

**S B**

**485**

SENATE STATE AFFAIRS COMMITTEE

BILL NUMBER SB 485

SPONSOR Fahrenkamp

BILL TITLE Telecommunications Information  
Council and charges/fund

DATE REFERRED 2.12.90

HEARING SCHEDULED 3.5.90

FISCAL NOTE PREPARED ✓

SPONSOR CONTACTED Joan —

INTERESTED PARTIES CONTACTED

OTHER

5

# Alaska State Legislature




SENATOR BETTYE FAHRENKAMP  
CHAIRMAN, RESOURCES COMMITTEE  
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WHILE IN JUNEAU  
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## Senate

### MEMORANDUM

TO: Senator Pat Pourchot, Chairman  
Senate State Affairs Committee

FROM: Senator Bettye Fahrenkamp 

DATE: February 15, 1990

SUBJECT: Senate Bill 485  
"An Act relating to the Telecommunications Information Council and the provision of information services by the Department of Administration"

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This bill formalizes the Division of Information Services' stated intention to create an internal service fund composed of interagency receipts, and expands the oversight functions of the Telecommunications Information Council (TIC). The bill also adds a public member to the TIC, and includes a legislator from each body as non-voting members of the TIC.

The interagency receipts would go into a fund called the Information Services Fund. The department will separately account for interagency receipts received for providing information services, and will submit an annual report on the operation of the fund to the governor (who chairs the TIC) and the legislature. Upon request of the TIC, some of these funds can be used to provide staff to the TIC. Use of money in the Information Services Fund for new or upgraded equipment, software or services exceeding \$250,000 in cost must be approved by the TIC.

A fiscal note is forthcoming from the Department of Administration.

I would very much appreciate your early scheduling of this bill, and would be happy to provide further information. Your support of this measure would be appreciated.

## FISCAL NOTE

**REQUEST:**

Revision Date: \_\_\_\_\_ Agency Affected: Administration  
 Title: Telecomm. Inf. Council/Mbrshp&Duties BRU: Information Services  
 Sponsor: Fahrenkamp Components: \_\_\_\_\_  
 Requestor: State Affairs

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	2.0	2.0	2.0	2.0	2.0	2.0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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**FUNDING: (Thousands of Dollars)**

GENERAL FUND	2.0	2.0	2.0	2.0	2.0	2.0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
<b>TOTAL</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>

**POSITIONS:**

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

**ANALYSIS : (Attach a separate page if necessary)**

See attached.

Prepared by: Paul Monette, Director Phone: 465-2220  
 Division: Information Services Date: 2/22/90  
 Approved by Commissioner: Frank S. Baxter Date: 2/23/90  
 Agency: Administration

**Distribution (by preparer) :**

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Department of Administration  
Division of Information Services

**SB 485 - - FISCAL NOTE**

**An Act Relating to the Telecommunications Information Council**

No fiscal impact is predicted in FY 90.

The fiscal impact projected for FY 91 and beyond is for travel expenses associated with the appointment of a public member to the Telecommunications Information Council. A total of \$2.0 thousand would pay for 4 trips per year @ \$350.00 for air transportation and 2 days per diem. It is assumed that the travel expenses for the Legislative members appointed to the Council would be paid for by the Legislature.

FISCAL NOTE

REQUEST: \_\_\_\_\_

Revision Date: \_\_\_\_\_ Agency Affected: Administration  
Title: \* see below BRU: Finance

Sponsor: Fahrenkamp Components: \_\_\_\_\_  
Requestor: \_\_\_\_\_

\* Telecommunications Information Council and the provision of information services by Department of Administration

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

There is no anticipated fiscal impact on the Division of Finance.

Any accounting service costs will be billed directly to the fund through the Reimbursable Services Agreement (RSA) process.

Prepared by: Keith Busch *Keith Busch*  
Division: Finance

Phone: 465-2240  
Date: 2/20/90

Approved by Commissioner: Frank S. Baxter *Frank S. Baxter*  
Agency: Department of Administration

Date: 2/20/90

Distribution (by preparer):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

# Alaska State Legislature

Sen. Pat Pourchot, Chairman

Sen. Jan Faiks, Vice Chairman  
Sen. Al Adams  
Sen. Tim Kelly  
Sen. Rick Uehling



P.O. Box V  
State Capitol  
Juneau, Alaska 99811

907-465-3712

## Senate State Affairs Committee

### MEMORANDUM

TO: Senate State Affairs Committee Members

FROM: Senator Pat Pourchot

RE: Monday, March 5 Committee Hearing

DATE: Friday March 2, 1990

On Monday, March 5 at 1:30 p.m. in the Beltz Room the Senate State Affairs Committee will hear the following bills:

Proposed CS for SB 254. An Act relating to group health insurance; and providing for an effective date.

The committee substitute, as proposed by Senator Duncan, establishes a 17 member Alaska State Group Health Insurance Authority, whose purpose is to create a statewide health care provider payment system, rate schedules and utilization standards by February 1, 1992. After that date the Authority would provide comprehensive group health insurance for state, municipalities and school districts who elect to participate in the insurance pool. The CS allows the Authority to employ staff and to contract for professional services and requires a report to the legislature by March 1, 1991 on the progress made in establishing the payment system, rate schedules and standards. The wording is being clarified to ensure that nothing in this act affects a contract or collective bargaining agreement.

SB 485. An Act relating to the Telecommunications Information Council and the provision of information services by the Department of Administration.

Senator Fahrenkamp's bill adds a public member to the Telecommunications Information Council (TIC), which is chaired by the governor, and adds two non-voting legislators. Major provisions are to establish accountability for fees and surcharges collected from agencies for information services, directs interagency receipts into an Information Services Fund and establishes fund usage and review requirements by the TIC. Senator Fahrenkamp is working with the Department of Administration in developing a proposed committee substitute. The CS will be delivered to your office as soon as it becomes available.

# Alaska State Legislature

Sen. Pat Pourchot, Chairman

Sen. Jan Faika, Vice Chairman

Sen. Al Adams

Sen. Tim Kelly

Sen. Rick Uehling



P.O. Box V  
State Capitol  
Juneau, Alaska 99811

907-485-3712

## Senate State Affairs Committee

### MEMORANDUM

TO: Senate State Affairs Committee Members

FROM: Senator Pat Pourchot

RE: Friday, March 16 Committee Hearing

DATE: March 15, 1990

On Friday, March 16 at 1:30 p.m. in the Beltz Room the Senate State Affairs Committee will hear the following bills:  
TELECONFERENCE; Public testimony.

CSSB 310, An Act relating to the Alaska Marine Highway System Commission. Originally, SB 310 established an authority to operate and manage the Alaska Marine Highway System (AMHS), with a legal existence independent of and separate from state government. The proposed CS would establish a seven member commission, within DOT/PF, to hire the director, to set policy and to make recommendations regarding operation of AMHS. The commission will be charged with developing and updating a long-range plan. The proposed CS combines elements of SB 310 and SB 473, Senator Duncan's bill which proposed a 5 member commission.

CSSB 485, An Act relating to the Telecommunications Information Council and the provisions of information services by the Department of Administration. The proposed CS adds a public member to the Telecommunications Information Council (TIC) and adds two non-voting legislators. The major provisions are to establish an improved tracking system of information services revenues and expenditures, to allow for a review and approval process of fees and surcharges by the TIC and to define requests for services and expenditures in annual budget requests. This is the second hearing for SB 485, the Department of Administration has clarified that it is in support of this bill.

CSSB 222, An Act relating to smoking in certain vehicles and indoor places. Current smoking law specifies certain public places and vehicles in which smoking must be regulated by designating smoking and non-smoking areas and prohibits all smoking in certain areas i.e. elevators. This bill adds the following to the "designated" areas list: interstate flights, post-secondary educational institutions and adult day care facilities, correctional facilities and a Pioneers Home. This bill would add to the "prohibited areas" list: elementary schools, pre-schools, daycare facilities (during hours of operation in private residences), state meeting rooms, health care related areas i.e. doctor's waiting rooms, hospital lobbies. CSSB 222 also requires consideration of non-smokers needs when designating a smoking area and repeals the statute that gives the Rules Committees the authority to designate smoking and non-smoking areas.

