

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**CONSOLIDATION OF NAVAL ACTIVITIES PROVIDING
TELEPHONE SERVICE-ATLANTIC REGION**

Report No. 97-094

February 14, 1997

Department of Defense

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Acronyms

BCO	Base Communications Office
CATS	Consolidated Area Telephone System
NCTAMS LANT	Naval Computer and Telecommunications Area Master Station Atlantic
NCTC	Naval Computer and Telecommunications Command
NCTS	Naval Computer and Telecommunications Station



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-2884



February 14, 1997

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)

SUBJECT: Audit Report on the Consolidation of Naval Activities Providing
Telephone Service-Atlantic Region (Report No. 97-094)

We are providing this audit report for review and comment. This is the first in a series of reports resulting from our audit of the Consolidation of Naval Activities Providing Telephone Services. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Navy did not concur with Recommendation A.1.a., and did not provide specific planned corrective actions for Recommendations A.2., B.1, and B.2. Therefore, we request that the Navy provide additional comments in response to the final report by April 14, 1997.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Robert M. Murrell, Audit Program Director, at (703) 604-9507 (DSN 664-9507) or Ms. Annie L. Sellers, Audit Project Manager, at (703) 604-9534 (DSN 664-9534). See Appendix E for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 97- 094
(Project No 6RD-0030)

February 14, 1997

Consolidation of Naval Activities Providing Telephone Service-Atlantic Region

Executive Summary

Introduction. This report is the first in a series of reports resulting from our audit of the Consolidation of Naval Activities Providing Telephone Service. The Naval Activities Providing Telephone Service are now known as base communications offices. A subsequent report will discuss the audit results that apply to the Pacific Region.

On April 25, 1991, the Naval Computer and Telecommunications Command, under the sponsorship of the Director, Space and Electronic Warfare, started actions to transfer the base communications offices from various naval commands to the Naval Computer and Telecommunications Command. The Navy objectives were to establish a dedicated Navy advocate for intrabase communications services and management and to develop a broad-based field organization to directly support Navy intrabase communications requirements. The initiative will support the Navy goal of establishing a single management center at the base level that will provide fully integrated information services in support of fleet and shore establishments.

Objectives. The overall audit objective was to evaluate the efficiency and effectiveness of the consolidation of base communications offices. Specifically, we evaluated the efficiency and effectiveness of the Naval Computer and Telecommunications Area Master Station Atlantic (NCTAMS LANT) in consolidating the base communications offices in the Virginia Tidewater area. We also evaluated the NCTAMS LANT management control program as it related to the audit objective.

Audit Results. NCTAMS LANT had not validated requirements for telecommunications equipment and services costing about \$9 million annually for the five base communications offices in the Virginia Tidewater Area. As a result, NCTAMS LANT cannot ensure the effective, efficient, and economical acquisition and use of telecommunications equipment and services for the five base communications offices in the Virginia Tidewater area (Finding A).

NCTAMS LANT had not identified the most economical method of providing customer premise equipment. As a result, NCTAMS LANT cannot assure that continuing to lease customer premise equipment and maintaining old customer premise equipment is the most economical acquisition strategy for users (Finding B).

Summary of Recommendations. We recommend that management establish a baseline of existing telecommunications equipment and services and validate respective requirements, establish a telecommunications configuration management plan based on validated proposed user requirements, determine the most cost-effective methods to obtain maintenance contracts and services, and project maintenance costs for equipment and services.

We also recommend that management perform cost and lease versus purchase analyses on leased customer premise equipment and recommend procurement actions to users if procurement of equipment is more economical than leasing.

Management Comments. The Navy concurred with the findings and recommendations with the exception of establishing a baseline of existing telecommunications equipment and services and validating requirements for that equipment and services. The Navy has taken action to update the 1993 requirements survey and is analyzing the data received from the updated surveys. The Navy also validated the requirements for existing maintenance contracts and is establishing a telecommunications configuration management plan, which will include a projection of maintenance cost for telecommunications equipment. The complete text of management comments is in Part III.

Audit Response. The Navy comments are not responsive regarding validating requirements for existing equipment and services. Management interpreted a Navy regulation concerning the requirement for the development and maintenance of inventories for equipment and services to apply only to Central Exchange services. However, Naval Computer and Telecommunications Command Instruction 2066.1A, "Navy Base Communications Manual," March 1996, part 9, "Inventory Control, Policy and Procedures," states that the base communications office is required to develop and maintain a complete and current inventory of all base communications equipment and services. The policy further requires that a physical record be maintained for each piece of base communications equipment or service provided by the base communications offices. The physical record must include the type of equipment and indicate whether equipment is leased or Government-owned. The base communications office must inventory, on an annual basis, all leased and Government-owned base communications equipment and services and review and revalidate all requirements for base communications equipment and services. Therefore, the Navy should develop and maintain inventories for all its telecommunications equipment. We request that the Navy reconsider its position in response to the final report.

The Navy comments on the other recommendations were partially responsive. Although the Navy concurred with recommendations relating to issuing "lesson learned" information to regional offices for use in avoiding similar problems; performing cost and lease versus purchase analyses on leased customer premise equipment; recommending procurement actions to users if procurement is more economical than leasing customer premise equipment or paying maintenance costs on existing equipment, the Navy did not provide specific planned actions.

We request that the Navy provide additional comments on the unresolved issues and planned corrective actions by April 14, 1997.

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Part I - Audit Results

Audit Background

This report is the first in a series of reports resulting from our audit of the Consolidation of Naval Activities Providing Telephone Service. The Naval Activities Providing Telephone Services are now known as base communications offices (BCOs).

