Audit Report

OFFICE OF THE INSPECTOR GENERAL

CONSOLIDATED AREA TELEPHONE SYSTEM-SAN DIEGO AREA

Report No. 96-077 February 29, 1996

Department of Defense

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Acronyms

CATS	Consolidated Area Telephone System
CSA	Communication Service Authorization
NAVFAC	Naval Facilities Engineering Command
NCTC	Naval Computer and Telecommunications Command
NCTS	Naval Computer and Telecommunications Station
PWC	Navy Public Works Center

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

February 29, 1996

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

SUBJECT: Report on Consolidated Area Telephone System-San Diego Area (Report No. 96-077)

This report is provided for your information and use. We performed the audit in response to a complaint to the Defense Hotline. Management comments on a draft of this report were considered in preparing the final report.

Comments on this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

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). The distribution of this report is listed in Appendix E. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 96-077 **February 29, 1996**
Project No. 5RD-8006.02

Consolidated Area Telephone System-San Diego Area

Executive Summary

Introduction. This audit resulted from the Audit on the Consolidated Area Telephone System-San Francisco Bay Area. The Consolidated Area Telephone System (CATS) San Diego contract, valued at $142 million, will expire in August 1996. In October 1995, administration of CATS transferred from the Navy Public Works Center, San Diego, to the Naval Computer and Telecommunications Station, San Diego.

Objective. The primary audit objective was to evaluate the adequacy, efficiency, and effectiveness of asset accountability over CATS leased telecommunications equipment and services (switches, cabling, and telephones) and the management planning for the follow-on contract, CATS II. We also evaluated applicable management control programs for the Navy Public Works Center, San Diego, and Naval Computer and Telecommunications Station, San Diego, as those programs related to the primary objective.

Audit Results. The Naval Facilities Engineering Command did not maintain a validated inventory of telecommunications assets obtained under the CATS contract. As a result, the Navy has no assurance that telecommunications assets are safeguarded against waste, loss, unauthorized use, or misappropriation. Additionally, although the contract cost increased by $60 million, the Naval Facilities Engineering Command could not accurately account for orders, obligations, and expenditures for telecommunications equipment, services, and facilities. Moreover, unnecessary expenditures could result from equipment, services, or facilities in excess of user needs (Finding A).

Naval Computer and Telecommunications Station, 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 the Naval Computer Telecommunications Station, San Diego, in October 1995. Consequently, Naval Computer Telecommunications Station, San Diego, will be unable to effectively carry out the responsibilities for the CATS I and CATS II contracts (Finding B). We identified material management control weaknesses in that the Navy had not implemented a management control program for leased telecommunications equipment and services. Recommendations in this report, if implemented, will help to ensure proper accountability for equipment, services, and facilities and could result in funds (undeterminable) put to better use. See Part I for a discussion of the audit results and Appendix C for a summary of the potential benefits resulting from the audit.

Summary of Recommendations. We recommend that the Commander, Naval Facilities Engineering Command, perform a joint physical inventory of CATS equipment, services, and facilities; review and revalidate CATS user requirements and discontinue services that are not valid; and review and revalidate Communication Service Authorizations issued from 1986 to present; and determine the actual number of orders and obligations or expenditures for telecommunications equipment, services, and facilities.

Also, we recommend that the Commander, Naval Computer and Telecommunications Command, request sufficient procurement authority to administer the contract or identify the contract administration office assigned to perform contract administration functions. Further, we recommend that the Commanding Officer, Naval Computer and Telecommunications Station, San Diego, implement a management control program that establishes procedures to manage the CATS I and CATS II contracts and that identifies responsibilities.

Management Comments. The Navy concurred with Finding A and the recommendations. The Public Works Center, San Diego, and the Naval Computer and Telecommunications Station, San Diego, will perform a joint physical inventory of telecommunications equipment, services, and facilities to establish a validated Government asset data base. The Public Works Center, San Diego, reviewed and reconciled 125,000 Communication Service Authorizations. The final expenditure agreement for quantities exceeding the CATS I contract will be resolved by contract closure on August 26, 1996. The Navy responsibility for telecommunications services was transferred from the Public Works Center, San Diego, to the Naval Computer and Telecommunications Station, San Diego, on October 1, 1995. The Naval Computer and Telecommunications Station, San Diego, will establish procedures to periodically review and revalidate requirements for communication equipment, services, and facilities.