# Alaska State Legislature

Sen. Pat Pourchot, Chairman

Sen. Jan Faiks, Vice Chairman  
Sen. Al Adams  
Sen. Tim Kelly  
Sen. Rick Uehling



P.O. Box V  
State Capitol  
Juneau, Alaska 99811

907-465-3712

## Senate State Affairs Committee

### MEMORANDUM

TO: Senate State Affairs Committee Members

FROM: Senator Pat Pourchot

RE: Monday, March 19 Committee Hearing

DATE: March 17, 1990

On Monday, March 19 at 1:30 p.m. in the Beltz Room the Senate State Affairs Committee will hear the following bills:  
TELECONFERENCE; Public testimony.

CSSB 485. An Act relating to the Telecommunications Information Council and the provisions of information services by the Department of Administration. This bill is scheduled for final action. The CS includes language clarifying appropriation of the Information Services Fund monies.

INVESTMENT OF STATE FUNDS; Continuation of March 14th hearing.

SB 197. An Act relating to management and investment of certain state funds. Senator Binkley's bill transfers management of the retirement trust funds and the Public School Trust from the Commissioner of Revenue to the Alaska Permanent Fund Corporation.

SB 417. An Act relating to management and investment of certain state funds. Senator Kerttula's bill would establish a State Investment Board which would be responsible for managing the state's trust funds and specifies oversight of the SBS and deferred compensation funds.

SB 509. An act establishing the Alaska State Trust Company. Introduced at the request of the Department of Revenue, this bill establishes a separate corporate structure with the authority to directly access U.S. Federal Reserve bank services.

Original sponsor(s): SEN. FAHRENKAMP

1 IN THE SENATE

2 CS FOR SENATE BILL NO. 485 ( )  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Telecommunications Informa-  
7 tion Council and the provision of information ser-  
8 vices by the Department of Administration; and pro-  
9 viding for an effective date."

10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

11 \* Section 1. AS 44.19.502(b) is amended to read:

12 (b) The council is composed of the governor, the commissioner  
13 from each principal department of the executive branch, the president  
14 of the University of Alaska, [AND] the executive director of the  
15 Legislative Affairs Agency, a member of the public appointed by the  
16 governor, and one legislator from each house, appointed by the respec-  
17 tive presiding officer. The legislators shall serve as nonvoting  
18 members of the council. The public member appointed by the governor  
19 may not have a direct financial interest in the information services  
20 industry. The chief justice of the supreme court may appoint a member  
21 to serve on the council. Each commissioner shall appoint a deputy  
22 commissioner to serve as an alternate for the commissioner. The vice-  
23 president of the University of Alaska shall serve as alternate for the  
24 president.

25 \* Sec. 2. AS 44.19.502(d) is amended to read:

26 (d) The Department of Administration [OFFICE OF THE GOVERNOR]  
27 shall provide professional and clerical staff for the council.

\* Sec. 3. AS 44.21 is amended by adding a new section to read:

29 Sec. 44.21.045. INFORMATION SERVICES FUND; CHARGES. (a) The  
-1- CSSB 485( )

1 information services fund is established as an internal services fund  
2 in the Department of Administration. The fund consists of money  
3 appropriated to it and money transferred to the department by polit-  
4 ical subdivisions and state agencies as reimbursement for information  
5 services provided by the department.

6 (b) If money transferred to the department by a political subdi-  
7 vision or state agency for information services in a fiscal year  
8 exceeds the cost of information services provided to the political  
9 subdivision or state agency in that fiscal year, the department shall  
10 separately account for that money. The department shall also sepa-  
11 rately account for any earnings on money held in the fund. The legis-  
12 lature may use the estimated balance of these separate accounts to  
13 make appropriations to the information services fund.

14 (c) Money in the fund established under (a) of this section that  
15 was transferred to the department as payment for information services  
16 to agencies and political subdivisions of the state shall be used by  
17 the department for necessary expenses resulting from providing infor-  
18 mation services to agencies and political subdivisions of the state.  
19 Money in the fund that was appropriated to the fund shall be used for

20 (1) the costs of the Telecommunications Information Coun-  
21 cil, including its costs of performing reviews and studies considered  
22 necessary by the council;

23 (2) additions, replacements, or improvement of capital  
24 equipment for information services; requests by the department for  
25 capital equipment expenditures shall be included in the budget submit-  
26 ted by the governor to the legislature under AS 37.07; and

27 (3) other purposes as specified in an appropriation to the  
28 fund.

29 (d) The department may charge and collect fees and surcharges

1 for information services provided by it to agencies and political  
2 subdivisions of the state. The department shall maintain cost ac-  
3 counting records to support rates and billings for information ser-  
4 vices provided by the department. The department shall submit a  
5 report on the operation of the fund to the governor and the legisla-  
6 ture at the time of submission of the departmental budget.

7 (e) A state agency that receives information services from the  
8 department shall include in its annual budget, as an identifiable  
9 item, its expected fees and surcharges for information services pro-  
10 vided by the Department of Administration.

11 (f) Fees and surcharges for information services of the depart-  
12 ment are subject to annual review and approval by the Telecommunica-  
13 tions Information Council.

14 (g) In this section, "information services" includes automatic  
15 data processing services provided under AS 44.21.150 - 44.21.170 and  
16 telecommunications services and operations described in AS 44.21.-  
17 305 - 44.21.330.

18 \* Sec. 4. AS 44.21.160(h) is repealed.

19 \* Sec. 5. AS 44.21.045(e) and (f), enacted by sec. <sup>2</sup>/<sub>3</sub> of this Act, take  
20 effect July 1, 1990.

21 \* Sec. 6. Except as provided in sec. <sup>4</sup>/<sub>5</sub> of this Act, this Act takes  
22 effect immediately under AS 01.10.070(c).

*A M E N D M E N T*

TO CS SB 485 ( )

Page 1, Lines 25-27: Delete Section 2;

Renumber following sections accordingly.

Page 3, Line 19: Delete "Section 3"; insert "Section 2"

Page 3, Line 21: Delete "Section 5"; insert "Section 4"

Amendment for Proposed CS for SB 485

by Adams

on page 2, delete existing lines 10-13 and add the following:

separately account for that money. At the end of the fiscal year the remaining balance of these fund shall lapse to the general fund.

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March 16, 1990

SB 485, An Act relating to the Telecommunications Information Council and the provision of information services by the Department of Administration.

TO TESTIFY;

Senator Fahrenkamp

Dept. of Administration: Paul Monette

Sioux Plummer is available to answer questions

NOTES;

Bill is based on recommendations from 1989 Audit Report (in notebook) and modeled after a similar DOT account.

CS eliminates exact dollar amounts and adds clarifying language to explain that capital improvements would be included in the governor's budget.

See Memo from Legal: Fahrenkamp's office has received and does not feel this is a problem.

ATTENTION; Adams will be proposing an amendment to require the remaining balance in the fund to lapse. Fahrenkamp opposes, both wish to present their sides. Adams amendment will be handed out at hearing, draft is in your packet.

New position paper is in your packet, DOA came out clearly in support of this bill.

DOA has included a complete response to the Audit. SB 485 responds to recommendation # 1.

March 5, 1990

SB 485, An Act relating to the Telecommunications Information Council and the provision of information services by the Department of Administration.

TO TESTIFY;

Senator Fahrenkamp or JOAN HOPE.  
Dept. of Administration: Paul Monette, Director  
Keith Bush, available to answer questions.

NOTES;

Bill is based on recommendations from 1989 Audit Report (in notebook) and modeled after a similar DOT account.

CS eliminates exact dollar amounts and adds clarifying language to explain that capital improvements would be included in the governor's budget.

See Memo from Legal: Fahrenkamp's office has received and does not feel this is a problem.

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 3, 1990

SUBJECT: Information Services Fund  
CSSB 485( )

TO: Senator Bettye Fahrenkamp

FROM: Terri Lauterbach *TL*  
Legislative Counsel

Enclosed is a draft of CSSB 485( ) *AS: Subsection (b) Page 2*

At the request of Joan Hope, I have had conversations with a couple of people in the Department of Administration about this bill draft. I have not given you the language they requested because I do not believe it comports with requirements of the constitution. At issue is dedicated funds, the appropriation power of the legislature, lapsing of unobligated funds, and reimbursable services agreements (RSA's).

