

The Value of a Telecommunications Audit

By Peter Eisenhut



Organizations are becoming increasingly dependent upon information technology (IT) and telecommunication. According to annual surveys conducted by Information Week, IT expense may be as high as 10% of an enterprise's revenue. IT money spent wisely can leverage the revenue and profitability of your organization. Money spent unwisely can lead to bankruptcy. In the first two years of this century, many companies learned this the hard way. One way to make more effective use of your IT investment is to conduct a periodic audit.

What Is Telecommunication?

Telecommunication is simply the means by which information is moved from point A to point B electronically. Telecommunications includes voice, data, and video communication. Conceptually, telecommunications is an integral part of IT.

What Is An Audit?

A telecommunications audit is a review and evaluation of a company's communications network. It includes a review of the network's services, facilities, software, management processes, and all associated costs. The scope of the audit may include any or all of the following:

1. LANs and WANs,
2. Mobile radio,
3. Cellular communication,
4. PBXs, routers, switches, gateways, access devices,
5. Internet and email services,
6. VPN and frame relay networks,
7. Local and long distance services,
8. Voice and data circuits.

Method

The auditor will review and analyze the following:

1. Physical circuits and equipment found at the customer site;
2. The traffic and bandwidth of circuits;
3. Customer bills from vendors;
4. The process for paying bills;
5. Customer contracts and agreements with vendors;
6. Tariffs and master rate schedules;
7. Legal and tax regulations;
8. Existing projects and growth plans.

The auditor will evaluate the costs with respect to needed function and security, and then recommend changes that meet or exceed those needs at a lower cost. In some cases the auditor may find billing errors. The auditor would then initiate a process and recover the excess charges that have already been paid. All results and recommended actions should be presented to management in a written report. The audit process becomes complete after the implementation of actions approved by management and the follow-up verification of results.

Audit Benefits

An audit can provide a company with multiple benefits.

1. An audit can result in immediate cash inflow through the discovery and correction of billing errors.
2. Audits can bring about changes to the current network that result in a reduction in monthly expenses. For example, a recommendation that allows more effective use of existing circuit capacity, or that removes unneeded capacity, could have measurable dollar savings.
3. Audits can free up funds that can then be used to finance new projects.
4. Audits can recommend future projects that will help an enterprise be more competitive, such as a new web site or a multimedia customer service center.
5. Audits can provide an inventory of existing equipment, circuits or vendor accounts.
6. Audits can show how to improve the security of a network or the protection of equipment.
7. Audits can show how to improve controls on the purchasing and bill paying process.

Who Should Do The Audit

1. The audit should be done by an independent outside telecommunications or IT consultant with a business background. An outsider is not influenced by the culture and politics of the enterprise. In addition, outsourcing to an experienced professional is more cost-effective and allows in-house staff to stay focused on the operation of the company.
2. The auditor should be independent of a company's vendors to avoid a conflict of interest.
3. It is best if the auditor does not also sell a product that the auditor could recommend purchasing.
4. The auditor should be ethical. Members of the Society of Telecommunications Consultants (STC) are a good choice. They are required to sign a code of ethics annually.

Auditor Fees

Basically, there are three ways that auditors can charge for their services. Combinations of the three are also possible:

1. Contingency fee. When the primary audit objective is to reduce expenses, a contingency fee may be appropriate. In this case, the auditor charges a percentage of the savings produced as a result of the audit. Since you do not incur a net cost, this can be a win-win arrangement for both you and the auditor. For a contingency fee to work, the saving resulting from the audit must be measurable. Before agreeing to a contingency fee, you should ensure that the agreed contingency fee includes implementation and the measurement of results.
2. Flat rate. When the auditor is not hired to do the implementation of recommended changes, or where the desired audit results will not lend themselves to measurable saving, a flat rate may be appropriate. However, the auditor will want to know more detail about what he must do before agreeing. A flat rate provides no financial incentive for the auditor to go above and beyond the pre-defined work requirements.
3. Hourly rate. If the audit is done for a flat rate, an hourly rate may be appropriate for the implementation projects resulting from the audit. Your agreement with the auditor should require a detail billing statement showing how the hours were applied.

Conclusion

A complete telecommunications audit of your network and associated costs provides value to your bottom line. Imagine the effect on your company's net earnings if IT expense were 5 percent of company revenue, and if this expense were reduced by 20 percent. A complete audit includes review, written recommendations, the implementation of changes that you approve and following-up measurements of the results. An independent outside consultant can do this work for a contingency fee. Your in-house resources are not tied up, and you only pay a portion of any resulting savings. An audit is therefore a win-win situation for you and the consultant that does the audit.

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