Audit Report

OFFICE OF THE INSPECTOR GENERAL

ACQUISITION OF TELECOMMUNICATIONS EQUIPMENT AND SERVICES BY THE NAVAL COMPUTER AND TELECOMMUNICATIONS STATION, SAN DIEGO

Report No. 96-091 March 29, 1996

Department of Defense

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Acronyms

CATS	Consolidated Area Telephone System
NCTC	Naval Computer and Telecommunications Command
NCTS	Naval Computer and Telecommunications Station
NISMC	Naval Information Systems Management Center

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

March 29, 1996

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

SUBJECT: Report on Acquisition of Telecommunications Equipment and Services by the Naval Computer and Telecommunications Station, San Diego (Report No. 96-091)

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

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. Consolacion L. Loflin, Audit Project Manager, at (703) 604-9509 (DSN 664-9509). The distribution of this report is listed in Appendix G. The audit team members are listed inside the back cover.

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Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 96-091 **March 29, 1996**
Project No. 5RD-8006.03

Acquisition of Telecommunications Equipment and Services by the Naval Computer and Telecommunications Station, San Diego

Executive Summary

Introduction. We performed this audit in response to a complaint made to the Defense Hotline. The report covers two of three allegations in that complaint. An allegation concerning communications billing and payment procedures was discussed in Office of the Inspector General, DoD, Audit Report No. 96-011, "Certification and Payment Procedures at the Naval Computer and Telecommunications Station, San Diego," October 20, 1995. We also issued an audit report entitled "Consolidated Area Telephone System-San Diego Area" (Report No. 96-077), February 29, 1996, which discusses the management of telecommunication assets. Details on the two allegations and audit results are in Appendix C.

The Consolidated Area Telephone System (CATS)-San Diego is managed by the Naval Computer and Telecommunications Station, San Diego.

Objectives. The objectives were to evaluate the telecommunications requirements for the CATS II contract and to evaluate the adequacy, efficiency, and effectiveness of Naval Computer and Telecommunications Station, San Diego, management procedures for providing telecommunications services at the Naval Postgraduate School, Monterey; Naval Station, Long Beach; and Naval Air Station El Centro, California.

Audit Results. The Naval Computer and Telecommunications Command and Naval Computer and Telecommunications Station, San Diego, have not taken appropriate actions needed to ensure valid requirements and accurate costs for the proposed acquisition of the 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. As a result, as much as $ * may be budgeted for the acquisition of telecommunications equipment, support services, and software in excess of CATS II equipment requirements and as much as $ * may be budgeted for maintenance costs in excess of CATS II maintenance requirements. 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. Appendix E summarizes the potential benefits of the audit.

Summary of Recommendations. We recommend that management take the following corrective actions:

o Establish a baseline of and validate requirements for existing telecommunications equipment and services.

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o 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.

o 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.

o 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.

o Withhold release of the final request for proposal for the CATS II proposed contract until the Commander, Naval Computer and Telecommunications Command, has reviewed and approved the life cycle management documentation that validates requirements and the proposed maintenance costs for the CATS II.

Management Comments. 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 Naval Computer and Telecommunications Station, San Diego, formed a team (from the Naval Computer and Telecommunications Station, 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, determine the number of subscribers, and validate user requirements to accurately identify the CATS II baseline for telecommunications equipment and services. Although the Naval Computer and Telecommunications Command 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. The complete text of management comments is in Part III.

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Part I - Audit Results

Audit Background

We performed this audit in response to a complaint made to the Defense Hotline. The report discusses two of three allegations in the complaint. More details on the two allegations and audit results are in Appendix C.

Consolidation Initiative. The Naval Computer and Telecommunications Command (previously the Naval Telecommunications Command) mission is to plan, procure, implement, and manage telecommunications systems and facilities for the Navy and Marine Corps Activities Providing Telephone Service. On April 25, 1991, the Commander, Naval Computer and Telecommunications Command (NCTC), under the sponsorship of the Director, Space and Electronic Warfare, started transfer actions for Navy Activities Providing Telephone Service from the Naval Facilities Engineering Command to the NCTC. The Navy objectives are to establish a dedicated Navy advocate for intrabase communications services and management and to develop a broad-based field organization to directly support the current and future 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.