I think that the place to start in attempting to judge the appropriateness of a state expenditure or proposed expenditure is Article IX, Section 13 of the state constitution:

SECTION 13. EXPENDITURES. No money shall be withdrawn from the treasury except in accordance with appropriations made by law. No obligation for the payment of money shall be incurred except as authorized by law. Unobligated appropriations outstanding at the end of the period of time specified by law shall be void.

There are no statutes that specifically deal with reimbursable services agreements, but AS 36.30.710 and AS 36.30.730 authorize one state agency to obtain supplies or services from another without going through the usual contracting procedures. This is essentially what an RSA is -- a contract by one agency with another for supplies or services. I do not believe that it is expected that one agency will make a profit from the other, but only that expenses incurred will be reimbursed. However, if the amount transferred under an RSA turns out to be greater than the cost of providing the goods or services, I can think of only two ways to handle the extra money: (1) return it to the requesting agency; or

Senator Bettye Fahrenkamp  
Page 2  
March 3, 1990

(2) treat it as a receipt of the agency providing the supplies or services, akin to a program receipt -- that is to say, unappropriated general fund money (AS 37.10.050).

Remember, every expenditure of state money must be traced back to an appropriation for that purpose. The appropriation under which the RSA was originally authorized only permits expenditure of the money by the requesting agency for the requested supplies or services, in this case, information services for a specific fiscal year. There has been no appropriation of leftover RSA money received by the supplier agency for any purpose. Furthermore, transfers may not be made between appropriations and can only be made between allocations upon approval of OMB. (AS 37.07.080(e))

I have drafted the enclosed CS so that money that reimburses DOA for services provided to others can be spent to provide those services without an additional appropriation. However, money received that is not spent on services provided is income to DOA and cannot be spent without an appropriation, so the CS tells DOA to separately account for "extra" money received so that the legislature can consider it when it makes appropriations. DOA's position is that this "extra" money sits in DOA's fund until appropriated for use. The position of this office is that this "extra" money is in the general fund until appropriated to the DOA fund.

The department has insisted that the fund consist of two types of money: money appropriated to the fund and money from RSA's. Therefore, I have provided two types of spending power for the fund. Under subsection (c), DOA can spend agency receipts for agency services and DOA can spend appropriated money for TIC, capital expenditures, and other purposes specified in an appropriation to the fund.

In essence, this draft recognizes that RSA money can be used for RSA work, something desired by DOA. But this draft clarifies that "extra" money from RSA's must be separately accounted for, something I'm not sure DOA desired. The draft does not address whether money lapses to the DOA fund or to the general fund.

Please let me know if I can be of further assistance.

TML:lmb  
L10/002

Enclosure

**1990 LEGISLATION  
POSITION PAPER  
DEPARTMENT OF ADMINISTRATION**

Division Information Services Bill Number SB 485

Bill Title TIC/Provision of Info. Services

**Position Statement:** Explain briefly what bill does, its impacts and Department's position, i.e. a) support, b) do not support, c) neutral or d) oppose.

This bill adds three members to the Telecommunications Information Council (TIC): a member of the public appointed by the governor; and one legislator from each house, appointed by the respective presiding officer. The legislators will serve as nonvoting members and the public member may not have a direct financial interest in the information services industry.

In addition, this bill establishes an internal service fund, named the Information Services Fund, in the Department of Administration and sets parameters for receipts into the fund and expenditures from the fund.

The Department supports this bill for the following reasons.

1) The Department encourages participation from the Legislature and the public regarding information and telecommunication plans and policies. Inclusion of representatives from both of these groups in the TIC will help to ensure that participation.

2) The Information Services Fund is viewed as being similar in function to the Highways Working Capital Fund and having similar benefits to the State: a) the linkages of information services revenues and expenditures in the Department of Administration will become visible; b) fees and surcharges for information services provided by the Department will undergo a thorough review and approval process by customers of the services; and, c) requests for services and the expenditure of funds to satisfy those requests, particularly for major hardware and software items identified in TIC-approved plans, will be clearly defined and visible in annual budget requests.

**APPROVED:**

Director Paul Monette Division Information Services

Signature Paul Monette Date 3/7/90

Commissioner Frank S. Baxter

Signature by Gary M. Bader Date 3/8/90

(For more information, call Sioux Plummer 465-2200)

A SPECIAL REPORT ON THE  
DEPARTMENT OF ADMINISTRATION  
DIVISION OF TELECOMMUNICATIONS  
STATE VOICE TELEPHONE NETWORK

March 6, 1989

Audit Control Number

02-4325-89-S

Commissioner, Department of  
Administration

John M. Andrews

Deputy Commissioners, Department  
of Administration

Charles E. Taylor  
James J. Fox

## FINDINGS AND RECOMMENDATIONS

### Recommendation No. 1

The Department of Administration, Division of Telecommunications (DOA/Telcom) needs to improve accounting controls over the fiscal operations of its voice telephone network. The Department of Administration should establish an Internal Service Fund (ISF) for all of its telecommunications services, including its voice network.

As described earlier DOA/Telcom provides voice telephone network services to many (but not all) state agencies in the Juneau, Anchorage, and Fairbanks area. DOA/Telcom also provides data and video telecommunication services to state agencies.

Since the state network has been constructed over a number of years with annual appropriations from the general fund, it is not readily identifiable how much has been invested in the state's telecommunication network. The original accounting of the Division of Telecommunications' activities through the general fund was proper at the time. However, now that DOA/Telcom is providing a centralized service to a number of agencies on a reimbursement basis, and generating revenues from that operation, different accounting treatment must be applied. An ISF should be established to account for all telecommunication services provided by DOA/Telcom to user agencies including the voice telephone network.

The ISF classification should be used to account for the financing on a cost-reimbursement basis of services provided by one department or agency to other departments or agencies within the same governmental entity.

An ISF has the following advantages:

- Account for the total cost of the activity;
- Provide greater ease in costing and pricing services;
- Accumulate resources for replacing fixed assets;
- Combine certain governmental fund-type overhead costs so they can be redistributed to the benefiting programs; and,
- Isolate interfund services so that governmental fund types do not display revenues and expenditures related to interfund transactions twice within the same fund type (i.e., usually the general fund) - once by the department furnishing the services and once by the department receiving the services.

The DOA/Telcom, through its current accounting and record keeping system does not know:

- How much capital investment in plant is utilized for each type of service it provides including the voice telephone network;
- What are the operating costs for each type of service it provides including the voice telephone network;
- What are the overhead costs associated with each type of service it provides including the voice telephone network; and,
- What personal service allocations are attributable to each type of service it provides including the voice telephone network.

Without this information it is impossible for DOA/Telcom to identify total telecommunications network-related costs in general and those costs associated with the voice telephone network in particular. Without this cost data DOA/Telcom cannot formulate an appropriate user rate design. The current rate design for the voice telephone network of \$.50 per minute for traffic to/from Juneau and Anchorage/Fairbanks and \$.35 per minute for traffic to/from Anchorage/Fairbanks was established, according to the former Director, Division of Telecommunications, by, "using a dart board, very unscientific, gut feeling." This is not the proper way to calculate cost recovery.

Since DOA/Telcom is not considering all costs, it cannot properly determine whether the voice telephone service it provides is making a profit, incurring a loss, or breaking even and what savings, if any, the network is generating compared to the public switched network.

Although an ISF is accounted for in much the same manner as a commercial enterprise, it is nonetheless a governmental fund. The basic objective of an ISF is different from the fundamental purpose of a commercial enterprise. The purpose of an ISF is not to maximize its return on invested capital. Generally, the purpose of an ISF is to provide a service or product to other agencies at a reasonable cost.

The purpose of centralizing telecommunications services in general and the voice telephone network activities in particular in an ISF is to achieve a level of operating efficiency that may not be available if the same activities were performed by multiple agencies. Costs associated with the voice telephone network activity is recovered from those agencies that benefit from the service provided through the ISF. Thus, the objective of the ISF is not to make a profit but rather to recover over a period of time the total cost of providing the service.

