

# Chapter 7

## Department of Supply and Services

### Cellular Phones

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# Department of Supply and Services - Cellular Phones

## Background

7.1 As noted in an issue of *Fortune* magazine, “Whoever said ‘bigger is better’ has never carried a cellular phone.” These tiny devices – which are both shrinking in size and expanding in terms of capability – are an increasingly common feature of our everyday lives. And just as this convenient method of communication has become more common in society in general, so too has it become a more prominent part of the government’s communication network. Based on supplier information, it is estimated that government (including departments, agencies, Crown corporations, regional health authorities and school districts) has over 3,100 cellular phones in service and spends at least \$2.5 million each year on phones and cellular usage charges. To put this in some context, the Department of Supply and Services estimates that government has over 48,000 network landline accesses.

## Scope

7.2 We began examining some issues around cellular phones in the fall of 2001. With the use of cellular phones increasing, we wanted to ensure that the government had adequate systems and practices in place to administer their acquisition and use.

7.3 Our audit objective was as follows:

*To determine if the government has an adequate system in place to administer the acquisition and use of cell phones.*

7.4 We developed eight audit criteria to assist us in determining if government was meeting this objective.

7.5 The first three relate directly to the Department of Supply and Services and its responsibilities under the *Public Purchasing Act*. The remaining criteria are also relevant to this Department for two reasons. First, like most entities in government, it is a user of cellular phones. And secondly, government policy gives the Department some overall responsibility for cellular phones. For instance, one departmental responsibility is “the negotiation, on behalf of the Government, of cellular telephone network service proposals and satellite telephone service proposals”. Further, this same policy also makes the Department

responsible for “the management of the Government's Consolidated Telephone Billing system”.

**7.6** Since our work resulted in recommendations that cut across many government departments, we sought a response from the Board of Management. If there is a need for any government-wide policy direction or clarification in implementing these recommendations, the Board should be the source of such direction.

**7.7** Our work included:

- a review of applicable government legislation and policy;
- a review of purchasing documentation and the tenders for cellular phones;
- a cross-government survey;
- interviews and follow-up verification in several government departments;
- downloading data from the consolidated billing for two months and reviewing a sample of charges for cellular phone services;
- a review of the 1995 Office of the Comptroller's “Telephone Costs Review”; and
- various discussions with a service provider.

## Results in brief

**7.8** While the Department of Supply and Services has tendered for cell phone hardware it is in violation of the *Public Purchasing Act* by not tendering for cellular phone airtime and long distance usage.

**7.9** The Department should establish a government-wide approach for the analysis and procurement of cellular airtime and long distance packages, as it now does for hardware needs.

**7.10** Government departments are not adequately controlling the assignment and use of cellular phones. Only two of twenty-one departments and agencies we contacted have written guidelines to ensure cellular phones and usage plans are assigned to employees based on identified need. While all departments and agencies but one have cellular phone listings, the user and identification number are not always identified. Six of twenty-one departments and agencies we surveyed do not monitor cellular phone charges for appropriateness and accuracy. And departments do not have an adequate system in place to ensure they minimize costs by selecting the usage plan that best matches the needs of their cellular phone users.

**7.11** The duties of departmental telecom officers with respect to cellular phones are unclear.

**7.12** Our first criterion was:

## Compliance with the *Public Purchasing Act*

*The Department of Supply and Services should ensure the tender for the purchase of the cell phone hardware and the usage plans is in accordance with the Public Purchasing Act and Regulations.*

**7.13** As highlighted in our 2001 Report chapter 9 “Department of Supply and Services – Purchasing”, purchasing in accordance with the *Public Purchasing Act* (the Act) serves several important purposes. For one, it ensures “that all suppliers have a fair and equal opportunity to compete for government (provincial) contracts.” For another, “if all suppliers have a fair and equal opportunity to compete, they will be encouraged to bid on contracts, pricing will be competitive and costs should be reduced.”

**7.14** Section 4(1) of the Act establishes public tendering as the basis for public sector purchasing and requires that all purchases of supplies over \$5,000, and services over \$10,000, be tendered unless exempted by the Act or Regulation.

**7.15** In the case of cell phones we found that the Department has complied with the Act in one circumstance, but had not in the other. We discuss these in the following two subsections.

