Audit Report

OFFICE OF THE INSPECTOR GENERAL

CONSOLIDATION OF NAVAL ACTIVITIES PROVIDING TELEPHONE SERVICES IN THE PACIFIC REGION

Report No. 97-119 April 4, 1997

Department of Defense

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Acronyms

BCO	Base Communications Office
CATS	Consolidated Area Telephone System
DFAS	Defense Finance and Accounting Service
NCTC	Naval Computer and Telecommunications Command
NCTS	Naval Computer and Telecommunications Station
OTS	Oahu Telephone System

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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April 4, 1997

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Audit Report on Consolidation of Naval Activities Providing Telephone Services in the Pacific Region (Report No. 97-119)

We are providing this audit report for review and comment. This is the sixth 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.

We request that the Navy provide additional comments to the final report by June 4, 1997 to clarify the actions taken in response to Recommendations 1.a. and 1.b.

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 Mr. Patrick J. Nix, Audit Project Manager, at (703) 604-9521 (DSN 664-9521). See Appendix C 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. 97-119 **April 4, 1997**
(Project No. 6RD-0030.01)

Consolidation of Naval Activities Providing Telephone Services in the Pacific Region

Executive Summary

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

On April 25, 1991, the Naval Computer and Telecommunications Command, under the sponsorship of the Director, Space Information Warfare Command and Control (previously Space and Electronic Warfare), started actions to transfer the base communications offices from various Naval commands to the Naval Computer 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 both the fleet and the shore establishments.

Audit 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 Eastern Pacific Region (Eastern Pacific) in consolidating base communications offices within the Hawaiian Islands. We also evaluated the Eastern Pacific management control program as it related to the overall audit objective.

Audit Results. The management controls for Eastern Pacific needed improvement. Eastern Pacific had not developed and maintained a complete and accurate inventory of telecommunications equipment and services provided to Naval organizations; validated requirements of existing and future telecommunications equipment and services; established a telecommunications configuration management plan based on validated proposed user requirements; and verified the accuracy of the charges on invoices against ordering documents before certification and ensured that telephone invoices are paid in timely manner to preclude interest penalties.

As a result, although some corrective actions were initiated during the audit, Eastern Pacific could not ensure the effective, efficient, and economical acquisition and use of telecommunications equipment, services, and facilities within the Hawaiian Islands. Further, the Defense Finance and Accounting Service (DFAS) Operating Location, Pearl Harbor, Hawaii, was not yet able to make accurate payments for equipment and services in compliance with the Prompt Payment Act. See Appendix A for additional discussion of the management control program.

Summary of Recommendations. We recommend that Eastern Pacific maintain a complete and accurate telecommunications equipment and services inventory, review and revalidate users' requirements, configure equipment and services used to satisfy valid requirements in the most economical fashion, and establish effective procedures for processing invoices for payment and obtaining reimbursement from customers.

Finally, we recommend that the Director, Defense Finance and Accounting Service Operating Location, Pearl Harbor, Hawaii, obtain tariffs applicable to the non-Oahu-Telephone-System services transactions and to pay late penalties accordingly.

Navy Comments. The Navy concurred with all recommendations under its cognizance. The Navy surveyed its users to verify the accuracy of its inventory data base and to assess the validity of the requirements for its existing telecommunications assets. Using data obtained during its survey, the Navy projected its future telecommunications requirements and developed a configuration management plan. Finally, the Navy provided formal training to the BCO staff to ensure they processed telecommunications invoices in compliance with the Prompt Payment Act. See Part I for a summary of management comments and Part III for the complete text of the comments.

Audit Response. The Navy comments are partially responsive regarding the accuracy of its telecommunications equipment and services inventory and the review and revalidation of existing telecommunications requirements. Although the Navy concurred, it did not state whether its users conducted physical inventories to verify the accuracy of its telecommunications equipment and services inventory or whether it reviewed and revalidated all of the users' existing telecommunications requirements. We request the Navy to provide additional comments addressing whether it performed those functions by June 4, 1997.

DFAS Comments. The DFAS nonconcurred with the recommendation addressed to it. However, it suggested that the recommendation be redirected and proposed alternative actions be taken to correct the problems identified during the audit. See Part I for a summary of management comments and Part III for the complete text of the comments.

Audit Response. Although DFAS nonconcurred with the recommendation, its suggested redirection and proposed alternative actions meet the intent of our recommendation. Therefore, we revised the finding and recommendation accordingly, and no additional comments are required.