Transfer of Base Communications Offices. In December 1983, the Chief of Naval Operations approved the transfer of responsibility for base communications facilities and services from the Naval Facilities Engineering Command to the Naval Computer and Telecommunications Command (previously the Naval Telecommunications Command). On March 30, 1990, to centralize support for shore-based communications systems and services, the Chief of Naval Operations directed that all BCO operations be consolidated under the Naval Computer and Telecommunications Command (NCTC). The NCTC mission is to plan, procure, implement, and manage telecommunications systems and facilities for Navy and Marine Corps BCOs.

On April 25, 1991, the NCTC, under the sponsorship of the Director, Space Information Warfare Command and Control (previously Space and Electronic Warfare), started actions to transfer the BCOs from various naval commands to the NCTC. The Navy objectives were to establish a dedicated Navy advocate for intrabase communications services and management and to develop a broad-based field organization to directly support Navy intrabase communications requirements. The initiative was to support the Navy goal of establishing a single manager at the base level that would provide fully integrated information services in support of fleet and shore establishments.

Geographical Regions. The Navy planned to transfer the functions relating to the management, administration, engineering support, contracting, planning, ordering, procuring, and accounting and paying for telecommunications equipment and services for 148 Navy and Marine Corps organizations in the continental United States. The functions would be transferred to four geographical regions (Western, Eastern Pacific, Mediterranean, and Atlantic regions). The regional coordinator offices are located at Naval Computer and Telecommunications Station, San Diego, California; Naval Computer and Telecommunications Area Master Station Eastern Pacific, Hawaii; Naval Computer and Telecommunications Area Master Station Mediterranean, Naples, Italy; and Naval Computer and Telecommunications Area Master Station Atlantic, Norfolk, Virginia.

Regional Coordinators. The regional coordinators serve as the focal points for communications programs sponsored by the Chief of Naval Operations. The regional coordinators are responsible for:

- o management, administration, planning, and engineering of Navy base communications systems;
- o the implementation of policy, directives, and procedures regarding base telecommunications facilities, equipment, and services; and
- o direct support to BCO coordinators in their immediate vicinity.

The BCO coordinators are responsible for the day-to-day management, administration, operations, and maintenance of the base telecommunications facilities and services.

Atlantic Region. The Naval Computer and Telecommunications Area Master Station Atlantic (NCTAMS LANT) is the Atlantic regional coordinator and is responsible for nine naval regional BCOs. NCTAMS LANT provides regional direction to nine BCO coordinators located at Newport, Rhode Island; Jacksonville, Florida; Pensacola, Florida; New Orleans, Louisiana; Cutler, Maine; Keflavic, Iceland; Roosevelt Roads, Puerto Rico; Guantanamo Bay, Cuba; and Norfolk, Virginia.

As the regional coordinator, NCTAMS LANT responsibilities include conducting site surveys and performing engineering studies to determine existing and future telecommunications growth requirements. NCTAMS LANT also reviews military construction and special projects to develop supporting structures for the installation of base-level telecommunications systems. Additionally, NCTAMS LANT develops and prepares technical procurement packages for the acquisition of base-level telecommunications systems. Further, NCTAMS LANT oversees the operations of and provides guidance to BCOs at Philadelphia, Willow Grove, and Mechanicsburg, Pennsylvania; Chesapeake Beach, Maryland; and Key West, Florida.

NCTAMS LANT is the BCO coordinator for Dam Neck, Oceana, Little Creek, Chesapeake, and Norfolk, which are in the Virginia Tidewater area. NCTAMS LANT is also responsible for providing limited services to nine additional BCOs in the Virginia Tidewater area.

Audit Results

Status of the Consolidation of BCOs in the Virginia Tidewater Area. In October 1993, NCTC implemented the functional transfer of 5 of the 14 BCOs in the Virginia Tidewater area. However, NCTC did not develop a master plan for consolidating telecommunications equipment and services for all BCOs in the Virginia Tidewater area because:

- o nine BCOs did not participate in the functional transfer to NCTC and, therefore, NCTAMS LANT could not establish a baseline of telecommunications equipment for the Virginia Tidewater area; and

- o five BCOs that transferred to NCTC did not perform inventories before the transfer.

Audit Objectives

The overall audit objective was to evaluate the efficiency and effectiveness of the consolidation of BCOs. Specifically, we evaluated the efficiency and effectiveness of NCTAMS LANT in consolidating BCOs in the Virginia Tidewater area. We also evaluated the NCTAMS LANT management control program as it related to the audit objective. See Appendix A for a discussion of the audit scope and methodology and the results of the review of the management control program. Appendix B discusses prior audits and other reviews. Appendix C discusses contract management practices.

Finding A. Telecommunications Requirements for BCOs in the Virginia Tidewater Area

NCTAMS LANT had not validated requirements for telecommunications equipment and services costing about \$9 million annually or about \$45 million over a 5-year period for the five BCOs in the Virginia Tidewater area. Requirements were not validated for the consolidation because NCTAMS LANT:

- o did not establish a baseline of or validate requirements for existing telecommunications equipment and services;

- o did not identify the number of users, determine proposed user requirements for future telecommunications equipment and services, assess the validity of proposed requirements, or establish a telecommunications configuration management plan based on validated future user requirements;

- o did not validate requirements for or assess the costs of existing maintenance services; and

- o has not determined projected maintenance costs for telecommunications equipment resulting from a validated telecommunications configuration management plan.

As a result, NCTAMS LANT cannot ensure the effective, efficient, and economical acquisition and use of telecommunications equipment and services for the five BCOs in the Virginia Tidewater Area.