The Navy plans to transfer the function of the existing base-level Navy Activities Providing Telephone Service and their associated resources. About 148 Navy and Marine Corps Activities Providing Telephone Service in the continental United States were identified to transfer to four Naval Computer and Telecommunications Station (NCTS) regions (West Coast Region, Eastern Pacific Region, Atlantic Region, and Mediterranean Region). The Navy Activities Providing Telephone Service will then become new base communications functions within the four NCTS regions. Regional coordinators will serve as the focal points for the Chief of Naval Operations-sponsored communications programs.

West Coast Region. As the West Coast regional coordinator, NCTS, San Diego (a subordinate organization of the NCTC), will provide management of day-to-day operations and will provide technical and policy guidance to Navy Activities Providing Telephone Service facilities in Alaska, Arizona, California, Colorado, Idaho, Montana, Utah, Nevada, New Mexico, Oregon, Washington, and Wyoming. In California, NCTS, San Diego, will provide telecommunications bill-paying services for a total of 11 Navy Activities Providing Telephone Service transferred under the regional consolidation. The Naval Postgraduate School, Monterey, Monterey, California; Naval Station, Long Beach, Long Beach, California; and Naval Air Station, El Centro, El Centro, California, were functionally transferred to NCTS, San Diego, in 1993 and 1994. See Appendix D for the list of organizations in the West Coast Regional consolidation.

Consolidated Area Telephone System. The Consolidated Area Telephone System (CATS), San Diego, is a complete telephone system including cables, telephones, switches and a network. CATS, San Diego, supports a total of

192 Navy and 230 other DoD organizations at 14 naval installations, outlying military housing areas and off-base locations utilized for official Navy business. The CATS contract, a 10-year lease with option to purchase, expires in August 1996. In anticipation of the functional transfer and the expiration of the CATS contract, NCTS, San Diego, initiated the preparation of the life-cycle management for a CATS II contract in September 1994. The CATS, San Diego, operation was functionally transferred from the Navy Public Works Center, San Diego, (a subordinate activity of the Naval Facilities Engineering Command) to NCTS, San Diego, in October 1995.

Audit Objectives

The objectives were to evaluate the telecommunications requirements for the CATS II contract and to evaluate the adequacy, efficiency, and effectiveness of NCTS, San Diego, management procedures for providing telecommunications services at the Naval Postgraduate School, Monterey; Naval Station, Long Beach; and Naval Air Station, El Centro, California.

See Appendix A for a discussion of the audit scope and methodology, and the results of the review of the management control program. Prior audits and other reviews are discussed in Appendix B. Appendix E lists the potential benefits resulting from the audit.

Identification and Validation of Telecommunications Requirements for CATS II

NCTC and NCTS, San Diego, have not taken appropriate actions needed to ensure valid requirements and accurate costs for the proposed acquisition of the CATS II prior to the release of the CATS II formal request for proposal. The Navy acquisition process for CATS II was flawed because:

o NCTS, San Diego, neither established a baseline of nor validated requirements for existing telecommunications equipment and services under CATS, San Diego;

o NCTS, San Diego, did not identify the number of subscribers, did not determine proposed user requirements for future telecommunications equipment and services for each Naval installation, did not assess the validity of proposed user requirements, and did not establish a telecommunications configuration management plan based on validated proposed user requirements;

o NCTS, San Diego, did not project maintenance costs for telecommunications equipment and services that could be incurred under the CATS II proposal as a result of a validated telecommunications configuration management plan for the San Diego CATS; and

o NCTC has neither reviewed and approved the life cycle management documentation nor ensured that valid requirements and accurate maintenance costs have been established for the proposed CATS II contract.

As a result, as much as $88.4 million may be budgeted for the acquisition of telecommunications equipment, support services, and software in excess of CATS II equipment requirements and for maintenance costs in excess of CATS II maintenance requirements.

DoD 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, prescribes DoD policy and instructions for the management of base and long-haul telecommunications equipment and services.

The DoD policy is to acquire and use base and long-haul telecommunications equipment and services effectively, efficiently, and economically and to procure only telecommunications equipment and services with a bona fide need.