The Navy also concurred with Finding B and the recommendations. The Naval Computer and Telecommunications Command is negotiating CATS II contract administration services with the Naval Information Systems Management Command and anticipates that the Fleet Industrial Supply Center, San Diego, will be identified as the Contract Administrator for CATS II. Because the authority to manage the CATS I contract remains the responsibility of the Naval Facilities Engineering Command until contract closure on August 26, 1996, the Naval Computer and Telecommunications Station, San Diego, will implement a management control program for the CATS II contract. The complete text of management comments is in Part III.

Audit Response. The Navy comments were responsive to the audit findings and recommendations. Therefore, no additional comments are required.

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Part I - Audit Results

Audit Background

This audit resulted from the Audit on the Consolidated Area Telephone System-San Francisco Bay Area. The Consolidated Area Telephone System (CATS), San Diego, is a complete telephone system including cables, telephones, switches, and a network. The contract, CATS I, awarded in April 1985 for $82 million, was a 10-year lease-to-purchase contract. Under the terms of the contract, the Navy leased all telecommunications equipment from the contractor for 10 years, commencing with the connection of the first Navy base in August 1986. The Navy will purchase the system for $1 at the expiration of the contract in August 1996. CATS, San Diego, supports 192 military and 230 nonmilitary organizations at 14 naval installations and outlying military housing areas and off-base locations used for official Navy business. The operator service was consolidated at the Consolidated Area Telephone Office under the purview of the Navy Public Works Center (PWC), San Diego, a Defense Business Operations Fund activity, under the subordinate command of the Naval Facilities Engineering Command (NAVFAC).

Consolidation of Navy Telephone Services. In 1991, the Chief of Naval Operations directed the Naval Computer and Telecommunications Command (NCTC) to execute the consolidation of all activities providing telephone service in order to standardize telecommunications functions for all Navy organizations. In 1993, the NCTC initiated the consolidation and regionalization of 148 Navy and Marine Corps activities providing telephone service worldwide under four NCTSs in the West Coast, Eastern Pacific, Atlantic, and Mediterranean Regions.

The Naval Computer and Telecommunications Station (NCTS), San Diego, assigned as the West Coast Regional Coordinator, is to provide management for the day-to-day operations and technical and policy guidance to activities providing telephone service and facilities. The NCTS, San Diego, mission was to plan, procure, and implement telecommunications systems and facilities for naval and Marine Corps organizations.

Audit Objectives

The primary audit objective was to evaluate the adequacy, efficiency, and effectiveness of asset accountability over CATS leased telecommunications equipment and services (switches, cabling, and telephones), and the management planning for the follow-on contract, CATS II. We also evaluated applicable management control programs for the PWC, San Diego, and NCTS, San Diego, as the programs related to the primary objective. See Appendix A for a discussion of the scope and methodology and the results of the review of the management control programs. See Appendix B for prior audit coverage related to the audit objectives.

Finding A. Inventory Accountability of Leased Telecommunications Equipment and Services

The NAVFAC did not maintain a validated inventory of telecommunications assets obtained under the CATS contract. A validated inventory did not exist because NAVFAC had not performed a physical inventory of the assets and did not adequately account for Communication Service Authorizations* on the CATS contract for leased telecommunications equipment, services and facilities. Further, NAVFAC had not validated user telecommunications needs since 1986. As a result, the Navy has no assurance that telecommunications assets are safeguarded against waste, loss, unauthorized use, or misappropriation. Additionally, although the contract cost increased by $60 million, NAVFAC could not accurately account for the number of orders and obligations or expenditures for telecommunications equipment, services and facilities. Moreover, unnecessary expenditures could result from equipment, services or facilities in excess of user needs.

Management Guidance

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, assign responsibilities, and prescribe procedures to ensure the effective, efficient, and economical use of base and long-haul telecommunications and services. The policy requires DoD Components to discontinue telecommunications equipment or services for which a bona fide need no longer exists. The DoD Components must ensure that Government-owned telecommunications equipment, systems and facilities are effectively, economically, and efficiently maintained; accurately accounted for on existing inventory systems; biennially reviewed and revalidated; and reallocated to other uses when found to be no longer needed in their current configuration.

*A Communication Service Authorization (DD Form 428), or an electronic data-processed equivalent thereof, when issued against either a basic agreement or a contract schedule, constitutes a binding contractual obligation to provide required equipment or services.