### **Cell phone hardware**

**7.16** Cell phone hardware was tendered in accordance with the Act for the year ended 31 March 2002. For the year ended 31 March 2003 a tender was issued, but not until May 2002. Normally it would be expected that the 2003 tender would have been issued so that the new contract would be effective when the previous contract expired. This is so purchases can continue to be made with no interruption and with the benefit of tendered pricing. We inquired as to why the delay and its effect. Departmental personnel stated that the tender was delayed because of substantial changes to the tender and that providers were slow in getting back to the Department regarding phones available. In fact, the new phone contract will be with the providers directly, not the dealers as in previous years. Departmental staff stated that only emergency needs were filled in the period for which no contract was in place and there were only a half dozen or so of these.

### **Cell phone usage**

**7.17** While most New Brunswickers can just pick up their home landline phone and talk as much as they wish locally for the basic fee, users of cell phones do not have that luxury. In fact, cell phone users have only limited “free” airtime minutes. And, unlike landline phones, when cellular users make long distance calls, they can incur separate charges for both airtime minutes and long distance usage.

**7.18** A review of cell phone expenditures shows that airtime and long distance usage charges total over \$2 million annually and have far surpassed hardware expenditures.

***Airtime usage***

**7.19** At this time only two providers are able to supply government with cellular airtime usage. Both providers have, with no negotiating or bargaining, made a low usage plan available to all government cell phone users at a small discount. Any additional plans that the government might choose are the same as those offered to any business in the Province.

***Long distance service usage***

**7.20** The two cellular network providers are also able to supply government with long distance service. Again, with no negotiating or bargaining, both have made a low volume long distance usage plan available to government at a small discount. The other long distance usage plans they offer are the same as those offered to any business in the Province.

***No tendering for usage***

**7.21** The Department has never tendered for either long distance or airtime usage. Perhaps this is why government is not receiving significant discounts on most of the plans available; as noted, government is essentially being offered the same package of plans that most businesses can obtain. This seems unreasonable, especially when one considers that government has over 3,100 cell phones and spends over \$2 million annually on usage charges.

**7.22** We would like to note that the Department has been proactive in making available to cell phone users some cost reduction tools. For instance, it negotiated a government long distance rate when calling cards are used. All departments and agencies can obtain these calling cards and use them to cover long distance airtime for cell phone users. And the cost is under 10 cents per minute, a substantial saving when compared to the 20 cents or more charged on many long distance plans.

**7.23** The Department of Supply and Services has also informed departments that many different usage plans are available to meet their long distance and cellular airtime needs, details of which can be obtained from the provider. Additionally it has informed departments that providers' representatives will help them match their usage needs with available usage plans in order to reduce costs.

**7.24** In our opinion airtime and long distance usage are subject to the provisions of the *Public Purchasing Act*. Neither has been exempted from these provisions and, by not tendering, the Department is therefore in violation of the *Public Purchasing Act*. The Department should be putting both these services out to tender. As some providers may only be able to fulfil long distance requirements, the Department should consider the costs and benefits of tendering long distance and airtime usage separately. This will allow all providers to compete for long distance usage, thus ensuring all have access to providing that service and increasing competition for it.

7.25 Given the amount of business available one would expect that interest in obtaining this business would be high and significant savings could occur. One of the providers indicated to us that government was not achieving potential savings because it was not bargaining, or tendering, its usage requirements.

### **Conclusion**

7.26 The criterion is partially met. The Department is complying with the *Public Purchasing Act* in purchasing cell phone hardware but, in not tendering for airtime and long distance usage, is in violation of the *Public Purchasing Act*.

