usage and charges were not provided to agencies. The lack of statements precluded agencies from reviewing the details of charge back expenses.

3. Control weaknesses over the accounts used in the chargeback process allowed improper recording of expenditures, which resulted in account balances exceeding budgeted amounts.

The County designates specific accounts within each agency for the chargeback of recurring voice and long distance services and separate accounts for agency-specific costs of equipment/maintenance, and data cabling. The County establishes other accounts to budget and record expenses for other expenditure categories. The dedicated recurring voice and long distance account provides a mechanism to budget and track the chargeback telecomm expenses. The use of the account for any other expenses distorts the true cost of recurring telecomm services processed through the chargeback system.

We found improper recording of other expenses in the recurring voice and long distance services chargeback accounts. Cell phones/pagers, equipment maintenance, and temporary personnel services were found improperly charged to agency charge back accounts in the approximate amounts of \$350,000 and \$419,000 for fiscal years 2005 and 2006, respectively.

The inclusion of these expenses in the agency chargeback accounts overstates recurring telecomm costs and undermines the utility of the accounts in monitoring the chargeback process. The inclusion of these expenses contributed to agencies exceeding established budget amounts by \$587,754 and \$99,591 in fiscal years 2005 and 2006, respectively. Thus, the improper use of telecomm expense accounts serves to overstate subsequent budget requirements for recurring voice and long distance telecomm expenses while potentially understating other agency operating expenses.

4. We were unable to determine the reliability and accuracy of the planned OIT chargeback process, as staff report that it is operational for only 20% of County agencies.

In the absence of vendor allocation services as of September 2005, OIT assumed responsibility for developing a chargeback system for telecommunication expenses. As part of the deployment of the new chargeback process, OIT staff are working to

- Train telephone service representatives within agencies on billing administration and service order processing,
- Verify the inventory of lines assigned to individual agencies, to enable production of a “telephone use statement” for agency review and approval of monthly charges, and
- Develop updated documentation of billing administration and charge back procedures and workflows.

When fully operational, staff report that the OIT chargeback database should produce individual agency telecomm statements of charges.

During the review, we noted BellSouth can assist customers with the allocation of telecomm charges. BellSouth provides for customer use of a billing management software application. Besides providing a mechanism for the review of billing statements, the software features tools for allocating actual charges to end users. The software utilizes customer assigned billing identifier codes to allocate incurred charges to each end user. BellSouth allows the customer to assign “identifier” codes for all billed services. During the electronic billing process, BellSouth applies the appropriate code to each charge and/or credit contained in the bill. This greatly facilitates the charge back process given a County monthly bill typically contains approximately 70,000 line items. OIT staff report that this option is not feasible, as the Bellsouth reports would not include a user name for each line on the chargeback statement.

As of the end of March 2007, OIT staff report that approximately twenty percent of County agencies are using the new chargeback system. OIT staff further report that implementation of the new chargeback system will be completed by June 2007. Thus, pending finalization by OIT, we are unable to assess the reliability and accuracy of the OIT chargeback system.

Recommendations

In order to address the issues identified and promote agency level fiscal control over telecomm expenditures, we recommend the Board of County Commissioners direct the County Administrator expedite the following corrective actions:

- 1. Establish an effective telecomm expense chargeback process which delivers**
 - A consistently accurate chargeback of recurring and variable charges,
 - Applying billing credits directly to the agencies responsible for the cost savings,
 - Timely recording and reporting of expenses in appropriate periods, and
 - Operational efficiency in the performance of the chargeback process.

- 2. Adjust improperly recorded telecomm chargeback expenses for fiscal 2007.**

- 3. Implement controls over accounts used in the chargeback process to**
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