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Part I - Audit Results

Audit Background

This report is the sixth in a series of reports resulting from our audit of the Consolidation of Naval Activities Providing Telephone Services. 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 (formerly known as the Naval Telecommunications Command). To form a centralized support for shore base communications systems and services, the Chief of Naval Operations directed the Naval Computer and Telecommunications Command (NCTC) to consolidate all BCO operations. The NCTC mission is to plan, procure, implement, and manage telecommunications systems and facilities for the Navy and Marine Corps BCOs.

On April 25, 1991, under the sponsorship of the Director, Space Information Warfare Command and Control (previously Space and Electronic Warfare), NCTC started actions to transfer the BCOs from various Naval commands to 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 will support the Navy goal of establishing a single management center at the base level that would provide fully integrated information services in support of both the fleet and the shore establishments.

Geographical Regions. At the time of the audit, the Navy planned to transfer the related functions for 135 Navy BCOs to four geographical regions (Western, Eastern Pacific, Mediterranean, and Atlantic Regions). The functions were related to the management, administration, engineering support, contracting, planning, ordering, procuring, accounting, and paying for telecommunications equipment and services. The Regional Coordinators' Offices are located at Naval Computer and Telecommunications Station San Diego, California; Naval Computer and Telecommunications Area Master Station Eastern Pacific Region, Hawaii; Naval Computer and Telecommunications Area Master Station Mediterranean, Italy; and Naval Computer and Telecommunications Area Master Station Atlantic, Norfolk, Virginia.

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

o management, administration, planning, and engineering of the Navy base communications systems;

o the implementation of policy, directives, and procedures regarding base telecommunications facilities, equipment, and services; and

o providing direct support to BCOs in the immediate vicinity.

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

Eastern Pacific Region. The Naval Computer and Telecommunications Area Master Station Eastern Pacific Region (Eastern Pacific) is the Eastern Pacific regional coordinator and is responsible for 10 regional BCOs. Eastern Pacific provides regional direction to BCO coordinators located in Australia, Diego Garcia, Guam, Hawaii, Japan, Midway Island, New Zealand, Okinawa, Singapore, and South Korea.

As the regional coordinator, Eastern Pacific responsibilities include conducting site surveys and performing engineering studies to determine existing and future telecommunications growth requirements. Eastern Pacific reviews military construction and special projects to develop supporting structures for the installation of base-level telecommunications systems. Additionally, Eastern Pacific develops and prepares technical procurement packages for the acquisition of base-level telecommunications systems.

Eastern Pacific serves as the local base communications manager, as well as the BCO coordinator, for the Navy shore organizations within its immediate vicinity. In that capacity, Eastern Pacific is responsible for providing the day-to-day management, administration, operations, and maintenance of base telecommunications facilities and services for the Naval and Marine Corps Organizations in the Hawaiian Islands.

Status of the Consolidation of BCOs in Hawaii. All but one of the Naval organizations located in the Hawaiian Islands have functionally transferred to NCTC control. The functional transfer occurred quickly because most of the telecommunications services and equipment for the organizations are provided through a Defense Information Systems Agency-sponsored contract, the contract for the Oahu Telephone System services. The Naval Public Works Center Pearl Harbor, Hawaii, was the focal point for the contract before transfer of the organizations.

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 Eastern Pacific in consolidating BCOs within the Hawaiian Islands. We also evaluated the Eastern Pacific management control program as it related to the overall 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. A summary of prior audits and other reviews is in Appendix B.

Telecommunications Requirements for the Base Communications Offices in the Hawaiian Islands

The management controls for Eastern Pacific needed improvement. The controls were not sufficiently effective because Eastern Pacific did not:

o develop and maintain a complete and accurate inventory of telecommunications equipment and services provided to Naval organizations;

o identify the number of users, determine proposed user requirements for future telecommunications equipment and services, and assess the validity of proposed and existing requirements;

o establish a telecommunications configuration management plan based on validated proposed user requirements; and

o verify the accuracy of the charges on invoices against ordering documents before certification and ensure that telephone invoices are paid in a timely manner to preclude interest penalties.

As a result, Eastern Pacific could not ensure the effective, efficient, and economical acquisition and use of telecommunications equipment and services in the Hawaiian Islands and lacked assurance that payments would be accurate or that amounts disbursed would be for services rendered. Further, Eastern Pacific did not pay its vendor invoices in accordance with the Prompt Payment Act and, thus, incurred $16,380 in interest penalties.