### **Recommendation**

7.27 **We recommended the Department comply with the *Public Purchasing Act* and tender airtime and long distance usage for cell phones.**

### **Departmental response**

7.28 *The Department has not previously tendered for cell phone usage and long distance, as until recently, cellular services had limited competitive availability throughout the Province. In fact, in particular areas, a “monopoly” situation existed making it appropriate to acquire under section 27(1)g of the Public Purchasing Act. As the competitive availability in all areas of the Province has improved, the timing was more appropriate for the adoption of a policy to publicly tender for such services. This occurred in June 2002.*

7.29 *The Department will be tendering for cellular air time and cellular long distance rates by the spring of 2003, in conjunction with the new cellular hardware contract. This is consistent with the telecom procurement policy approved by the Board of Management at the request of the Department of Supply and Services.*

### **Hardware and usage requirements**

7.30 Our second criterion was:

*The Department of Supply and Services should have a procedure in place to determine cell phone and related usage plan requirements for the tendering period.*

7.31 As stated earlier in this chapter, government policy gives the Department responsibility for the “negotiation, on behalf of the Government, of cellular telephone network service proposals and satellite telephone service proposals.”

7.32 To effectively purchase a product the purchaser must determine user needs and how well products available on the market meet these needs. In the case of cell phones the Department must be aware of hardware and usage needs and their availability.

### **Cell phone hardware requirements**

7.33 The Department has a very good process in place to determine and address governmental cell phone hardware needs. Briefly, the Department determines the service and equipment feature needs of departments (hardware needs) and matches these to the list of equipment

available from local providers. To meet different user needs the Department establishes several phone classifications and the best phones available from providers in those classifications.

### **Cell phone usage requirements**

**7.34** As with landline phones, several providers offer long distance plans for cell phones. However unlike landline phone plans, where all local service airtime is included in the monthly charge, most cellular plans do not provide for unlimited airtime usage. As a result government must purchase both cellular airtime and long distance usage.

**7.35** At the time of our audit the Department did not address “usage needs issues”. This is because government departments are responsible for determining their own needs either on an individual user or departmental basis and the Department has not tendered for cellular usage.

**7.36** While departments may know what the solutions to their own usage needs are, the Department of Supply and Services is in the best position to determine what government-wide requirements are. And if the Department is responsible to determine government usage needs it will be able to look beyond each department’s, or individual’s, solutions and determine if better, cheaper government-wide solutions exist.

**7.37** For instance, the Department could tender for either cellular airtime or long distance usage minutes on a government-wide basis rather than on a single user or departmental basis. Combining usage, and tendering at this higher usage level, will result in savings; provider plans become cheaper, on a per minute basis, as volume increases. This tender could be expanded to meet the usage requirements for all parts of government, including departments, Crown corporations, regional health authorities, and school districts.

### **Conclusion**

**7.38** The criterion is partially met. The Department has done a very good job in determining cell phone hardware requirements and the phones available from the cellular network providers that best meet these needs. However, it does not determine cellular airtime or long distance usage needs.

### **Recommendation**

**7.39** **The Department should establish a government-wide approach for the appropriate analysis and procurement of cellular airtime and long distance packages.**

### **Departmental response**

**7.40** *The Department of Supply and Services has ... been working with the two existing cell phone providers and has established procedures for consolidated billings and better capture of data for business analysis. Once we reach conclusion to these discussions, we will be in a better position to perform government-wide analysis of cellular air time and long distance usage as a planning function.*

<b>Information distribution</b>	7.41 <i>However, [we] expect we would continue to offer plan options to departments as they can best match individual employees' needs.</i>
<b>Hardware</b>	7.42 Our third criterion was: <i>The Department of Supply and Services should ensure it informs the departments of any tender changes on a timely basis.</i>
<b>Cell phone airtime usage</b>	7.43 Hardware contracts are on the intranet and available to all government departments. Any changes to these contracts are updated on the intranet immediately, thereby notifying departments immediately.
<b>Conclusion</b>	7.44 As noted there is no government-wide contract for usage and long distance.
<b>Departmental guidelines</b>	7.45 The Department of Supply and Services is meeting this criterion for existing tenders and contracts.
	7.46 Our fourth criterion was: <i>Departments should have guidelines that assign the cell phones and the related usage plans to users based on identified need.</i>
	7.47 The first step in a process to determine if an employee requires an asset such as a cell phone or computer for their work is to identify the need. To help in the determination of need, and to keep the assessment of needs consistent, written guidelines should be established.
	7.48 Only two of the twenty-one departments and agencies we contacted said they have written guidelines or policy addressing the need for, or the usage of, cell phones. While there may be informal guidelines in place to determine if a cell phone is needed, not having formal written guidelines may lead to a risk of inappropriate assignment of phones and airtime usage plans. Given the many opportunities for government to better match usage and usage plans for cell phone airtime, we found this risk may be quite high. And since most employees opt for the basic governmental plan, this may reflect that departments pick the obvious choice rather than try and estimate what future usage might be.
	7.49 The Department of Supply and Services makes recommendations regarding efficient long distance usage (calling cards vs. cellular toll) and cellular voice mail usage (linking to landline service). However these are not in any formal government policy document. Departments are expected to act on these recommendations, but are not required to do so. The result is that guidelines of this sort have been followed on a hit and miss basis with government paying the consequences of failure to comply. Certainly it would appear that direction from central government is required if guidelines are to be followed. As well, since



