Memo

Date: March 12, 2004

Memo to: David Manning

From: Kim McDoniel

Regarding: Cell Phone Recommendations

Several weeks ago you asked us to analyze Metro's cell phone usage and to develop recommendations for any areas where savings could be achieved or where controls could be improved. Our analysis and recommendations are attached. In general, we are recommending the following.

- Termination of most existing Metro-owned cell phone contracts, and replacement with employee allowances – unless Metro can enter into a cost effective single rate, unlimited local use plan.
- More stringent criteria to justify the need for a cell phone.
- Departmental justification to OMB for each employee cell phone.

Please let me know if you have any questions or need additional information.

Copy: Talia Lomax-O'dneal
Richard McKinney
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CELL PHONE RECOMMENDATIONS

A small group made up of a representatives from ITS (Tammy Lyng), OMB (Casey Dungan) and IA (Lannie Holland) was asked to review Metro's cell phone practices and costs and make recommendations based on our findings.

We reviewed the data and information available to us from various sources. In addition to Metro information for December, 2003 cell phone usage, we utilized information provided directly or indirectly by the following: City of Austin, TX; City of Dallas, TX; City of Dayton, OH; Economists.com; and Meta Group. Following are our observations, findings and recommendations.

BACKGROUND INFORMATION

In addition to the direct cost of providing cell phones, including service and equipment charges, there are significant indirect costs. Industry experts have determined that a typical large enterprise may spend $125 to $150 per month on cell phone related costs for each user. The costs are approximately 60% direct (cost of service and equipment) and 40% indirect.

Example indirect costs include:

- Analysis of user requirements (Rate plan optimization)
- Review and monitoring of usage for abuse &/or excessive personal usage
- Procurement process
- Equipment management, replacement and maintenance
- Invoice validation and reconciliation
- Vendor payments
- Department or cost center billing

Individual rate plans require constant optimization. According to industry experts, 90% of large enterprises do not effectively optimize their wireless service.

Many cities and corporations have abandoned entity owned cell phones - except in special circumstances, which are aggressively monitored and controlled - in favor of employee reimbursement or allowance. Approximately 30 – 40% of large enterprises have implemented some form of employee reimbursement or monthly allowance in lieu of company provided cell phones.

According to industry experts, best practices in cell phone procurement include:

- Implement consistent and aggressive monitoring and administration
- Re-evaluate who should have a cell phone
- Eliminate low-use devices
- Eliminate device overlap (phone & pager, phone & blackberry)
- Implement an employee reimbursement or allowance plan

Decentralized cell phone policy and procurement by departments is not recommended. Decentralization is generally accompanied by a loss of oversight and business controls. It also causes duplication of administrative effort, and no economies of scale can be achieved.

FINDINGS

The advances in cellular phone technology and the corresponding reductions in the cost of basic cellular phone service have combined to create an artificial need for instant communication. As a result, the number of phones issued continues to grow, and phones are being issued to employees whose jobs don't require mobile communication.

There appears to be a trend toward more expensive phones and plans and emerging usage of remote email equipment (blackberry). Both the equipment and the service are expensive for the remote email function.

Metro's total monthly cost for cell phones currently exceeds $50,000 for approximately 1,500 users. Excluding 530 stand-by and limited use phones, the average monthly cost for service is $50.

Several of the usage statistics available indicate that Metro is experiencing problems common to large organizations which provide cell phones to employees. These problems fall into three broad categories.

1. **Low Usage** (Indication that the employee does not need the wireless phone in their job)

- ✓ 182 users (19%) with a total monthly cost of $6,381, had average usage of less than 1 hour per month
- ✓ 189 users (20%) with a total monthly cost of $8,188, had average usage between 1 and 3 hours per month

Almost 40% of employees with Metro provided cell phones averaged under 3 hours usage per month (combined monthly cost $14,569)

Additionally, Internal Audit has observed several instances of deployment of cell phones that do not appear to be necessary for business purposes.

2. **Excessive Usage** (Indicative of possible abuse)

- ✓ 1 employee had combination wireless usage of ***57 hours*** in one month
- ✓ 1 employee had wireless usage of 47 hours in one month
- ✓ 9 employees had over 33 hours of wireless usage in one month
- ✓ 29 employees had over 25 hours of wireless usage in one month

137 users (15%) averaged over 20 hours usage per month (exceeds plan allowances)

Although abuse does not appear to be widespread, there are isolated clear instances of abuse, including abuses Internal Audit has investigated in the past. Costly detailed analysis would be necessary to detect personal usage abuse. However, personal usage abuse may be indicated by usage above plan allowance.

A reimbursement plan for personal usage within plan minutes would increase administrative costs and would also generate issues regarding taxes. Metro does not pay taxes on cell service, which would be due for personal usage.