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 policy and guidelines and prescribe procedures for the acquisition and use of base and long-haul telecommunications equipment and services. The policy requires that telecommunication managers:

o acquire, maintain, and use all base and long-haul telecommunications equipment and services effectively, efficiently, and economically;

o accurately account for telecommunications equipment, services, and facilities on existing inventory systems;

o biennially review and revalidate systems and reallocate assets to other uses or discontinue assets when found to be no longer needed in the current configurations; and

o promptly reconcile invoices to the telecommunications equipment and services inventories and acquisition documents before authorizing payment to ensure that DoD only pays for services that it receives.

Naval Computer and Telecommunications Command Instruction 2066.1A, "Navy Base Telecommunications Manual," March 1996, prescribes Navy instructions for implementing DoD policy regarding management of telecommunications. The manual contains detailed instructions on the management and operations of administrative telephone services and facilities at shore installations. The manual requires that BCOs provide effective, efficient, and economical base communications services and facilities to the organizations located in the areas of responsibility. The manual also requires that BCOs develop and maintain an inventory of all telecommunications equipment and services being provided; annually review and revalidate the requirements for items contained in that inventory; and discontinue or reallocate telecommunications equipment and services when found to be no longer needed in the current configurations. Further, the manual requires BCOs to promptly verify and pay all base and long-haul telecommunications invoices to prevent delayed payment charges.

The Prompt Payment Act, Amendment of 1988, Public Law 100-496, was the basis for Office of Management and Budget Circular A-125, December 12, 1989, which prescribes policies and procedures to be followed by executive departments and agencies in paying for property and services under Federal contracts. The Circular requires agencies to pay interest penalties automatically from funds available for the administration of the program for which the penalty was incurred without contractors having to request such payments.

Identification and Validation of Telecommunications Requirements

Eastern Pacific, as local base communications manager, is responsible for managing Navy base telecommunications equipment, services, and facilities located within the Hawaiian Islands. However, Eastern Pacific had not taken actions necessary to develop inventories for telecommunications equipment and services; validate requirements; review and revalidate existing user requirements; or develop a plan that configured the users' telecommunications equipment and services in the most economical fashion.

Inventory Development. Eastern Pacific did not develop and maintain a complete and accurate inventory of telecommunications equipment and services. At the time that the responsibility for day-to-day management of the telecommunications equipment and services functionally transferred to its claimancy, Eastern Pacific did not conduct physical inventories to develop an inventory of equipment and services, but instead it used data obtained from its vendors to develop the inventory. Eastern Pacific, however, did not match all of the inventory data obtained from vendors against source acquisition documents to verify their accuracy. Further, Eastern Pacific did not disseminate the inventory data to the organizations that provided equipment and services or require those organizations to verify the inventory data related to equipment and services that they actually received. As a result, Eastern Pacific cannot accurately support the development of an overall telecommunications configuration plan or verify the validity of vendor charges for equipment and services.

Validation of Requirements. Eastern Pacific neither reviewed or revalidated users' telecommunications requirements in a timely manner as required by the Navy Base Telecommunications Manual and DoD Directive 4640.13. Further, Eastern Pacific did not establish procedures that ensured that users identified and discontinued telecommunications equipment and services for which a bona fide need no longer existed. Eastern Pacific management was not aware of DoD or Navy regulations that gave Eastern Pacific the responsibility to perform reviews and revalidations. Management believed that the responsibility for reviewing and revalidating telecommunications requirements rested with the communications users who actually created the requirements.

During the audit, we informed management that its position was not in compliance with DoD Directive 4640.13, DoD Instruction 4640.14, and Naval Computer and Telecommunications Command Instruction 2066.1A. Eastern Pacific management initiated prompt actions to conduct physical inspections of its telecommunications equipment and services, to develop an inventory, and to review and revalidate its existing assets. However, Eastern Pacific also needs to develop a plan to review and revalidate user requirements for future telecommunications equipment and services.

Configuration Management. Eastern Pacific did not determine proposed user requirements for future telecommunications equipment and services, did not assess the validity of proposed user requirements, and did not establish a telecommunications configuration management plan based on validated proposed user requirements to satisfy Navy telecommunications requirements within the Hawaiian Islands. Further, Eastern Pacific did not conduct engineering studies and cost analyses to support the development of a cost-effective configuration plan. Management stated that it had not developed a configuration plan because the Navy telecommunications requirements were included as a part of an island-wide contract that was to be awarded by the Defense Information Systems Agency. A section of the contract required the contractor to prepare a configuration plan. Although the Navy requirements for equipment and services will be included as a part of the island-wide contract, a Navy-wide configuration plan should provide flexible guidelines and goals for the installation of future telecommunications needs and provide a means for Navy communications managers to monitor the work of communications vendors. Further, an effective configuration plan should identify a consolidated area-wide approach to telecommunications requirements, result in cost-effective procurements through economies of scale, and achieve technical interoperability solutions among communications users. The establishment of a telecommunications configuration plan is one of the primary responsibilities of communications managers.