using the calling card is a somewhat cumbersome process, it is quite possible that many users simply ignore the cheaper method of calling long distance.

**7.50** Guidelines that assign cell phones and related usage plans to users based on identified need should be in place in each department. And these should be written to ensure everyone knows that it is their responsibility to assess phone and usage needs and to match them up to the best plan available. Ideally this should be in a government-wide policy. User departments should be advised to follow the existing Department of Supply and Services guidelines in making their decisions.

### **Conclusion**

**7.51** The criterion is partially met. Only two of twenty-one departments and agencies have written guidelines that ensure cell phones and usage plans are assigned to employees based on identified need.

### **Recommendation**

**7.52** We recommended all departments establish written guidelines for assigning cell phones and the related usage plans to users based on identified need.

### **Cell phone control**

**7.53** Our fifth criterion was:

*Departments should have a complete listing of all their cell phones, the user, and the identification number.*

**7.54** We surveyed twenty-one departments and agencies and asked if they had listings of the number of cell phones they own and, if so, whether the listings identify the user. All but one indicated they have listings of their cell phones and identify the users of the phones.

**7.55** To determine the information these listings contained, we contacted four departments. We found that each of these departments had a current, or fairly current, cell phone listing which identified the local service phone number. However other listing information varied. Most identified the phone's user, but one only identified the region the phone was in. A serial number or an asset number for the phone was seldom included. In one case the department identified the phone model.

### **Conclusion**

**7.56** The criterion is not met. While all departments but one have cell phone listings, the user and identification number are not always identified.

### **Recommendation**

**7.57** We recommended departments have a complete listing of departmental cell phones, including the user and identification number.

### **Matching government usage trends and providers' service plans**

**7.58** Our sixth criterion was:

*Departments should have an adequate system in place to ensure they are matching the user to the optimum usage plan.*

**7.59** For government to minimize expenditures on cell phone usage, each department, or government organization, must have a system in place that periodically matches usage and usage plans. As part of our survey of the twenty-one departments and agencies, we asked if they each had such a system. Only three departments said they had such a system in place while two more said they are planning to perform a review of usage versus usage plans in the summer of 2002.

**7.60** We were concerned that so few departments were reviewing usage versus usage plans, especially in light of the significant dollars that government spends on cellular airtime and long distance. We were also surprised to learn that, although the service is free, few departments were using providers' staff to help them save money by better matching plans and use. We learned that one provider actually told government staff that savings could be achieved if certain plan changes were made and yet the departments in question apparently did not change plans.

**7.61** For our part we found that for most cell phone accounts we looked at, better matching of usage and plans was achievable. In each case monies could be saved if analyses were performed, either on a user by user, group or departmental basis. As the audit proceeded and we learned more of the plans available, it became more and more evident that opportunities for better matching existed. A couple of examples follow.

**7.62** The first example relates to a group of eight employees in one department who had high travel requirements as part of their normal job duties. All eight could have achieved substantial savings if other plans were adopted. One of the eight could have achieved savings of over \$400 over three months. In another example, a user could have saved over \$700 in one month if an international rate plan had been adopted rather than a "Canada only" plan.

**7.63** As well we found that some providers offer plans that share long distance or airtime usage amongst users. These could be used to meet the usage requirements for groups, departments or even for all government including Crown corporations, regional health authorities and school districts. As one would expect, rates decrease as usage increases so purchasing on a "bulk" basis could save significant dollars. In one case we found that the sharing of time amongst 27 phones would have saved over \$4,800 annually. None of the departments we interviewed had taken advantage of these bulk purchase plans although one was thinking of it.

