DEPARTMENT OF DEFENSE

AUDIT REPORT

BILLINGS FOR CENTREX AUTOVON TERMINATIONS
IN THE DEFENSE LOGISTICS AGENCY

No. 91-028

December 31, 1990

Office of the
Inspector General

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

December 31, 1990

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on Billings for CENTREX AUTOVON Terminations in the Defense Logistics Agency (Report No. 91-028)

This is our final report on the Audit of Billings for CENTREX AUTOVON Terminations in the Defense Logistics Agency. The audit was performed from January through December 1989. The objective of the audit was to determine whether the Bell Operating Companies have properly billed DoD telecommunications users for Central Office Exchange Service (CENTREX) Automatic Voice Network (AUTOVON) termination service and for special assembly charges in accordance with existing tariffs and agreements. We also evaluated the adequacy of internal controls. This report addresses only DLA users of CENTREX service. Separate final reports have been or will be issued on the Air Force, Army, Navy, and the Defense Telecommunications Service-Washington. A glossary in Appendix A defines communications terms used in this report.

Through a mechanized process, the CENTREX allows the local Bell Operating Company Central Office to act as a transmitter between Defense Logistics Agency (DLA) installations and the AUTOVON. This transmission arrangement is known as an AUTOVON termination. The pricing of these terminations is controlled through Bell Operating Company tariff filings at state public utility commission offices. We reviewed applicable monthly Bell Operating Company and American Telephone and Telegraph Company (AT&T) termination service charges at all DLA installations that receive CENTREX. We also reviewed AT&T charges for special assemblies. In reviewing accounting records pertaining to AT&T and Bell Operating Company billings, we determined that three DLA CENTREX installations were being improperly charged for AUTOVON termination service and special assemblies.

The audit showed that DLA installations were overcharged by the Bell of Pennsylvania Telephone Company and AT&T. The audit also showed that Headquarters, DLA, does not have an effective oversight program to monitor telecommunications management at DLA field activities. The results of the audit are summarized in the following paragraph, and the details, audit recommendations, and management comments are in Part II of this report.

The Defense Personnel Support Center (DPSC) overpaid the Bell of Pennsylvania Telephone Company $73,678 for AUTOVON termination service from July 1982 through July 1984. Overcharges for AT&T AUTOVON terminations at DPSC totaled $184,010 for July 1984 through December 1988. Additionally, AT&T overcharged three DLA installations $26,000 for special assembly items that had not been identified. If inadequate certification procedures concerning telecommunications billings are not rectified, DPSC may incur similar unnecessary telecommunications charges in the future. We recommended that the DLA Telecommunications Management Manual (the Manual) be published in final form; a provision be added in the Manual recommending disciplinary action for communications managers who certify bills improperly; a credit of $155,673 be obtained from AT&T and Bell of Pennsylvania Telephone Company for overpayments relating to AUTOVON termination charges and special assembly item charges; and a Headquarters, DLA, oversight program be established to annually test the accuracy of inventories and bill paying procedures. We also recommended a reduction in the FY 1991 DLA communications budget by $159,840 and a reduction in the DLA communications program element in the FY 1991 through FY 1995 Five-Year Defense Plan by a total of $178,048 (page 5).

A draft of this report was provided to the addressee on June 28, 1990. We received comments from the Defense Logistics Agency on September 10, 1990. Appendix D contains the complete text of management comments.

DLA partially concurred with the finding, stating that two of the DLA installations included in the audit did not have access to the actual invoices and that the invoices received by the third installation included in the audit were not sufficiently detailed to detect erroneous billings. We maintain that billing invoices for the three installations included in the audit were available at the audit sites and errors were found in the monthly charges. Accordingly, we request that DLA reconsider its position in response to the final report.

DLA partially concurred with Recommendation 1.a. to publish the DLA Manual. DLA stated that the final version of the Manual will be published by December 31, 1990; therefore, we viewed the response as a full concurrence. However, since previous established publication milestones have not been met, we urge the Director, DLA, to ensure that the December 31, 1990 milestone is met.

DLA also partially concurred with Recommendation 1.b., which requires Headquarters, DLA, to annually ensure that DLA activities comply with inventory and certification procedures. Although stating that there would be no added benefit if

additional controls were added, DLA noted that the installations audited have implemented additional controls. These same "additional internal controls" should be established at all other DLA installations; therefore, we maintain that Recommendation 1.b. in the final report is still valid. We request that DLA reconsider its position in response to the final report.