Verification and Payment of Telecommunications Invoices

Payment Process for Oahu Telephone System (OTS) Services. The Defense Information Systems Agency operates the Communications Information Services Activity to procure authorized commercial communications services, facilities, and equipment for DoD and other Government Agencies. Procurements are carried out by the Defense Information Technology Contracting Office (the Contracting Office), which is the operating arm of the Communications Information Services Activity. The Contracting Office issues Customer Service Agreements as part of the procurement process to obtain telecommunications services. In addition, each month the Contracting Office sends Standard Form 1080, "Voucher for Transfer Between Appropriations and/or Funds," to Eastern Pacific and the Defense Finance and Accounting Service (DFAS) to receive reimbursement for telecommunications equipment and services procured for the Navy organizations located in the Hawaiian Islands. The Contracting Office also sends its customer cost and obligation report to Eastern Pacific. The report provides a detailed listing, with the associated costs, of the telecommunications equipment and services procured for the Navy organizations located in the Hawaiian Islands. DFAS performs the finance and accounting function for DoD organizations. Upon receipt of a Standard Form 1080, DFAS executes an interfund transfer between Eastern Pacific and the Contracting Office

appropriation accounts for the amount shown on the Standard Form 1080. For FY 1995, Eastern Pacific spent approximately $8.6 million for the customers' OTS equipment and services.

Payment Process for Non-OTS Services. According to its Mission and Functions Statement, DFAS is a commercial accounts payable office and is responsible for paying invoices received from its customers (DoD organizations). United States Code, title 31, section 3528(a), requires that all Federal disbursements be certified as accurate, legal, and proper. The DFAS pays customer invoices after DFAS has determined fund availability and that the charges shown on the vendor's invoices are accurate, legal, and proper. The DFAS validates vendor charges by comparing amounts shown on the invoice against those listed in a customer's contract. It is the customer's responsibility to ensure that the information reflected on the contracts is accurate and that the charges shown on the vendor's invoices are for equipment and services that have been received.

The DFAS Operating Location in Pearl Harbor, Hawaii, makes payments for Eastern Pacific non-OTS services. For FY 1995, Eastern Pacific spent approximately $1.7 million for the customers' non-OTS telecommunications equipment and services.

Verification Procedures. At Eastern Pacific, the verification function is the responsibility of the Financial Management Systems Division. The Financial Management Systems Division reviews the telecommunications vendor invoices for non-OTS charges and the monthly customer cost and obligation report for OTS charges to verify accuracy and to certify that the customers received the equipment and services. The Financial Management Systems Division pays the charges for OTS in advance. The charges are reflected on the customer cost and obligation report. The Financial Management Systems Division pays the non-OTS charges after the Financial Management Systems Division performs the verification of the invoice charges. The Financial Management Systems Division performs verification with the aid of a computer program that compares electronic versions of the vendor invoices and customer cost and obligation reports against the inventory data base. The Financial Management Systems Division identifies and researches amounts that do not match, and if the Financial Management Systems Division determines that the amounts are erroneous, it does not pay the charges related to charges shown on a vendor invoice, or it recoups them through "report adjustments" if they are related to charges shown on a customer cost and obligation report.

Although those procedures, if implemented correctly, would have produced the intended result, Eastern Pacific neutralized them by not verifying the accuracy of the inventory data base, as previously discussed. In addition, Eastern Pacific stopped requesting for adjustments to the customer cost and obligation reports to recoup the value of the charges determined to be erroneous. As a result,

Eastern Pacific has no assurance that payments made will be accurate and will be only for equipment and services that were received.

Prompt Payment Procedures. Eastern Pacific and DFAS did not process the vendor invoices for non-OTS telecommunications equipment and services for payment in accordance with the Prompt Payment Act. Eastern Pacific, as the designated billing office, neither completed the receipt and acceptance actions promptly nor consistently established the obligations necessary to enable DFAS to initiate payment of the corresponding invoices in the DoD accounting system. Further, DFAS had a backlog of unpaid bills that lengthened the time required to process invoices by 2 to 3 days. Additionally, DFAS coded the transactions to prevent the automatic initiation of payments for late penalties due on invoices containing charges related to tariffed services. As a result, Eastern Pacific did not pay in a timely manner the invoices for non-OTS telecommunications equipment and services that it procured.

