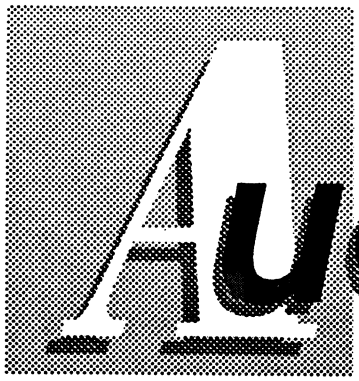

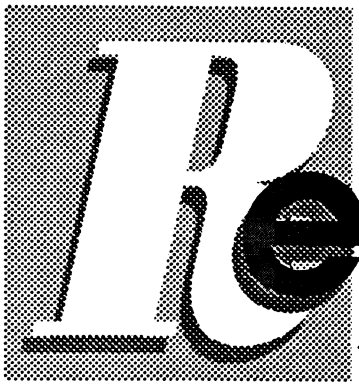

OFFICE OF THE INSPECTOR GENERAL

MANAGEMENT OF UTILITY SALES

Report No. 95-151 March 21, 1995

Department of Defense

Additional Copies

To obtain additional copies of this report, contact the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch, Audit Planning and Technical Support Directorate, at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

Inspector General, Department of Defense
OAIG-AUD (ATTN: APTS Audit Suggestions)
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@DODIG.OSD.MIL; or by writing the Defense Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

AFB	Air Force Base
DFAS	Defense Finance and Accounting Service
NAF	Nonappropriated Fund

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

March 21, 1995

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Management of Utility Sales (Report No. 95-151)

We are providing this report for your review and comment. Management comments on a draft of this report were considered in preparing the final report. The Assistant Secretary of Defense (Economic Security) and Defense Finance and Accounting Service comments were fully responsive.

DoD Directive 7650.3 requires that all recommendations and monetary benefits be resolved promptly. The Navy, the Air Force, and the Inspectors General of the Military Departments did not provide comments on a draft of this report. The Army generally concurred with the report findings and recommendations. However, the Army did not provide comments on Recommendations A.1. and C.2. or the potential monetary benefits, and comments on Recommendation B.2.e. were not responsive. We request comments on the recommendations and the potential monetary benefits from the Army, Navy, Air Force, and Inspectors General of the Military Departments by May 22, 1995.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Terry McKinney, Audit Program Director, at (703) 604-9288 (DSN 664-9288) or Mr. Bruce Burton, Audit Project Manager, at (703) 604-9282 (DSN 664-9282). Appendix G lists the distribution of this report. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 95-151 **March 21, 1995**
(Project No. 4CF-0022)

Management of Utility Sales

Executive Summary

Introduction. DoD obtains utility services from governmental and municipal sources or from private companies ordinarily subject to Government regulations. Contracts for electricity, natural gas, water, sewer, and related services are considered to be utility contracts. Utility contracts issued by DoD exceed $3 billion annually. We examined $213.7 million of utility consumption at nine military installations.

Objectives. Our original audit objectives were to determine whether contracts for gas, electric, water, and other utility services were provided at fair and reasonable prices for the services rendered and whether contract terms were properly administered. We also planned to examine the internal controls applicable to the award and administration of utility contracts.

The audit was reannounced after the survey phase to reflect additional audit objectives. The new audit objectives were to determine whether sales of utilities to reimbursable customers were properly managed and whether procurements of natural gas under regional contracting procedures were efficient and effective. We expanded our review of internal controls to include those controls applicable to sales of utilities and the natural gas regional contracting process.

Audit Results. For the original objectives, we determined that utility services between utility companies and the nine DoD installations were provided at fair and reasonable prices. In addition, we did not find any pattern of problems with DoD natural gas regional contracts. We examined $42.6 million of utility sales at the nine installations as part of the revised objectives and determined that military installations can improve the management of utility sales to military installation tenants. We believe that inadequate utility management may be occurring at other Army, Navy, and Air Force installations, and the installation commanders should be made aware of the potential problems. The commanders may be able to augment their operating budgets through improved management and collection for utility services.

o Installation personnel sold utility services to installation tenants using outdated sales agreements or no sales agreement. As a result, rates were used that were either higher or lower than current rates. In addition, no legal basis existed to control the terms of the sales when agreement provisions were missing or agreements were not prepared (Finding A).

o Tenants did not pay sufficient amounts for utility services at seven installations. For FY 1993, installations did not bill and collect $2.5 million of $25.4 million for utilities consumed by tenants at seven installations (Finding B).

o The Defense Finance and Accounting Service did not collect utility payments when due at Army and Air Force installations. Utility bill arrears amounted to $21 million of which $4.5 million were over 60 days past due. The installations had to fund utility budgets with base operating funds to cover shortfalls created by unpaid

tenant utility bills. As a result, installations in the audit sample did not have use of that money and lost interest and opportunity costs of approximately $144,000. The Navy installation did a good job of collecting payments when due. The Navy use of advance payments generally eliminated the problem of unpaid utility billings encountered by the Army and the Air Force (Finding C).

Internal Controls. The audit identified material internal control weaknesses. Controls over utility sales rates and agreements with base tenants were inadequate. Utility sales were not separately identified in the installation internal management control programs. Internal controls did not verify that all base tenants had current sales agreements and that all base tenants were charged the correct rates. In addition, internal controls over billing procedures, collections, and followup procedures for late payments were lax. Part I discusses the internal controls reviewed, and Part II provides the details of the weaknesses.

Potential Benefits of Audit. We calculate that seven military installations can avoid utility sales undercharges that, if left unchecked, would amount to an estimated $12.5 million over the next 5 years in addition to prior undercharges of $2.5 million. We also identified other problems with utility charges that would likely result in potential benefits; however, we were unable to quantify an amount. Also, military installations will benefit from having access to operating funds currently used to fund shortfalls created by unpaid tenant utility bills. Appendix E summarizes the potential benefits resulting from the audit.

Summary of Recommendations. We recommend that Military Departments establish utility sales as an assessable unit in the internal management control program to ensure that sales agreements are current and complete, that Military Departments evaluate staffing needs for the utility sales function, and that Inspectors General of the Military Departments alert other installations to potential problems on utility sales. We also recommend that DoD issue guidance on utility sales and that Military Departments clarify and comply with existing guidance. In addition, we recommend that the Defense Finance and Accounting Service comply with billing and collection procedures and improve internal controls to collect billings and that the Army and Air Force improve internal control when delinquent accounts are turned over to field commanders.

Management Comments. The Assistant Secretary of Defense (Economic Security) agreed to issue DoD-wide policy guidance on utility sales. The Director, Defense Finance and Accounting Service, agreed with Finding C and the recommendation to comply with billing and collection procedures and improve internal controls. The Army generally concurred with the findings and recommendations. However, it did not provide comments on two recommendations or on potential monetary benefits. The Navy, the Air Force, and Inspectors General of the Military Departments did not provide comments on a draft of this report. We request comments from the Army, Navy, Air Force, and Inspectors General of the Military Departments by May 22, 1995. A summary of management comments is in Part II, and the complete text of management comments is in Part IV of the report.

Table of Contents

Executive Summary i

Part I - Introduction

Background 2
Objectives 3
Scope and Methodology 3
Internal Controls 4
Prior Audits and Other Reviews 5
Other Matters of Interest 6

Part II - Findings and Recommendations

Finding A. Management of Utility Sales Agreements 8
Finding B. Utility Rates and Utility Use Charges 13
Finding C. Timeliness of Billings and Payments 24

Part III - Additional Information

Appendix A. Undercharges of Utility Costs 32
Appendix B. Utility Sales Conditions at Installations Visited 34
Appendix C. Lost Interest and Lost Use of Funds 35
Appendix D. Tenants With Late Accounts of More Than $500 36
Appendix E. Summary of Potential Benefits Resulting From Audit 42
Appendix F. Organizations Visited or Contacted 44
Appendix G. Report Distribution 46

Part IV - Management Comments

Assistant Secretary of Defense (Economic Security) Comments 50
Department of the Army Comments 51
Defense Finance and Accounting Service Comments 57

Part I - Introduction

Background

Contracts for natural gas, electricity, water, sewer, steam and other related services are considered to be utility services. During FY 1992, Military Departments reported utility consumption of more than $3 billion. Utility services can be purchased from governmental and municipal sources or from private companies ordinarily subject to Government regulations. Prices for utility services are considered to be "prices set by law or regulation" if the service rates are established by an effective, independent regulatory body. If the service rates quoted by a supplier are not "prices set by law or regulation," then the supplier may be required to submit certified cost or pricing data.

Utility Operation on Military Installations. Utility operation on military installations is similar to a commercially operated utility company. Military installations resell utility services to tenant organizations on base. The tenants are required to pay the Government (the military installation host organization) for utilities used. Those sales of utility services are controlled by sales agreements or contracts.

Federal and Defense Guidelines for Procurement of Utility Services. The Federal Acquisition Regulation subpart 8.3, "Acquisition of Utility Services," provides broad guidelines for procurement of utility services. Defense Federal Acquisition Regulation Supplement, Supplement No. 5, "Procurement of Utility Services," provides specific regulatory guidelines for the procurement of utility services within DoD.

The Military Departments have issued regulations to implement DoD guidance on procurement of utility services. The Military Departments have also issued guidance on sales of utility services to installation tenants.

Army Regulation 420-41, "Facilities Engineering - Acquisition and Sales of Utilities Services," September 30, 1992; Navy Regulation P-68, "Utility Service Contracts," June 1994; and Air Force Regulation 91-5, "Real Property Operation and Maintenance - Utility Service," August 2, 1982, provided the Military Department guidance on procurement of utility services and sales of utility services to installation tenants. The Air Force issued Air Force Instruction 32-1061, "Providing Utilities to U.S. Air Force Installations," June 14, 1994, to replace Air Force Regulation 91-5.

Federal Acquisition Regulation subpart 32.9, "Prompt Payment," prescribes policies and procedures for implementing Office of Management and Budget Circular A-125, "Prompt Payment." All contracts subject to Federal Acquisition Regulation subpart 32.9 shall specify payment procedures, payment due dates, and interest penalties for late payment.

The Debt Collection Act of 1982 specifies when interest will accrue on debts and provides for penalties and administrative processing charges on delinquent accounts.

The Defense Finance and Accounting Service was created to consolidate all finance and accounting functions throughout DoD. Military finance and accounting offices were included in the consolidation and were phased into the Defense Finance and Accounting Service beginning in July 1992.

Objectives

Our original audit objectives were to determine whether contracts for gas, electric, water, and other utility services were provided at fair and reasonable prices for the services rendered and that contract terms were properly administered. We also planned to examine the internal controls applicable to the award and administration of utility contracts.

We reannounced the audit after the survey phase to reflect a change in audit objectives. Audit objectives added were to determine whether sales of utilities to reimbursable customers were properly managed and to determine whether procurements of natural gas under regional contracting procedures were efficient and effective. We expanded our review of internal controls to include controls applicable to sales of utilities and the natural gas regional contracting process.