Secretary of the Navy Instruction 5231.1C, "Life Cycle Management Policy and Approval Requirements for Information System Projects," July 10, 1992, provides guidance on life cycle management for the Navy and supplements related DoD directives, the Federal Acquisition Regulation, the Defense Federal Acquisition Regulation Supplement, and the Federal Information Resources Management Regulation. Instruction 5231.1C stipulates that life cycle management documentation be reviewed and approved by appropriate approval authorities to ensure that all information resource expenditures are based on the total anticipated benefits of the new or modernized information system or on the continued operation of an existing information system.

Information resource acquisitions must be planned with the objective of achieving the greatest value to the Government over the life of the system in terms of price or cost. The eventual requirement to replace Federal information processing resources as they become obsolete must be adequately documented and supported. The concept of baselining information systems will be used for information system projects costing more than $2.5 million. Contracting officers must process only those Federal acquisition actions for information processing resources that have been approved by the appropriate approval authorities. Additionally, the contracting officers must ensure that a delegation of procurement authority by the General Services Administration is obtained before releasing a request for proposal.

Naval Computer and Telecommunications Instruction 2066.1, "Naval Base Telecommunications Manual," March 1994, stipulates that if the telecommunications requirements exceed the Navy Activities Providing Telephone Service contracting authority, the Navy Activities Providing Telephone Service must submit a formal request to the regional coordinator, stating the reason for the number of subscribers, types of services, and any special requirements. The regional coordinator then performs a technical evaluation for the requesting activity to verify user and system requirements and gathers all technical and operational data to be documented and incorporated into a procurement request package. The procurement request package is to include an independent Government cost estimate that contains detailed information, such as labor categories, hour or unit estimates, materials required, and past contract cost.

Responsibilities for the Procurement of Base Telecommunications Equipment and Services

In 1991, the Director, Space and Electronic Warfare (N6), initiated the consolidation of Navy Activities Providing Telephone Service within the NCTC.

The Director, Space and Electronic Warfare, is the functional sponsor for CATS II and is responsible for reviewing and validating the CATS II mission needs statement.

NCTC Responsibilities. The NCTC is responsible for managing base telecommunications equipment, services, and facilities at Navy and Marine Corps shore installations throughout the Department of the Navy. The NCTC established four NCTSs as regional coordinators for the Eastern Pacific, West Coast, Atlantic, and Mediterranean Regions. Those regional coordinators are responsible for program development of projects including system, facility, and equipment replacements, and for expansion and upgrades to meet user requirements at Navy shore installations throughout the world. Regional coordinators have been delegated procurement authority of $1 million from the General Services Administration. When procurements for base telecommunications equipment and services exceed $1 million, the regional coordinators are required to submit life cycle management documentation to NCTC for review and approval. The NCTC is also responsible for forwarding the CATS II life cycle management documentation to the Naval Information Systems Management Center (NISMC) for approval.

NCTS, San Diego, Responsibilities. In October 1994, the Navy Public Works Center, San Diego (a subordinate organization of the Naval Facilities Engineering Command) functionally transferred the CATS, San Diego, to NCTS, San Diego. NCTS, San Diego (West Coast regional coordinator), was designated the program manager for the follow-on contract, CATS II. As program manager, NCTS, San Diego, is responsible for developing telecommunications requirements, performing engineering studies, developing a telecommunications system configuration plan, identifying funds for the CATS II contract, and developing the CATS II life cycle management documentation. Further, depending on the dollar amount of the contract issued, NCTS, San Diego, may be required to prepare a program manager's charter, a management plan, and a CATS II Agency Procurement Request. The program manager's charter, management plan, and Agency Procurement Request are to be forwarded to NISMC for review and approval. When approval is granted and procurement exceeds $100 million, NISMC is responsible for forwarding the CATS II Agency Procurement Request to the General Services Administration to obtain a delegation of procurement authority.

NISMC Responsibilities. The Secretary of the Navy (Secretary of the Navy Notice 5231, August 20, 1993) assigned NISMC management responsibility to Navy organizations for all delegations of procurement authority issued by the General Services Administration. NISMC has the central authority to negotiate, award, and administer contracts for base telecommunications equipment and services. NISMC participates in development of and is a signatory for all acquisition plans prepared within the Navy for base telecommunications programs. The NISMC is responsible for the review and authorization of Agency Procurement Requests when they are not otherwise delegated. Before any contracting actions continue or a request for proposal is issued, NCTS, San Diego, must obtain the approval from NISMC.