We recommend that DOA/Telcom perform the following:

1. Identify the investment in capital (fixed) assets used in all telecommunications services provided to user agencies (voice, data, and video). This includes the cost of microwaves, antennas, towers, tower site preparation, transportation costs to sites, buildings at tower sites, switch and related equipment, terminal and multiplex equipment, power supplies and plant charges, and any other equipment that is utilized in the origination, transmission, or recording of voice, data, or video traffic.

Once the investment (cost) in the equipment is identified, a determination should be made of the percentage of use that the equipment is utilized for each type of service provided, including voice telephone network traffic. (For example, 20% of utilization is dedicated to voice, 40% to data transmission, etc.) The calculated percentage of use should be applied to the identified investment in plant. This amount should then be "capitalized" and depreciated, through the ISF, over its estimated useful life. The calculated annual depreciation should be incorporated into the cost recovery calculations for user rate design.

2. DOA/Telcom should institute procedures to identify and capture the costs mentioned above for its property control system. In the past, transportation and personnel costs associated with microwave site installation or major repair have been expensed without a record maintained of the amount of expenditure by site. Since transportation and personnel costs often exceed the amount of the microwave or tower itself, these costs should be capitalized as part of the equipment and recorded as such on the property control system. These major installation costs should also be recovered from the user agencies by incorporating them into the user rate designs over the estimated useful life of the equipment.
3. Donated equipment that will be used in any form for the state voice telephone network should be recorded at its fair market value at the date of receipt. Presently, donated property is recorded into the property control system at a value of \$1.
4. DOA/Telcom should identify all employees who are associated in any capacity with the voice, data, and video network. This would include engineers, administrators, repair personnel, clerical, data processing, and accounting and billing functions. A percentage estimate of each employees time expended on each of the telecommunications services provided, including the

voice telephone network should be determined. Associated personnel costs for each telecommunication service can then be easily recorded into the ISF. A periodic review of management's estimates should be performed and changes made when necessary.

5. A system should be established to allocate recurring expenditures or charges such as rents and utilities; office supplies; travel; data processing services; software purchase, upgrade, and maintenance; and minor site repair to all telecommunication programs benefiting from the expenditure, including the voice telephone network. Travel to sites and minor repair can easily be allocated to the voice telephone, data and video network based on management's estimate of the percentage that the affected equipment use is due to each telecommunication service provided including the voice telephone network. That portion attributable to benefiting each of the telecommunication services provided, including the voice telephone network, should be recorded in the operating expenses of the ISF.

Once management has identified total costs related to the telecommunication services provided, particularly the voice telephone network, rate design would be relatively easy based upon historical traffic patterns as recorded in the Call Detail Record.

We believe the ISF is needed because of the nature of the service provided; the wide range of customers DOA/Telcom services; and because a governmental entity providing services available from the private sector must be able to clearly demonstrate that it is more economical, under similar but not identical terms and conditions, to provide a service itself rather than procure from the private sector. Once the State has identified its cost of providing a service for itself, the private sector must be able to clearly demonstrate to the State's satisfaction that it can provide the service less expensively than the governmental entity can provide for itself.

#### Recommendation No. 2

DOA/Telcom should (1) monitor its revenues, (2) budget for all recurring interagency reimbursable services agreements (RSAs), and (3) restrict authorizations (expenditure authority) for those unbudgeted RSAs that do not have any servicing agency expenditures associated with them.

DOA/Telcom has not adequately budgeted for its RSAs from the agencies it services and has bypassed the established budget procedures by using the unbudgeted RSA revenues to expand

its operating budget. As part of the annual budget process, agencies submit to the Legislature their estimate of the revenues expected to be received by providing services to other state agencies. These estimated receipts are taken into consideration by the Legislature during its budget deliberations. Oftentimes RSA revenues are a significant part of the budget authorized by the Legislature.

For FY 88 the Legislature authorized a DOA/Telcom budget of approximately \$5.4 million. Included in that amount were a few budgeted RSAs. Except under unusual and unplanned circumstances when additional revenues become available outside the budget process this is the amount the Legislature intended to fund DOA/Telcom operations. However, during the fiscal year an additional \$2.7 million in unbudgeted RSAs were recorded by DOA/Telcom. This had the effect of increasing DOA/Telcom budget (and related expenditure authority) to \$8.1 million. Of that amount, DOA/Telcom lapsed approximately \$122,000, resulting in DOA/Telcom expending approximately \$2.5 million more than originally appropriated by the Legislature during the budget deliberations.

FY 89 is not much different. The authorized budget of \$5.6 million has been increased because of unbudgeted RSAs to \$7.7 million, an increase of \$2.1 million.

A majority of these unbudgeted RSAs result from agencies subscribing to the state voice telephone network.

Normally, the servicing agency party to an RSA will incur expenditures in providing the service it renders to the requesting agency. The RSA is the mechanism for the servicing agency to recover those costs. However, DOA/Telcom's stated position is that there are few, if any, costs for adding additional agencies to the voice network. Since in DOA/Telcom's opinion there are minimal, if any, costs associated with the voice network attributable to any one agency most, if not all, of the RSA can be construed as a "profit" to DOA/Telcom since there are no, or minimal, costs to recover. We would expect to see any amount above and beyond the costs associated with servicing an RSA to supplant the General Funds previously appropriated in the budget and see a similar amount lapsed to the General Fund for subsequent appropriation by the Legislature. However, as noted above this has not been the case. Those RSA funds in excess of cost to provide voice telephone service have been expended by DOA/Telcom. This indicates that DOA/Telcom either did not reveal its full costs of operation to the Legislature during the budget deliberations or that the expenditure of the RSA funds were for other programs or purposes which the Legislature did not intend for DOA/Telcom.

A quick review of some (but not all) expenditure documentation for FY 88 shows that DOA/Telcom used these funds to purchase operating and capital program services and goods such as, but not limited to, eight (8) microwave terminals and one (1) repeater; fiber optic devices for voice and data transmission; paging equipment; communications systems analyzer and other test equipment; six (6) IBM personal computers and six (6) deskjet, laserjet, and paintjet printers; codex data modems for data transmission; battery systems and battery chargers; and payments to utilities for leased voice and data circuits.

We feel that DOA/Telcom's management of these funds further illustrates the need for an Internal Service Fund to account for network operations (see Recommendation No. 1). The way in which these RSA expenditures are reported in the State Annual Financial Report further endorses the need for an Internal Service Fund. These expenditures are not reported under the Division of Telecommunications but rather under a departmental catchall category simply titled "RSAs" which is combined with all other RSAs of the Department of Administration.

We believe that DOA/Telcom now has the ability to more precisely estimate revenues from its operations. We recommend that DOA/Telcom better estimate its planned receipts and submit them to the Legislature for its consideration during the budget process. Until such time that DOA/Telcom's budget can properly reflect budgeted RSAs, we also recommend that these RSAs be restricted to reduce the likelihood of expenditure, and that when expenditures properly chargeable to the RSAs occur, they be reviewed and approved by management before releasing of the expenditure authority restriction.

### Recommendation No. 3

DOA/Telcom should modify the call detail recording (CDR) software to correct classification and costing errors.

Our analysis of the traffic and costs incurred by state agencies utilizing the state network showed that in some instances the CDR categorized calls incorrectly. Calls from user agencies in the Anchorage node of the network to other Anchorage locations (local calls) appeared in the CDR records as long distance, either over the public switched network or the state network. The same problem existed in the Juneau node, with local calls appearing in the state network category. The Anchorage node CDR also incorrectly classified a number of calls to locations within the Anchorage extended area of service as public switched long distance. Conversely, a number of Anchorage node public switched long-distance calls to Glennallen were shown as local calls.

Additional errors noted in the CDR included instances of duplication of calls and incorrect costing of directory assistance calls. One extension detail CDR report correctly categorized and costed two public switched long distance calls, but then duplicated the two calls, with identical data in each field. A different CDR report identified an Alaska directory assistance call but costed it at \$2.76 for two minutes instead of the customary \$.60.

The effect of these classification and costing errors, many of which DOA/Telcom was unaware of, is that state network, public switched long-distance, and local traffic and their corresponding costs are under or overstated for the periods in question. DOA/Telcom should have the CDR software modified to ensure that the data collected classifies and costs calls correctly.