DoD and Navy Guidance Related to the Management of Telecommunications Equipment and Services

DoD Directive 4640.13, "Management of Base and Long-Haul Telecommunications Equipment and Services," December 5, 1991, and DoD Instruction 4640.14, "Base and Long-Haul Telecommunications Equipment and Services," December 6, 1991, establish DoD policy and guidelines and prescribe procedures to ensure effective, efficient, and economical use of base and long-haul telecommunications equipment and services. The DoD policy is to acquire and use base and long-haul telecommunications equipment and services effectively, efficiently, and economically and to procure only telecommunications equipment and services to support a bona fide need.

NCTC Instruction 2066.1A, "Navy Base Communications Manual" (the Manual), March 1996, requires that the regional coordinator be involved in planning new base telecommunications systems and facilities by assisting BCOs

Finding A. Telecommunications Requirements for BCOs in the Virginia Tidewater Area

in developing requirements, providing engineering studies, and collecting and evaluating performance data in order to develop a conceptual system configuration. The Manual also requires regional coordinators to conduct site surveys and studies to determine the adequacy of existing and future telecommunications growth requirements. In addition, the Manual requires the regional coordinators to review the management of the BCOs within their respective area of responsibility, concerning procurement of base telecommunications equipment, services, and facilities under existing contracts. Further, the Manual requires BCO coordinators to maintain a current inventory of all equipment and services provided to each organization and to review and revalidate, on an annual basis, all leased and Government-owned equipment and services.

Functional Transfer of BCOs in the Virginia Tidewater Area

The Virginia Tidewater area has 14 BCOs at Norfolk, Virginia Beach, Chesapeake, Portsmouth, Suffolk, and Yorktown, Virginia. Since the implementation of the functional transfer plans in October 1993, only 5 (Norfolk Operating Base Norfolk, Naval Amphibious Base Little Creek, Fleet Combat Training Center Atlantic, Naval Air Station Oceana, and Naval Security Group Activity Northwest) of the 14 BCOs transferred to NCTC. The NCTC delayed, placed on hold, or waived the functional transfer for the remaining nine BCOs.

Identification and Validation of Telecommunications Requirements

In March 1996, NCTAMS LANT planned to consolidate telecommunications services in the Virginia Tidewater area. However, NCTAMS LANT had not taken appropriate actions to ensure that BCO requirements for telecommunications equipment and services had been validated. NCTAMS LANT had not established a baseline of existing telecommunications equipment and services or a baseline of requirements for the five BCOs. Further, the five BCOs did not perform the required physical inventories of existing telecommunications equipment and services before or after functionally transferring to NCTAMS LANT. DoD Directive 4640.13 and DoD Instruction 4640.14 stipulate that DoD Components maintain an inventory data base of leased and Government-owned base telecommunications equipment, services, and facilities and that Components biennially review and revalidate all requirements for base telecommunications equipment, services, and facilities.

Physical Inventories. Although the functional transfer plans required physical inventories, NCTAMS LANT did not require the BCOs to perform inventories. NCTAMS LANT did not maintain inventories of leased and Government-owned

Finding A. Telecommunications Requirements for BCOs in the Virginia Tidewater Area

telecommunications equipment provided by the contractors met telecommunications baseline requirements. NCTAMS LANT did not perform an inventory of existing equipment and services. To ensure an accurate accounting of expenditures applicable to each BCO and an accurate baseline for the projection of future requirements, complete physical inventories of existing equipment and services are necessary.

Validation of Requirements. At the time of the transfer, NCTAMS LANT did not require the BCOs to validate their requirements. As of April 1, 1996, at the request of the Naval Audit Service, NCTAMS LANT had validated only the number of users of leased Central Exchange services at Norfolk Operating Base Norfolk and Naval Amphibious Base Little Creek, but did not validate and did not have a plan to validate the number of users at the remaining three BCOs. For example, NCTAMS LANT had not validated requirements for:

- o 3,276 point-to-point circuits that had an annual cost of more than \$1.3 million;
- o 117 measured business lines that had an annual cost of \$66,732; and
- o 9,140 reserved telephone numbers that had an annual total cost of \$111,051.

NCTAMS LANT should perform a complete validation of equipment and services to ensure that funds are not expended for equipment and services no longer needed.

Future Telecommunications Requirements

NCTAMS LANT had not identified the number of users within the five BCOs or the number and types of customer premise equipment. Additionally, NCTAMS LANT had not determined and assessed the validity of future telecommunications equipment and services requirements or developed a telecommunications configuration management plan based on validated user requirements.

For example, for the Fleet Combat Training Center Atlantic, Naval Air Station Oceana, and Naval Security Group Activities Northwest, NCTAMS LANT reserved 2,335 telephone numbers (with an annual total cost of \$28,931) for future expansion of users, even though NCTAMS LANT had not assessed and validated the requirements for future expansion.

As a result, NCTAMS LANT could not project user requirements for existing and future telecommunications equipment and services and could not assess the validity of user requirements for the development of a regional telecommunications configuration management plan.

Finding A. Telecommunications Requirements for BCOs in the Virginia Tidewater Area

Validation and Assessment of Maintenance Requirements

As stated previously, the Manual requires the regional coordinators to review the management of the BCOs within their respective area of responsibility, concerning procurement of base telecommunications equipment, services, and facilities under existing contracts. NCTAMS LANT had not validated the cost-effectiveness of contracts for:

- o 24-hour maintenance with an annual costing about \$1.6 million;
- o installation, rearrangement, or removal of telephone equipment services performed by two dedicate technicians costing \$196,320 annually; and
- o customer premise equipment maintenance with an annual cost of \$194,880.

NCTAMS LANT had not performed a cost-benefit analysis on the 24-hour switch and cable maintenance contract and had not considered a time-and-materials contract or a labor-hour contract as an alternative. A time-and-materials contract or a labor-hour contract provides for the acquisition of supplies or services on the basis of direct labor hours at specified fixed hourly rates and could reduce the number of hours expended on the 24-hour maintenance contract. Further, NCTAMS LANT had not projected maintenance costs for telecommunications equipment and services for the five BCOs in the Virginia Tidewater area.