CATS Telecommunications Equipment and Services

The CATS contract, awarded in 1985 for $82 million, is a hybrid, indefinite-delivery-indefinite-quantity contract that contains firm fixed-price, labor hour and time and materials line items. Under the terms of the contract, the contractor determined the number or quantities of items required for the operation of the CATS network. In 1986, when the contractor determined that additional equipment and services (switches, cabling, and telephones) were required, the contract price increased to $142 million. However, because NAVFAC did not adequately manage contract documentation, NAVFAC could not ensure proper accountability of telecommunications equipment and services. Also, NAVFAC had not implemented management control procedures to ensure that telecommunications equipment and services are accurately accounted for and that user requirements were reviewed and revalidated.

Physical Inventory. The NAVFAC had not performed a required physical inventory of telecommunications equipment, services, and facilities since the CATS contract was implemented in August 1986, and only the contractor had a record of the leased telecommunications equipment, services, and facilities. A physical inventory will ensure that expenditures applicable to the CATS operation are properly accounted for and that telecommunications assets are safeguarded against waste, loss, unauthorized use, and misappropriations. As of October 1995, the inventory data base initiated by PWC, San Diego (under the command of NAVFAC), had not been completed and validated. In October 1995, the CATS operation was transferred to NCTS, San Diego. Because NAVFAC could not accurately account for telecommunications assets, a joint inventory involving NAVFAC, NCTS, San Diego, and the contractor will help ensure accurate accountability for telecommunications assets purchased under the CATS contract and will result in the proper identification of telecommunications requirements for the follow-on contract, CATS II.

Communication Service Authorizations. NAVFAC did not maintain accurate accountability of telecommunications equipment and services ordered from the CATS contract. Although Communication Service Authorizations (CSAs) identify specific contract line items and nonrecurring and recurring rates, NAVFAC personnel did not:

- count the number of orders made from each contract line item and
- maintain cumulative totals of obligations or expenditures.

Consequently, although the contract cost increased by $60 million, NAVFAC could not accurately account for the actual number of orders and obligations or expenditures for telecommunications equipment, services, and facilities. The completion and validation of the inventory data base will help NAVFAC in revalidating CSAs issued since 1986.

Review and Revalidation of User Requirements. Since the inception of the CATS network in 1986, the CATS user requirements have not been reviewed and revalidated as required by DoD Directive 4640.13, "Management of Base and Long-Haul Telecommunications Equipment and Services," December 5, 1991. NAVFAC believed that users are responsible for the review and revalidation of their own telecommunications requirements and had not established procedures to ensure that users discontinued telecommunications equipment or services for which a bona fide need no longer existed. Without the revalidation of user requirements, unnecessary expenditures could result from equipment, services, or facilities in excess of user needs.

Summary

In October 1995, the CATS operation was transferred to NCTS, San Diego. We believe that a joint physical inventory (to include the contractor and NCTS, San Diego) and a revalidation of CSAs issued since 1986 would ensure that leased telecommunications equipment and services obtained under the CATS contract are accounted for and meet valid needs. We also believe that those actions could result in funds (undeterminable) put to better use (see Appendix C). A physical inventory will also provide a mechanism to revalidate the current user requirements and to discontinue requirements that are no longer valid.

Recommendations and Management Comments

We recommend that the Commander, Naval Facilities Engineering Command:

1. Conduct a joint physical inventory with the contractor and the Naval Computer and Telecommunications Station, San Diego, of telecommunications equipment, services, and facilities for the Consolidated Area Telephone System.

2. Review and revalidate Communication Service Authorizations issued from 1986 to the present, and determine the actual number of orders and obligations or expenditures for telecommunications equipment, services, and facilities.

3. Perform a review and revalidation of the consolidated Area Telephone System user requirements, and discontinue those services that are not valid in accordance with DoD Directive 4640.13, "Managing Base and Long-Haul Telecommunications Equipment and Services," December 5, 1991.

Management Comments. The Navy concurred with the finding and recommendations. The PWC, San Diego, and NCTS, San Diego, will conduct a joint physical inventory of telecommunications equipment, services, and facilities to establish a validated Government asset data base. PWC, San Diego,

has reviewed and reconciled 125,000 CSAs to verify the number of orders and expenditures for telecommunications equipment, services, and facilities. The final expenditure agreement for quantities exceeding the CATS I contract will be resolved by contract closure on August 26, 1996. The Navy responsibility for telecommunications services was transferred from PWC, San Diego, on October 1, 1995. The NCTS, San Diego, will establish procedures to periodically review and revalidate requirements for communications equipment, services, and facilities. The complete text of management comments is in Part III.