Concerning Recommendation 1.c., requiring the implementation of disciplinary action for communications managers who improperly certify bills, DLA nonconcurred, stating that communications managers cannot be held liable for their certification when the actual bill is not available to them. For the reasons discussed in Part II of this report, we maintain that Recommendation 1.c. is still valid, and we request that DLA reconsider its position in response to the final report.

DLA partially concurred with Recommendation 2.a., implying that our office was needed to assist DLA in its efforts to recover overpayments from AT&T and Bell of Pennsylvania. We informed DLA that we will provide any support necessary to ensure that all overcharges are recouped. Accordingly, we will provide any documentation to the appropriate DLA contracting offices. We request that DLA reconsider its position on Recommendation 2.a. in response to the final report.

Concerning Recommendation 2.b. to obtain a credit from Bell of Pennsylvania for AUTOVON termination overcharges, DLA partially concurred, stating that collection efforts were withheld due to a pending investigation. We find DLA's comments to Recommendation 2.b. to be incomplete, and we request that its position be reconsidered in response to this final report.

DLA concurred with Recommendations 1.d., 1.e., 3.a., and 3.b. Although DLA concurred with Recommendations 1.d. and 1.e. requiring DLA to reduce future years' budgets commensurate with credits received and savings realized by avoiding erroneous charges, we revised the recommendations in the final report for two reasons. First, we recognize that any legal and contractual negotiations DLA enters into with AT&T and Bell of Pennsylvania may result in DLA receiving less credits than those identified in the draft and final reports. Second, our initial budgetary projections addressed FY 1990 and the FY 1990 through FY 1994 Five-Year Defense Plan. We updated our projections in this final report to FY 1991 and the FY 1991 through FY 1995 Five-Year Defense Plan. Accordingly, we request that DLA provide comments on revised Recommendations 1.d. and 1.e. in response to the final report.

This report identifies internal control deficiencies as defined by Public Law 97-255, Office of Management and Budget

Circular A-123, and DoD Directive 5010.38. Recommendations 1.a., 1.b., 1.c., and 3.b. in this report, if implemented, will correct these weaknesses. There are no monetary benefits associated with these recommendations. A copy of this report will be provided to the senior officials responsible for internal controls within the DLA.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Management comments on the final report should be provided within 60 days of the date of this report. We request that DLA provide a concurrence or nonconcurrence with the $178,048 in potential monetary benefits identified in Appendix E of this report. Potential monetary benefits are subject to resolution in the event of nonconcurrence or failure to comment.

The courtesies extended to the staff during the audit are appreciated. If you wish to discuss this final report, please contact Mr. John A. Gannon at (703) 693-0113 or Mr. Francis C. Bonsiero at (703) 693-0076. A list of the audit team members is in Appendix H. Copies of the final report will be distributed to the activities listed in Appendix I.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

cc:
Assistant Secretary of Defense (Production and Logistics)
Deputy Assistant Secretary of Defense (Command, Control and Communications)
Director, Defense Communications Agency

BILLINGS FOR CENTREX AUTOVON TERMINATIONS
IN THE DEFENSE LOGISTICS AGENCY

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Prepared by:
Readiness and Operational
Support Directorate
Project No: 9IC-0025.04

BILLINGS FOR CENTREX AUTOVON TERMINATIONS IN THE DEFENSE LOGISTICS AGENCY

PART I - INTRODUCTION

Background

The Automatic Voice Network (AUTOVON) is a long-distance voice (telecommunications) network for the Department of Defense. Appendix A defines the communications terms intrinsic to this audit report. The AUTOVON functions as a general purpose (common-user) backbone network, and DoD subscribers pay user fees to the Defense Communications Agency (DCA) for the maintenance and operation of this network. DCA is responsible for the design, acquisition, and management of the AUTOVON. However, camp, post, station, and base communications needs, such as AUTOVON terminations and special assemblies, at DoD activities and installations are acquired and managed through a base communications office at DoD installations. Obtaining access to the AUTOVON is a function of base communications.