Naval Telecommunications Infrastructure Project

The Naval Telecommunications Infrastructure Project is a joint venture among the Space and Naval Warfare Systems Command, NCTC, and NISMC. Those organizations are to develop an acquisition strategy to procure a full range of telecommunications equipment, services, maintenance, software, and other supporting services for the Navy. NCTC and NISMC considered whether to include the CATS II contract in the Naval Communications Infrastructure Project. However, because the acquisition strategy for the Naval Communications Infrastructure Project has not been completed, NCTS, San Diego, and NISMC prepared a request for proposal for an indefinite-delivery, indefinite-quantity contract for the procurement of equipment and technology enhancements, support services, software, and maintenance for CATS II.

CATS II Contract

Release of the Draft CATS II Request for Proposal. The NISMC released a draft CATS II request for proposal to the *Commerce Business Daily* on July 25, 1995. The draft request for proposal solicited input from prospective contractors on the Navy intent to contract for equipment, maintenance, and operational services for CATS II.

CATS II Formal Request for Proposal. The NISMC plans to release the formal request for proposal and to award the CATS II contract in the second quarter of FY 1996. The draft request for proposal prepared by NCTS, San Diego, for the CATS II contract, estimated to cost $ * , includes estimates for the procurement of telecommunications equipment ($ *), support services ($ *), software ($ * on the third year option), maintenance ($ *), and other resources ($ *). The CATS II contract was proposed by NCTS, San Diego, to consist of 1 base year and three 1-year options and will be effective after the expiration of the CATS I contract on August 24, 1996. However, the CATS II telecommunications requirements have not yet been validated in accordance with Instruction 5231.1C. The Instruction stipulates that life cycle management documentation be reviewed and approved by appropriate approval authorities to ensure that all information resource expenditures are based on the total anticipated benefits of the new or modernized information system or on the continued operation of an existing information system.

Review and Approval. NCTC has not reviewed and approved the life cycle management documentation and has not ensured that valid requirements and accurate maintenance costs have been established for the proposed CATS II

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contract. It is an NCTC responsibility to review the life cycle management documentation for accuracy, proper justification of requirements, and compliance with telecommunications regulations. Once this responsibility has been accomplished and the life cycle management documentation is approved, NCTC is responsible for forwarding the life cycle management documentation to NISMC for approval.

Identification and Validation of CATS II Telecommunications Requirements

NCTS, San Diego, did not adequately identify and validate telecommunications requirements for CATS II by establishing valid equipment and services baselines on the existing CATS contract, by determining and validating future user requirements, or by establishing a telecommunications configuration plan based on future user requirements. Further, NCTS, San Diego, did not project maintenance costs based on a telecommunications configuration management plan.

CATS II Telecommunications Equipment Requirements. The rationale the NCTS, San Diego, used in determining the quantity of telecommunications equipment and services resulted in an inadequate identification of CATS II requirements. The estimated cost of new equipment and technological enhancements, including support services and software, is approximately $ * for the base year and 3 option years in the proposed CATS II contract. However, users were not required to accurately define actual needs for telecommunications equipment, upgrades, and expansion by NCTS, San Diego. Rather, users identified the CATS II telecommunications equipment requirements through a series of command briefs presented by NCTS, San Diego, to telecommunications users, which resulted in the creation of a "wish list."

As currently proposed, the CATS II will procure new telecommunications equipment, services, and technologies and a new network management center to support the new technological enhancements. The technological enhancements include the Integrated Services Digital Network, Asynchronous Transfer Mode and Light Wave (optical) data communications capabilities for networking, video teleconferencing, and other unidentified emerging telecommunications technologies.

Although we agree that the installation of improved technologies may result in more efficient information management and use of telecommunications, we do not agree that new technologies should be procured through the use of "wish lists." The procurement of equipment and services in excess of validated requirements may negate any achieved efficiencies because of increased costs. Because NCTS, San Diego, did not systematically evaluate and establish

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telecommunications requirements based on realistic user needs, it was unable to provide adequate justification for the procurement of equipment costing $ * .