Finding B. NCTS Contracting Authority and Management Control Program

NCTS, San Diego, is not prepared to effectively manage the current CATS I contract and future CATS II contract that functionally transferred in October 1995 from PWC, San Diego, to NCTS, San Diego. NCTS, San Diego, is unprepared to manage the contracts because:

o NCTS, San Diego, has only small-purchase contract authority and cannot administer work to be completed under the CATS II contract, and

o NCTS, San Diego, has not developed a management control program to identify the personnel, equipment, services, funding, and responsibilities for managing the current and future contracts.

As a result, NCTS, San Diego, could not effectively and successfully carry out the functional responsibilities for the CATS I and CATS II contracts.

Guidance on Contracting and Management Control Programs

Federal Acquisition Regulation, part 42, "Contract Administration," prescribes policies and procedures for assigning, retaining, or reassigning contract administration responsibility, withholding normal functions, or delegating additional functions when assigning contracts for administration and for requesting and performing supporting contract administration. When a contract is assigned for administration, the contract administration office shall perform contract administration functions in accordance with the Federal Acquisition Regulation, the contract terms, and the applicable regulations of the servicing agency.

The Office of Management and Budget, "Internal Control Systems," revised August 4, 1986, and DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, require each DoD Component to establish and maintain a cost-effective system of management controls to provide reasonable assurance that Government resources are protected against fraud, waste, mismanagement, or misappropriation and that existing and new program and administrative organizations are effectively and efficiently managed to achieve the goals of the agency.

CATS Functional Transfer

In October 1995, the CATS operation was transferred from PWC, San Diego, to NCTS, San Diego. The CATS I and CATS II contracts require NCTS, San Diego, to have the contracting authority to administer contracts for obtaining telecommunications support for numerous users. In addition, administrative management of the telecommunications function requires that NCTS, San Diego, establish a management control program to effectively and successfully carry out the functional responsibilities and have the ability to administer telecommunications contracts effectively.

The CATS I telecommunications contract was awarded in 1985 and has a current value of $142 million. Because contract administration is provided by PWC, San Diego, a subordinate activity of NAVFAC, contracting authority cannot transfer with the functional transfer of the CATS I contract. Accordingly, PWC, San Diego, contracting personnel will remain under the cognizance of NAVFAC to administer the CATS I contract. Because NCTS, San Diego, will have functional responsibility for the CATS I contract, NCTS, San Diego, will reimburse the PWC, San Diego, for the costs of administering the CATS I contract until contract expiration in August 1996. However, NCTS, San Diego, still needs to obtain the proper contracting authority and to establish a management control program for the administration of the CATS II contract and for the transferred telecommunications function.

NCTS Contracting Authority

NCTS, San Diego, has a limited procurement authority of $50,000, granted by the Fleet Industrial Supply Center, San Diego, and, therefore, cannot exercise procurement authority over the CATS II contract. NCTS, San Diego, had not provided for contract responsibilities and functions in the CATS Functional Transfer Plan to ensure that contract responsibilities are effectively and efficiently carried out in accordance with Federal Acquisition Regulation and DoD management policy.

In anticipation of the functional transfer, NCTS, San Diego, personnel, who did not possess contract warrants, performed contractual functions that should normally be performed by a designated contracting officer. For example, the NCTS-San Diego area coordinator solicited a proposal from the contractor for a CATS upgrade, a contracting action that only the CATS contracting officer was authorized to perform. Additionally, NCTS, San Diego, contract management personnel permitted a contractor to present an unsolicited proposal to a naval organization without the presence of the CATS contracting officer. NCTS, San Diego, also permitted the naval organization to contract for telephone service outside the CATS network on a sole-source basis.

NCTS Management Control Program

The West Coast Regional Coordinator, NCTS, San Diego, had not implemented a management control program for CATS I and CATS II as required by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. In anticipation of the functional transfer of the CATS I contract in October 1995, NCTS, San Diego, designated itself as the CATS II acquisition planner, even though the Naval Computer and Telecommunications Command had not established responsibilities and procedures. As the acquisition planner, NCTS, San Diego, did not form a team consisting of all those personnel (such as contracting, fiscal, legal, and technical personnel) who will be responsible for significant aspects of the acquisition and did not integrate the efforts necessary to develop the CATS II acquisition plan.

