

**Performance Audit  
Cramming on City Phone Bills**

October 2012

**City Auditor's Office**

**City of Kansas City, Missouri**



## Office of the City Auditor

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October 31, 2012

Honorable Mayor and Members of the City Council:

This audit of cramming on city phone bills was initiated by the city auditor pursuant to Article II, Section 216 of the city charter. Cramming is the practice of placing unauthorized, deceptive, or misleading charges on a telephone bill. The audit identified almost \$1,360 in cramming charges in one set of city landline phone bills. In the same bills, we also identified almost \$137 in taxes and a fee that the city is exempt from paying or that is not applicable on landlines.

The city's primary landline provider has announced that it will discontinue billing most third-party charges for non-telecommunication services on its landline accounts beginning August 27, 2012. We anticipate that this could decrease the cramming charges appearing on the city's phone bills from that provider.

We make recommendations to recover past cramming charges and taxes, and to prevent cramming charges and excess payments in the future.

We shared a copy of this draft report with the director of general services on September 20, 2012. His response is appended. We would like to thank staff in the Information Technology Division and the Law Department for their assistance. The audit team for this project was Joyce Patton and Nancy Hunt.

A handwritten signature in black ink that reads "Gary L. White".

Gary L. White  
City Auditor

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# Cramming on City Phone Bills

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## Introduction

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### Objectives

We conducted this audit of cramming on city phone bills under the authority of Article II, Section 216 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.<sup>1</sup>

This report is designed to answer the following question:

- Has the city been billed for charges consistent with cramming?

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### Scope and Methodology

Our review focuses on whether potential cramming charges exist on city phone bills. Our audit methods included:

- Interviewing Information Technology Division staff of the General Services Department to determine whether they review phone bills for cramming charges.
- Reviewing the contract between the city and the primary landline provider (AT&T)<sup>2</sup> to determine the provider's third party billing responsibilities.

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<sup>1</sup> Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2011), p. 17.

<sup>2</sup> The city entered into a contract with Southwestern Bell in 2004 for landline phone services. After a 2005 merger, the company changed its name to AT&T, Inc. We refer to the company as AT&T throughout the report.

- Reviewing two phone bills for each landline billing account paid through the Information Technology Division to determine whether the bills included charges billed on behalf of third parties.<sup>3</sup>
- If third party billing was identified, asking city personnel whether they authorized the charges in order to determine the legitimacy of the charge.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. No information was omitted from this report because it was deemed privileged or confidential.

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## **Background**

### **What Is Cramming?**

The Federal Communications Commission (FCC) defines cramming as the practice of placing unauthorized, deceptive, or misleading charges on a telephone bill. Cramming may also occur when relevant phone charges are not clearly or accurately described to the consumer when ordering a service. Cramming charges can appear on phone bills in a number of ways including “service fee,” “service charge,” “other fees,” “voicemail,” “mail server,” “calling plan,” and “membership”.

Phone bills may include additional charges besides basic phone service. Charges can be added to the bill by the phone company providing the service or by a third party. Ideally, the customer would approve the services for which the phone company or a third party is charging. However, charges may appear on a phone bill without a customer’s consent.

According to the FCC, cramming occurs on landlines four times more often than on other devices, such as cell phones or pagers. The FCC

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<sup>3</sup> We examined two sets of bills provided by the Information Technology Division. The first set included invoice dates from October 2011 through January 2012. The second set consisted of the most recent bills with invoice dates from June through July 2012.

estimates between 15 and 20 million landline phone bills contain cramming each year. Studies show less than one percent of customers billed by third parties actually used the service for which they were billed. Only five percent of cramming victims may be aware of cramming charges.

### **Information Technology Handles Most City Phone Bills**

Information Technology receives bills for almost 4,700 landlines. These landlines were consolidated into 18 billing accounts by January 2012 and into 6 billing accounts by July 2012. Information Technology is responsible for handling the landline bills for the majority of the city departments. Information Technology does not handle landline billings for the Police Department, the Aviation phones at the Kansas City International Airport, or the Fire Department's emergency medical services headquarters. Copies of bills for the city's landlines handled by Information Technology are not provided to the departments that use these phone lines.



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## Findings and Recommendations

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### Summary

We identified almost \$1,360 in charges consistent with cramming in one set of the city's landline phone bills. In the same set of bills, we also identified taxes that were paid, although the city is exempt from paying them and a fee charged that is only supposed to be charged on wireless accounts.

Beginning in August 2012, the primary provider of the city's landline connections will begin blocking most third party billings, which could decrease cramming charges on some of the city's future phone bills.

We make recommendations to recover cramming charges and taxes, and to prevent cramming and excess payments in the future.

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### Inappropriate Charges Found on City Phone Bills

During our review of the city's phone bills, we found instances of cramming. We also identified tax charges on some bills that the city is exempt from paying.

#### **City Phone Bills Contained Cramming Charges**

We identified 61 cramming charges in the city phone bills reviewed. We verified with city employees that the crammed service was not ordered or authorized. The cramming charges were on 49 active lines, 11 disconnected lines, and one virtual line.<sup>4</sup>

Individual cramming charges ranged from \$6.99 to \$49.95. The aggregate cramming charges identified were \$1,359.46. If not disputed or blocked, cramming charges could continue indefinitely, costing the city thousands of dollars annually.