CATS II Maintenance. The inadequate identification of requirements resulted in unsupported proposed maintenance costs. CATS II is to provide maintenance and limited operation of the existing CATS network, including switching equipment and software, microwave equipment, inside and outside cable distribution systems, voice and data communications equipment, network management systems, and digital customer premise equipment. The CATS II projected maintenance costs are approximately $ * (for the base year, and 3 option years) in the proposed CATS II contract.

In formulating projected maintenance costs, NCTS, San Diego, used rates derived from various telecommunications catalogs and from previously awarded contracts in California and Japan, instead of using the more similar operations at CATS, San Diego. The CATS, San Diego, contract has a maintenance cost of $ * annually or an estimated $ * over a 4-year period. We believe that the CATS II proposed 4-year maintenance contract cost of $ * may be excessively high when compared to maintenance costs for the existing CATS. NCTS, San Diego, is unable to provide adequate justification for the proposed expenditure of CATS II maintenance costs totaling $ * , which is about $ * million more than the 4-year maintenance costs for CATS I.

Conclusion

The NCTC and NCTS, San Diego, have not yet complied with DoD and Navy directives and instructions and have not taken appropriate actions needed to ensure valid requirements and accurate costs for the proposed acquisition of CATS II before the release of the CATS II formal request for proposal. NCTC and NCTS, San Diego, did not:

o validate user requirements in compliance with DoD Directive 4640.13;

o validate user requirements in compliance with Secretary of the Navy Instruction 5231.1C; and

o require users to comply with Naval Computer and Telecommunications Instruction 2066.1 and adequately justify equipment requirements.

There is a potential for significantly reducing operating costs by $88.4 million by applying more management emphasis in this area.

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Recommendations and Management Comments

1. We recommend that the Commander, Naval Computer and Telecommunications Station, San Diego, take the following actions for the San Diego Consolidated Area Telephone System:

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

b. 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.

c. Project maintenance costs for telecommunications equipment and services that could be incurred under the Consolidated Area Telephone System II proposal based on a validated telecommunications configuration management plan.

2. We recommend that the Commander, Naval Computer and Telecommunications Command, review and approve the life cycle management documentation, and verify that the Naval Computer and Telecommunications Station, San Diego, has developed valid user requirements and established accurate estimates of maintenance costs for the Consolidated Area Telephone System II proposal.

3. We recommend that the Commander, Naval Information Systems Management Center, withhold release of the formal request for proposal for the Consolidated Area Telephone System II proposed contract until the Commander, Naval Computer and Telecommunications Command, has reviewed and approved the life cycle management documentation that adequately validates requirements and accurately determines proposed maintenance costs for the Consolidated Area Telephone System II.

Management Comments. The Navy concurred with the finding and recommendations. A plan of action and milestones have been established to complete a telecommunications configuration management plan in August 1996. The NCTS, San Diego, formed a team (composed of representatives 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, determine the number of subscribers, and 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. The complete text of the management comments is in Part III.

Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We reviewed the draft request for proposal for the CATS II contract and analyzed the corresponding Navy and DoD regulations and manuals. We also reviewed the adequacy and efficiency of providing telecommunications service at the Naval Postgraduate School, Monterey; Naval Station, Long Beach; and Naval Air Station, El Centro.

We interviewed officials from NCTC; NCTS; the Naval Facilities and Engineering Command; and Navy Public Works Centers at San Francisco, Monterey, Long Beach, El Centro, and San Diego, California; and Washington, D.C. We interviewed finance and accounting and telecommunications officials from the Naval Postgraduate School, Monterey; Naval Shipyard, Long Beach; and Naval Air Station, El Centro. We also interviewed an official from the local exchange carrier in San Diego. We reviewed Telephone Service Requests and Communications Service Authorizations, dated from October 1993 through July 1995, and analyzed processing procedures for telecommunications work orders. We did not use statistical sampling procedures.

This economy and efficiency audit was made from September through November 1995 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. We included such tests of management controls as considered necessary. We did not rely on computer-processed data to achieve the audit objectives. The organizations visited or contacted during the audit are listed in Appendix F.

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 reviewed the management control programs at the Naval Postgraduate School, Monterey; Naval Station, Long Beach; Naval Air Station, El Centro; and Naval Computer and Telecommunications Station, San Diego, as they related to the management of telecommunications equipment and services.