Summary

NCTS, San Diego, is to provide management, technical, and policy guidance for the day-to-day operations of activities providing telephone service, including the CATS network. In accomplishing those responsibilities, NCTS, San Diego, must have the contracting authority necessary to carry out its functional responsibilities or must identify the contract administration office assigned by the contracting office to perform standard and assigned contract administration functions. To ensure the CATS II is effectively administered, NCTS, San Diego, must also implement a management control program to establish policy, responsibilities, and procedures for contract administration.

Recommendations and Management Comments

1. We recommend that the Commander, Naval Computer and Telecommunications Command, request a procurement authority sufficient to permit the Naval Computer and Telecommunications Station, San Diego, to administer the Consolidated Area Telephone System II contract or identify the contract administration office assigned to perform standard and assigned contract administration functions.

2. We recommend that the Commanding Officer, Naval Computer and Telecommunications Station, San Diego, implement a management control program that establishes policy and procedures, including management of the Consolidated Area Telephone System I and II contracts, and that identifies responsibilities, to include, at a minimum, responsibilities of contracting, fiscal, legal, and technical personnel.

Management Comments. The Navy concurred with the finding and recommendations. The NCTC is negotiating CATS II contract administration services with the Naval Information Systems Management Command and anticipates that the Fleet Industrial Supply Center, San Diego, will be identified as the contract administrator for CATS II. Because the authority to manage the CATS I contract remains the responsibility of the Naval Facilities Engineering Command until contract closure on August 26, 1996, the NCTS, San Diego, will implement a management control program for the CATS II contract. The complete text of management comments is in Part III.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We evaluated the adequacy and effectiveness of the management control programs at the PWC, San Diego, and NCTS, San Diego. Also, we reviewed the CATS Functional Transfer Plan to determine the adequacy of contract administration functions for the CATS I and CATS II contracts. We interviewed officials from the PWC, San Diego, and NCTS, San Diego, California, and the Naval Facilities Engineering Command and Naval Computer and Telecommunications Command in Washington, D.C.

This economy and efficiency audit was made from September through October 1995 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 and did not use statistical sampling to achieve the audit objectives. 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 the Management Control Program. We evaluated the PWC, San Diego, and NCTS, San Diego, management control programs as they related to the management of telecommunications equipment and services.

Adequacy of Management Controls. We identified material management control weaknesses for PWC, San Diego, and NCTS, San Diego, as defined by DoD Directive 5010.38. PWC, San Diego, and NCTS, San Diego, had not implemented management controls for telecommunications equipment and services to ensure that equipment and services are safeguarded against waste, loss, unauthorized use, and misappropriation. Recommendation A.1. if implemented, will ensure proper accountability for CATS telecommunications equipment, services, and facilities and could result in funds put to better use. Recommendation A.2., if implemented, will ensure the validity of Communication Service Authorizations issued since 1986 and the proper accountability of orders and obligations or expenditures. Recommendation A.3., if implemented, will validate CATS user requirements and could result in funds put to better use. The amount of potential monetary benefits cannot be determined until the recommendations are fully implemented (see Appendix C).

Recommendations B.1., and B.2., if implemented, will improve management procedures at NCTS, San Diego. 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).

Adequacy of Management's Self Evaluation. The PWC, San Diego, and NCTS, San Diego, officials did not identify telecommunications as an assessable unit and, therefore, did not identify or report the material management control weaknesses identified by the audit.

Appendix B. Prior Audits and Other Reviews

Office of the Inspector General, DoD, Report No. 96-013, "Consolidated Area Telephone System-San Francisco," October 23, 1995. The Navy Public Works Center maintained 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 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 Government, if it is economically feasible. We could not determine the amount of resultant monetary benefits. The Navy concurred with the finding and recommendations.

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 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 was responsive to the audit finding and recommendations.