Scope and Methodology

Utility Contracts Reviewed. We selected for review nine Army, Navy, and Air Force installations that consumed large amounts of utilities. They are listed in the table.

Nine Military Installations Visited

Military Department	Installation Name
Army	Fort Benning, Georgia
	Fort Bragg, North Carolina
	Redstone Arsenal, Alabama
Navy	Public Works Center Norfolk, Virginia
Air Force	Arnold Air Force Base (AFB), Tennessee
	Edwards AFB, California
	Eglin AFB, Florida
	Hill AFB, Utah
	Robins AFB, Georgia

We also visited the Atlantic Division, Naval Facilities Engineering Command, which handles utility purchases and sales for Navy installations within the Northeast and Mid-Atlantic regions for the Navy. Our visits to the Atlantic Division and the Navy Public Works Center Norfolk allowed us to review utility records for Navy installations within the two regions. Army and Air Force records are maintained at the individual bases.

We reviewed 34 utility contracts for $213.7 million of utility consumption and the supporting files at the selected installations to evaluate how contracting officers determined that prices were fair and reasonable. We also determined whether utility rates were regulated by independent regulatory bodies. We evaluated rate intervention procedures and practices on proposed rate increases when prices are considered set by law, and verified that utility companies did not include charges for State or Federal taxes in their billings.

We also evaluated procedures for natural gas contracting. We reviewed whether installations were procuring natural gas under the Defense Fuel Supply Center contracts when required. We also evaluated Military Department decisions to procure natural gas from sources other than from the Defense Fuel Supply Center and whether the decisions impacted competition or small business contracting.

Utility Sales to Others. At the nine installations, we reviewed 192 sales agreements for utility sales in FY 1993 and evaluated utility sales to Government, non-Federal, and nonappropriated fund (NAF) installation tenants. We evaluated $42.6 million of sales to installation tenants and determined the basis of utility rates charged to installation tenants and the basis for quantity of utility services used. We reviewed utility sales contracts and agreements, utility billing and collection procedures, utility conversion factors and measurement factors, and other verification procedures deemed necessary to evaluate utility sales to others. We also examined installation tenant billings and collection records at Defense accounting offices.

Audit Standards and Locations. This economy and efficiency audit was made from November 1993 through June 1994 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included tests of internal controls considered necessary. We did not use computer-processed data or statistical sampling procedures to conduct this audit. Appendix F lists the organizations visited or contacted during the audit.

Internal Controls

Internal Controls Reviewed. We evaluated the internal controls applicable to the award and administration of utility contracts. In addition, we evaluated internal controls applicable to sales of utilities, and we determined whether utility sales were identified as an assessable unit for the installation's internal

management control program. Specifically, we reviewed internal controls for maintaining current utility sales agreements, for calculating current sales rates, and for billing and collection procedures related to utility sales. Also, we reviewed policies and procedures for natural gas procurements and the natural gas regional contracting process.

Adequacy of Internal Controls. The audit identified material internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. We evaluated the installations' internal management control program. Utility sales was not considered an assessable unit and was not separately identified in the installation internal management control programs. Controls at military installations were inadequate for the sale of utilities to installation tenants in the following areas:

- o utility sales rates and agreements,
- o annual reviews,
- o unmetered estimates, and
- o facility surveys.

In addition, the Defense Finance and Accounting Service did not have controls to ensure that amounts billed were correct, that payments were received when due, and that followup procedures were initiated for late payers. Recommendations A.1. and C.2., if implemented, will correct the internal control weaknesses. Improvements in internal controls could result in monetary benefits of $15 million, which consists of $2.5 million of prior undercharges and $12.5 million of calculated future potential monetary benefits. Appendix E is a summary of all potential benefits resulting from the audit. Copies of the report will be provided to the senior officials responsible for internal controls in the Office of the Under Secretary of Defense for Acquisition and Technology and the Military Departments.

Prior Audits and Other Reviews

General Accounting Office. General Accounting Office Report No. RCED-91-35, (OSD Case No. 8519) "Natural Gas, Opportunities for Federal Cost Savings through Competitive Purchases," was issued October 23, 1990. The report states that significant savings were realized through competitive procurement of natural gas. The savings estimates apply to the facilities visited and cannot be applied to the universe of all Federal facilities. The report recommended that the Administrator, General Services Administration, as a principal negotiator for Federal utility and supply contracts, institute a program to work with Federal civilian agencies in conducting procurement cost comparisons for all large Federal civilian agency users of natural gas. The General Accounting Office also recommended that, on the basis of the comparative analysis, General Services Administration should recommend a

gas-purchasing strategy to agency users. In addition, the report recommended that the Administrator monitor General Services Administration initiatives to assess the potential for competitive natural gas procurement in the Federal civilian agency sector to ensure that opportunities to reduce Federal natural gas expenditures are fully realized.

Air Force Audit Agency. Two related reports have been issued by the Air Force Audit Agency.

Air Force Audit Agency Report No. 40394051, "Follow-up Audit, Review of Utility Services and Reimbursements, Air Force Development Test Center, Eglin AFB, Florida," was issued August 15, 1994. The report stated that management at Eglin AFB had not taken the necessary action to correct all the deficiencies noted in a previous audit. Specifically, civil engineering personnel had not computed or updated utility sales rates since FY 1991. The Air Force review covered the period from FYs 1991 through 1993, and October 1993 through January 1994. Also, utility sales agreements with reimbursable customers and documentation contained in utility brochures were not current. Air Force management concurred with the recommendations and agreed to take corrective actions. Similar problems identified are discussed in Finding B of this report.

Air Force Audit Agency Report No. 0175211, "Air Force Utility Management at CONUS [Continental United States] Bases," was issued May 29, 1991. The report concluded that utility services can be obtained at lower costs at several locations, reimbursements were not properly billed and were incorrectly calculated, and energy costs and consumption data were not accurately reported. In addition, installations were billing reimbursable customers for utilities without the use of utility sales agreements. Air Force management officials agreed with recommendations and took action to correct sales, billings, and contract weaknesses.

Other Matters of Interest

Regarding the original audit objective, utility contracts between utility providers and military installations were generally awarded at fair and reasonable prices, and the utility contracts were properly administered. In addition, during our review of the revised audit objectives, we found no pattern of problems with the natural gas regional contracting process.

Part II - Findings and Recommendations

Finding A. Management of Utility Sales Agreements

Military installation personnel did not adequately manage utility sales agreements. More than 90 percent of the 192 utility sales agreements reviewed were not current and, in 20 instances, sales agreements were not prepared at all. Military installation personnel did not perform required annual reviews for the sales agreements. The conditions occurred because:

o military installation personnel did not comply with regulations to prepare sales agreements and ensure that the agreements contained the most current billing rates and sales provisions and

o military installations did not have adequate staff to perform annual reviews of sales agreements.

As a result, installation personnel sold utility services to installation tenants using outdated rates that were higher or lower than current rates. In addition, no legal basis existed to control the terms of the sales when agreement provisions were missing or no agreements existed. The utility undercharges (Finding B) and billing problems and late payments (Finding C) are partly the result of the condition and causes discussed in this finding. The problems with sales agreements were widespread at the installations visited and are likely to be occurring at other installations throughout DoD.

Background

Arrangements for utility services between the military installation and installation tenants include sales agreements between DoD and other Federal and non-Federal organizations. The sales agreements describe the services provided, rates charged, estimated consumption, and other pertinent provisions, such as billing, payments, and interest charges.

Army Regulation 420-41, Navy Regulation P-68, and Air Force Regulation 91-5 require utility sales agreements for all utility sales. The regulations designate an installation representative to enter into and administer utility sales agreements. The representative is responsible for reviewing utility sales agreements to verify the agreements are current and contain pertinent clauses.

The representative, usually the installation utility engineer, is responsible for making sure all sales agreements are in writing and are signed by the purchaser, the installation civil engineer, and the installation commander and that copies are retained in contract files.

The installation civil engineer prepares and administers sales agreements and rates. Other administrative duties of the installation civil engineer include:

- o computing utility sales rates,
- o reviewing all utility sales agreements,
- o verifying that all utility meters are in good working order,
- o validating billing data, and
- o recalculating and updating utility rates no later than December of each year or at any time the utility purchase cost to the installation changes.

Adequacy of Utility Sales Agreements

Utility sales agreements were not current and were not always prepared. In addition, agreements did not contain all clauses necessary to control the terms of the sales. Military installation personnel did not perform annual reviews of sales agreements.

Utility Sales Agreements. Utility sales agreements for 180 of 192 installation tenants (93.8 percent) were not current. The agreements did not contain the most current rates for utility billings and were missing provisions needed to control the terms of the sale. Sales agreements did not include clauses for metering, nonmetered use charges, and payment procedures. Specifically, the agreements contained no clauses for:

- o setting conditions when meters would be installed and designating who would be responsible for the installation and cost;
- o giving instructions on how nonmetered use charges would be computed for facilities without meters; and
- o establishing payment procedures, payment due dates, or interest penalties associated with late payments.

Because installations had not updated 180 sales agreements within the past year, the sales agreements were not current. Of the 180 agreements, 117 had not been updated in the last 3 years. Four agreements had not been updated in at least 11 years. Also, 20 installation tenants did not have sales agreements. The lack of sales agreements meant that the Government could not contractually obligate installation tenants to reimburse the installation for utility services provided and that installations had no legal basis to control the terms of utility sales to those tenants.

Installation Utility Sales Rates. Utility sales agreements did not include current installation utility sales rates. Installation tenants were supposed to pay

the Government at the rates specified in the utility sales agreements. Thus, even in instances for which installations such as Robins, Hill, and Edwards AFBs calculated monthly utility sales rates or annual utility sales rates at the beginning of each fiscal year, installation tenants may not have been billed at current utility sales rates. This lack of updating occurred because the three Air Force bases neither included rate changes in the sales agreements nor informed the installation tenants of rate changes. No internal procedures existed to verify that the installations included new rates in the sales agreements.

Annual Reviews of Utility Sales Agreements. Installations considered annual reviews of utility sales agreements a low priority, and other tasks often took precedence over those reviews. Installation personnel directed their work efforts to problems that were most likely to have a major effect on the installation. When lower, older rates were kept in place for installation tenants, tenants had no reason to complain, and attention was not directed to the process. Hence, military installation personnel did not always perform annual reviews of sales agreements or ensure that current utility sales agreements were kept in contract files.

Internal Controls Over Utility Sales Agreements. In addition, installations did not consider utility sales to be an assessable unit for internal control purposes. Installation management officials did not establish internal controls requiring periodic reviews of sales agreements to determine that agreements contained provisions to control the terms of the sale and that agreements were current. In addition, installations did not implement internal controls to ensure that each tenant had a written sales agreement.

Military installations should establish utility sales as an assessable unit. Controls should be implemented and periodically tested to ensure that utility sales agreements are current and accurate and that the utility sales agreements are reviewed annually. The testing through control reviews should also determine whether the tenant has signed the sales agreement and whether the agreement contains agreement provisions for sales rates to be used, for use of meters, for nonmetered measurement methods and billing, and for payment procedures.