Adequacy of Management Controls. We identified material management control weaknesses for NCTS, San Diego, as defined by DoD Directive 5010.38. The NCTC and NCTS, San Diego, have not taken appropriate actions needed to ensure valid requirements and accurate costs for the proposed acquisition of CATS II before the release of the CATS II draft request for proposal. Recommendations A.1.a., A.1.b., A.1.c., A.2., A.3.a, and A.3.b.; if implemented, will improve the assessment of existing telecommunications requirements and proposed requirements for additional telecommunications equipment and services and maintenance costs; will ensure that valid requirements for telecommunications equipment and services and maintenance costs have been established; and could result in potential monetary benefits of $88.4 million (Appendix E). A copy of the 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. We could not assess NCTS, San Diego management's self evaluation of management controls because a NCTC review did not report requirements determination as a problem area for NCTS, San Diego.

Appendix B. Prior Audits and Other Reviews

Office of the Inspector General, DoD, Audit Report No. 96-077, "Consolidated Area Telephone System-San Diego," November 14, 1995. 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).

The Naval Computer and Telecommunications Station, 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 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 recommended 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 recommended 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 recommended 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. The Navy concurred with the findings and recommendations and implemented recommended actions.

Office of the Inspector General, DoD, Audit 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 area. The Navy Public Works Center performed neither a market survey nor an economic analysis, which are 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 Government, if it is economically feasible. We could not determine the amount of resultant monetary benefits and implemented recommended actions. The Navy concurred with the finding and recommendations and implemented recommended action.

Office of the Inspector General, DoD, Audit 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, California, 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 and 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. The Navy was responsive to the audit finding and recommendations.

Appendix C. Allegations and Audit Results

The complaint made to the Defense Hotline, Case No. 94L-57899, Supplement 1, consisted of three allegations. An allegation concerning NCTS, San Diego, communications billing and payment procedures was discussed in Office of the Inspector General, DoD, Audit Report No. 96-011, "Certification and Payment Procedures at the Naval Computer and Telecommunications Station, San Diego," October 20, 1995. The other two allegations are discussed in this report.

Allegation. NCTS, San Diego, personnel could not adequately identify and define telecommunications requirements, and could not adequately prepare a request for proposal to acquire those requirements.

Audit Result. The allegation was substantiated. NCTC and NCTS, San Diego, have not taken appropriate actions needed to ensure valid requirements and accurate costs for the proposed acquisition of CATS II prior to the release of the CATS II formal request for proposal. As a result, as much as $ * may be budgeted for the acquisition of telecommunications equipment, support services, and software in excess of CATS II equipment requirements, and as much as $ * may be budgeted for maintenance costs in excess of CATS II maintenance requirements. The details are discussed in Part 1 of this report.

Allegation. NCTS, San Diego, could not provide timely telephone service for installations, connections, additions, moves, disconnections, or wiring at the Naval Postgraduate School, Monterey; Naval Station, Long Beach; and Naval Air Station, El Centro, California.

Audit Result. The allegation was substantiated. NCTS, San Diego, was taking 1 to 6 months to complete requests for additions, new installations, moves, changes, or disconnects. Our review in July 1995, showed that 155 requests submitted in December 1994 were still pending and that duplicative reviews of requests were being performed by NCTS, San Diego. During our exit conference, we orally recommended that procedures be implemented to improve the efficiency of processing requests and that duplicative reviews be stopped. The Commanding Officer, Naval Computer and Telecommunications Station, San Diego, concurred with our recommendations and initiated corrective action.

*Source selection and For Official Use Only information removed.

Appendix D. Organizations Included in the Functional Consolidation of Telecommunications Services in the West Coast Region

Activity	Date of Functional Transfer
Naval Postgraduate School, Monterey, CA	October 1993
Naval Station, Long Beach, CA	October 1993
Naval Air Station, Lemoore, CA	October 1993
Naval Air Station, El Centro, CA	October 1994
Consolidated Area Telephone System, San Diego, CA	October 1995
Consolidated Area Telephone System, San Francisco, CA	October 1995
Naval Construction Battalion Command, Port Hueneme, CA	Unknown
Naval Air Station, Fallon, NV	Unknown
Naval Air Warfare Center, Point Magu, CA	Unknown
Naval Weapons Station, China Lake, CA	Unknown
Naval Weapons Station, Seal Beach, CA	Unknown