Recommendation No. 4

DOA/Telcom should have the CDR software modified to capture traffic and cost data using the correct parameters.

When the CDR was initially installed, it was programmed to cost public switched long-distance traffic using the parameters that American Telephone and Telegraph (AT&T) utilizes. These parameters are, in many respects, quite different than the parameters that the tariffed Alaskan intrastate long-distance company uses. While AT&T recognizes ten national holidays throughout the year and discounts its rates correspondingly, Alascom lowers its intrastate rates for only Christmas and New Year's Day. Alascom also begins its more expensive weekday day rate at 7 a.m., while AT&T's parameters have the day rate beginning at 8 a.m. The effect of these differing parameters is that CDR will calculate the cost of Alascom intrastate calls made on a holiday other than Christmas and New Year's Day or on a weekday beginning between 7 a.m. and 8 a.m. incorrectly. Any state network call made during those time periods will be compared to an incorrect, comparable Alascom cost with a corresponding incorrectly calculated network savings figure.

In order to calculate accurate network savings and displaced revenue totals, as well as ensure correct billings to user agencies, DOA/Telcom should modify the CDR software to reflect the correct parameters in place for Alascom's intrastate tariffs.

Recommendation No. 5

DOA/Telcom should either have its CDR software modified to capture call traffic and cost data for the telephone circuits leased to the University of Alaska's (UA) three main campuses or require that the campuses provide DOA/Telcom with compatible call detail traffic summaries.

The University of Alaska Computer Network (UACN) procures leased telephone circuits (state network lines) from DOA/Telcom for the UA system's three major campuses--Fairbanks, Anchorage, and Juneau. Each campus is then responsible for how it manages the circuits allocated to it. Varying chargeback methodologies and traffic capturing mechanisms are found in each campus. DOA/Telcom does not capture any of the UA system's traffic on their CDR. This has the effect of understating state network traffic, cost, savings, and displaced revenues to the public switched network.

In order to know total traffic and related costs, savings, and displaced revenue from the state network, it is necessary that the UA system's data be included with that of the other agencies. For this reason, DOA/Telcom should either have its CDR modified to capture UA traffic, or require that UACN or the individual campuses provide DOA/Telcom with comparable, reliable data regarding the UAS's use of the leased circuits.

#### Recommendation No. 6

DOA/Telcom should improve security over its CDR data tapes. They should also provide a complete audit trail by instituting a policy of backing-up and retaining CDR tapes and related documentation.

In order to calculate and summarize the state network and public switched traffic out of the network nodes for FY 88 and FY 89, we utilized the raw CDR data tapes. Two months of the Anchorage node data tapes and three months of the Fairbanks node data tapes could not be located by DOA/Telcom. Of the tapes that could be located, a problem with the calendar used to process some of the tapes was discovered that necessitated reprocessing. The new output yielded different results; however, there was no way to compare the initial and subsequent processing as DOA/Telcom had made changes to the control file but had not retained the original's documentation.

Security over the raw CDR tapes is not maintained. The data tapes we processed were able to be accessed by anyone with programming ability and access to the Juneau Data Center's batch or timesharing environments - a multitude of individuals. Any unauthorized person could view or delete (scratch) any or all of these tapes.

In order to be able to analyze past traffic, trends, or decisions, management must have access to historical data and its corresponding documentation - a complete audit trail. DOA/Telcom should institute a formal policy of CDR tape backup and retention as well as document any changes to the CDR software control file or other decisions that can

affect CDR processing. In addition, DOA/Telcom should protect its CDR files under the ACF2 computer security system. This would permit access only by authorized individuals or programs.

Recommendation No. 7

DOA/Telcom should consider either eliminating all off-premise extensions (OPXs) in locations where a local exchange telephone company (LEC) provides service or establish a charge for all OPX usage of the state network. Regardless of choice, the CDR software should be modified to record all OPX traffic.

All calls made from OPXs tied to either the Anchorage or Fairbanks switch appear to the CDR as having originated where the switch is physically located. For state network calls, this means a call to Anchorage from an OPX physically located in Delta Junction but off the Fairbanks switch will appear on the CDR as a Fairbanks to Anchorage state network call. The charge will be the standard Fairbanks to Anchorage \$.35 per minute. This is also the case for calls between OPXs off different switches; they will be billed at the Fairbanks to Anchorage rate (see below for discussion of unbilled OPX calls "internal to the switch"). The same holds true for a non-State network intrastate (Alascom) call. If the same OPX in Delta Junction calls a non-State network location such as Barrow, the call is completed through Alascom, who sees the call as originating in Fairbanks and charges the Fairbanks to Barrow tariff, rather than the Delta Junction to Barrow tariff, possibly displacing revenues from the public switched network

A number of OPXs' physical locations bear no logical relationship to the switch to which they are tied, and the agencies enjoy free long-distance calling because of it. The "E" Detachment of the Alaska State Troopers are physically located in Fairbanks, yet are tied to the Anchorage switch. This means that all calls to Anchorage and its surrounding extended area of service from "E" Detachment's Peger Road headquarters in Fairbanks are made without a charge to them as the CDR sees these calls as being local (Anchorage to Anchorage). Even though they are located only blocks away, the offices of the Department of Transportation and Public Facilities in Fairbanks must pay \$.35 per minute to call Anchorage since they are tied to the Fairbanks switch. FY 88 data showed that the "E" Detachment made 1,566 calls for a total of 5,275 minutes to non-State network Anchorage locations alone; this data does not include calls to Anchorage such as to the Department of Public Safety, as these calls are "internal to the switch" (see below). This free calling is inequitable as the public switched network does not receive any revenue, DOA/Telcom

does not recover any of their costs, and other departments are charged for the same service.

DOA/Telcom's rationalization for the installation and maintenance of its 65 OPXs is that many of them were installed as the only means of communication between remote sites and headquarters. However, a number of these OPX locations are now served by different LECs who can interface with interexchange carriers to provide long-distance service.

This type of traffic results in little or no public switched network revenue and DOA/Telcom does not recover all the costs it should. DOA/Telcom should either eliminate OPXs where local telephone service is available or should charge OPX users for all calls. These charges should be based upon the originating and terminating location of the calls, not upon which switch the OPX is tied to. (See Recommendation No. 1 for discussion of rate design.)

The CDR software currently does not record calls that are "internal to the switch." This means that there is no traffic or cost data for any call that is made from one network location to another network location off the same switch. This understates the traffic that is carried on the state network, as no data is captured for traffic between the switch and any OPXs. As only the Anchorage node of the state network has the CDR software programmed to record local calls, any calls from OPXs off the Fairbanks switch to Fairbanks or its extended area of service are not captured on CDR. This also understates state network traffic. In order to know the full extent of traffic taking place over the state network and to equitably recover costs for all calls, DOA/Telcom should modify the CDR to capture all data regarding traffic originating or terminating at an OPX.

#### Recommendation No. 8

DOA/Telcom should begin quarterly reconciliations between the CDR output and the Alascom billings for the Fairbanks and Anchorage nodes of the network.

DOA/Telcom receives the Alascom long-distance bill for all user agencies in the node cities of Anchorage and Fairbanks. They pay the Alascom bill and then charge individual agencies their share. Each user agency's share is determined from the CDR output, and the expenditure is transferred via journal entry. Currently, there is no mechanism in place to ensure that the Alascom billing and the CDR billing are containing the same information.

In order to ensure that the CDR is capturing all relevant traffic and is costing it correctly, the Alascom bill and

the CDR output (from which the interagency billing is made) should be compared at regular intervals for the Fairbanks and Anchorage nodes. Total traffic and costs per the CDR should be within a pre-determined percentage of the Alascom totals, or a more detailed analysis should be performed (reviewing to the departmental, divisional, or even extension level.) This reconciliation should be done on a quarterly basis and will help in identifying CDR problems in a timely manner.

As Alascom bills individual agencies in the Juneau node, a sweeping reconciliation such as above is not possible. However, the same basic reconciliation should be performed on a smaller basis using test divisions or departments.