Recommendations, Management Comments, and Audit Response

A.1. We recommend that the Commanding Officer, Naval Computer and Telecommunications Area Master Station Atlantic, take the following actions for the five base communications offices in the Virginia Tidewater area:

- a. Establish a baseline of existing telecommunications equipment and services, and validate the requirements for those existing telecommunications equipment and services.**

Management Comments. The Navy nonconcurred with the recommendation, stating that NCTAMS LANT maintains current inventories of leased common user equipment and services associated with Central Exchange services provided to area users. The Navy further stated that it did not maintain inventories of common user equipment and Government-owned customer premise equipment because customer premise equipment is considered minor property and should be controlled and accounted for within the applicable minor property guidelines. The complete text of management comments is in Part III.

Finding A. Telecommunications Requirements for BCOs in the Virginia Tidewater Area

Audit Response. The Navy interpreted a regulation concerning requirements for the development and maintenance of inventories for equipment and services to apply only to Central Exchange services. However, NCTC Instruction 2066.1A, "Navy Base Communications Manual," March 1996, part 9, "Inventory Control, Policy and Procedures," states that the BCOs are required to develop and maintain a complete and current inventory of all base communications equipment and services. The policy further requires that a physical record must be maintained for each piece of base communications equipment or service provided by the BCOs. The physical record must include the type of equipment and indicate whether equipment is leased or Government-owned. The BCO must inventory, on an annual basis, all leased and Government-owned base communications equipment and services and review and revalidate all requirements for base communications equipment and services. Therefore, the Navy should develop and maintain inventories for all its telecommunications equipment. We request that the Navy reconsider its position in response to the final report.

b. Identify the number of users, determine future user requirements, assess the validity of proposed user requirements, and establish a telecommunications configuration management plan based on the validated, proposed user requirements when assessing future telecommunications equipment and services requirements.

c. Validate the requirements for existing maintenance contracts and services and perform cost analyses to determine the most cost-effective method of obtaining maintenance contracts and services.

d. Develop a projection of maintenance costs for telecommunications equipment that could be incurred under a validated telecommunications configuration management plan.

Management Comments. The Navy concurred with the recommendations. The Navy has taken action to update the 1993 requirements survey and is analyzing the data received from the updated surveys. The Navy also validated the requirements for existing maintenance contracts and is establishing a telecommunications configuration management plan, which will include a projection of maintenance costs for telecommunication equipment.

A.2. We recommend that the Commander, Naval Computer and Telecommunications Command, issue "lessons learned" information, based on audit results and recommendations, to regional offices and base communications offices for their use in avoiding similar problems at other Navy locations.

Management Comments. The Navy concurred with the recommendation.

Audit Response. Although the Navy concurred with the recommendation, it did not provide planned actions to implement the recommendation. Therefore, we request that the Navy provide additional comments on specific planned corrective actions.

Finding B. Leased Customer Premise Equipment

The NCTAMS LANT had not identified the most economical method for providing customer premise equipment. The most economical method was not identified because NCTAMS LANT had not performed cost and lease versus purchase analyses and had not analyzed maintenance costs for old customer premise equipment. As a result, NCTAMS LANT cannot assure that continuing to lease customer premise equipment and maintaining old customer premise equipment is the most economical acquisition strategy for users.

Guidance on Lease Versus Purchase Analyses

DoD Directive 4640.13, "Management of Base and Long-Haul Telecommunications Equipment and Services," December 5, 1991, and DoD Instruction 4640.14, "Base and Long-Haul Telecommunications Equipment and Services," December 6, 1991, require DoD Components to perform a lease versus purchase analysis to determine the most cost-effective acquisition strategy and to conduct market surveys at least once a year to ensure that DoD Components acquire equipment and services at the most economical cost available. Further, the Directive stipulates that DoD Components should terminate uneconomic contracts.

Rate Stability Contract

The Navy awarded the rate stability contract in September 1990 for Navy organizations to lease customer premise equipment (that is, telephone sets, hand sets, speaker phones, facsimile machine, etc.). In September 1994, the Director (Chief of Naval Operations [N6]), Space Information Warfare Command and Control, directed all Base Communications Offices to procure replacement equipment before the expiration of the contract in June 1995. However, at expiration, the contractor transferred title of ownership for the leased customer premise equipment to the Navy and discontinued charging the annual lease cost of \$388,260. Rather than make provisions to procure new equipment, NCTAMS LANT allowed the BCOs to retain and maintain old customer premise equipment.

Cost and Lease Versus Purchase Analyses

NCTAMS LANT did not perform a cost analysis to determine the economy of retaining the old equipment versus procuring state-of-the-art equipment. We

Finding B. Leased Customer Premise Equipment

believe that NCTAMS LANT did not perform the analysis because the new maintenance cost of \$194,880 was less than the previous lease cost of \$388,260. Additionally, following the termination of the rate stability contract, NCTAMS LANT management officials did not coordinate leasing actions with the Contract Division and continued to lease additional customer premise equipment at an annual cost of \$397,752. NCTAMS LANT should have determined the life-cycle cost of customer premise equipment by analyzing the:

- o net purchase costs of equipment;
- o cumulative rental payments, maintenance, and other service costs;
- o period of equipment use; and
- o potential obsolescence of the equipment due to technological improvements.

Although the Contract Division assists in performing market surveys and cost or lease versus purchase analyses for new or replacement equipment when requested by NCTAMS LANT management officials, they did not request assistance from the Contract Division before leasing the equipment. As a result, NCTAMS LANT could not validate that leasing additional equipment and maintaining old equipment was the most economical option available for users. To efficiently and effectively manage base-level communications, NCTAMS LANT should perform cost and lease versus purchase analyses and a maintenance analysis on customer premise equipment.

