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P-479.1

Honorable Art Agnos, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 3151  
Sacramento, California 95814

Dear Mr. Chairman and Members:

This letter provides information on the appropriateness of the Office of Telecommunications' (office) billing rates for telephone and radio services. Since we issued our last report in September 1983, the amount that the office has billed for telephone and radio services more accurately reflects the cost of providing those services to state agencies and the office has established new rate-setting policies. We gathered this information during our current audit of the telecommunications area (Job Number P-479.2).

The Department of General Services' Office of Telecommunications provides radio, microwave, and telephone services for state agencies. The office recovers the costs of providing telephone, radio, and microwave services by billing state agencies that use its services. Each year, the office establishes billing rates for each type of service by estimating the cost of providing that service. The office bills agencies either an hourly rate or a fixed rate, depending upon the type of service.

In September 1983, the Auditor General issued a report entitled "The Department of General Services Can Reduce Radio Communication Costs to State Agencies" (Report P-275). In this report, we concluded that the office's billing rates for its telephone and radio services did not accurately reflect the cost of those services. During fiscal years 1977-78 through 1981-82, the office consistently undercharged state agencies for radio services because the office's total billings each year were always less than its cost of providing radio services. At the same time, the office consistently overcharged for telephone services because its total billings always exceeded its cost to provide the services. (An attachment to this letter provides a summary of the

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office's total billings and expenses for fiscal years 1977-78 through 1981-82). As a result of these inaccurate billing rates, state agencies that used the office's radio services did not pay the full cost of the services they received, and state agencies that used the office's telephone services paid more than the office's cost of providing those services.

The office's records show that, since fiscal year 1981-82, the last year examined in our previous audit, the amount that the office has billed appears to reflect more accurately the cost of the radio and telephone services provided. As shown in the attachment, total billings for telephone services for fiscal years 1977-78 through 1981-82 had exceeded costs by an average of 4.48 percent. In comparison, for fiscal years 1982-83 and 1983-84, total billings for telephone services were .09 percent less than the cost of providing those services. Furthermore, in fiscal year 1983-84, the office billed \$369,000 less than its cost to provide telephone services, reversing a six-year trend of surpluses for telephone services.

For fiscal years 1977-78 through 1981-82, total billings for radio services were 3.33 percent less than the cost of providing these services, and state agencies that used radio services were consistently undercharged. However, for fiscal year 1982-83, total billings for radio services actually exceeded costs by 1.88 percent, and for fiscal year 1983-84, billings and costs differed by only .01 percent.

The Chief of the Office of Telecommunications stated that the office has taken various actions to estimate more accurately the cost of providing telephone and radio services to state agencies. For example, the office now uses more current cost data in adjusting its telephone billings. Previously, it had used cost data that were four to six months old. Also, the office has implemented new policies for setting rates for radio and microwave services. Through fiscal year 1983-84, the office had previously established rates 14 to 16 months prior to the beginning of each fiscal year. Once it established the rates, the office would not change the rates regardless of whether the estimated costs of providing services changed significantly by the time the rates became effective. However, beginning with fiscal year 1984-85, the office will change its billing rates to reflect its most current estimate of costs for the fiscal year.

The office has also changed its rate-setting policy for microwave services. Beginning with fiscal year 1984-85, the office will bill state agencies using microwave services in proportion to the services that they use. The office had previously billed some state agencies

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the same fixed rate even though these agencies used varying amounts of services. The office's new policies related to billing for radio and microwave services should further help the office in establishing more accurate billing rates.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the first paragraph of this letter. We reviewed the contents of this letter with officials of the Department of General Services and considered their comments. If you have any questions or need any additional information, please do not hesitate to contact me.

Sincerely,



THOMAS W. HAYES  
Auditor General

Attachment

OFFICE OF TELECOMMUNICATIONS  
SUMMARY OF AMOUNT BILLED AND COSTS  
FOR TELEPHONE AND RADIO SERVICES  
FISCAL YEARS 1977-78 THROUGH 1983-84  
(dollars in thousands)

Fiscal Year	Telephone Services				Radio Services			
	Amount Billed	Costs	Surplus (Deficit)	Ratio of Surplus (Deficit) to Expenses	Amount Billed	Costs	Surplus (Deficit)	Ratio of Surplus (Deficit) to Expenses
1977-78	\$ 12,455	\$ 12,430	\$ 25	.20	\$ 8,146	\$ 8,740	\$ (594)	(6.80)
1978-79	14,150	13,357	793	5.94	8,669	8,938	(269)	(3.01)
1979-80	16,152	15,013	1,139	7.59	10,484	10,851	(367)	(3.38)
1980-81	17,804	17,552	252	1.44	11,718	11,891	(173)	(1.46)
1981-82	<u>23,671</u>	<u>22,267</u>	<u>1,404</u>	<u>6.31</u>	<u>12,838</u>	<u>13,223</u>	<u>(385)</u>	<u>(2.91)</u>
Subtotal	<u>\$ 84,232</u>	<u>\$ 80,619</u>	<u>\$ 3,613</u>	<u>4.48</u>	<u>\$ 51,855</u>	<u>\$ 53,643</u>	<u>\$ (1,788)</u>	<u>(3.33)</u>
1982-83	\$ 23,710	\$ 23,384	\$ 326	1.39	\$ 13,671	\$ 13,419	\$ 252	1.88
1983-84	<u>23,579</u>	<u>23,948</u>	<u>(369)</u>	<u>(1.54)</u>	<u>15,881</u>	<u>15,882</u>	<u>(1)</u>	<u>(.01)</u>
Subtotal	<u>\$ 47,289</u>	<u>\$ 47,332</u>	<u>\$ (43)</u>	<u>(.09)</u>	<u>\$ 29,552</u>	<u>\$ 29,301</u>	<u>\$ 251</u>	<u>.86</u>
Total	<u>\$ 131,521</u>	<u>\$ 127,951</u>	<u>\$ 3,570</u>	<u>2.79</u>	<u>\$ 81,407</u>	<u>\$ 82,944</u>	<u>\$ (1,537)</u>	<u>(1.85)</u>