# STATE OF ALASKA

## DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX C  
JUNEAU, ALASKA 99811-0200  
PHONE: (907) 465-2200

re: SB 485

March 15, 1990

Members  
Senate State Affairs Committee  
Alaska State Legislature  
Juneau, Alaska 99811

Attention: Honorable Pat Pourchot, Chairman

Dear Senators Pourchot, Kelly, Uehling, Faiks and Adams,

A legislative audit was conducted last year that resulted in recommendations made by the Budget and Audit Committee to the Division of Information Services, (formerly Division of Telecommunications).

The attached documents explain the status of the Division's compliance to the eight recommendations, which are:

- 1) **Improve accounting controls over fiscal operations of the voice telephone network and establish an Internal Service Fund (ISF) for all telecommunications services.**
- 2) **Monitor revenues; budget for all recurring interagency RSA's and restrict RSA's that do not have servicing agency expenditures associated with them.**
- 3) **Modify the call detail recording software to correct classification and costing errors.**
- 4) **Modify the call detail recording software to capture traffic and cost data using the correct parameters.**
- 5) **Modify call detail recording to capture call traffic and data for University circuits or require campuses to provide DOA/Division of Information Services with compatible call detail traffic summaries.**
- 6) **Improve security of call detail recording tapes, and provide an audit trail.**

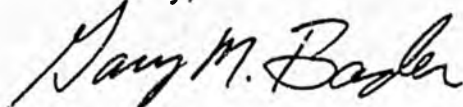
March 15, 1990

7) Consider eliminating off-premise extensions (OPX) where local telephone companies provide service or charge the beneficiary agency for the service.

8) Begin quarterly reconciliations between the call detail output and the Alascom billings for the Fairbanks and Anchorage nodes of the network.

I hope the attached status will be useful to you; if there is more information that Division Director Paul Monette or I can provide, please do not hesitate to contact us.

Sincerely,



Gary Bader  
Deputy Commissioner

GMB

cc: Frank Baxter, Commissioner  
Paul Monette, Director  
Sioux Plummer, Special Assistant

## STATUS IN BRIEF

Recommendation 1 - Improve accounting controls over fiscal operations of the voice telephone network and establish an ISF for all telecommunications services.

Status: The Division is establishing necessary improvements. 29 service centers including telecommunications and computing services will be separately accounted for. Two engineers have been dedicated full time since November 1989 researching costs for 13,000 pieces of equipment. SB 485 would establish an Intergovernmental Service Fund to complete compliance of this recommendation.

Recommendation 2 - Monitor revenues; budget for all recurring interagency RSAs and restrict RSAs that do not have servicing agency expenditures associated with them.

Status: The DIS FY91 budget request contains all anticipated receipts in the form of increments. Restrictions have been placed on all funds associated with specific services and are being monitored.

Recommendation 3 - Modify the call detail recording software to correct classification and costing errors.

Status: Recommendation 3 has been completed, however, a more sophisticated software package will contribute to further refinements and better management control.

Recommendation 4 - Modify the call detail recording software to capture traffic and cost data using the correct parameters:

Status: Complete.

Recommendation 5 - Modify call detail recording to capture call traffic and data for University circuits or require campuses to provide DOA/DIS with compatible call detail traffic summaries.

Status: The University will be contacted for resolution.

Recommendation 6 - Improve security of call detail recording tapes, and provide an audit trail.

Status: Additional staff time will be required, and improved software is being purchased. The division security manager is developing additional security procedures.

Recommendation 7 - DOA should consider either eliminating off premise extensions (OPX) where local telephone companies provide service or charge the beneficiary agency for the service.

Status: Improved call detail recording software may permit charging for service. As existing systems are modified, we have been shifting service to the local telephone company. An example exists in Wasilla where two OPXs were converted to regular service

from Matanuska Telephone Association.

Recommendation 8 - DOA should begin quarterly reconciliations between the call detail output and the Alascom billings for the Fairbanks and Anchorage nodes of the network.

Status: Reconciliations take 6 man weeks. Insufficient staff is available for the task. DIS is investigating automated methods for reconciliation.

TELECOMMUNICATIONS AUDIT COMPLIANCE PROJECT SUMMARY

	PROJECT STATUS	
	AS OF JAN. 31, 1990	EST. COMPLETION
<u>AUDIT RECOMMENDATION NO. 1:</u> Implementation is a major effort requiring completely different system of accounting for all services provided by DOA/Telecom to its customer agencies. There will be a substantial impact on present operations as a change of this magnitude will require additional one-time and on-going resources. As implementation of new systems and procedures occurs, care must be exercised so that the roles of valuable and scarce technical personnel are not transformed into a disproportionate amount of clerical or accounting work.	20%	Nov. 15, 1990 See WORK PLAN- Page 2 Attached
<u>AUDIT RECOMMENDATION NO. 2:</u> Implementation of this recommendation will have a moderate impact on present operations providing that customer agencies forecast their needs sufficiently in advance so that Telecom can include those needs in their budget request.	60%	May 18, 1990
<u>AUDIT RECOMMENDATION NO. 3:</u> Impact on present operations is minimal and requires instituting a formal verification process which is conducted with each billing report.	40%	June 30, 1990
<u>AUDIT RECOMMENDATION NO. 4:</u> The initial resolution of this problem can be accomplished with available resources and manpower.	10%	
<u>AUDIT RECOMMENDATION NO. 5:</u> Depending on the University of Alaska's reaction to this recommendation, there may or may not be any action taken by the DOA/Telecom support staff. This situation exists mainly because of a long standing policy (perhaps unwritten) of providing inter-branch and inter-agency cooperation where ever and whenever possible. This policy behavior also extends to political subdivisions within the state. If the future direction for DOA/Telecom is to operate the states' business phones much like that of a public utility, then a change in policy of providing these types of circuits would appear appropriate.		This is primarily a policy issue and will be addressed during 4th quarter of this fiscal year.
<u>AUDIT RECOMMENDATION NO. 6:</u> Implementation of this recommendation will have a definite impact on the Juneau based Telecom staff. Although the recommendation can be partially implemented through some procedural changes and training, the bulk of the effort to successfully improve security and control will be through the assignment of additional staff time.	20%	April 30, 1990

TELECOMMUNICATIONS AUDIT COMPLIANCE PROJECT SUMMARY

AUDIT RECOMMENDATION NO. 7: Implementation of this recommendation will have a substantial impact on present operations and will require possible modification or elimination of past operating policies.

AUDIT RECOMMENDATION NO. 8: This is currently not being done in a systematic fashion, due to lack of personnel and management commitment. To reconcile billings requires approximately two to three weeks per node using the manual method currently employed.

PROJECT STATUS  
AS OF JAN. 31, 1990 | EST. COMPLETION

This is primarily a policy issue and will be addressed during 4th quarter of this fiscal year.

10%

June 30, 1990

TELECOMMUNICATIONS AUDIT COMPLIANCE PROJECT

During the past few months, the Division of Information Services (DIS) has expended considerable effort to review, analyze and assess the organizational impact of implementing Legislative Audits' March 30, 1989, Recommendations. This effort is the direct result of the Commissioner of Administration's commitment to implement the changes necessary to improve the operational, accounting, and reporting aspects of the States' voice telephone network as reflected in the audit recommendations.

The following guideline is being used by the DIS review team for their activities.

TASK ASSIGNMENT: Review and analyze the audit recommendations and the Department of Administrations response commitments and;

- 1) Develop a plan which defines the actions and resources necessary to implement the response commitments.
- 2) Develop detailed task lists and target dates for implementation; and
- 3) Take action necessary to implement the response commitments.

The audit report contains eight separate recommendations. Implementation of these range in complexity from requiring minor effort all the way to requiring substantial investment in personnel time, equipment and other resources.

The following is information for each of the individual recommendations consisting of four sections as follows:

RECOMMENDATION NO. - Verbatim from the audit report.

RESPONSE COMMITMENT - Verbatim from Commissioner of Administration's May 30, 1989 response letter.

IMPLEMENTATION - A statement from DIS review team which reflects the magnitude of the impact on present operations.

WORK PLAN - A list of tasks necessary to affect implementation.

All resources used on this project will be charged to the voice telephone network system. To do otherwise would most likely create further inconsistencies with the audit recommendations and the Commissioner's response commitments.