Recommendations, Management Comments, and Audit Response

B. We recommend that the Commanding Officer, Naval Computer and Telecommunications Area Master Station Atlantic:

B.1. Perform cost and lease versus purchase analyses on leased customer premise equipment and maintenance costs.

B.2. Recommend procurement actions to users if procurement is more economical than leasing customer premise equipment or paying maintenance costs on existing equipment.

Management Comments. The Navy concurred with the finding and recommendations.

Audit Response. Although the Navy concurred with the recommendations, it did not provide specific planned actions. We request that the Navy provide additional comments that specify planned corrective actions.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We evaluated the adequacy and effectiveness of NCTAMS LANT in consolidating BCOs in the Virginia Tidewater area. Specifically, we evaluated the efficiency and effectiveness of acquisition planning and contract administration, telecommunications bill certification and payment, and inventory and revalidation of requirements for telecommunications equipment and services, budgets, and the development of customer rates from October 1993 through August 1996. The five BCOs spend approximately \$9 million annually or \$45 million for telecommunications equipment and services over a 5-year period. We judgmentally selected for review two 5-year contracts (Central Exchange service and cable plant maintenance) valued at \$20.1 million. Further, we evaluated the requirements for 19,000 telephone lines valued at \$1.7 million, and an undetermined amount of equipment and services valued at \$397,750. Also, we interviewed finance and accounting and telecommunications officials from NCTAMS LANT; Commander in Chief, Atlantic Fleet, Norfolk, Virginia; Fleet Industrial Supply Center, Philadelphia, Pennsylvania; Naval Information Systems Management Center, Washington, D.C.; Naval Computer and Telecommunications Command, Washington, D.C.; and account representatives from the local vendors responsible for NCTAMS LANT telecommunications billings.

This economy and efficiency audit was made from March through August 1996 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. The audit included tests of management controls considered necessary. We did not use computer-processed data or statistical sampling procedures for this audit. The organizations visited or contacted during the audit are listed in Appendix D.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987,* requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. We reviewed the management control program at NCTAMS LANT as it relates to the management of telecommunications equipment, services, and facilities. Specifically, we reviewed the identification and validation of

*The Directive has been revised as "Management Control (MC) Program, " August 26, 1996. The audit was performed under the April 1987 version.

telecommunications requirements for BCOs in the Virginia Tidewater area, NCTAMS LANT contract management procedures, and identification of requirements for leased customer premise equipment. We reviewed management's self-evaluation applicable to those controls. We identified no systemic problems in the following areas: telecommunications bill certification and payment procedures, budgeting, and developing customer rates.

Adequacy of Management Controls. We identified material control weaknesses, as identified by DoD Directive 5010.38, for NCTAMS LANT. NCTAMS LANT management controls for telecommunications equipment and services and leased customer premise equipment were not adequate to ensure that NCTAMS LANT took appropriate actions to establish valid requirements for telecommunications equipment and services for the five BCOs in the Virginia Tidewater area, that NCTAMS LANT used appropriate contract management practices when purchasing services, and that NCTAMS LANT performed cost or lease versus purchase analyses on customer premise equipment. Recommendations A.1.a. through A.1.d., if implemented, will ensure the effective, efficient, and economical acquisition and use of telecommunications equipment and services for the five BCOs. Recommendations B.1. and B.2, if implemented, will ensure that NCTAMS LANT determines the most economical cost for customer premise equipment and the cost to maintain customer premise equipment. A copy of this report will be provided to the senior official responsible for management controls in the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller).

If management implements the report recommendations, then the accountability for and validation of existing and future telecommunications, including leased customer premise equipment, in the Virginia Tidewater area would improve and potential monetary benefits could be realized. We could not determine the amount of the potential monetary benefits because the amount depends on the performance of inventories and the validation of existing and future user telecommunications requirements and cost and lease versus purchases analyses on leased customer premise equipment. Additionally, contract management practices would improve and could eliminate the potential for conflicts of interest and would ensure fairness and reasonableness of costs.

Adequacy of Management's Self-Evaluation. NCTAMS LANT officials identified the management of BCO operations as an assessable unit and, in our opinion, correctly identified the risks associated with the management of BCO operations as high. However, NCTAMS LANT did not perform the required evaluation of the applicable management controls because the NCTAMS LANT BCO was established after NCTC had provided a 5-year schedule of assessable units for review during FYs 1992 through 1997. In March 1996, NCTAMS LANT submitted to NCTC a revised assessable unit inventory for review during FYs 1997 through 2001. The revised inventory of assessable units included BCO functions performed by NCTAMS LANT and its regional commands. As of May 1996, NCTC had not yet approved the revised inventory and, therefore, NCTAMS LANT did not identify the material management control weaknesses identified by the audit.

Appendix B. Prior Audits and Other Reviews

Office of the Inspector General, DoD, Report No. 96-091, "Acquisition of Telecommunications Equipment and Services by the Naval Computer and Telecommunications Station, San Diego," March 29, 1996. The NCTC and the Naval Computer and Telecommunications Station (NCTS) San Diego had not taken appropriate actions needed to ensure valid requirements and accurate costs for the proposed acquisition of the Consolidated Area Telephone System (CATS) II prior to the release of the CATS II formal request for proposal. As designed, the draft request for proposal and potential contract go well beyond a follow-on maintenance contract. For FYs 1996 through 2001, an estimated \$88.4 million would be put to better use by eliminating equipment, support services, software, and maintenance in excess of user telecommunications needs.