Appendix C. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
A.1.	Program Results and Management Controls. Improves effectiveness and efficiency through completion of a joint physical inventory of telecommunications equipment, services, and facilities.	Undeterminable. The monetary benefits are undeterminable because the extent of program efficiencies that may result from performing a joint physical inventory has not yet been determined.
A.2.	Program Results and Management Controls. Improves effectiveness and efficiency by reviewing and revalidating Communication Service Authorizations issued since 1986 and by determining the actual orders and obligations or expenditures made for telecommunications assets.	Undeterminable. The monetary benefits are undeterminable because the extent of program efficiencies that may result from review and revalidation of orders and obligations or expenditures has not yet been determined.
A.3.	Program Results, Compliance, and Management Controls. Improves effectiveness and efficiency by reviewing and revalidating user requirements and discontinuing those requirements that are not valid.	Undeterminable. The monetary benefits are undeterminable because the extent of program efficiencies that may result from review, revalidation, and discontinuance of requirements that are no longer valid has not yet been determined.

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
B.1.	Program Results and Management Controls. Improves effectiveness and efficiency by requesting a procurement authority or by identifying the contract administration office assigned to perform contract administration functions.	Nonmonetary.
B.2.	Program Results, Compliance, and Management Controls. Improves effectiveness and efficiency by implementing a management control program and by establishing management policies and responsibilities of at least contracting, fiscal, legal, and technical personnel for the management of the CATS I and II contracts.	Nonmonetary.

Appendix D. Organizations Visited or Contacted

Department of the Navy

Headquarters, Naval Facilities Engineering Command, Alexandria, VA
  Navy Public Works Center, San Diego, CA
    Consolidated Area Telephone Office, San Diego, CA
Headquarters, Naval Computer and Telecommunications Command, Washington, DC
  Naval Computer and Telecommunications Station, San Diego, CA

Appendix E. Report Distribution

Office of the Secretary of Defense

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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 of the Navy (Command, Control, Computer and Communications; Electronic Warfare; and Space Programs)
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      Commander, Naval Information Systems Management Command
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      Commanding Officer, Navy Public Works Center, San Diego
Director, Space and Electronic Warfare (N6)
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  Commander, Naval Computer and Telecommunications Command
    Commanding Officer, Naval Computer and Telecommunications Station, San Diego
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Chairman and ranking minority member of each of the following congressional committees and subcommittees:

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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
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

FEB 13 1996

MEMORANDUM FOR DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: AUDIT REPORT ON CONSOLIDATED AREA TELEPHONE SYSTEM (CATS) --SAN DIEGO (PROJECT NO. 5RD-8006.02) - ACTION MEMORANDUM

Ref: (a) DoDIG Draft Audit Report of 14 Nov 95

Encl: (1) DON Response to Draft Audit Report

I am responding to the draft audit report forwarded by reference (a) concerning the evaluation of CATS--San Diego.

The Department of the Navy response is provided at enclosure (1). We agree with the draft report findings and recommendations. The enclosed comments outline specific actions by the Department to designate appropriate contracting authority, implement a management control program, and ensure inventory accountability for telecommunications equipment and services.

J. P. DAVIDSON
Rear Admiral, SC, USN
Principal Assistant for
Information Resources Management

Copy to:
NAVINSGEN
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NAVCOMTELSTA, SAN DIEGO

DEPARTMENT OF THE NAVY RESPONSE
TO
DODIG DRAFT REPORT ON
CONSOLIDATED AREA TELEPHONE SYSTEM--SAN DIEGO AREA
(PROJECT NO. 5RD-8006.02) OF NOVEMBER 14, 1995

Finding A:

The Naval Facilities Engineering Command (NAVFAC) did not maintain a validated inventory of telecommunications assets obtained under the CATS contract. A validated inventory did not exist because NAVFAC had not performed a physical inventory of the assets and did not adequately account for Communications Service Authorizations on the CATS contract for leased telecommunicationstelecom equipment, services, and facilities. Further, NAVFAC had not validated user telecommunications needs since 1986. As a result, the Navy has no assurance that telecommunications assets are safeguarded against waste, loss, unauthorized use, or misappropriation. Additionally, although the contract cost increased by $60 million, NAVFAC could not accurately account for the number of orders and obligations or expenditures for telecommunications equipment, services, and facilities. Moreover, unnecessary expenditures could result from equipment, services or facilities in excess of user needs.

Recommendation A-1:

Conduct a joint physical inventory with the contractor and the Naval Computer and Telecommunications Station, San Diego, of telecommunications equipment, services, and facilities for the consolidated area telephone system.