One of the most important requirements of this compliance project is the evaluation of all existing database systems. The Telecommunications Section has their own mini computer system which is used primarily for site inventories and property records. A comprehensive review of in-house computer systems as to their usefulness in meeting new cost-accounting and Internal Service Fund (ISF) requirements is scheduled to begin February 12, 1990.

AUDIT RECOMMENDATION NO. 1:

The Department of Administration, Division of Telecommunications (DOA/Telecom) needs to improve accounting controls over the fiscal operations of its voice telephone network. The Department of Administration should establish an Internal Service Fund (ISF) for all its telecommunications services, including its voice network.

RESPONSE COMMITMENT:

We concur with your recommendation that we need to improve accounting controls over the fiscal operations of the voice network telephone network and are taking steps to make needed improvements. In addition, we have given serious consideration to using an internal service fund to account for the telecommunication operations and agree that it is in the best interests of the State to establish accounting for the Division of Telecommunications within an internal service fund.

In arriving at this conclusion, we considered many of the advantages and disadvantages of establishing an internal service fund to account for telecommunication services. We also have taken into consideration the proposed revisions to the U.S. Office of Management and Budget (OMB) Circular A-87 "Cost Principles for State and Local Governments". The proposed revisions include a policy statement that internal service activities must be accounted for and reported in individual proprietary fund accounts. If this is not done, telecommunications costs for programs with both federal and general funds would not be eligible for federal reimbursement.

We will establish such an internal service fund in accordance with generally accepted accounting principles immediately. During FY90 we will refine and develop accounting and operating procedures.

For the FY91 budget, we will change our budget to reflect the change in fiscal operations.

IMPLEMENTATION - Impact on present organization:

Implementation of the recommendation will require a completely different system of accounting for all services provided by DOA/Telecom to its customer agencies. There will be a substantial impact on present operations as a change of this magnitude will require additional one-time and on-going resources. As implementation of new systems and procedures occurs, care must be exercised so that the roles of valuable and scarce technical personnel are not transformed into a disproportionate amount of clerical or accounting work.

WORK PLAN - Preliminary and Projected Tasks:

1. Define requirements for an interagency service fund (ISF).
2. Evaluate existing database systems as to their usefulness in meeting new cost accounting and ISF requirements.
3. Evaluate other cost accounting packages presently in use in similar environments.
4. Develop an implementation plan for the ISF.
5. Develop detailed task lists for each major activity.
6. Develop implementation plan for selected cost accounting and database systems.
7. Identify resources required to implement planned changes.
8. Identify on-going operations and maintenance requirements.

AUDIT RECOMMENDATION NO. 2:

DOA/Telecom should (1) monitor its revenues, (2) Budget for all recurring interagency reimbursable service agreements (RSAs), and (3) restrict authorizations (expenditure authority) for those unbudgeted RSAs that do not have any servicing agency expenditure associated with them.

RESPONSE COMMITMENT:

I agree with this recommendation which is directly related to Recommendation No. 1. Establishing an ISF will eliminate unbudgeted RSAs and provide a mechanism to closely monitor expenditures as they apply to servicing agencies.

IMPLEMENTATION - Impact on present organization:

Implementation of this recommendation will have a moderate impact on present operations providing that customer agencies forecast their needs sufficiently in advance so that Telecom can include those needs in their budget request. The implementation of an effective Interagency Service Fund will reduce the negative impact of not being able to collect budgeted RSA funds from agencies. In the past, DOA/Telecom has carried out its statutory responsibilities by being extremely responsive to customer needs. This responsiveness, demonstrated as recently as the Prince William Sound Oil Spill, has now been associated with the term "unbudgeted RSA's" which has a negative connotation. In the course of responding to agency needs, there will always be situations where services provided will result in "unanticipated receipts" in the form of an RSA. The term "unanticipated receipts" more accurately describes these types of situations. By implementing planned changes and utilizing and improving existing budgetary procedures, DOA/Telecom expects to provide additional visibility to unanticipated receipts and the resulting RSA's.

WORK PLAN - Preliminary and Projected Tasks:

1. Establish a structure within AKSAS to identify revenue related to costs of services provided.
2. Establish procedures for routine examination of Revenues versus Expenditures so that proper audit trails are by-products of normal business.
3. Provide orientation and training for all Telecom personnel concerned with revenue restrictions and requirements for releasing restrictions for appropriate expenditures.
4. Identify resources required to implement planned tasks.

AUDIT RECOMMENDATION NO. 3:

DOA/Telecom should modify the call detail recording (CDR) software to correct classification and costing errors.

RESPONSE COMMITMENT:

We concur. Since the errors were discovered, the software vendor has corrected the program to eliminate errors.

I would note that some of the errors found in Anchorage (local calls being flagged as long distance) are attributable to user error rather than software error. We are working to adequately educate users in this area as a software fix is not feasible for this particular problem.

AUDIT RECOMMENDATION NO. 3: (continued)

IMPLEMENTATION - Impact on present organization:

Impact on present operations is minimal and requires instituting a formal verification process which is conducted with each billing report. Personnel who process software reports must be trained on how to accomplish this. While currently done by Telecommunications Planner, Communications Engineer and Administrative Assistant, sufficient time (approximately one (1) man hour per node per month, for a total of 3 hours), must be allocated. Special purpose training for "Customer Dialing Practices" needs to be conducted. Impact of preventing customers from accessing local area through dialing long distance access codes via programming changes to telephone system(s) needs to be determined.

WORK PLAN - Preliminary and Projected Tasks:

As problems were recognized, they have been corrected. A point-by-point status of each item:

1. Calls from user agencies in Anchorage node to other Anchorage locations appearing in long distance category: The Anchorage switch should be programmed to prevent users from being able to dial public telephone system access codes (81 or 82) plus an Anchorage NXX. Verify that this has been done through Mike Ridge or Becky Tracy; a spot check of extension detail would be another, but labor intensive way to verify.
2. Local calls appearing in State Network category for Juneau node: This problem was corrected via a change to the software's network description file in January, 1989.
3. Anchorage node incorrectly classifying calls within extended calling area as long distance: This problem was corrected with a new rate tape in December, 1988 (effective with January, 1989 billings).
4. Anchorage node calls to Glennallen appearing as local calls: This was corrected with new rate tape in December, 1988.
5. Incorrect costing of directory assistance calls: The majority of directory assistance calls are correctly classified; however, the specific instances noted in the audit report are exceptions, and without reviewing each directory assistance call record on a monthly basis, it is not possible to verify that these anomalies have been corrected. A more flexible call accounting software program could provide additional automated verification methods the current software system does not have.
6. Schedule and conduct customer training. It may be possible to offer such training with video tape.
7. Investigate alternatives for providing bulk intrastate calls and develop an RFP for more sophisticated Call Detail Recording Equipment.

AUDIT RECOMMENDATION NO. 4:

DOA/Telecom should have the CDR software modified to capture traffic and cost data using the correct parameters.

RESPONSE COMMITMENT:

This has been done.

IMPLEMENTATION - Impact on present organization:

The initial resolution of this problem can be accomplished with available resources and manpower. Following is information on how the specific instances are being resolved:

Holiday Rates: The 5200 program of the call accounting program has been modified by the Info Group to correctly cost intrastate calls during days designated as ATT's holidays but which are not holidays for Alascom's intrastate calls. This required additional coding which was loaded by Juneau Data Center's programming staff during October, 1989.

For the next year, as each holiday occurs, manual verification of costs should occur. Additionally, if new releases are loaded, DIS support staff should verify the required coding has not been eliminated. This can be done either by the programmer loading the new release, or by support staff verifying individual call records.

Time of Day Schedules: Corrected; however, should be verified with each new rate tape received.

The on-going effort will add additional steps to the report verification process and will increase time necessary to verify data each time a new rate tape or release is loaded. Each node should be verified monthly until the holiday rate issue is resolved. However, since the 5200 program is used for all three nodes, if one node is correct, all will be. A spot check of the Anchorage node on 10/10/89 indicates the time of day schedule is correct for intrastate calls.

Required resources, which have been committed, included a change to the software program and additional DIS man hours to verify accuracy.