Adequacy of Staff to Perform Reviews

Military installations did not have adequate staff to perform annual reviews of utility sales agreements. At each installation, one staff member was responsible for reviewing sales agreements. The staff member was also responsible for managing and administrating the installation's utility services, which were perceived to have more visibility. Processing utility invoices from the local utility companies, verifying utility billing amounts, checking meters, and tracking utility use consumed most of the individual's work day.

The current DoD environment of downsizing caused installations to put more responsibilities on staff personnel. The utility manager positions were vacant

for at least 2 years at Fort Bragg, Redstone Arsenal, and Eglin AFB. The three positions remained vacant, and other staff personnel assumed the duties of the utility manager along with their own responsibilities. The added responsibilities, along with lower staffing levels, contributed fewer resources being devoted to monitoring sales agreements.

Installations should evaluate resources assigned to handle utility sales, then fill vacant positions as needed. The investment in personnel cost is likely to be offset by the recovery of undercharges and interest due on late payments from installation tenants.

Conclusion

The problems with sale agreements were widespread at the installations visited and were contributing factors to the conditions found on utility undercharges (Finding B) and billings and payments (Finding C). Appendix A provides a summary of undercharges and Appendix B lists conditions found at the installations visited.

The inadequate sales agreements, along with the conditions in Findings B and C, are likely to be occurring at other Military Department installations. The Inspectors General of the Military Departments should alert installation commanders of the potential problems that could be impeding installations from collecting funds that could be used to support base operations.

Recommendations for Corrective Action

A.1. We recommend that the Commander, Army Corps of Engineers; the Commander, Naval Facilities Engineering Command; and the Deputy Assistant Secretary of the Air Force (Contracting) instruct installation commanders to:

a. Establish utility sales as an assessable unit in the internal management control program to ensure that:

(1) Utility sales managers maintain current and accurate utility sales agreements.

(2) All installation tenants that are required to pay for utility consumption sign utility sales agreements.

(3) Utility sales agreements contain complete provisions for sales, use of meters, measurement of nonmetered use, and billings and late charges.

(4) Installations perform annual reviews of utility sales agreements for currency of rate and completeness of provisions.

b. Evaluate staffing of utility sales functions and fill positions if benefits exceed costs.

A.2. We recommend that the Inspectors General of the Military Departments alert commanders at other installations to the potential problems with incomplete and noncurrent sales agreements, utility undercharges, late payments, and uncollected billings.

Management Comments

The Army did not provide comments on Recommendation A.1., and the Navy, the Air Force, and the Inspectors General did not respond to the draft of this report. We request comments from the Army, the Navy, the Air Force and the Inspectors General.

Finding B. Utility Rates and Utility Use Charges

Military installations subsidized the utility costs of installation tenants by charging incorrect utility rates and utility use and, in some cases, not charging installation tenants, such as transient lodging facilities, for utilities at all. Specifically, installations used inaccurate and outdated utility rates, unsupported utility use estimates, and imprecise measurement methods. Errors in rates, use estimates, and measurement methods resulted because personnel did not comply with regulations and interpreted regulations differently because regulations were vague and conflicting. As a result, tenants did not pay sufficient amounts for utility services. Seven military installations did not charge tenants for more than $2.5 million of $25.4 million in utilities consumed. At that annual rate, undercharges could amount to $12.5 million over 5 years. Those calculated undercharges consist of $9.3 for Army installations and $3.2 million for Air Force installations.

Background

Regulations for Determining Utility Sales Rates. Military Department regulations provide generally consistent guidelines for charging other DoD activities, other Government activities, and NAF activities for utility services. The regulations provide rate development guidelines for other Government activities and NAF activities that include the cost of utilities consumed, operational and maintenance costs, and transmission losses. Regulations vary on rates to be charged to non-Federal customers.

o Army Regulation 420-41 provides that installations charge non-Federal customers a rate sufficient to recover the full cost of utility services.

o Naval Facilities Engineering Command Instruction 11300.5A, "Sale of Utility Services to Private Parties," October 15, 1987, and Air Force Regulation 91-5 provide that installations charge non-Federal customers the higher of either a rate sufficient to recover the full cost of utility services or the local prevailing rate for comparable service. The full cost includes not only the costs for other Government and NAF installation tenants, but also capital charges and administrative overhead.

Those Military Departments regulations also require annual reviews of contracts, utility sales rates, and rate calculations to determine that the basis for charging tenants is accurate and reflects current conditions.

Use of Meters to Determine Amount of Utility Services Charges. Military installations determine the amount of utility services charges through metered use and nonmetered use estimates. It is a generally accepted practice of public and private utilities to meter use of utilities because metering provides a more

accurate basis for billing utilities based on actual use. DoD policies on meter use are contained in Military Department regulations, which set criteria for meter installation. Part of those criteria state that meters can be installed when set dollar values of utility services or annual utility costs exceed meter installation costs. When meters are not used, military installations use various techniques for estimating use. Some estimating techniques include use based on square feet, population of tenants, and judgmental estimates.

Conversion factors, which are used primarily with square feet estimates, change square feet to a utility consumption measurement such as kilowatt hours, gallons, and other appropriate measurements for utilities consumed.

Rates and Conversion Factors Used to Calculate Utility Charges

Military installations undercharged tenants because of incorrect and outdated rate and conversion factors, unsupported estimates, and imprecise methods of calculations. Seven installations did not charge $2.5 million of $25.4 million for utilities consumed by tenants. In addition, other rate and use problems had the likely effect of misstating costs; however, we could not quantify an amount. Figure 1 gives the composition of undercharges by type of tenant for the $2.5 million.

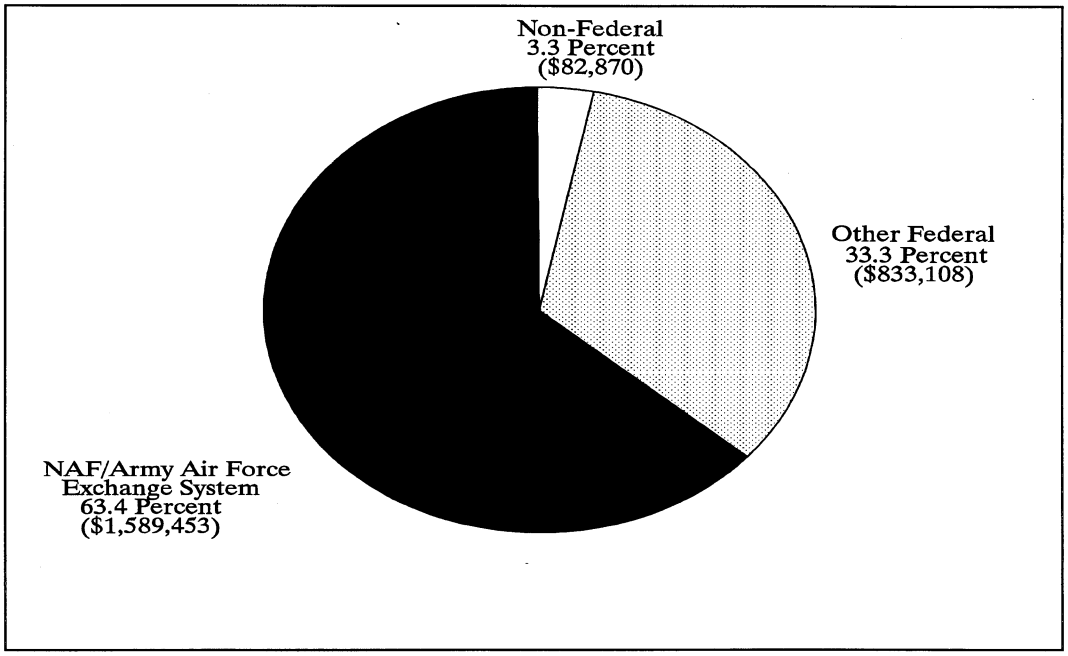

Figure 1. Composition Of $2.5 Million Utility Undercharges By Type Of Tenant

Appendix A provides additional details on the undercharged amounts. The undercharges include amounts for incorrect rates, incorrect use, and amounts for tenants that were not charged utility costs. Appendix B summarizes the types of problems for each of the nine installations.

Use of Incorrect Rate Computations. Sales rates at eight installations were not current, did not reflect higher utility costs, or were otherwise incorrectly charged. Also, installation personnel were not always charging installation tenants for utility services that should have been charged to the installation tenants.

o Fort Bragg charged a community college a daily rate of $6 for each classroom used during the month. Fort Bragg charged a flat fee without considering the amount of time classrooms would be used and charged 3,341 classrooms in this manner for at least the last 2 years. Fort Bragg had no supporting data for the basis of the rate.

o Arnold AFB charged the lower Federal rate for all installation tenants. Arnold should have charged non-Federal tenants the higher of the local prevailing rate or a computed rate that included capital charges and overhead.

o Edwards AFB charged tenant NAF activities a lower rate than other DoD installation tenants. Edwards AFB could not provide any supporting documentation to show how it computed rates for tenant NAF activities.

Use of Outdated or Inequitable Conversion Factors. Four of the nine installations visited could not explain the basis for conversion factor formulas and were unable to provide documentation to show the computational basis for the formulas. In addition, two installations were unable to show that the conversion factors produced equitable distribution of charges. In both cases, the installations had prepared the conversion factor formulas before the current utility managers held their positions. Some of the conversion factors were more than 20 years old. Current managers made no attempt to verify the accuracy of the conversion factors. Conversion factors varied significantly for similar conversions (for example, square feet to kilowatt hours) and did not provide accurate results. When we reviewed metered facilities with known consumption and used the established conversion factor to determine what the consumption would be for those facilities if the meters did not exist, we found that conversion estimates varied both significantly higher and lower from the metered amounts.

o Fort Benning used one conversion factor for all buildings without considering the type of structure. That conversion method did not allow for consumption variations implicit with the different functions of the buildings. For example, hangar facilities were unlikely to have the same utility use as administrative office space.

o At Edwards AFB, consumption for selected metered facilities varied by as much as 81 percent less and 50 percent more than the amounts for those same facilities computed using square feet estimates with conversion factors.

o For administrative space, Hill AFB used a factor of 1.96 multiplied by square feet to convert to kilowatt hours. At Edwards AFB, the factor for similar facilities was 1.68. Those factors are almost 20 percent different. Documentation was not available at Edwards AFB to explain the basis of conversions, so we could not determine why one factor was different from another. The Hill AFB factor was determined by taking 1 month's meter reading for a similar building and dividing consumption by square feet.

o Fort Bragg used estimates that were converted to consumption amounts in 1992. No documentation was available to determine the composition of the conversion factors or whether the data were accurate.

Use of Meters. Installations were not aggressively metering tenant use of utilities. None of the installations visited relied fully on metered use. Use problems are most likely to occur in facilities that are not metered. Metering provides the most accurate measure of use and equitably distributes consumption to users. Metering also provides a tool to manage energy use and aid in achieving conservation goals. All Military Departments have stringent energy reduction goals mandated by the President. Metering provides a means to track progress for individual facilities toward meeting these goals. DoD has an Energy Conservation Improvement Program and the Military Departments have Energy Assistance Programs that may provide funds to assist installations to aggressively install meters. We believe that meters should be installed for all facilities when benefits of installation exceed costs.