The failure to process the vendor invoices for non-OTS telecommunications equipment and services for payment in accordance with the Prompt Payment Act will result in the assessment of interest penalties. Our review of the 63 invoices paid from September 1995 through April 1996 showed that Eastern Pacific did not pay 48 invoices, or 76 percent, within the required timeframe, and as of April 1996, those invoices caused Eastern Pacific to either pay or accrue $16,380 in interest penalties.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Commanding Officer, Naval Computer and Telecommunications Area Master Station Eastern Pacific Region:

a. Maintain a complete and accurate inventory of telecommunications equipment and services provided to Naval organizations.

Management Comments. The Navy concurred with the recommendation. The Navy has taken actions to verify the accuracy of its telecommunications equipment and services inventory, as well as to implement procedures to ensure that the Navy accurately maintains its telecommunications equipment and services inventory.

Audit Response. Although the Navy concurred, it did not state whether users conducted physical inventories to verify the accuracy of its telecommunications equipment and services inventory. Maintaining the inventory for the Government is not a responsibility of the vendor. Unless the Navy performed

physical inventories as a part of its validation process, the potential exists that equipment and services remain unaccounted for. The vendor-provided data may understate equipment and services leased by the Navy and does not include Government-furnished equipment and services used to satisfy user requirements. If the Navy has not already required the users to physically account for their equipment and services, it should do so. We request the Navy to clarify whether the users performed physical inventories as a part of their verification process.

b. Determine proposed user requirements for future telecommunications equipment and services, assess the validity of proposed user requirements, and establish a telecommunications configuration management plan based on validated proposed user requirements.

Management Comments. The Navy concurred with the recommendation. The Navy surveyed the users to determine and validate its existing telecommunications inventories. Using data obtained during its survey, the Navy projected its telecommunications requirements over the next 5 years and developed a configuration management plan.

Audit Response. Although the Navy concurred, the Navy review process does not appear to be sufficiently comprehensive to adequately revalidate users' existing telecommunications requirements. If the Navy has not reviewed and revalidated all of the users' existing telecommunications requirements, it should do so. We request the Navy to clarify whether it reviewed and revalidated all of the users' existing telecommunications requirements.

c. Verify the accuracy of the charges on invoices against ordering documents before certification and ensure that telephone invoices are paid in a timely manner to preclude interest penalties.

Management Comments. The Navy concurred with the recommendation. The Navy is establishing formalized procedures to ensure compliance with established Departmental financial guidelines. The Navy also provided formal training to the BCO staff to ensure that they processed telecommunications invoices in a timely manner.

2. We recommend the Director, Defense Finance and Accounting Service Operating Location, Pearl Harbor, Hawaii, obtain the tariffs applicable to the non-Oahu-Telephone-System services transactions and to pay late penalties accordingly.

Management Comments. DFAS nonconcurrent with the recommendation, stating that its center in Columbus, Ohio, was erroneously identified as responsible for the Operating Location in Pearl Harbor, Hawaii. DFAS stated that the center in Cleveland, Ohio, was the correct center to be referenced.

DFAS further stated that the bill-paying system used by the Pearl Harbor operating location allows for the automatic calculation of late penalty payments where warranted. However, the Pearl Harbor operating location failed to obtain copies of the tariffs applicable to non-OTS services, and therefore, coded the transactions as not subject to assessments of late penalties. To correct that problem, DFAS proposed directing the Pearl Harbor operating location to obtain copies of tariffs applicable to non-OTS services and to pay late penalties accordingly. As of April 3, 1997, DFAS estimated that proposed actions will be completed by May 24, 1997.

Audit Response. The DFAS-suggested redirection and proposed alternative actions meet the intent of our recommendation. Therefore, we revised the finding and recommendation accordingly, and no additional comments are required.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We gathered information from February 1986 through April 1996 and reviewed and evaluated efficiency and effectiveness of acquisition planning and contract administration, bill certification and payment, inventory and revalidation of requirements for telecommunications equipment and services, management of telecommunications equipment and services configurations, and cost estimating.

This economy and efficiency audit was conducted from April through November 1996. The audit was performed 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 rely on computer-processed data or statistical sampling procedures to achieve the audit objectives.

Organizations Visited or Contacted

We visited or contacted individuals and organizations within the DoD. Further details are available upon request.

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.

*DoD Directive 5010.38, has been revised as "Management Control Program," August 26, 1996. The audit was performed under the April 1987 version of the directive.