We recommended that management establish a baseline of and validate requirements for existing telecommunications equipment and services; identify the number of subscribers, determine proposed user requirements for future telecommunications equipment and services for each naval installation, assess the validity of proposed user requirements, and establish a telecommunications configuration management plan based on validated proposed user requirements; project maintenance costs for telecommunications equipment and services that could be incurred under the CATS II proposal based on a validated telecommunications configuration management plan; review and approve the life-cycle management documentation and ensure that valid requirements and accurate proposed maintenance costs have been established for the CATS II proposal; and withhold release of the final request for proposal for the CATS II proposed contract until NCTC has reviewed and approved the life-cycle management documentation that validates requirements and the proposed maintenance costs for the CATS II.

The Navy generally agreed with the finding and recommendations. The Navy established a plan of action and milestones to complete a telecommunications configuration management plan in August 1996. NCTS San Diego formed a team (from NCTS San Diego, the Public Works Center San Diego, and the Naval Computer and Telecommunications Area Master Station Eastern Pacific) to perform a joint inventory of existing telecommunications equipment and services, to determine the number of subscribers, and to validate user requirements to accurately identify the CATS II baseline for telecommunications equipment and services. Although NCTC has reviewed the CATS II life-cycle management documentation, the mission needs statement will not be approved until the customer survey and requirements validation documentation is completed. Additionally, the CATS II formal request for proposal will not be released until the Naval Information Systems Management Center has reviewed and approved the CATS II life-cycle management documentation.

Office of the Inspector General, DoD, Report No. 96-077, "Consolidated Area Telephone System-San Diego," February 29, 1996. The Naval Facilities Engineering Command did not maintain a validated inventory of telecommunications assets obtained under the CATS contract, and NCTS San

Diego was not prepared to effectively manage either the CATS I contract or the future CATS II contract scheduled for transfer from the Navy Public Works Center San Diego to NCTS San Diego in October 1995. As a result, the Navy had no assurance that telecommunications assets were safeguarded against waste, loss, unauthorized use, or misappropriation and NCTS San Diego will be unable to effectively and successfully carry out the responsibilities for the CATS I and CATS II contracts. The Navy concurred with the audit findings and recommendations and performed the following actions: conducted a joint physical inventory of telecommunications equipment, services, and facilities; completed a review and revalidation of all AT&T Communications Services Authorizations; reviewed and revalidated all CATS user requirements and discontinued all invalid services; negotiated CATS II contract administration services with the Naval Information Systems Management Command and anticipated that a memorandum of understanding will be executed to establish Fleet Industrial Supply Center San Diego as the Contract Administrator for the CATS II contract; and implemented a management control program for the CATS II contract.

Office of the Inspector General, DoD, Report No. 96-013, "Consolidated Area Telephone System-San Francisco," October 23, 1995. The Navy Public Works Center was maintaining the CATS contract without considering how base realignment and closure actions and future costs of base telecommunications maintenance requirements for CATS equipment would affect the need for the contract in the San Francisco Bay area. The Navy Public Works Center performed neither a market survey nor an economic analysis in compliance with DoD policy to consider other more cost-effective alternatives that could satisfy maintenance requirements for the CATS equipment. As a result, the Navy could spend as much as \$6.4 million on the current contract to maintain CATS equipment from 1995 through February 1999. Further, the Navy could not ensure that CATS customers would receive the most economical rates for telecommunication services. We recommended that the Navy assess equipment maintenance requirements; perform a market survey and an economic analysis on maintenance alternatives; and if it is economically feasible, terminate the CATS contract for the convenience of the Government. We could not determine the amount of resultant monetary benefits. The Navy concurred with the finding and recommendations and performed the following actions: assessed the maintenance requirements of the telecommunications equipment maintained under the CATS San Francisco contract; performed a market survey and an economic analysis of the alternatives for maintaining CATS equipment; and included contract management cost liabilities in an economic analysis of life-cycle management costs.

Office of the Inspector General, DoD, Report No. 96-011, "Certification and Payment Procedures at the Navy Computer and Telecommunications Station, San Diego," October 20, 1995. Telecommunications services for the CATS San Diego and San Francisco; the Naval Air Station Fallon, Nevada; and the Naval Construction Battalion Center, Port Hueneme, were transferring to NCTS San Diego in October 1995, even though NCTS San Diego did not have adequate procedures for certifying and paying telecommunications bills. Consequently, the Navy had no assurance that payments would be accurate or that the amounts disbursed would be for actual services rendered. In addition,

Appendix B. Prior Audits and Other Reviews

NCTS San Diego had not paid bills in accordance with the Prompt Payment Act. The late payment charges paid to the local exchange carrier totaled about \$121,780, and assessed late payment penalties for outstanding balances, accruing since 1993, totaled about \$60,430. We recommended that the Navy delay the functional transfers until procedures for certifying bills for payment and inventory of equipment and services have been established or propose an alternative solution; revise Navy guidance to include detailed procedures for the certification and payment of telecommunications bills and the establishment of an inventory data base for equipment and services; and request that the Auditor General, Department of the Navy, audit newly established procedures for processing telecommunications bills and the inventories of equipment and services at Navy organizations before the functional transfer to NCTS San Diego. Additionally, we recommended implementing interim procedures for proper certification and payment of vendor bills; resolving outstanding balances; developing inventory data bases; and reviewing and revalidating requirements for telecommunications equipment services at the functionally transferred activities. The Navy concurred with the finding and recommendations with the exception of delaying functional transfers scheduled for October 1, 1995. The Navy planned actions will correct the bill-paying procedural problems at NCTS San Diego. Further, several major Navy commands will participate in an Executive Steering Committee to address the efficiency and effectiveness of planned functional transfers. The Navy's planned actions were responsive to the recommendations.