Nonmetered Use Estimates. Installations we visited used a variety of techniques to measure use when meters were not used. A sample of problems from nonmetered estimating methods is as follows.

o Fort Benning allowed a tenant to tell the installation how to establish the amount of the utility charge. The tenant, a cable company with 16 substations within the installation, had only 1 station metered. The cable company instructed Fort Benning personnel to calculate utility consumption by multiplying the metered use of that 1 station by 11.

That method had the likely effect of understating use, because the metered substation was smaller than some of the other substations. By using that method, installation personnel did not know whether the computation was a good estimate, and no attempt was made to determine whether the charges were equitable.

o Redstone Arsenal charged the National Aeronautics and Space Administration $75,000 per month for steam during the summer months. The $75,000 supposedly reflected a rate reduction for the summer. At all other times, the National Aeronautics and Space Administration was charged metered consumption at the established contract rate. However, the Redstone Arsenal did not actually charge a lower rate, but merely used the established contract rate multiplied by a lower consumption amount to approximate a monthly charge of $75,000. Actual consumption was higher than the amount used to determine the monthly charge.

o Hill AFB used a single month's meter reading for one facility to estimate use for similar unmetered facilities. That meter reading had not been analyzed to determine whether it was representative of use for a full year. We determined that the month used was not representative of the entire year. Totals for the year varied from 18 percent more than the monthly total to as much as 69 percent less than the monthly total for the facilities that we reviewed.

o Edwards AFB developed estimates of water consumption based upon the square feet of buildings. The installation utilized that technique for 23 tenants. No attempt was made to determine whether a correlation existed between water consumption and square feet. In most cases, water is measured by consumption per building population. However, base restaurants and other facilities with high customer traffic used the number of employees to estimate water use rather than determining the impact of customer traffic on water use. Using square feet to estimate consumption also does not give consideration to the activity or functional use of the facility or reflect seasonal variances.

When metering or other more precise techniques were not used to measure use, installation personnel relied on judgmental estimates to determine utility use. However, these judgmental estimates could not always be explained. It appeared that those estimates were somebody's best guess at use, but because no supporting documentation could be found, we could not determine the basis for the estimate.

Installation Compliance with Regulatory Guidance

Conducting Required Annual Facility Surveys. Installation personnel did not always conduct required annual facility surveys. When installations conducted facility surveys, the surveys did not achieve desired results. When meters were not installed, annual facility surveys, including visual observation of the facilities, were important to provide feedback to support square feet amounts and other information such as condition of facilities. Facility surveys were also important when meters were not in use and tenants could be using energy-consuming equipment or changing locations during the year. Periodic observations of metered facilities are also important to allow personnel to determine whether meters are functioning properly.

Nine installations had outdated facility surveys for nonmetered facilities.

o Three of the installations were unable to determine when they last conducted a facility survey, and they were unable to provide any supporting data on facility surveys completed.

o Six installations had facility surveys that were more than 1 year old, including some surveys that were at least 8 years old.

Facility Surveys of Nonmetered Facilities. Discrepancies existed at installations between utility use based on reported square feet and actual square

feet occupied by the tenant. As an example, at Edwards AFB, records for one installation tenant showed approximately 200 square feet of space used. That amount was not developed from a facility survey, but was based on the tenant's statement to the property records office on the amount of space used. Our site visit showed that the tenant was actually occupying several thousand square feet of space. A facility survey of the tenant's space would have shown Edwards AFB that it substantially undercharged the tenant for utility consumption.

Facility Surveys of Metered Facilities. Problems existed at installations that did facility surveys with meter readings. Installation personnel performed surveys and made periodic visits to take meter readings and determine whether meters were operating properly. However, facility surveys were inaccurate and often did not report nonfunctioning meters. When surveys reported nonfunctioning meters, installations did not always repair or replace the broken meters. Monthly meter readings taken by installation personnel continued to show no change in use for facilities that were consuming utilities, yet no documentation showed that a problem might exist or that a meter test was ordered. Hill AFB has aggressively pursued use of meters to measure tenant utility consumption, but the installation provides a good example of the problems with meter maintenance. During FY 1992, 35 meters were nonfunctioning. One year later, 28 (80 percent) of the 35 meters were still not functioning, and the total number of nonfunctioning meters had increased to 63. One meter, which was reported as nonfunctioning in FY 1990, was still not working at the time of our audit visit in June 1994.

Consistency of Regulations Over Utility Sales Billings. DoD regulations did not provide specific guidance on utility sales and billings to installation tenants and transient lodging facilities. As a result, Military Departments issued their own regulations that were inconsistent, conflicting, and vague about the sale of utility services to installation tenants and transient lodging facilities. As a result, policies affecting the application of utility rates, the installation of meters, and tenant billing varied within and across the Military Departments.

o Army Regulation 420-41 states that utility services for non-Federal tenants will be based on how much it costs the installation to provide the utility service.

o Naval Facilities Engineering Command Instruction 11300.5A states that private party rates for non-Federal tenants shall be the higher of either the commercial rate for comparable service or the cost to the installation to provide the service.

o Air Force Regulation 91-5 states that for non-Federal tenants the rate charged will be the higher of the local prevailing rate for comparable service outside the installation or the cost to the installation.

Navy regulations are similar to the Air Force regulation. As a result, conflicts exist between the way the Army, the Navy, and the Air Force charge tenants for utility services. In addition, the Air Force did not always follow its own regulations and compare installations costs to utility company rates.

o Army Regulation 420-41 did not discuss comparison to commercial rates.

o The Navy used a standard form to compare installation costs to commercial utility rates before determining the installation tenant billing rate. The Navy Public Works Center Norfolk followed the regulation.

o Arnold, Eglin, and Robins AFBs did not compare installation costs to commercial utility rates as required by the Air Force Regulation 91-5.

Charging Transient Lodging Facilities for Utility Use. Transient lodging facilities consume a large amount of utilities at most installations, yet no consistent policy exists among the Military Departments on how and when to charge installation transient lodging facilities for utility use.

o Army Regulation 210-50, "Housing Management," May 24, 1990, states that the service charges (the fee paid by the travelers) for transient housing are set on a per person, per day basis. The regulation provides that the service charge will cover annual operating expenses and capital purchases and minor construction. The annual operating expenses include utility costs. However, Army installations did not charge transient lodging facilities for the cost of utility use.

o Navy regulations did not specifically address the treatment of utilities for transient lodging facilities. The Navy Public Works Center Norfolk did not charge transient lodging for utilities costs.

o Air Force Instruction 32-1061 specifies when Air Force installations will not charge transient lodging facilities for utilities rather than when the installations will charge those facilities. The instruction states that, when use of transient lodging is without charge or when the charge is based on a percentage of the allowance for quarters, utilities are not reimbursed. Air Force installations were not charging transient lodging facilities for utilities. The costs continued to be paid out of installation appropriated funds.

Utilities consumed by transient lodging facilities are substantial. Utilities for transient lodging facilities amounted to more than $750,000 for Fort Benning alone. Some other installations had identified the cost of utilities for transient lodging facilities because they were not charging for them. However, utilities for transient lodging would be more than $1 million just for the nine installations included in our review.

Utility Charges as Potential Source of Funds. The current DoD downsizing requires installations to search for additional sources of funds. Logically, the users of transient lodging facilities should pay for operating costs. The service charge for lodging should be set at a level sufficient to cover utility costs. Charging transient lodging facilities for utility consumption and other operational expenses is appropriate and should be consistently applied by the Military Departments at all installations.

Consistency of Regulations Over Meter Installation. Military Department instructions provide differing guidance on the circumstances, basis, and thresholds for installing meters.

o Army Regulation 420-41 states that the tenant will pay to install a meter when the utilities sales officer determines that a meter is required. The installation tenant's utility service will be metered when the utility sales officer estimates the annual use to be more than $360.

o Operational Navy Instruction 4100.5d, "Energy Management," April 12, 1994, discusses meter installation primarily for energy management. The instruction states that Navy public works centers and other Defense Business Operating Fund activities should bill for facility energy related utility services based on metered energy consumption or by estimates regularly verified by metering or other measurements of actual consumption. The instruction further states that funding for meter installation, maintenance, and reading shall be included in the rate structure. The instruction did not provide guidance on cost thresholds for meter installation.

o Air Force Regulation 91-5 placed the burden on the Air Force to pay the cost of meter installation for all tenants. The Air Force recently replaced that regulation with Air Force Instruction 32-1061 that states that non-Federal tenants will pay for meter installation. Meters for Federal tenants and privately owned mobile homes may be installed at Air Force expense. The instruction specifies that meters will be installed when installation costs do not exceed the estimated gross revenue from utility sales for 1 year.

In addition, the Army and Air Force guidance does not address funding for meter maintenance. The installation personnel at Hill AFB stated that their office had not considered the issue of funding for meter maintenance.

Installation personnel were also not aggressively pursuing installation of meters. Air Force personnel cited a lack of funds as the basis for not metering more installation tenants. In addition, neither the Army or Air Force consistently followed its own regulations governing the threshold for requiring meters to be installed.

Consistency of Regulations Over Tenant Billing Policies. We found varied and inconsistent local installation guidance for billing tenants for the cost of utility consumption. Additionally, we found that some installations implemented their policies differently among similar tenants.

o Hill AFB did not charge the Rod and Gun Club and riding stables for utilities, while Fort Benning and Edwards AFB charged similar organizations for utilities.

o The Officers' Wives Club at Fort Benning occupied space at no cost with free utilities, but Redstone Arsenal charged similar clubs for utilities.

o Fort Benning did not charge its guest houses for utilities, yet Fort Bragg charged its guest houses for utilities.

Because DoD has no standardized guidance, guidance varied by each Military Department and within each Military Department. Tenant billing policies were not consistent, and standard guidance did not exist on which tenants should or should not be billed for utility services. As a result, Military Departments have not consistently charged installation tenants for the cost of utilities consumed. DoD needs to develop clear and consistent policies that the Military Departments can use to make utility sales to tenants. Those policies should provide guidance on utility sales rates, utilities charges for transient lodging facilities, tenants that should be charged utilities, and nonmetered measurement methods.

Recommendations, Management Comments, and Audit Response

B.1. We recommend that the Assistant Secretary of Defense (Economic Security) develop policy on utilities sales that creates a consistent basis for charging utility sales rates, metering tenant utility consumption, charging transient lodging facilities for utilities, billing tenants, and applying accurate measurement methods for nonmetered utility consumption.

Assistant Secretary of Defense Comments. The Assistant Secretary of Defense concurred with the recommendation and expects to have a draft policy by April 30, 1995.