**Information Technology staff obtained cramming credits.** Our second review of the city's phone bills, in August 2012, indicates Information Technology received credits for cramming charges. In

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<sup>4</sup> A virtual line is a telephone number that is used to route calls to the user's actual telephone number or numbers.

addition, we identified only one potential cramming charge and it was less than three dollars. None of the previously identified cramming charges appeared.

In the past, a single Information Technology staff member reviewed phone bills for unauthorized charges as time permitted. Identifying inappropriate charges required the staff member to review each line's invoice. When we began this audit, Information Technology received phone bills for 18 separate accounts and staff reported they had not been reviewing phone bills for cramming.

After we commenced this audit, the city's phone bills were consolidated into six accounts. With the consolidation, Information Technology now receives a single report of third party charges from AT&T. This report allows the department to quickly scan for unauthorized charges, making it easier to obtain credits on behalf of the city.

**AT&T will begin blocking some third party billings.** Before AT&T's November 2005 merger, Information Technology staff report that the provider blocked third party billings. After the merger, AT&T no longer blocked third party billings. AT&T announced, however, that after August 27, 2012, it will discontinue billing of most third party charges for most non-telecommunication services on AT&T landline accounts. This step may reduce cramming charges appearing on the city's AT&T landline bills.

### **City-wide Efforts Needed to Identify and Recover Charges**

Instances of cramming may be occurring on city phone bills not handled by Information Technology or on cell phone bills. Some taxes and a fee were also charged in error.

**Cramming may not be limited to landline phone bills.** Cramming charges may be occurring on phone bills from other phone providers or those bills not handled by Information Technology. AT&T is not the only phone company providing service to the city and other departments pay landline phone bills and cell phone bills, any of which could contain cramming charges. This audit only examined billings for landlines overseen by Information Technology.

The city's contract with AT&T does not contain a provision requiring the provider to block third party billing. In order to prevent or minimize unauthorized third party billings, the director of general services should investigate the feasibility of including a prohibition on third party billing in future phone service contracts including landline and cell phones.

If third party billings cannot be blocked contractually, staff should periodically review phone bills to identify current charges billed on behalf of a provider. This is particularly important when the provider is not the telephone company providing the underlying phone service and will help protect the city from unauthorized and excess charges. If such charges are found, staff responsible for handling phone billing should determine whether the service was ordered or authorized by city staff; and if not authorized, seek recovery of the cramming charge.

The city manager should direct staff responsible for paying phone bills to periodically review the bills to identify, remove, and recover cramming charge.

**The city billed for and paid taxes and a fee it is exempt from paying.** During our review of phone bills for the period October 2011 through January 2012, we noted the city paid federal excise taxes and state and local taxes totaling \$116.41. The city is exempt from paying these taxes. The city also paid \$20.19 for the E911 fee on landline accounts although the fee only applies to wireless accounts. The city manager should direct staff to work with the Law Department to claim available exemptions, seek refunds for inappropriate past payments, and remove unnecessary charges from future phone bills.

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## Recommendations

1. The director of general services should investigate the feasibility of including a prohibition on third party billing in future phone service contracts.
2. The city manager should direct staff responsible for paying phone bills to periodically review the phone bills so any cramming charges can be identified, removed, and recovered.
3. The city manager should direct staff to work with the Law Department to claim available exemptions, seek refunds for inappropriate past payments, and remove unnecessary charges from future phone bills.



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## **Appendix A**

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### **Management's Response**





**GENERAL SERVICES DEPARTMENT**



DATE: October 23, 2012  
 TO: Gary L. White, City Auditor  
 FROM: Earnest Rouse, Assistant City Manager & Director of General Services  
 SUBJECT: Response to Cramming on City Phone Bills Audit

I am in receipt of your Performance Audit, *Cramming on City Phone Bills*. Please accept this correspondence as my response to your audit recommendations as outlined below.

1. The director of general services should investigate the feasibility of including a prohibition on third party billing in future phone service contracts.

Agree. A prohibition on third party billing is provided for in the proposed new phone contract. The primary carrier for the city discontinued the act of billing third party charges in August 2012. Additionally, future phone service contracts with other providers will contain the provision as well. Further, while the General Services Department is not directly responsible for the handling of phone contracts for other entities mentioned in the audit, (e.g., Aviation, Police, Fire Emergency Medical Headquarters), the Department will inform these entities to incorporate this recommendation into their phone service agreements as well.

2. The city manager should direct staff responsible for paying phone bills to periodically review the phone bills so any cramming charges can be identified, removed and recovered.

Agree. Prior to this audit, The General Services Department's Information Technology Division worked with the city's current provider to make available a single page bill listing the charges by line items, including a line item for which third party billing would be easily identifiable. Additionally, while the Information Technology Division does not have a written policy for the review of monthly bills for cramming charges, to ensure this practice is documented, Information Technology will establish a standard operating procedure (SOP) that will require a monthly review and subsequent credit process in the event cramming charges are identified. Approval will then be sought from the city manager to implement such an SOP across the city government organization.

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3. The city manager should direct staff to work with the Law Department to claim available exemptions, seek refunds for inappropriate past payments and remove unnecessary charges from future phone bills.

Agree. General Services has begun to work with Law to identify inappropriate billing charges in order that these are highlighted to be included for removal from future phone service contracts. Prior to this audit, Information Technology worked with the phone carrier to remove and refund any third party cramming or incorrect tax charges. The city manager will instruct city departments to engage in this practice as well.

cc: Mary J. Miller, CIO, Information Technology Division  
Troy M. Schulte, City Manager