Scope of Review of Management Control Program. We reviewed the adequacy of Eastern Pacific management controls related to the management, administration, and operations of telecommunications equipment, services, and facilities. Specifically, we reviewed:

o the efficiency and effectiveness of the consolidation of Naval BCOs within the Pacific Region,

o the functional transfer of responsibilities from public works centers to Eastern Pacific,

o configuration management of telecommunications equipment and services for Eastern Pacific, and

o vendor invoice certification and payment procedures.

We also reviewed management's self-evaluation applicable to those management controls. We identified no systematic problems in the following areas: acquisition planning, contract administration procedures, budgets, and development of rates.

Adequacy of Management Controls. We identified material management control weaknesses for Eastern Pacific as defined by DoD Directive 5010.38. Eastern Pacific management controls for program operations were insufficient to ensure that control objectives have been met. If management implements all recommendations made in this report, then Eastern Pacific management controls over program operations will improve and could result in reduced costs for telecommunications equipment and services. Those potential monetary benefits are not readily quantifiable. A copy of the audit report will be provided to the senior official responsible for management controls at the Naval Computer and Telecommunications Command.

Adequacy of Management's Self-Evaluation. Eastern Pacific self-evaluations did not identify the material weaknesses identified during the audit. The Eastern Pacific officials failed to perform risk assessments since 1989. Further, the risk assessments prepared in 1989 were inadequate because they did not include a thorough review of subfunctional risks within assessable units. Officials used management control reviews to follow up the assessable units identified during the preparation of risk assessments in 1989 and to streamline the management control program. Because management control reviews were used to follow up inadequate and outdated risk assessments, the management control reviews conducted by officials in support of risk assessments were inadequate. As a result, officials did not detect material weaknesses that were found during the audit.

The proper performance of self-evaluations requires that reviewers perform a detailed examination of all the functions and subfunctions within an organization and consider the risk associated with the performance of those functions. The effectiveness of the risk assessment process is enhanced by the review of subfunctional risk because the reviewer is working with a defined objective. Additionally, DoD Directive 5010.38 requires that the risk assessment process be performed at least once every 5 years or as major changes occur. Eastern Pacific officials did not meet that requirement. Consequently, the self-assessment process did not adequately achieve the management control objectives.

Appendix B. Prior Audits and Other Reviews

Office of the Inspector General, DoD, Report No. 97-094, "Consolidation of Naval Activities Providing Telephone Service-Atlantic Region," February 14, 1997. The Naval Computer and Telecommunications Area Master Station Atlantic neither validated the telecommunications requirements for five BCOs in the Virginia Tidewater area nor evaluated and identified the most economical methods for providing users' customer premise equipment. Consequently, the Navy has no assurance that funds have not been expended for equipment and services that are no longer needed or that equipment and services were acquired and used efficiently and economically. Further, the Navy also lacks assurance that continuing to lease and maintain old customer premise equipment is the most economical strategy for users. We recommended that management inventory and validate requirements for existing telecommunications assets and their associated maintenance contracts, identify and validate users' future requirements, and develop a telecommunications configuration plan based on validated future user requirements. We also recommended that management perform cost analyses to identify equipment leases that should be terminated and replaced in favor of purchased equipment.

The Navy generally concurred with the findings and recommendations with the exception of establishing a baseline of existing telecommunications equipment and services. The Navy surveyed the users to gather information concerning the validity of users' requirements for existing telecommunications equipment and services and is analyzing the data received. 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.

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, have 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. We also recommended that management 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 the Commander, 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. The NCTS, San Diego, formed a team (from the 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 the NCTC has reviewed the CATS II life-cycle management documentation, the Naval Space and Electronic Warfare Directorate is withholding approval of the mission needs statement 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 Consolidated Area Telephone System (CATS) contract and the NCTS, San Diego, was not prepared to effectively manage the current CATS I contract and 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 has no assurance that telecommunications assets are 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. Additionally, the NCTS, San Diego, is not prepared to effectively manage the current CATS I contract and future CATS II contract scheduled for transfer from the Navy Public Works Center, San Diego, to NCTS, San Diego, in October 1995. Consequently, the NCTS, San Diego, will be unable to effectively carry out the responsibilities for the CAT I and CATS II contracts.

The Navy concurred with the audit findings and recommendations and implemented the recommended actions.

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 as required by 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 up to $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 will 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 terminate the CATS contract for the convenience of the Government, if it is economically feasible. The Navy concurred with the finding and recommendations and implemented the recommended actions.