B.2. We recommend that the Commander, Army Corps of Engineers:

a. Implement revisions to Army Regulation 420-41, "Facilities Engineering-Acquisition and Sale of Utilities Services," September 30, 1992, to make it consistent with the Naval Facilities Engineering Command Instruction 11300.5A, "Sale of Utility Services to Private Parties," October 15, 1987, and Air Force Instruction 32-1061, "Providing Utilities to U.S. Air Force Installations," June 14, 1994, that permit installations to charge non-Federal customers the greater of the local prevailing rate or the installation cost when contracts between utility companies and the military installation do not prohibit that charging method.

b. Issue guidance to installation commanders to follow Army Regulation 420-41, "Facilities Engineering-Acquisition and Sale of Utility Services," September 30, 1992, on annual sales agreements reviews and facility surveys.

c. Instruct installations to prepare annual internal control checklists. Items on the checklist should include steps to determine whether tenants were charged for utilities, the basis of the charge was documented, facilities were metered, the threshold for metering was met, and annual surveys of facilities were conducted. The checklist should be kept with tenant sales agreements.

d. Instruct installations to install meters in all facilities for which gross revenue will exceed installation costs in 1 year.

e. Instruct installation commanders to collect undercharged amounts and utilities charges for transient lodging facilities when possible.

Department of the Army Comments. The Army concurred with Recommendation B.2. except for B.2.d. and B.2.e. The Army proposed an alternative 10-year recovery period for Recommendation B.2.d. For Recommendation B.2.e., the Army stated that the report needs to clarify whether transient lodging facilities are temporary billets, guest quarters or franchised commercial lodging.

Audit Response. We believe the Army alternative on Recommendation B.2.d. satisfies the intent of our recommendation. For Recommendation B.2.e., we believe that the service fee charged personnel occupying temporary billets, guest quarters, and franchised commercial lodging should be an amount that covers a proportionate share of the utilities. That share of utilities reimbursement could be credited against utility billings. We request that the Army provide additional comments on Recommendation B.2.e.

B.3. We recommend that the Commander, Naval Facilities Engineering Command:

a. Implement revisions to Naval Facilities Engineering Command Instruction 11300.5A, "Sale of Utility Services to Private Parties," October 15, 1987, to provide guidance on installation metering of utility consumption and charging transient lodging facilities for utility consumption.

b. Instruct installations to prepare annual internal control checklists. Items on the checklist should include steps to determine whether tenants were charged for utilities, the basis of the charge was documented, facilities were metered, the threshold for metering was met, and annual surveys of facilities were conducted. The checklist should be kept with tenant sales agreements.

c. Instruct installations to install meters in all facilities for which gross revenue will exceed installation costs in 1 year.

d. Instruct installation commanders to collect utility costs for transient lodging facilities when possible.

Department of the Navy Comments. The Navy did not respond to the draft of this report. We request comments on the final report.

B.4. We recommend that the Deputy Assistant Secretary of the Air Force (Contracting):

a. Revise Air Force Instruction 32-1061, "Providing Utilities to U.S. Air Force Installations," June 14, 1994, to require all tenants to pay the cost of meter installation.

b. Issue guidance to field commanders to follow Air Force Instruction 32-1061, "Providing Utilities to U.S. Air Force Installations," June 14, 1994, on sales of utilities to tenants and meter installations when gross revenue exceeds cost of installation in 1 year.

c. Instruct installations to prepare annual internal control checklists. Items on the checklist should include steps to determine whether tenants were charged for utilities, the basis of the charge was documented, facilities were metered, the threshold for metering was met, and annual surveys of facilities were conducted. The checklist should be kept with tenant sale agreements.

d. Instruct installation commanders to collect undercharged amounts and utilities charges for transient lodging facilities when possible.

Department of the Air Force Comments. The Air Force did not respond to the draft of this report. We request comments on the final report.

Finding C. Timeliness of Billings and Payments

The Defense Finance and Accounting Service (DFAS) did not collect utility payments when due or charge interest on late accounts at Army and Air Force installations. That condition occurred because DFAS Defense accounting offices did not follow billing and collection procedures and did not have effective internal controls over utility billings and payments. In addition, billing systems were cumbersome in providing data needed to track late payments. As a result, installation tenants in the audit sample had overdue bills amounting to $21 million, and military installations had to fund utility budgets to cover shortfalls created by unpaid tenant utility bills. In addition, installations in the audit sample have lost interest and opportunity costs (lost use of funds) of approximately $144,000 from late accounts (Appendix C). The DoD-wide fiscal impact is likely much higher.

Background

Utilities Funding. Military installations receive annual appropriated funds to cover operating expenses, including utility costs. Military installations calculate the total amount of funds required to cover the annual utility costs for installation components and tenants. When the installations submit budget requests for operating funds, they do not include the costs of tenant utilities in their funding estimates because tenants should be reimbursing the installation for utility use. However, when installation tenants fail to pay their utility bills or pay their utility bills late, installations must use operating funds to cover the shortfall created by unpaid utility bills.

Assessing Interest Charges for Delinquent Debts. The Debt Collection Act of 1982 states debtors are assessed interest charges for delinquent debts not paid within 30 days. Charges will accrue from the date the principal amount became delinquent. A failure-to-pay penalty (not to exceed 6 percent) will be assessed on debts outstanding more than 90 days. Charges will also be assessed for costs associated with the processing of delinquent debts. The DoD Financial Management Regulation, volume 5, chapter 29, "Debt Collection Requirements," December 1993, also addressed that policy within DoD. DFAS is responsible for billing tenants and collecting payments for utilities each month. The tenant is normally given a 30-day payment period. DFAS policy is to assess interest, penalties, and processing charges on delinquent debts.

Utilities Payment Procedures. Although DFAS is responsible for the billing and collection process, the Military Departments have some input into the payment process. Military installation utility offices determine tenants' utility costs that should be billed each month. The utility costs are forwarded to DFAS Defense accounting offices, which prepare billings and submit them to the installation tenants for payment.

Advance Deposits. The Navy Public Works Center Norfolk required advance deposits from tenants. The Navy Comptroller Manual 055138, volume 5, "Billings for Private Parties," October 1994, requires non-Federal installation tenants to pay advance deposits for any services rendered by the Navy. The advance deposits were applied to the tenant's monthly utility charges. That payment method generally ensured that funds were available to cover utility costs. Army and Air Force installations relied on DFAS to determine payment procedures and did not have regulations that required advance deposits.

Collecting Utility Costs

Late Utility Payments. Of the nine installations we visited, all eight of the Army and Air Force installations had tenants who were late paying their utility bills. Only the Navy Public Works Center Norfolk did not have a pattern of overdue utility bills. Total overdue billings amounted to $21 million. Appendix B lists the eight installations with overdue billings. Slightly more than half the late payments (valued at approximately $12 million) were less than 30 days overdue before being paid. However, the remaining late payments of almost $9 million were more than 30 days late. Figure 2 shows the aging of the $9 million.

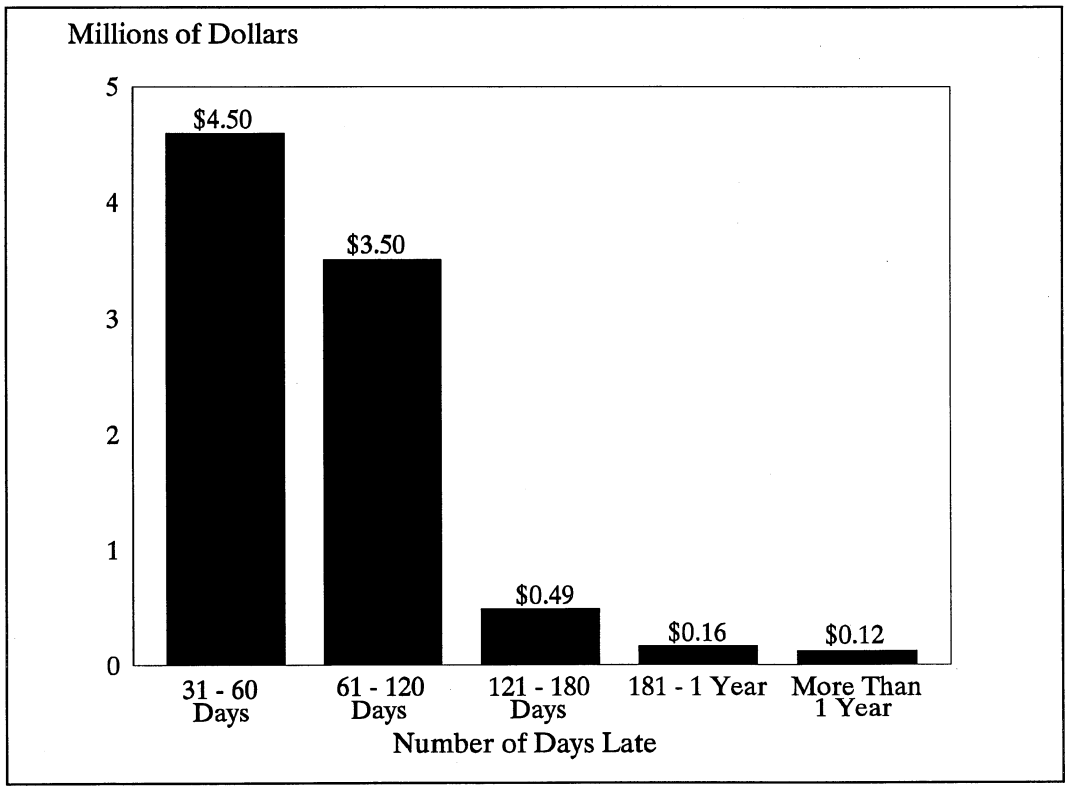

Figure 2. Aging Of Unpaid Utility Billings More Than 30 Days Late

Late Payments Are a Common Problem. Late payments are a common problem for the installation utility manager. Five of the eight installations have at least 49 percent of their tenants listed as late. Installation tenant utility payments ranged from 1 to more than 700 days late. Non-Federal, Government, and NAF activities are the most frequently delinquent in paying for utility services. Collections for utility services rendered have not received the attention needed for timely payments from installation tenants. The following are examples of late payments.

o During FY 1993, payments from Marshall Space Flight Center, a National Aeronautics and Space Administration facility and a tenant activity of Redstone Arsenal, were from 7 to 67 days late. Utility charges averaged about $1 million a month during that time period.

o NAF activities at eight installations visited were delinquent in paying a total of $1,656,460 for utility services. Payments ranged from 2 to more that 700 days late.

o Pacific Bell, an installation tenant at Edwards AFB, was more than 120 days late on a billing of approximately $2,000.

o American First Bank, a installation tenant of Hill AFB, was delinquent on $3,658 for 38 days during early 1993.

Appendix D lists the tenants for each installation, the amount overdue, and the number of days overdue.

Navy Use of Advance Deposits. Navy procedures generally ensured that utility bills were collected when due. The use of advance deposits, in most cases, ensured that funds were available to cover debts. The Navy Public Works Center Norfolk estimated utility charges for tenants and obtained advance deposits. However, shortfalls occurred when estimated charges were less than actual charges. As an example, the Navy Public Works Center Norfolk obtained advance deposits from a McDonald's Restaurant and NationsBank that covered $23,751 and $1,389 of utility consumption, respectively. Actual electrical utility charges were $46,799 for the McDonald's Restaurant and $2,072 for NationsBank, thereby causing shortfalls from those tenants of $23,048 and $683. The Navy had to cover the shortfalls until additional funds were received from the tenants.