Appendix C. Contract Management Practices

NCTAMS LANT did not use appropriate contract management practices established by Navy regulations when purchasing services. Specifically, NCTAMS LANT circumvented purchasing procedures by preparing and sending both technical and contractual requirements packages directly to a contract function of the Fleet and Industrial Supply Center, Philadelphia, Pennsylvania, rather than processing the packages through the Contract Division at NCTAMS LANT. However, according to NCTAMS LANT Instruction 3120.1A, "NCTAMS LANT Organization Manual," May 22, 1995, only the Contract Division has the authority to act as the agent with the Fleet and Industrial Supply Center. Further, NCTAMS LANT assigned the duties of contracting officer, contracting officer's representative, and ordering officer to the same individual. That action contravenes Naval Supply Systems Command Instruction 4330.7B, "Service Contract Administration," September 11, 1995, which stipulates that separate individuals must perform the functions of initiating requirements, awarding contracts or orders, and receiving and certifying invoices. We discussed these issues with management during the audit, and management has initiated actions to correct the deficiencies. Accordingly, this report contains no recommendation on contracting practices.

Appendix D. Organizations Visited or Contacted

Department of the Navy

Commander in Chief Atlantic Fleet, Norfolk, VA
Assistant Secretary of the Navy (Research, Development and Acquisition)
 Deputy Assistant Secretary (Command, Control, Communications, Computers and
 Intelligence/Electronic Warfare/Space Programs), Washington, DC
 Principal Assistant for Information Resources Management, Washington, DC
 Commander, Naval Information Systems Management Center, Washington, DC
Office of the Chief of Naval Operations, Washington, DC
 Director, Space Information Warfare Command and Control, Washington, DC
 Director, Information Transfer Division, Washington, DC
Space and Naval Warfare Systems Command, Washington, DC
 Defense Message System and Navy Information Infrastructure, Washington, DC
Naval Computer and Telecommunications Command, Washington, DC
 Naval Computer and Telecommunications Area Master Station, Norfolk, VA
Fleet Industrial Supply Center, Norfolk, VA
Fleet Industrial Supply Center, Philadelphia, PA
Naval Facilities Engineering Command Atlantic Division, Norfolk, VA
Naval Weapons Station, Yorktown, VA
 Naval Ordnance Center, Yorktown, VA
Naval Station/Naval Shipyard, Norfolk, VA
Naval Medical Center, Portsmouth, VA
Naval Audit Service, Mechanicsburg, PA

Unified Commands

Supreme Allied Commander Atlantic, Norfolk, VA
United States Atlantic Command, Norfolk, VA
Joint Training Allied Supremacy Command, Suffolk, VA

Non-Government Organizations

American Telephone and Telegraph, Norfolk, VA
American Telephone and Telegraph, Washington, DC
Bell Atlantic, Norfolk, VA

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
 Deputy Chief Financial Officer
 Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Command, Control, Communications and Intelligence)
Assistant to the Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Assistant Secretary of the Navy (Research, Development and Acquisition)
 Deputy Assistant Secretary (Command, Control, Communications, Computers and
 Intelligence/Electronic Warfare/Space Programs)
 Principal Assistant for Information Resources Management
 Commander, Naval Information Systems Management Center
Office of the Chief of Naval Operations
 Director, Space Information Warfare Command and Control
 Director, Information Transfer Division
Commander, Space and Naval Warfare Systems Command
 Defense Message System and Navy Information Infrastructure
Commander, Naval Computer and Telecommunications Command
 Commanding Officer, Naval Computer and Telecommunications Area Master
 Station Norfolk
Auditor General, Department of the Navy

Department of the Air Force

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

Appendix E. Report Distribution

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Information Systems Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

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 Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Department of the Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(Research, Development and Acquisition)
WASHINGTON, D.C. 20350-1000

JAN 27 1997

MEMORANDUM FOR DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR
GENERAL FOR AUDITING

Subj: DODIG DRAFT OF A PROPOSED AUDIT REPORT ON CONSOLIDATION OF
NAVAL ACTIVITIES PROVIDING TELEPHONE SERVICE - ATLANTIC
REGION (PROJECT NO. 6RD-0030)

Ref: (a) DoDIG Draft Audit Report of 8 Nov 96

Encl: (1) DoN Response to Draft Audit Report

I am responding to the audit report forwarded by reference (a) concerning the evaluation of the Consolidation of Naval Activities Providing Telephone Service - Atlantic Region.

The Department of the Navy response is provided at enclosure (1). As outlined in the enclosed comments, the Department of the Navy is taking specific actions to resolve discrepancies as well as revise current management control procedures. We ask you to consider our general comments before preparing your final report.

A handwritten signature in black ink, which appears to read "Stephen I. Johnson", is written over the typed name and title.

STEPHEN I. JOHNSON
Rear Admiral, U.S. Navy
Principal Assistant for
Information Resources Management

Copy to:
NAVINGEN
NISMIC
CNO (N46)
CNO (N61)
NAVFACENGCOM
COMNAVCOMTELCOM
NAVCOMTELSTA SAN DIEGO

DEPARTMENT OF THE NAVY RESPONSE
TO
DODIG DRAFT REPORT ON
CONSOLIDATION OF NAVAL ACTIVITIES PROVIDING TELEPHONE SERVICE -
ATLANTIC REGION (PROJECT NO. 6RD-0030) OF NOVEMBER 8, 1996

Finding A:

NCTAMS LANT had not validated requirements for telecommunications equipment and services for the five BCOs in the Virginia Tidewater area. Requirements were not validated for the consolidation because NCTAMS LANT:

o did not establish a baseline of or validate requirements for existing telecommunications equipment and services;

o did not identify the number of users, determine proposed user requirements for future telecommunications equipment and services assess the validity of proposed requirements, or establish a telecommunications configuration management plan based on validated future user requirements;

o did not validate requirements for or assess the costs of existing maintenance services;
and

o has not determined projected maintenance costs for telecommunications equipment resulting from a validated telecommunications configuration management plan.