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 Consolidated Area Telephone Systems, 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, 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's 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. Accordingly, we believe that the Navy was responsive to the audit finding and recommendations.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Director, Defense Logistics Studies Information Exchange
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)

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, Computer and Intelligence/Electronic Warfare/Space Programs)
    Principal Assistant for Information Resources Management
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 Information Systems Management Center
Commander, Naval Computer and Telecommunications Command
  Commanding Officer, Naval Computer and Telecommunications Area Master Station Eastern Pacific Region
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

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Information Systems Agency
Director, Defense Logistics Agency
  Inspector General, 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
NAVAL INFORMATION SYSTEMS MANAGEMENT CENTER
1225 JEFFERSON DAVIS HIGHWAY
ARLINGTON VIRGINIA 22202-4311

7500
05/97-002
12 Mar 97

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 - PACIFIC REGION (PROJECT NO. 6RD-0030.01) - ACTION MEMORANDUM

Ref: (a) DoDIG Draft Audit Report of 30 Dec 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 - Pacific Region.

The Department of the Navy response is provided at enclosure (1). We agree with the report findings and recommendations. 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.

STEPHEN I. JOHNSON
Rear Admiral, U.S. Navy
Commander

Copy to:
NAVINSGEN
ASN FM&C (FMO-31)
CNO (N61)
COMNAVCOMTELCOM
NCTAMS EASTPAC

DEPARTMENT OF THE NAVY
TO
DODIG DRAFT REPORT ON
CONSOLIDATION OF NAVAL ACTIVITIES PROVIDING TELEPHONE SERVICE-
PACIFIC REGION (PROJECT NO: 6RD-0030.01) OF DECEMBER 30, 1996

Finding:

Eastern Pacific has not complied with DOD Directives and Navy Instructions. Specifically, Eastern Pacific did not:

o develop and maintain a complete and accurate inventory of telecommunications equipment and services provided to Naval organizations;

o identify the number of users, determine proposed user requirements (for future telecommunications equipment and services, assess the validity of proposed and existing requirements;)

o establish a telecommunications configuration management plan based on validated proposed user requirements; and

o verify the accuracy of the charges on invoices against ordering documents before certification and ensure that telephone invoices are paid in a timely manner to preclude interest penalties.

Eastern Pacific did not comply with DoD and Navy regulations because it was not aware of the regulations that assigned it the responsibility for the above requirements.

As a result, Eastern Pacific cannot ensure the effective, efficient, and economical acquisition and use of telecommunications equipment and services in the Hawaiian Islands. Additionally, Eastern Pacific cannot accurately support the development of an overall telecommunications configuration plan or verify the validity of vendor charges for equipment and services.

Recommendation 1:

We recommend that the Commanding Officer, Naval Computer and Telecommunications Area Master Station, Eastern Pacific Region comply with DoD Directives and Navy Instructions to:

a. Maintain a complete and accurate inventory of telecommunications equipment and services provided to Naval organizations.

Enclosure (1)

DON Position:

Concur. In response to this recommendation, NCTAMS EASTPAC has taken the following action. Telephone Management Information System (TMIS) contains a complete inventory of equipment and services. The Follow-on Interim Telephone System (FITS) (formerly Oahu Telephone System (OTS)) equipment and services were downloaded from GTE Hawaiian Telephone Company's (HTC) Telecommunications Service Request (TSR) tape. This includes KC-11 PDC's for Navy and Marine Corps activities.

An inventory of non-FITS equipment and services is being maintained in TMIS. The TMIS non-FITS inventory, called CSA.dbf, was created from source documents and includes Service Telephone numbers (TN), Job Order Number (JON) and total Monthly Recurring Costs (MRCs) and the Communication Service Authorization (CSA) numbers. A comparison was conducted against the vendor provided tapes and total MRCs, if totals matched, the BCO extracted GSEC and loaded it into TMIS. Mismatches were individually verified. We provided a hard copy of this inventory, for the month of December 1996, to the DOD IG team, as requested.

An inventory printout was provided to each activity prior to the functional transfer from Public Work Center (PWC) to NCTAMS EASTPAC, accompanied by a cover letter from the Commanding Officer, NCTAMS EASTPAC, directing Navy and Marine Corps activities to verify the information and provide discrepancies to the BCO within 30 days. Written certification was not required at that time. Based on DODIG recommendations, this inventory was later revalidated and certified as correct by each activity.

A complete inventory of equipment and services is provided to each activity as part of the detailed monthly billing report. Activities are required to validate/certify this information and provide the BCO with discrepancies within 60 days of report generation. BCO instructions are being updated, requiring activities to provide written certification of the inventory to the BCO. This instruction will be available for review by 1 July 1997.