3. **Pricing Inconsistencies**

Both providers (Nextel and Cingular) are billing the same plans at different monthly prices. For example:

- Cingular appears to be billing its 250 minute plan at prices ranging from \$25.35 to \$53.32; its 500 minute plan is billed from \$39.47 to \$54.43; its flat rate (stand by) from \$1.00 to \$6.90

- Nextel appears to be billing its 200/unlimited plan at prices ranging from \$41.95 to \$52.93; its 1000/4000 from \$48.54 to \$101.05; its unlimited radio plan from \$25.78 to \$37.41

It should also be noted that plans may be being billed to Metro at rates higher than they are available to the general public.

Some departments appear to be utilizing phones on a Fixed Rate plan for stand by or emergency use only. This can be a cost effective usage of cell services assuming the usage is closely monitored. It should be noted that our analysis indicated that a small number of these phones appear to be being used on a regular basis.

RECOMMENDATIONS

Based on the above we recommend the following:

1. As a general policy, any Metro employee who works in a location with a land line telephone should not be provided a cell phone or allowance. This would be true even if the employee does not work in the same location each day or all day.

2. Any employee who falls into the above definition and is in a job which requires him/her to be **reachable** at all times should be issued a Metro owned digital pager.

3. All pagers should be the digital type provided by Arch paging. Arch digital pagers are billed @ $2.45 per month. Arch alpha pagers and pagers from other companies are substantially more expensive and should be discontinued unless a specific business case for their use has been made and approved by the Director of Finance.

4. Certain specifically identified kinds of equipment should be assigned a Metro owned cell phone. Certain specifically identified emergency or stand by phones should be Metro owned. All other cell phones should be employee owned, with Metro providing an employee allowance. The only exception should be if Metro could achieve savings by entering into a contract that would provide unlimited local calling for a fixed charge, without the possibility of additional roaming or long distance charges.

5. Employees whose job requires them to be mobile, or requires them to routinely be in various different locations <u>and</u> requires that they be available for **instant communication**, <u>may</u> be required to have a cell phone. Examples might include employees whose job requires them to be in the field for taxpayer customer service purposes and certain department heads and their direct reports.

6. Those employees receiving an allowance should be required to provide their cell phone number to supervisors and other co-workers as appropriate.

7. Departmental funding requests for each cell phone or allowance should be justified based on the above criteria and submitted by the department head to the Office of Management and Budget.

8. No individual employee should have both a pager and a cell phone or allowance.

9. Metro should not provide or make allowances for remote email devices (blackberry) unless a clear business case for their use has been made and approved by the Director of Finance.

10. Separate procurement or management of wireless communication devices by individual departments should not be allowed.

OPTIONS FOR PROVIDING CELL PHONES

Several options and combinations of options exist for providing Metro owned cell phones or allowances for those employees who would qualify under a revised policy. Each of these options &/or potential combinations has a different cost and savings from the current practice.

1. Employee Allowance - In lieu of a Metro provided phone, a cell phone allowance could be implemented. The amount of suggested allowance should be based on the cost of available local service with unlimited minutes. The allowance amount should be reviewed at least annually.

   Implementation of an allowance would have direct cost savings and would eliminate related indirect costs.

2. Metro Owned Phone - Metro could continue to provide Metro owned cell phones obtained under an unlimited local usage program. These phones should be limited to local usage with no roaming or long distance ability.

   Use of this type plan with a predictable cost and no possibility of additional cost related to abuse would eliminate the majority of indirect costs. Only a simplified billing process would remain.

   An unlimited local calling plan is available to the general public for $29.99 per month, plus tax. At $30 per month, this plan would have an approximate direct cost savings of $20 per month per phone. It is reasonable to assume that given a contract for all Metro business, the price per phone would be somewhat less and the savings greater. Some amount of indirect administration cost would remain; however, it should be significantly smaller than with the current plan.

3. Combination Plan – A combination plan could be implemented utilizing the Metro owned plan and an allowance plan. This would accommodate those employees with the demonstrated need to utilize roaming or long distance on their cell phone.

It should be noted that elimination of unnecessary phones will yield cost savings in addition to savings estimated in the options above. Direct cost savings associated with elimination of unnecessary phones should be at least $15,000 per month.

The allowance plan would have additional benefits including:

- Employees become responsible for acquiring phones, paying bills, and getting service, eliminating current indirect costs of administration and monitoring of rate plans and usage.

- All non-Metro use as well as long distance and directory assistance charges become the responsibility of employees, eliminating the need to address personal usage charges and taxes.

Note that there may be contract cancellation or other charges associated with discontinuing existing service. Based on information received from ITS, if all cell phones were cancelled the total cancellation fee would be approximately $4,000. Alternatives to minimize or eliminate this fee should be explored.

Prepared by: Lannie Holland
March, 2004