### **Conclusion**

**7.64** The criterion is not met. Departments do not have systems in place to ensure they are effectively matching airtime usage and provider usage plans for either long distance or local airtime.

**Recommendation**

**7.65** We recommended that departments have an adequate system in place to ensure they are matching the user to the optimum usage plan.

**Payment approvals**

**7.66** Our seventh criterion was:

*Departments should monitor cell phone usage for appropriateness and accuracy of charges.*

**7.67** In October 1995 the Office of the Comptroller released a report on telephones titled "Telephone Costs Review." One of the objectives of the review was "to determine whether systems were in place to control expenditures." The findings stated that "some departments are not exercising adequate controls over long distance and access line expenditures." The Comptroller recommended that "Departments should ensure management review phone bills for obvious irregularities and on a monthly basis review a random sample in detail."

**7.68** Our survey indicated that fifteen of twenty-one departments and agencies require "the appropriate departmental person" to approve monthly cell phone charges. However, our follow-up audit work in four of these departments indicated this approval process is informal. There are no written procedures governing the nature of these reviews and who should perform them. Good practice, as supported by the Comptroller's recommendation, suggests supervisors should check that bills are reasonable. There may be some need to formalize this procedure to help ensure it gets done.

**7.69** However, review by a supervisor or manager is unlikely to spot any misuse other than the truly very obvious. While review or sampling by supervisors is an important control, we are of the opinion that the best person to review phone charges to his or her phone is the user. Government policy does state that "users should peruse their telephone accounts to detect billing errors, abuse or fraud."

**Conclusion**

**7.70** The criterion is only partially met. Six of twenty-one departments and agencies in the survey do not monitor cell phone charges for appropriateness and accuracy.

**Recommendation**

**7.71** We recommended that departments ensure cell phone charges are reviewed by users on a regular basis and by supervisors on a random or test basis.

**Duties of telecom officers**

**7.72** Our final criterion was:

*There should be a written description of the duties of the telecom officers with respect to cell phones.*

**7.73** Only one-half of government departments and agencies we surveyed had a written job description for their "telecom officer." And

we did not find any reference to the duties of telecommunications officers in the government's telephone network policy. We discussed with the Department of Supply and Services the need for departments to assign telecom duties, including those relating to cell phones, to individuals in the departments. We also discussed who should decide what each telecom officer should be responsible for and whether a written description of duties is necessary. The telecommunications officer serves as an important contact between the Department of Supply and Services and each department in terms of communicating various information, procedures, etc.

**7.74** The Department of Supply and Services was concerned that differences in the size of departments and the volume of usage of cell phones make a government-wide description difficult and, as such, each department should be responsible for setting its own. However, staff did say that it would be appropriate that the Department's guidelines established for managing telecommunications should be followed. Perhaps this should be an important part of any department's job description for its telecom officers. In developing job descriptions, it is important that departments temper the degree of detail by reflecting on the size of the department and the volume of telecommunications transactions, including those associated with cellular phones.

**Conclusion**

**7.75** The criterion is not met.

**Recommendation**

**7.76** We recommended that all departments have a written description of the duties of their telecom officers. These descriptions should include the telecom officers' specific duties with respect to cell phones and the importance of using the guidelines of the Department of Supply and Services for managing telecommunications.

**Departmental response**

**7.77** On behalf of the Board of Management, the Deputy Minister of Finance provided the following response to our government-wide observations and recommendations:

*Based on the response from Supply and Services it is clear that the intent of recommendations [under our fourth and sixth criteria] will be achieved through the tendering of cellular equipment, airtime and long distance rates. In addition, the eventual consolidation of cell phone billings will provide government with the ability to determine if management has appropriately used the government contract guide in their choices, both government wide and at the individual department level.*

*Recommendations [under our fifth and seventh criteria] represent good management practice and your conclusions relative to departments having a complete listing of their cell*

*phones, the user, identification number and location plus payment approval processes would tend to support this premise. For those departments that do not apply all of their management practices, the inclusion of these responsibilities in the generic functions for telecom officers would address your concerns. I will speak to the appropriate departments to determine the best way of developing a generic description.*