Assessing Interest On Late Utility Account Balances

DFAS did not assess interest amounting to $29,576 to non-Federal and NAF installation tenants for late payments at eight installations visited. Funds transferred between Government entities are not subject to the Debt Collection Act of 1982. However, non-Federal and NAF activities should be assessed interest charges for late payments and assessed penalties when payments are more than 90 days late. In addition, with the dwindling DoD budget, lost use

of money, which we calculated to be approximately $115,000 for Government tenants as a result of slow reimbursements, causes DoD to cover shortfalls with appropriated funds and limits DoD opportunity to use the appropriated funds for other needs. Appendix C gives a summary of lost interest and opportunity costs from late payments.

Effective Internal Controls For Utility Payment Collection

DFAS Internal Controls. DFAS did not have effective internal controls for collecting utility payments from installation tenants. The Defense accounting offices primarily focused on payments the Government owed to non-Federal contractors and transfers of funds between other Government entities. As a result, Defense accounting offices did not aggressively pursued payments when billings became delinquent. In addition, responsibility for collection of late payments from NAF activities were usually turned over to the installation commander. The nearly $1.7 million late payments for NAF activities showed that installation commanders had not aggressively pursued timely collections and that internal controls were not effective for collecting those debts.

Reasons for Late Payments. DFAS gave various reasons for late payments, including:

o multiple processing locations for payment by installation tenants,

o shortages of staff at Defense accounting offices,

o transfer of payment and collection functions from one Defense accounting office to another Defense accounting office (Redstone Arsenal Defense Accounting Office to St. Louis Defense Accounting Office) reducing productivity, and

o Defense accounting offices not conducting independent reviews of the payment process to assess payment performance.

We believe DFAS should develop and implement internal controls to assess performance of payment systems, to estimate payment performance, and to ensure collections are made promptly. Defense accounting offices should also assess interest on late payments.

Using Billing Systems To Provide Data

Defense accounting office billing systems were cumbersome in providing data needed to track late payments. Defense accounting offices used manual procedures to track late payments and did not have detailed aging schedules that provided current information on the status of late payments. Maintaining data

provided current information on the status of late payments. Maintaining data through cumbersome, manual methods did not allow the opportunity to effectively review tenants payment trends or payment procedures. The following examples illustrate ways in which billing systems were ineffective.

o Only one of nine Defense accounting offices we visited provided an aging schedule of late accounts. The other Defense accounting offices could only provide varying periods of information on late payments for utilities, and much of the information was manually prepared. The lack of readily available late payment information shows the difficulty in adequately tracking and collecting overdue accounts.

o The Defense accounting office at Hill AFB had significant problems trying to generate the data on late payments that we requested during the audit. The Defense accounting office billing system comingled utility billings with other tenant billings. The only records that the office was able to provide during our visit were manually prepared and required a search of prior months' records to determine whether bills were paid. We believe Defense accounting offices should ensure that computerized aging schedules are prepared to assess the accuracy of collections and to track late payments.

Conclusion

Military installations receive annual appropriated funds for procurement of utility services. The military installations pay for utility services received from the utility companies whether or not installation tenants pay for the utilities they consume. The lack of timely payments by installation tenants tied up $21 million of installation appropriated funds needed to pay the utility companies. Installation appropriated funds could be used for other purposes or put to better use if installation tenants pay bills when due.

Recommendations, Management Comments, and Audit Response

C.1. We recommend that the Director, Defense Finance and Accounting Service, issue guidance to Defense accounting offices to:

a. Prepare aging schedules for all overdue utility billings.

b. Assess interest charges and penalties when deemed appropriate on late payments from commercial and NAF activities.

c. Implement internal control procedures by requiring a monthly report that shows collection actions were initiated for each late account.

d. Obtain advance deposits if existing installation tenants accounts are more than 90 days late.

Defense Finance and Accounting Service Comments. The Defense Finance and Accounting Service concurred with the recommendation. Guidance is being sent to the field activities requesting that the activities take appropriate action to rectify the problems.

C.2. We recommend that the Assistant Secretary of the Army (Financial Management) and the Assistant Secretary of the Air Force (Financial Management and Comptroller) require that military installations implement internal control procedures by preparing monthly reports that shows that collection actions were initiated for delinquent accounts that have been turned over to installation commanders for collection.

Department of the Army Comments. The Army did not comment on Recommendation C.2., and the Air Force did not respond to the draft of this report. We request comments from the Army and the Air Force.

Part III - Additional Information

Appendix A. Undercharges of Utility Costs

Military Installation	Undercharges to Non-Federal	Undercharges to Other Federal	Undercharges to NAF Activities	Total
Army				
Fort Benning	$43,170	$64,231	$1,025,405	$1,132,806[1]
Redstone Arsenal	0	727,673	0	727,673[2]
Subtotal				**$1,860,479**
Air Force				
Arnold AFB	382	0	0	382[3]
Edwards AFB	8,594	2,204	317,141	327,939[4]
Eglin AFB	26,178	0	0	26,178[5]
Hill AFB	0	39,000	187,407	226,407[6]
Robins AFB	4,546	0	59,500	64,046[7]
Subtotal				**644,952**
Total	**$82,870**	**$833,108**	**$1,589,453**	**$2,505,431**

[1]Total undercharges consist of $377,122 due to incorrect rates and $755,684 for estimated transient lodging utilities that were not charged. The $377,122 of undercharged utility costs is $374,611 for electricity undercharges and $2,511 for natural gas undercharges. A specific breakdown of utility costs for the transient lodging estimate was not available.

Fort Benning undercharged installation tenants by using average of consumption for determining the installations' base rate for utilities. The utility agreements at Fort Benning allowed for lower rates with increased volume. An averaging method allows small-quantity users to be charged the lower rates that would be given to large-quantity users.

[2]Undercharges resulted from charging for incorrect use. The amount charged was less than the actual steam consumption.

[3]Undercharges resulted from charging rates lower than the commercial rates. The undercharge was for electricity.

[4]The total consists of $207,811 due to incorrect rates and use and $120,128 for transient lodging utilities that were not charged. The $207,811 is made up of $177,196 of undercharges due to incorrect rates and $30,615 of undercharges due to incorrect use. Undercharged amounts consist of $66,175 for electricity, $13,222 for natural gas, and $128,414 for water. The installation did not have a breakdown by type of utility for the transient lodging estimate.

[5]Undercharges resulted from charging rates lower than the commercial rates. The Eglin AFB undercharges were all attributed to electricity consumption.

[6]The total consists of $164,531 of undercharges and $61,876 for estimated transient lodging utilities that were not charged. The undercharged amounts consist of $104,682 for incorrect rates and $59,849 for incorrect use. The undercharges were all for electricity. The estimated transient lodging amount consists of $12,543 for electricity, $15,733 for steam, and $33,600 for natural gas.

[7]Undercharges of $4,546 resulted from charging incorrect rates. Rates charged were lower than the commercial rates. The Robins AFB undercharges were all attributed to electricity consumption. The total also consists of estimated utilities of $59,500 for transient lodging facilities. The transient lodging estimate included $53,391 for electricity, $3,143 for natural gas, $1,200 for water, and $1,766 for sewer.

Appendix B. Utility Sales Conditions at Installations Visited

Installation	Incomplete/ Noncurrent Agreements	Noncurrent Annual Reviews	Incorrect/ Unsupported Sales Rates	Noncurrent/ Unsupported Conversion Factors	Incomplete Metering	Faulty Usage Estimates	Incomplete/ Noncurrent Facility Surveys	Overdue Utility Billings
Army								
Fort Benning	X	X	X	X	X	X	X	X
Fort Bragg	X	X	X	X	X		X	X
Redstone Arsenal	X	X	X	X	X	X	X	X
Navy								
Public Works Center Norfolk	X	X			X		X	
Air Force								
Arnold AFB	X	X	X		X		X	X
Edwards AFB	X	X	X	X	X	X	X	X
Eglin AFB	X	X	X	X	X		X	X
Hill AFB	X	X	X	X	X	X	X	X
Robins AFB	X	X	X		X		X	X
Total	**9**	**9**	**8**	**6**	**9**	**4**	**9**	**8**

Appendix C. Lost Interest and Lost Use of Funds

Military Installation	Lost Interest* NAF/Commercial	Lost Use of Funds* Federal	Time Period Reviewed
Army			
Fort Benning	$ 285	$ 159	October 1993 - February 1994
Fort Bragg	508	304	October 1992 - September 1993
Redstone Arsenal	1,238	57,317	October 1992 - September 1993
Air Force			
Arnold AFB	89	0	February 1993 - February 1994
Edwards AFB	22,388	3,951	July 1992 - March 1994
Eglin AFB	3,463	506	November 1992 - October 1993
Hill AFB	1,088	52,424	October 1992 - February 1994
Robins AFB	437	0	October 1991 - September 1992
Subtotal	**$29,576**	**$114,661**	
Total	**$144,237**		

*Interest and use of funds amounts were computed by using the Treasury 6-month interest rates that applied to the timeframes covered by the late payments.

Appendix D. Tenants With Late Accounts of More Than $500

Installation Customers	1 to 60 Days Late	61 to 120 Days Late	121 to 180 Days Late	More Than 181 Days Late
Fort Benning				
NAF Activities				
Fort Benning Exchange	$100,155			
Fort McPherson Exchange	893			
Non-Federal				
Alert Cable Company	2,712			
ARI, Incorporated	1,325			
Broad Avenue Laundry	1,912			
First Union Bank	1,554			
Service American	1,663			
Battle Park Homes	14,873			
Other Federal				
2nd Army Noncommissioned Officer Academy	3,587			
81st Army Reserve Command	1,370			
Corps of Engineers - Savannah	520			
Post Dependent Schools	43,422			
U.S. Customs	3,879	$3,879		
Fort Benning Commissary	67,735			
Camp Merrill Commissary	1,238			
Subtotal	**$246,838**	**$3,879**		
Fort Bragg				
NAF Activities				
Base Exchange	$156,939			
Bowling Center	38,012			
Community Recreation Office	3,929			
Fort Bragg (Delmont House)	15,273			
Fort Bragg (Normandy House)	13,435			
Fort Bragg (Teal House)	5,255			
Fort Bragg Fair	4,303			
Green Beret Parachute Club	7,676			