WORK PLAN - Preliminary and Projected Tasks:

DOA/Telecom will continue monitoring and maintenance effort with the present staff allocation.

AUDIT RECOMMENDATION NO. 5:

DOA/Telecom should either have its CDR software modified to capture call traffic and cost data for the telephone circuits leased to the University of Alaska's (UA) three main campuses or require that the campuses provide DOA/Telecom with compatible call detail traffic summaries.

AUDIT RECOMMENDATION NO. 5: (continued)

RESPONSE COMMITMENT:

UA is a separate entity from the Executive Branch. It uses bulk facilities provided by Divcom, but the use is managed by the University.

Our preferred recourse is to encourage the University to use the same CDR software as Divcom so that comparable data might be kept. I would note that the University is not bound to use the same pricing mechanism as Divcom, nor are its basic costs necessarily the same. Therefore, potential expenditure reductions for the University System may not be comparable to those for Executive Branch agencies.

IMPLEMENTATION - Impact on present organization:

Depending on the University of Alaska's reaction to this recommendation, there may or may not be any action taken by the DOA/Telecom support staff. This situation exists mainly because of a long standing policy (perhaps unwritten) of providing inter-branch and inter-agency cooperation wherever and whenever possible. This policy behavior also extends to political subdivisions within the state. If the future direction for DOA/Telecom is to operate the states' business phones much like that of a public utility, then a change in policy of providing these types of circuits would appear appropriate.

WORK PLAN - Preliminary and Projected Tasks:

1. Contact University of Alaska regarding this audit recommendation.
2. Review alternatives to achieving the traffic statistics.
3. Redefine "Customer" responsibilities in this area of connectivity.

AUDIT RECOMMENDATION NO. 6:

DOA/Telecom should improve security over its CDR data tapes. They should also provide a complete audit trail by instituting a policy of backing-up and retaining CDR tapes and related documentation.

RESPONSE COMMITMENT:

I concur with this recommendation. Procedures and retention schedules will be established. Divcom has begun preliminary work in this area.

IMPLEMENTATION - Impact on present operations:

Implementation of this recommendation will have a definite impact on the Juneau based Telecom staff. Although the recommendation can be partially implemented through some procedural changes and training, the bulk of the effort to successfully improve security and control will be through the assignment of additional staff time.

WORK PLAN - Preliminary and Projected Tasks:

1. Develop flow charts reflecting present processing methods, procedures and relative responsibilities.
2. Data Security Administrator will analyze present processing and identify alternatives for achieving adequate security and controls as specified in audit recommendation.

AUDIT RECOMMENDATION NO. 6: (continued)

WORK PLAN - Preliminary and Projected Tasks: (continued)

3. DOA/Telecom staff will survey other similar operations (government and private sector) to determine if there are industry standards for retention and reprocessing requirements.
4. DOA/Telecom will draft operational requirements for CDR processing, tape and report backup and retention.
5. Develop implementation plan.
6. Review alternatives for redundant or fault tolerant Call Detail Recording.

AUDIT RECOMMENDATION NO. 7:

DOA/Telecom should consider either eliminating all off-premise extensions (OPXs) in locations where a local exchange telephone company (LEC) provides service or establish a charge for all OPX usage of the state network. Regardless of choice, the CDR software should be modified to record all OPX traffic.

RESPONSE COMMITMENT:

As existing systems are modified, it is our intent to defer to local exchange service where available and economically advantageous. For example, a recent reconfiguration of the Division of Emergency Services communication facility in Wasilla involves the removal of two existing OPXs and the installation of four additional phone lines from Matanuska Telephone Association.

We agree that costs for OPX lines should be borne by the beneficiary agency. We are looking to software changes that will provide call detail for the OPXs and have had some discussion as to the feasibility of establishing a rate structure. We will continue to examine this aspect.

IMPLEMENTATION - Impact on present operations:

Implementation of this recommendation will have a substantial impact on present operations and will require possible modification or elimination of past policies which have led us to this situation.

Operationally, Telecom views OPX's as falling under one of two categories.

Category one are the telephones located along the state's microwave system but which are more accurately called site phones or service channels. These phones are used by the Division of Telecommunications technicians as "express order wires" for such purposes as interconnect dialing to test centers, communications to Division shops while working on installation, repair or maintenance and as emergency lifelines.

The alternative to maintaining service channels on the state microwave is to communicate through low-band radio via a mobile unit or low-band base station, or by helicopter to the nearest phone. Requesting telephone service for these maintenance phones from operating telephone companies who are assigned by the APUC to serve these remote areas is not considered a viable option. In most cases, these sites are so remote that the cost to build telephone company-owned plant facilities in areas where there are none for miles around would be so prohibitive that the State could not justify the service.

AUDIT RECOMMENDATION NO. 7: (continued)

Category two are the single line telephones operated and maintained at state microwave sites by the Division of Telecommunications at the request of other State agencies. These OPX's are provided for maintenance, safety and emergency purposes in very remote areas and in some less remote facilities where direct, immediate and reliable communication is consistently required by these agencies.

Telecom assumes that the audit recommendation is addressing the Category Two OPX's and the plan to implement this recommendation will be based on this assumption.

Current call accounting software allows ability to add fixed charges on an individual extension basis. However, to use the current call accounting program to implement the recommendation that ALL data originating or terminating at an OPX will require two things: 1) Upgrade of releases on current telephone switching systems in Anchorage and Fairbanks to allow recording of "internal" switch calls; and 2) Modification of the call accounting system to allow reporting on internal and external calls. Significant software resources and DIS manpower would be required to implement this. Also, the current software allows this to be done only on an all or none basis. That is, all internal and external calls would be reported for all extensions, not just the OPXs. This would increase the amount of paperwork and time required to process billings.

WORK PLAN - Preliminary and Projected Tasks:

1. Solicit comments from each affected customer as to how the implementation of this recommendation will affect their agency.
2. Identify operational charges for providing this type of service.
3. Develop a plan reflecting alternatives for implementing this recommendation taking into account customer input and comments.
4. Draft a policy which address the concept of the two categories of OPX's and will allow orderly migration to recovering all appropriate costs for this service.
5. Identify requirements for hardware, software and technical services in order to implement and provide on-going operations support for this recommendation.

AUDIT RECOMMENDATION NO. 8:

DOA/Telecom should begin quarterly reconciliations between the CDR output and the Alascom billings for the Fairbanks and Anchorage nodes of the network.

RESPONSE COMMITMENT:

I concur with this recommendation. This is a practice to which we have aspired in the past; however, an adequate allocation of staff time has been difficult to achieve consistently. Divcom is discussing other possible options with the Division of Administrative Services.

IMPLEMENTATION - Impact on present operations:

This is currently not being done in a systematic fashion, due to lack of personnel and management commitment. To reconcile billings requires approximately two to three weeks per node using the manual method currently employed.

AUDIT RECOMMENDATION NO. 8: (continued)

WORK PLAN - Preliminary and Projected Tasks:

1. Identify hardware, software and human resource requirements necessary to implement this recommendation on a quarterly basis.
2. Identify any alternatives for satisfying this recommendation.
3. Develop implementation plan based on direction taken by upper management as pertains to this recommendation.

3.16.90

SB 485:

Sioux Plummer:

15 States have ISF

Gary Bader

Paul Monette

Kelly Why surplus funds

Rsp Leg will always appropriate funds

Adams in 8 yrs. how much \$ has gone into computer services, \$30 million.

Rsp Charges to fund concerns also by users

Adopt CS

Adams amendment:

\$ RSA to DOA  
Cost are paid then

Cap. Budget  
Highway

Kelly — does like Page 2 Lines 10, 12, 13

unless

PAT sees  
Has a  
"replacement  
fund."

DOA - intent to work like highway

↳ comfortable with deleting  
Lines 11, 12, 13

GET HIGHWAY MODEL.

↳ Amendment

3.5.90 Hold for more time.

485

→ Adams: concern over non-lapse of funds  
response: balances into fund

Paul Monette

language not clear — needs more  
time.

Adams — solution is not in this  
bill.

Falks — what has department done

Adams — Feb. 26<sup>th</sup> Times — Telecomm.  
buyer for state system?

Rsp — RATNET