Appendix E. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
A.1.a., A.1.b., A.1.c., and A.2.	Program Results, Compliance, and Management Controls. Improves assessment of existing telecommunications requirements and proposed requirements for additional telecommunications equipment and services and maintenance costs.	Nonmonetary.
A.3.	Program Results, Compliance, and Management Controls. Ensures that valid requirements for telecommunications equipment and services and maintenance costs have been established.	$88.4 million for procurement of proposed telecommunications equipment and services ($ *) and for proposed maintenance costs ($ *) could be put to better use during FYs 1996 through 2001.

*Source selection and For Official Use Only information removed.

Appendix F. Organizations Visited or Contacted

Department of the Navy

Office of the Chief of Naval Operations, Washington, DC
  Naval Postgraduate School, Monterey, CA
Headquarters, Naval Facilities Engineering Command, Alexandria, VA
  Navy Public Works Center, San Diego, CA
    Consolidated Area Telephone Office, San Diego, CA
  Navy Public Works Center, San Francisco, CA
    Consolidated Area Telephone Office, San Francisco, CA
Headquarters, Naval Computer and Telecommunications Command, Washington, DC
  Naval Computer and Telecommunications Station, San Diego, CA
Headquarters, Naval Air Systems Command, Washington, DC
  Naval Air Station, El Centro, CA
Headquarters, Naval Sea Systems Command, Washington, DC
  Naval Shipyard, Long Beach, CA

Appendix G. Report Distribution

Office of the Secretary of Defense

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

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Assistant Secretary of the Navy (Research, Development and Acquisition
  Deputy Assistant Secretary of the Navy (Command, Control, Computer and Communications; Electronic Warfare; and Space Programs)
    Principal Assistant for Information Resources Management
      Commander, Naval Information Systems Management Command
Office of the Deputy Chief of Naval Operations (Logistics) (N4)
  Director, Shore Installation Management Division (N46)
    Commander, Naval Facilities Engineering Command
      Commanding Officer, Navy Public Works Center, San Diego
Director, Space and Electronic Warfare (N6)
  Director, Information Transfer Division (N61)
  Commander, Space and Naval Warfare Systems Command
  Commander, Naval Computer and Telecommunications Command
    Commanding Officer, Naval Computer and Telecommunications Station, San Diego
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 Information Systems Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency

Non-Defense Federal Organizations

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

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

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

Part III - Management Comments

Department of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

FEB 27 1996

MEMORANDUM FOR DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

Subj: AUDIT REPORT ON ACQUISITION OF TELECOMMUNICATIONS EQUIPMENT AND SERVICES BY THE NAVAL COMPUTER AND TELECOMMUNICATIONS STATION (PROJECT NO. 5RD-8006.03) --ACTION MEMORANDUM

Ref: (a) DoDIG Draft Audit Report of 25 Dec 95

Encl: (1) DON Response to Draft Audit Report

I am responding to the draft audit report forwarded by reference (a) concerning the proposed acquisition of Consolidated Area Telecommunications System II (CATS II)--San Diego.

The Department of the Navy response is provided at enclosure (1). We generally agree with the draft report findings and recommendations. The enclosed comments outline specific actions by the Department to establish the CATS baseline, validate existing requirements, determine and validate future user requirements, project maintenance costs, and complete appropriate Life Cycle Management approvals before releasing the CATS II formal request for proposals.

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

Copy to:
NAVINSGEN
CNO (N6)
COMNAVFACENGCOM (00G2)
PWC SAN DIEGO
COMNAVCOMTELCOM
NAVCOMTELSTA, SAN DIEGO
COMSPAWARSYSCOM

Department of the Navy Response

to

DoDIG Audit Report of December 25, 1995

on

Consolidated Area Telephone System - San Diego Area (Project No. 5RD-8006.03)

Finding:

The NCTC, NCTS San Diego and NISMC did not comply with DoD and Navy Directives and Instructions or take appropriate actions needed to ensure valid requirements and accurate costs for the proposed acquisition of CATS II San Diego prior to the release of the CATS II San Diego draft request for proposal. NCTC, NCTS San Diego and NISMC did not:

o Validate user requirements in compliance with DoD Directive 4640.13;

o Validate user requirements in compliance with Secretary of the Navy Instruction 5231.1C; and

o Require users to comply with Naval Computer and Telecommunications Instruction 2066.1 and adequately justify equipment requirements.