During the third quarter of FY97, another printout of equipment and services will be distributed to activities for verification and certification. This is part of the detailed site surveys required for Hawaiian Information Transfer System (HITS) implementation. Included in each activity report returned will be future, near-term and long term projections for additional equipment and services. Copies of these certification documents will be available for review, by 1 July 1997.

b. Determine proposed user requirements for future telecommunications equipment and services, assess the validity of proposed user requirements, and establish a telecommunications configuration management plan based on validated proposed user requirements.

DON Position:

Concur. In response to this recommendation, NCTAMS EASTPAC has taken the following action. The BCO conducted an annual review of user requirements for calendar year 1996. This review was completed on 8 November 1996. The review consisted of the following:

- A detailed inventory of equipment and services was provided to all Navy/Marine Corps activities in September 1996.

- A list of services not used for 30 days was provided to each Navy/Marine Corps activity for verification and validation.

- Users were required to validate inventories, provide written certification to the BCO and identify services not required.

- Disconnect orders were issued for services not required.

- As part of the HITS implementation, a detailed site survey for configuration requirements will be conducted at each location for Navy/Marine Corps activities. Surveys will be completed by 30 June 1997.

- The BCO developed a five (5) year configuration plan for the optimum utilization of telecommunications equipment and resources. This plan was incorporated into the HITS Request For Proposal. This plan has been augmented with additional information, (e.g., key systems, specialized equipment/maintenance requirements).

c. Verify the accuracy of the charges on invoices against ordering documents before certification and ensure that telephone invoices are paid in a timely manner to preclude interest penalties.

DON Position:

Concur. Prior to the transfer of Public Work Center (PWC) Code 690 to NCTAMS EASTPAC, procedures were in place to handle this processing, utilizing IDAFMS. Upon completion of the transfer, the BCO assumed fiscal responsibility. The BCO is presently updating the PWC procedures to reflect the transfer. The BCO has also assumed fiscal responsibility for receipt, acceptance and disbursement of customer funds, utilization of STARS/FL to establish reimbursable and direct Job Order Numbers, Invoice payments, cost transfer, authorization of funds, status and reviews. The BCO staff has been formally trained in STARS/FL. The BCO is presently formalizing in-house procedures to ensure compliance with established DON financial procedures and guidelines.

Defense Finance and Accounting Service Comments

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

DFAS-HQ/S

FEB 28 1997

MEMORANDUM FOR DIRECTOR, READINESS AND OPERATIONAL SUPPORT DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on the Consolidation of Naval Activities Providing Telephone Services in the Pacific Region (Project No. 6RD-0030.01)

The Defense Finance and Accounting Service (DFAS) appreciates the opportunity to review the draft audit report on the consolidation of Naval activities providing telephone services in the Pacific Region. We nonconcur with the recommendation the Director, DFAS Center Columbus, Ohio, reprogram the bill-paying software to allow the system to automatically calculate late penalty payments for tariffed services. Our reason for nonconcurrence and proposed alternative action is attached.

Any questions should be addressed to Ms. Linda Mathews at (703) 607-3965 or DSN 327-3965.

for C. Vance Kauffman
Robert E. Burke
Deputy Director for
Information Management

Attachment
As stated

Final Report Reference

Audit Report on the Consolidation of Naval Activities Providing Telephone Services in the Pacific Region (Project No 6RD-003.01)

Recommendations for Corrective Action

2. We recommend the Director, Defense Finance and Accounting Service Center Columbus, Ohio, reprogram the bill-paying software to allow the system to automatically calculate late penalty payments for tariffed services.

Revised

Response - Nonconcur

Defense Finance and Accounting Service (DFAS) Center Columbus, Ohio, does not have responsibility for payment of tariffed services for the DFAS field office in Pearl Harbor, Hawaii. As an Operating Location (OPLOC) under DFAS Cleveland, OH, Pearl Harbor processes payments for tariffed services through the Standard Accounting and Reporting System (STARS)-One Bill Pay. STARS-One Bill Pay allows the automatic calculation of late penalty payments where warranted. OPLOC Honolulu stated they do not have a copy of the tariff for the non-OTS services and have coded the transactions to be excluded from late penalty payments.

Recommended Corrective Action

DFAS is preparing a memorandum to the Director, Operating Location Honolulu, Hawaii, advising them to obtain a copy of the tariffs that apply to non-OTS telecommunications equipment and services and to pay late penalty payments accordingly. Expected completion date for obtaining the tariffs and determining the proper penalties, if any, is March 24, 1997.

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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