DON Position:

Concur. NCTS and PWC will conduct a joint physical inventory of telecommunications equipment, services, and facilities to establish a validated Government asset data base. At contract close-out (August 1996), the contractor-provided inventory data base will be verified against the validated Government asset data base, and any discrepancies resolved with the contractor.

Enclosure (1)

Recommendation A-2: Review and revalidate Communications Service Authorizations issued from 1986 to the present, and determine the actual number of orders and obligations or expenditures for telecommunications equipment, services, and facilities.

DON Response:

Concur. In an agreement with the Naval Computer and Telecommunications Station, which has Navy telecommunications responsibility, PWC San Diego completed the review and validation of all AT&T completed Communications Services Authorizations from 1986 through FY 1995 (30 September 1995) on 30 November 1995. One hundred twenty-five thousand orders were reviewed and reconciled as to the number of orders and expenditures for telecommunications equipment, services, and facilities. Negotiation with AT&T is ongoing for final expenditure agreement for quantities exceeding the contract. These issues will be resolved by contract closure, 26 August 1996.

Recommendation A-3: Perform a review and revalidation of the Consolidated Area Telephone System user requirements and discontinue those services that are not valid as required by DoD Directive 4640.13, "Managing Base and Long-Haul Telecommunications Equipment and Services," December 5, 1991.

DON Response:

Concur. During the first nine years of the CATS contract, PWC San Diego was responsible for both contracting functions and operations. During this period, PWC San Diego required a monthly certification from their customers that telecommunications services and equipment--as well as calls--were valid operational requirements. When customer requirements changed, PWC San Diego discontinued or added services.

Navy responsibility for telecommunications services was transferred from the Public Works Center, San Diego, to the Naval Computer and Telecommunications Station, San Diego, on 1 October 1995. NCTS San Diego will establish a program and procedure to periodically review and revalidate requirements for communication equipment, services, and facilities.

In addition, NCTS has begun the business base validation. They are requesting that all customer activities undertake a thorough investigation of their telecommunications requirements in

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preparation for the subsequent contract, and will survey customer sites. NCTS has also obtained a line validation software program (Phone Audit System, Version 1.2B, Interactive Communication Services) to verify continued use of active customer lines. NCTS will discontinue any customer services that are not required, and will notify PWC of changes for current contract actions, as well as include them in the new contract requirements.

Finding B:

NCTS San Diego is not prepared to effectively manage the current CATS I contract and future CATS II contract that functionally transferred in October 1995 from PWS San Diego to NCTS San Diego, NCTS San Diego is unprepared to manage the contracts because:

o NCTS has only small-purchase contract authority and cannot administer work to be completed under the CATS II contract, and

o NCTS has not developed a management control program to identify the personnel, equipment, services, funding, and responsibilities for managing the current and future contracts.

As a result, NCTS could not effectively and successfully carry out the functional responsibilities for the CATS I and CATS II contracts.

Recommendation B-1:

We recommend that the Commanding Officer, Naval Computer and Telecommunications Command (COMNAVCOMTELCOM), request a procurement authority sufficient to permit the Naval Computer and Telecommunications Station, San Diego, to administer the Consolidated Area Telephone System II contract or identify the contract administration office assigned to perform normal and specific contract administration functions.

DON Position:

Concur. COMNAVCOMTELCOM is in the process of negotiating CATS II contract administration services with Naval Information Systems Management Command (NISMC). It anticipated that FISC San Diego will be identified as the Contract Administrator and a Memorandum of Understanding executed to that effect. Due to the necessity

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of conducting a budget based transfer and FTE transfers, COMNAVCOMTELCOM will establish a dialogue with NAVCOMPT and NAVSUP to identify resources and generate a POA&M.

Recommendation B-2:

We recommend that the Commanding Officer, Naval Computer and Telecommunications Station, San Diego, implement a management control program that establishes policy and procedures, including management of the Consolidated Area Telephone System I and Consolidated Area Telephone System II contracts, and that identifies responsibilities, to include, at a minimum, responsibilities of contracting, fiscal, legal, and technical personnel.

DON Position:

Concur. NAVCOMTELSTA San Diego does not have the authority to manage the CATS I contract. This remains the responsibility of NAVFACENGCOM until the contract is closed (scheduled for August 1996). NAVCOMTELSTA San Diego will implement a management control program for the CATS II contract.

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