Recommendation 1-a:

We recommend that the Commanding Officer, Naval Computer and Telecommunications Station, San Diego, take the following actions for the San Diego Consolidated Area Telephone System:

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

DON Position:

Concur. A POA&M has been established to conduct a joint inventory of existing telecommunications equipment and services with team members from NAVCOMTELSTA San Diego, PWC San Diego, and NCTAMS EASTPAC. The validation of requirements is considered part of the inventory and follow-on analysis. Preliminary meetings to establish team composition, methodology, and requirements were held in December 1995, January 1996, and February 1996. PWC San Diego, NAVCOMTELSTA San Diego, and NCTAMS EASTPAC began the inventory on 20 February 1996. Analysis of findings and reconciliation

ENCLOSURE 1 [illegible]

of discrepancies requires approximately a two-month effort based on the inventories and follow-on analysis conducted for El Centro and Monterey. It is estimated that a report of findings will be available for review in August 1996.

Recommendation 1-b:

b. 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.

DON Position:

Concur. This is a four-step process. The identification of subscribers is obtained from existing documents and has been completed. Determining user requirements will be based on a customer survey and interviews. The survey was reviewed by COMNAVCOMTELCOM and NISMC and sent to all customers as a naval message on 13 February 1996, with responses requested NLT 13 March 1996. Follow-on meetings with the customers will be set up to review, discuss, and validate the proposed requirements. Estimated completion of this additional data gathering effort is May 1996. Upon completion of the analysis, a telecommunications configuration management plan will be written. Estimated completion date is August 1996.

Recommendation 1-c:

c. Project maintenance costs for telecommunications equipment and services that could be incurred under the Consolidated Area Telephone System II proposal based on a validated telecommunications configuration management plan.

DON Position:

Concur. Maintenance costs for telecommunications equipment and services will be projected based on an established inventory of equipment, identified requirements, and a validated configuration management plan. Estimated completion date is August 1996 as discussed in recommendation 1.b. comments above.

Recommendation 2:

We recommend that the Commander, Naval Computer and Telecommunications Command review and approve the life cycle management documentation, and verify that the Naval Computer and Telecommunications Station, San Diego has developed valid user requirements and established accurate estimates of maintenance costs for the Consolidated Area Telephone System II San Diego proposal.

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DON Position:

Concur. Life Cycle Management Documentation has been reviewed by COMNAVCOMTELCOM on the following dates: 2 October 1995, 28 November 1995, 11-12 December 1995, and 3-4 January 1996. As of 24 January 1996, the Mission Needs Statement (MNS) was approved by COMNAVCOMTELCOM and forwarded to CNO for review and approval. The MNS is being held at CNO (N61) until the customer survey and requirements validation documentation are completed. The Abbreviated System Decision Paper and Agency Procurement Request are still under review at NAVCOMTELCOM. NAVCOMTELSTA San Diego will continue to provide supporting documentation of validated user requirements and exhibits of maintenance cost estimates when submitting revised Life Cycle Management Documentation for review by NAVCOMTELCOM. DoDIG auditors provided NAVCOMTELSTA San Diego specific guidance in the development and type of supporting documentation required during their assistance visit of 30 January through 1 February 1996.

Recommendation 3:

We recommend that the Commander, Naval Information Systems Management Center withhold release of the final request for proposal for the Consolidated Area Telephone System II San Diego proposed contract until the Commander, Naval Computer and Telecommunications Command has reviewed and approved the Life Cycle Management documentation that adequately validates requirements and accurately determines proposed maintenance costs for the Consolidated Area Telephone System II San Diego area.

DON Position:

Concur. The formal request for proposals will not be released until appropriate life cycle management approval has been granted. NISMC's release of the CATS II draft request for proposal prior to life cycle management approval was to obtain industry comments on the prospective acquisition. This is an accepted market analysis practice for acquiring Navy information technology, consistent with Departmental directives, and appreciated by interested vendors.

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Audit Team Members

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

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