Appendix D. Tenants With Late Accounts of More Than $500

Installation Customers	1 to 60 Days Late	61 to 120 Days Late	121 to 180 Days Late	More Than 181 Days Late
Fort Bragg (cont'd)				
Main Noncommissioned Officers' Club	$ 8,239			
Main Officers' Club	21,776			
McKellars Lodge	1,859			
Other NAF Activities	125,263			
Octoberfest	3,665			
Officers' Club Golf Pro Shop	9,228			
Officers' Club Hi-Rise Annex	2,103			
Riding Stables	1,815			
Stryer Golf Course	6,506			
Noncommissioned Officers' Club	2,377			
Non-Federal				
Applied Construction	856			
Cellular One	1,623			
COBRO Corporation	504			
First Citizens Bank	4,928			
Freefall Inn and Bar	1,614			
G&H Maintenance		$ 632		
Harbert Construction	1,448			
Highway Construction	698			
Stillwell	1,402			
Teer - Jorgensen	750			
Unique Landscaping	848			
Warren's Air Conditioning and Heating	588			
Other Federal				
120th Army Reserve Command	3,402			
Corps of Engineers	4,772		$ 600	
Defense Printing Service	3,294			
Defense Reutilization and Marketing Office	4,222	4,669	2,331	
National Guard	39,777			
Post Office	1,796			
Subtotal	**$500,175**	**$5,301**	**$2,931**	

Appendix D. Tenants With Late Accounts of More Than $500

Installation Customers	1 to 60 Days Late	61 to 120 Days Late	121 to 180 Days Late	More Than 181 Days Late
Redstone Arsenal				
NAF Activities				
Post Exchange	$ 66,272			
Post Restaurant	4,631	$ 4,591	$ 8,755	
Community and Family Activity Center	32,261			
Guest House	1,117			
Non-Federal				
Cable Alabama	810			
David Boladin	668			
First Alabama Bank	598			
Chemical Corporation	94,642			
Huntsville Disposal Authority	1,276			
Proctor, Davis, Ray	19,480			
Thiokol	537,819			
Other Federal				
Marshall Space Flight Center	11,632,868	1,064,368		
Subtotal	**$12,392,442**	**$1,068,959**	**$ 8,755**	
Arnold AFB				
NAF Activities				
Base Exchange	$ 12,403			
Arnold Lakeside Club	18,500			
Family Camp	652			
Subtotal	**$ 31,555**			
Edwards AFB				
NAF Activities				
Base Exchange		$ 38,927	$50,997	$123,039
Club Muroc		10,608		

Appendix D. Tenants With Late Accounts of More Than $500

Installation Customers	1 to 60 Days Late	61 to 120 Days Late	121 to 180 Days Late	More Than 181 Days Late
Edwards AFB (cont'd)				
Non-Federal				
Pacific Bell		$ 1,329	$ 1,993	
Mobile Home Park	$ 3,708			
Other Federal				
Boron Prison		8,468		
Defense Reutilization and Marketing Office		758		$ 5,120
General Services Administration		16,983		
Jet Propulsion Laboratory		25,817		
National Aeronautics and Space Administration		172,100		
Other		2,473		12,193
Edwards AFB Commissary	6,437	20,111		36,016
Post Office		1,020		
Subtotal	**$ 10,145**	**$298,594**	**$52,990**	**$176,368**
Eglin AFB				
NAF Activities				
Army/Air Force Exchange Services	$218,482			$ 30,103
Base Laundry	71,965	$ 11,646		
Restaurant Office	1,179			
Non-Federal				
Eglin Federal Credit Union	656			
First National Bank	643			
Other Federal				
Defense Reutilization and Marketing Office	7,454	6,266	$ 3,051	2,876
Maxwell and Gunter AFBs	7,711			
Navy School	56,818			
Navy Print Plant	1,830			
Army Ranger Field	176,840	26,354		
Hurlburt Field Commissary	63,673			
Eglin AFB Commissary	61,346			
Corps of Engineers	2,345			
Subtotal	**$670,942**	**$ 44,266**	**$ 3,051**	**$ 32,979**

Appendix D. Tenants With Late Accounts of More Than $500

Installation Customers	1 to 60 Days Late	61 to 120 Days Late	121 to 180 Days Late	More Than 181 Days Late
Hill AFB				
NAF Activities				
Bowling Center	$ 1,149			
Base Exchange	78,341			
Noncommissioned Officers' Club	10,600			
Resources Recovery	1,166			
Non-Federal				
First Security Bank	1,650			
American First Bank	6,759			
Other Federal				
Army Corps of Engineers	3,405	$ 2,827		
Defense Depot Ogden			$ 50,914	
Defense Printing	12,811			
Defense Logistics Agency	754,212	511,880	258,744	$51,242
Defense Military Industrial Fund	1,356,054	1,479,216		
Defense Reutilization and Marketing Office	8,188	27,024	44,491	
Hill AFB Hospital	1,122			
Hill AFB Commissary	79,891	23,903	4,110	
Tooele Army Depot		36,058	67,956	29,550
Subtotal	**$2,315,348**	**$2,080,908**	**$426,215**	**$80,792**
Robins AFB				
NAF Activities				
Air Force Exchange	$ 137,556			
Base Restaurant	61,182			
Bowling Alley	16,150			
Golf Course	21,907			
Noncommissioned Officers' Club	42,959			
Officers' Club	35,557			
Aero Club	1,019			
Riding Stables	1,024			
Pizza Depot	1,512			
Rendezvous Restaurant	1,304			

Appendix D. Tenants With Late Accounts of More Than $500

Installation Customers	1 to 60 Days Late	61 to 120 Days Late	121 to 180 Days Late	More Than 181 Days Late
Robins AFB (cont'd)				
Non-Federal				
Robins AFB Federal Credit Union	$ 748			
Trust Company Bank	876			
Subtotal	**$ 321,794**			
Total	**$16,489,239**	**$3,501,907**	**$493,942**	**$290,139**

Appendix E. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
A.1.a.	Internal Controls. Improves controls over utility sales agreements.	Nonmonetary.
A.1.b.	Internal Controls. Properly staffs military installations utility sales functions.	Nonmonetary.
A.2.	Economy and Efficiency. Improves management of utility sales at military installations DoD-wide.	Nonmonetary.
B.1.	Compliance with Regulations or Laws. Establishes DoD policy for utility sales.	Funds put to better use. The amount is undeterminable. The number of installations and types of tenants affected are unknown.
B.2.a., B.2.b., B.2.c., B.2.d.	Compliance with Regulations or Laws. Clarifies regulations and stops utility sales practices that do not follow regulations. Establishes controls over utility sales.	$9.3 million of future years' funds put to better use for utility costs.
B.2.e.	Economy and Efficiency. Recovers undercharges of utility amount.	Installation utility funds put to better use. $1.86 million of Operations and Maintenance, Army.
B.3.a., B.3.b., B.3.c.	Compliance with Regulations or Laws. Clarifies regulations and establishes controls over utility sales.	Funds put to better use. The amount is undeterminable. The amount of transient lodging utilities has not been quantified.

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
B.3.d.	Economy and Efficiency. Recovers undercharges of utility amounts.	Funds put to better use. The amount is undeterminable. The amount of transient lodging utilities has not been quantified.
B.4.a., B.4.b., B.4.c.	Compliance with Regulations or Laws. Clarifies regulations and stops utility sales practices that do not follow regulations.	$3.2 million of future years' funds put to better use for utility costs.
B.4.d.	Economy and Efficiency. Recovers undercharges of utility amounts.	Installation utility funds put to better use. $644,000 of FY 1993 Operations and Maintenance, Air Force.
C.1.	Economy and Efficiency. Improves the collection of utility payments.	$29,576 of funds put to better use by timely collection of billings.
C.2.	Internal Controls. Improves controls over the collection of utility payments.	Funds put to better use. The amount is undeterminable. The amount of delinquent accounts turned over to installation commanders is unknown.

Appendix F. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology, Washington, DC

Department of the Army

Army Power and Procurement Office, Army Corps of Engineers, Fort Belvior, VA
Fort Benning, GA
Fort Bragg, NC
Redstone Arsenal, AL
Auditor General, Department of the Army, Washington, DC

Department of the Navy

Assistant Secretary of the Navy (Financial Management), Washington, DC
Naval Facilities Engineering Command, Alexandria, VA
  Atlantic Division, Norfolk, VA
Navy Public Works Center Norfolk, VA

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller), Washington, DC
Deputy Assistant Secretary of the Air Force (Contracting), Washington, DC
Arnold Air Force Base, TN
Edwards Air Force Base, CA
Eglin Air Force Base, FL
Hill Air Force Base, UT
Robins Air Force Base, GA

Other Defense Organizations

Defense Finance and Accounting Service, Arlington, VA
  Defense Accounting Office, Arnold AFB, TN
  Defense Accounting Office, Edwards AFB, CA
  Defense Accounting Office, Eglin AFB, FL
  Defense Accounting Office, Fort Benning, GA
  Defense Accounting Office, Fort Bragg, NC
  Defense Accounting Office, Hill AFB, UT

Other Defense Organizations (cont'd)

Defense Accounting Office, Redstone Arsenal, AL
Defense Accounting Office, Robins AFB, GA
Defense Logistics Agency, Alexandria, VA
Defense Fuel Supply Center, Alexandria, VA

Appendix G. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Under Secretary of Defense (Comptroller)
Assistant Secretary of Defense (Economic Security)
Deputy Under Secretary of Defense (Acquisition Reform)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management and Comptroller)
Assistant Secretary of the Army (Installations, Logistics, and Environment)
Commander, Army Corps of Engineers
Inspector General, Department of the Army
Auditor General, Department of the Army

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Commander, Naval Facilities Engineering Command
Inspector General, Department of the Navy
Auditor General, Department of the Navy

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Deputy Assistant Secretary of the Air Force (Contracting)
Inspector General, Department of the Air Force
Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division, General Accounting Office

Chairman and Ranking Minority Member of each of the following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Environment and Public Works
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Committee on Energy and Commerce
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part IV - Management Comments

Assistant Secretary of Defense (Economic Security) Comments

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
3300 DEFENSE PENTAGON
WASHINGTON, DC 20301-3300

ECONOMIC SECURITY

21 FEB 1995

OASD(ES)E&E

MEMORANDUM FOR INSPECTOR GENERAL

SUBJECT: Audit Report on Management of Utility Sales (Project No. 4CF-0022)

This subject report identifies apparent deficiencies in utility sales at DoD Installations.

We have forwarded this report to the Defense Utilities Energy Coordination Council's Acquisition Subcommittee for use in developing policy to address deficiencies.

We expect to receive their draft Policy within sixty days of the date of this letter and will forward a copy of the policy guidance when signed. We appreciate your office's effort in bringing these opportunities for improvement to our attention.

The point of contact for this office is Mr. Sonny White at 604-5571.