As a result, NCTAMS LANT cannot ensure the effective, efficient, and economical acquisitions and use of telecommunications equipment and services for the five BCOs in the Virginia Tidewater Area.

Recommendation A.1.:

We recommend that the Commanding Officer, Naval Computer and Telecommunications Area Master Station Atlantic, take the following actions for the five base communications offices in the Virginia Tidewater area:

a. Establish a baseline of existing telecommunications equipment and services, and validate the requirements for these existing telecommunications equipment and services.

DON Position:

Non-concur. NAVCOMTELCOMINST 2066.1A dated March 1996 lists the following BCO responsibility: "Develop and maintain a complete and current inventory of all equipment and services being provided to each activity under existing contracts." NCTAMS LANT maintains

Enclosure (1)

Department of the Navy Comments

current inventories of leased common user equipment and leased equipment and services associated with the Centrex services provided to area users. NCTAMS LANT does not maintain inventories of common user equipment and Government owned customer premise equipment (CPE). This CPE is considered minor property of each tenant command and should be controlled/accounted for within the applicable minor property/plant property guidelines. NCTAMS LANT performs an annual validation of Centrex equipment and services provided to users using a software program to inventory voice lines.

b. Identify the number of users, determine future user requirements, assess the validity of proposed user requirements, and establish a telecommunications configuration management plan based on the validated, proposed user requirements when assessing future telecommunications equipment and services requirements.

DON Position:

Concur. The DODIG team said results from the 1993 requirements survey were not current. Therefore, as a follow-on action taken since their exit brief, we are updating the 1993 survey results for Norfolk, Little Creek, Dam Neck and Oceana. We are currently analyzing the data received from these surveys. Responsibility for base communication including BLII configuration management planning transferred to SPAWAR in MAY 95. Specifically, SPAWAR has developed a base level architecture master plan, and we are assisting SPAWAR in establishing a telecommunications solution based on Tidewater requirements.

c. Validate the requirements for existing maintenance contracts and services and perform cost analyses to determine the most cost-effective method of obtaining maintenance contracts and services.

DON Position:

Concur. Therefore, as a follow-on action taken since the DODIG exit brief, NCTAMS LANT has now validated the requirements for existing maintenance contracts. NCTAMS LANT, in concert with FISC Philadelphia, discussed the different types of contracts available for this type of service. A time and material contract, according to the FAR, is the least preferred method. In addition, it may only be used when it is not possible to accurately estimate the extent, duration or amount of work. Technically, a contractor will have to maintain air compressors and alarm systems for a 24 hour/7 day timeframe due to requirements of air core cable. The air compressors are used to continuously push air through the cable runs in order to prevent moisture leakage, which would in turn, cause a loss of service. Approximately 65% of the Outside Plant (OSP) at Norfolk and 50% of the OSP at Little Creek is air core cable. Therefore, NCTAMS LANT is pursuing a hybrid; firm fixed price for the maintenance and cost reimbursement for material vice a time and material contract. Due to competition, this scenario is expected to provide a significant reduction in cost to the government.

d. Develop a projection of maintenance costs for telecommunications equipment that could be incurred under a validated telecommunications configuration management plan.

DON Position:

Concur. We are assisting SPAWAR in establishing a telecommunications configuration management plan and proposed solution based on Tidewater requirements. A projection of maintenance costs for telecommunications equipment will be a part of this solution.

Recommendation A.2.:

We recommend that the Commander, Naval Computer and Telecommunications Command issue "lessons learned" information, based on audit results and recommendations, to regional offices and base communications offices for their use in avoiding similar problems in other Navy locations.

DON Position:

Concur.

Finding B:

The NCTAMS LANT had not identified the most economical method for providing customer premise equipment. The most economical method was not identified because NCTAMS LANT had not performed cost and lease versus purchase analyses and had not analyzed maintenance costs for old customer premise equipment. As a result, NCTAMS LANT cannot assure that continuing to lease customer premise equipment is the most economical acquisition strategy for users.

Recommendation B:

We recommend that the Commanding Officer, Naval Computer and Telecommunications Area Master Station Atlantic:

1. Perform cost and lease versus purchase analyses on leased customer premise equipment and maintenance costs.

DON Position:

Concur.

2. Recommend procurement actions to users if procurement is more economical than leasing customer premise equipment or paying maintenance costs on existing equipment.

Department of the Navy Comments

DON Position:

Concur.

General Comments:

Executive Summary paragraph 2 and Audit Background page 2, paragraph 3: Base Communications Office transfer to NCTC claimancy is under the mandate of CNO N6 vice SPAWAR.

Revised

Audit Background Information page 3, 2nd to last paragraph: NCTAMS LANT does not oversee the BCO operations at Annapolis or Sugar Grove.

Revised

Audit Background Information page 3 last paragraph: NCTAMS LANT considers there are nine BCOs in the Tidewater area. Five have transferred to NCTAMS LANT and four (Yorktown, CLF Compound, NAVMEDCEN Portsmouth and Norfolk Naval Shipyard) have not transferred as yet. LANTDIV, NSWG, SACLANT, JTASC and NEXCOM are not considered BCOs. NEXCOM provides non-appropriated services and does not fall within the transfer effort. JTASC and SACLANT are joint services and not covered by the Navy mandate to transfer. LANTDIV and NSWG are tenants owning their own switches: these switches should be fully integrated in the Tidewater regional solution and not remain as stand-alone switches. Talks are on-going with LANTDIV.

Audit Team Members

This report was prepared by the Readiness and Operational Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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