Sincerely,

Robert E. Bayer
Deputy Assistant Secretary of Defense
Installations

Attachment

Department of the Army Comments

DEPARTMENT OF THE ARMY
U.S. Army Corps of Engineers
WASHINGTON, D.C. 20314-1000

CA (FYI)

REPLY TO ATTENTION OF:

24 FEB 1995

CEAO (36-5C)

MEMORANDUM THRU

~~DIRECTOR OF THE ARMY STAFF~~ 24 FEB 95 THOMAS W. HUGHES, LTC, GS, ADECC

~~ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, LOGISTICS AND ENVIRONMENT)~~ Paul W. Johnson Deputy Assistant Secretary of the Army (Housing) OASA(I, L&E)

27 FEB 1994

FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (Auditing)

SUBJECT: IG DoD Draft Report on Management of Utility Sales (Project No. 4CF-0222)

1. Reference, Memorandum, DoDIG dated 7 December 1994 subject as above.

2. Our comments on the recommendations to correct issues discussed in the subject report are enclosed.

3. We appreciate the opportunity to comment on the issues discussed in this report.

FOR THE COMMANDER:

R.C. JOHNS
Colonel, Corps of Engineers
Chief of Staff

DEPARTMENT OF THE ARMY
U.S. Army Corps of Engineers
WASHINGTON, D.C. 20314-1000

REPLY TO
ATTENTION OF:

13 Feb 95

CEAO (36-5C)

MEMORANDUM FOR THE AUDITOR GENERAL ATTN: SAAG-LEF

SUBJECT: IG DoD Draft Report No. 4Cf - 022, Management of Utility Sales

1. Reference IG DoD Memorandum dated 7 December 1994 subject as above.

2. Our comments on the recommendations to correct issues discussed in the subject report are enclosed.

3. We appreciate the opportunity to comment on the issues discussed in this report.

FOR THE COMMANDER:

R.C. JOHNS
Colonel, Corps of Engineers
Chief of Staff

DEPARTMENT OF THE ARMY
U.S. ARMY CENTER FOR PUBLIC WORKS
7701 TELEGRAPH ROAD
ALEXANDRIA, VIRGINIA 22315-3862

REPLY TO ATTENTION OF

CECPW-C

January 13, 1995

MEMORANDUM THRU DIRECTOR, CECPW-R Encls 1/17/95

FOR: CEAO, ATTN: Mr. Galal Fahmy

SUBJECT: DODIG, Draft Report: No. 4CF-0022, Management of Utility Sales

1. Reference CECPW-R, memorandum, subject as above, suspense 20 JAN 95, with the enclosed DODIG, Draft Report: No. 4CF-0022, Management of Utility Sales (Enclosure 1).

2. The Deputy Army Power Procurement Officer(DAPPO)/Director Army Power Procurement has been delegated by the Chief of Engineers/Army Power Procurement Officer the authority to act for him in the acquisition and sale of utilities services. The DAPPO has taken the following corrective action in response to the Department of Defense Inspector General (DODIG) Draft Audit Report **Management of Utility Sales:**

3. Army Regulation 420-41, **Acquisition and Sale of Utilities Services,** is in the final stages of being rewritten and staffed. The proposed draft AR 420-41 has been changed in response to the DODIG, Draft Report No. 4CF-0022, Management of Utility Sales as follows:

a. Reference DODIG Report Recommendation B.2.a. "to charge non-Federal customers the greater of the local prevailing rate or the installation cost" , Paragraph 3-3 Rates, of Draft AR 420-41 (Enclosure 2) has been changed to read:

> Rates for Federal Government activities and Army Family Housing will equal the cost to the Government including operation and maintenance costs plus transmission losses. All non-Federal Government customers will be charged the local prevailing rate, applicable to that customer service classification, of the closest utility company; however, the rate will not be less than the total cost to the Government including operation and maintenance costs plus transmission losses, capital charges, an administrative overhead. Where local utility service is not available within a reasonable distance of the installation, the total cost to the Government, including capital charges and administrative overhead will be charged.

(Some Army installations are in isolated locations and the nearest utility may be located at a distance and in an economic area where the cost to provide the equivalent utility service does not reflect an accurate cost to provide the service at the installation. In these instances, the total cost

to the government is used, as it is a more equatable charge).

b. In response to DODIG Report Recommendation B.2.b. " Issue guidance to installation commanders to follow Army Regulation 420-41, on annual sales agreements reviews and facility surveys", Paragraph 1-4.d.(2) of Draft 420-41 (Enclosure 3) includes:

1-4.d. Installation or community commanders are responsible for the acquisition and sale of utilities services. The Commander will--

(2) Ensure the policies of this regulation are followed in the sale of utilities and related service.

c. In response to DODIG Report Recommendation B.2.c. " Instruct installations to prepare annual internal control checklists. Items on the checklist should include steps to determine whether tenants were charged for utilities, basis of charge was documented, facilities were metered, threshold for metering was met, and annual surveys of facilities were conducted. the checklist should be kept with tenant sales agreements." Appendix D, Management Control Checklist of Draft AR 420-41 (Enclosure 4) has been changed to read:

D-4.e. Are utility services resales rates calculated annually by the installation Utility Sales and Service Officer, using guidance provided by the Army Power Procurement Officer?

D-4.h. Does the utility services/sales officer have a contract folder for each utility sales customer with an annual checklist which addresses the following test questions?

(1) Is there a current signed copy of the contract in the folder?
(2) Has a copy of the current year's sales rates from the annual rate calculation been posted to the sales contract?
(3) has a copy of the current sales rates been sent to the customer?
(4) Is the customer metered?
(5) If no to (4) above; does the customer meet the threshold for metering?
(6) Are copies of monthly bills documented for basis of charge, and included in the folder?
(7) Was the customer accurately charged for the utility services used?
(8) Has an annual survey of facilities been conducted?

d. Reference DODIG report Recommendation B.2.d. "Instruct installations to install meters in all facilities for which gross revenue will exceed installation costs in 1 year." We non-concur. Paragraph C-4. of Appendix C, Procedures for the Sale of Utilities and Related Services to proposed Draft AR 420-41 (Enclosure 5) is intended to read:

C-4. Metering
The purchaser will pay to install a meter at a new or existing point of delivery when the utilities services/sales officer determines that a meter is required. Army and Air Force Exchange Service and other NAF activities that pay for service (electric, natural gas, and water, and so forth) will be metered, if practical, when the annual gross revenue is estimated to exceed ten times the installation cost.

For an example, a customer would be required to pay for the installation of a $500 meter if its annual utility service bill was $501 under the DODIG recommendation . This would in effect double the user's utility cost for that year. The main impact of the metering requirement would be on Army tenants and Non-Appropriated Fund (NAF) users. (Non-Federal customers are almost all metered). This would be an unprogrammed utility expense and further drain the already severely restrained Army OMA & NAF funds available to Army tenant organizations and NAF activities respectively. A ten to one ratio would be more acceptable to the customer.

e. Reference DODIG Report Recommendation B.2.e. "Instruct installation commanders to collect undercharged amounts and utilities charges for transient lodging facilities when possible." The "transient lodging facilities" used in the report is confusing in that the Army has:

(1) **Temporary Billets**, which (along with permanent billets) are considered mission sustaining facilities, and are not charged for utilities.

(2) **Guest Quarters (Temporary Lodging Facilities)**, which (along with other, Morale. Welfare and Recreation (MWR) Enhanced Community Support Activities) are charged for utilities at the MWR Category C Facilities rate.

(3) **Franchised Commercial Lodging** (such as Holiday Inns) which are located on Army installations and charged for utilities at the non-Federal rate.

4. As noted on page 13 of the DODIG Report, **Adequacy of Staff to Perform Reviews**, "Military installations did not have adequate staff to perform annual reviews of utility sales agreements." -- "The current DoD environment of downsizing caused installations to put more responsibilities on staff personnel." Army Power Procurement believes that the majority of problems stem from the multiple missions placed on the reduced staff. To assist the utilities services/sales officers at Army installations we have developed an automated **Utilities Sales Rates Computations Template** (Enclosure 6), which is run on a microsoft compatible personal computer. All the utilities services/sales officer has to do, is to fill in the boxes, (most of the information required is readily available); and accurate Annual Sales Rates will be

automatically calculated, saving hours of work. This system and a revised Technical Note 420-41-1, **Guidance for Calculation of Rates for the Sale of Utilities Services,** will be fielded by Army Power Procurement in the near future.

5. POC for this action is Mr. Cliff Beasley, CECPW-C, (703) 355-2462.

FOR THE DIRECTOR:

Thomas J. Evans

6 Encl

THOMAS J. EVANS, P.E.
Deputy, Army Power Procurement Officer

Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE
1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

DFAS-HQ/F

MEMORANDUM FOR DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Management of Utility Sales
(Project No. 4CF-0022)

In response to your draft audit report of December 7, 1994, the Defense Finance and Accounting Service (DFAS) has reviewed the findings. DFAS finds no reason(s) to dispute your discovery that commercial and nonappropriated fund tenants are delinquent in paying utility charges to Department of Defense host activities. Moreover, we concur with the recommendations (C.1) for corrective actions. In an effort to rectify the problem, the attachment is being sent to the field activities requesting appropriate action.

My point of contact on this matter is Major Guy D. Medor, DFAS-HQ/FC, on 607-0528/0811.

Michael E. Wilson
Deputy Director for Finance

Attachment:
As stated

DEFENSE FINANCE AND ACCOUNTING SERVICE
INTERNAL CONTROL AND AUDIT DIRECTORATE
(DFAS-HQ/PA)
AUDIT TASKING SHEET

AUDIT CONTROL NO: M-0598 **DATE:** December 13, 1994

SUBJECT: Preparation of Response to DoD IG Draft Report, "Management of Utility Sales," (Project No. 4CF-0022)

DOCUMENT DATE: December 7, 1994

PRIMARY ACTION OFFICE (PAO): DFAS-HQ/FC

SUSPENSE DATES TO AUDIT CONTROL:

December 19, 1994 (for name of action officer)
February 3, 1995 (proposed comments from action officer)

COPIES TO: DFAS-HQ/PA (Gary Christa)

REMARKS:

- The DoD IG has requested our comments on Recommendation C.1 of the subject draft report.
- The office identified above as PAO (i.e. Finance) must identify an action officer and provide his/her name to Syb Koury (607-3937) by COB December 19, 1994.
- The action officer must develop an overall DFAS response. If input is required from other deputates or Centers, he/she is responsible to task these organizations for timely input.
- Our response should consist of a short memorandum, addressed to the Director, Contract Management Directorate, DoD IG, plus an attachment with detailed comments on Recommendation C.1. The information contained in the report memorandum should be used as a guide in preparing the response.
- Our response should be prepared for signature by either the DFAS Director or the Deputy Director for Finance. The signatory decision is left with the PAO and should be based on the subject matter, severity or sensitivity of issues, addressee of the response, etc. The package MUST be coordinated through the Audit Control Office, DFAS-HQ/PA.
- **IF THE SUSPENSE DATE OF FEBRUARY 7, 1995, CANNOT BE MET, THE ACTION OFFICER IS REQUIRED TO OBTAIN AN EXTENSION FROM MR. SALVATORE GULI OF THE DOD(IG). THE APPROVAL OF AN EXTENSION SHOULD BE COMMUNICATED TO AUDIT CONTROL (607-3937) ASAP.**

12/14/94

Audit Team Members

This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

Paul J. Granetto
Terry L. McKinney
Salvatore D. Guli
Bruce A. Burton
Billy J. McCain
Steven I. Case
LaNita C. Matthews
John A. Seger
Kelly D. Garland
Ana M. Myrie