Before deregulation and divestiture of the American Telephone and Telegraph Company (AT&T) and the Bell Operating Companies on January 1, 1984, AT&T primarily provided, maintained, and billed for local and long-distance telephone service and associated customer-premise equipment (leased equipment). With the advent of divestiture, AT&T, and its 22 Bell Operating Company subsidiaries were divested of assets and services by Federal court decree in the Plan of Reorganization. Among other things, the Plan of Reorganization separated local service from long-distance service and established distinct telecommunications markets. AT&T became the provider of long-distance service, and the 22 Bell Operating Companies were allowed to provide local exchange services through their automated telecommunications system known as the Central Office Exchange Service (CENTREX). In addition, AT&T maintained ownership of and the right to charge for leased equipment and special assemblies. Appendix B contains additional information on the billing effects of divestiture within the DoD and on Defense Logistics Agency (DLA) users of CENTREX.

After divestiture in 1984, DoD CENTREX installations received two monthly telecommunications bills, an AT&T bill and a local Bell Operating Company bill. Among the more significant billing items on the AT&T invoice were the charges for AUTOVON terminations and special assemblies. An AUTOVON termination is a software function of CENTREX that provides a DoD CENTREX customer with connectivity from the local installation to the AUTOVON network. However, AT&T should not have charged for AUTOVON termination service because that service was provided by the Bell

Operating Companies. For the purposes of this report, we have termed such erroneous charges as overcharges. The local Bell Operating Companies file tariffs with state public utility commissions and are granted the exclusive right to provide DoD customers with AUTOVON termination service. Bell Operating Company tariffs are filed as private line terminations and affect the AUTOVON system. However, at a DLA installation in Pennsylvania, a Bell Operating Company overcharged for AUTOVON terminations. See Part II of this report for a detailed discussion on these overcharges.

AT&T leases special assembly equipment that is specially designed for the specific needs of a DoD customer. A special assembly can be added to existing equipment or circuits or can function as a separate equipment item. In all cases, special assemblies enhance the ordinary capabilities of existing equipment and have features that are essential to DoD customers. For example, many DoD customers require special telephone voice filters to maintain confidential telecommunications. Other DoD customers require special telephone conferencing arrangements. In both instances, AT&T provides the special assemblies to meet DoD communications needs. Part II of this report addresses AT&T overcharges for special assemblies.

Objectives and Scope

The objective of the audit was to determine whether the Bell Operating Companies have properly billed DoD telecommunications users for CENTREX AUTOVON termination service and for special assembly charges in accordance with existing tariffs and agreements. In addition, we evaluated the adequacy of applicable internal controls. This report addresses only DLA users of CENTREX. Separate final reports on users in the Air Force, Army, Navy, and the Defense Telecommunications Service-Washington have been or will be issued.

The audit concentrated on AT&T and Bell Operating Company charges for AUTOVON termination service and special assembly items at DLA installations for the period January 1, 1984, through March 31, 1989. We found Bell of Pennsylvania Telephone Company overcharges at the Defense Personnel Support Center in Pennsylvania that occurred from July 1982 through July 1984. Accordingly, we expanded the scope of the audit to include those specific overcharges beginning with the date of initial overcharging, July 26, 1982.

AT&T provided us with the AUTOVON network configurations and official accounting records for the period January 1, 1984, through August 31, 1988. From the AT&T network configurations, we determined that seven DLA installations were serviced by

CENTREX. Further, upon examining AT&T accounting records, we identified three DLA installations 1/ that were being erroneously billed for AUTOVON termination service and special assemblies. There was no indication that the remaining four DLA installations were erroneously billed for AUTOVON termination service or special assemblies; therefore, we excluded them from the audit. We verified all erroneous charges with the records available at the three DLA installations included in the audit. We provided DLA installation commanders with our results immediately upon completion of our field work. Further, to provide timely audit results, we sent memorandums to these commanders summarizing our findings and provided the same summaries to the appropriate higher DLA officials and to DCA. We also provided briefings to Headquarters, DLA, officials at the conclusion of the audit and prior to the release of the draft report.

This economy and efficiency audit was made from January through December 1989. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are listed in Appendix G.

Internal Controls

The Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-123 require each Federal agency to establish a program to identify significant internal control weaknesses. DLA Regulation 5010.4, "Internal Management Control Program," dated June 29, 1987, contains policies and procedures for implementing DLA's internal control programs.

DLA had not implemented an internal control program specifically for communications bill paying procedures. For those DLA installations included in our audit, we reviewed certification procedures relating to monthly communications bills from January 1, 1984, through March 31, 1989. An internal control objective for certification procedures should be designed to ensure that charges for services provided by communications vendors are accurate. The internal control weaknesses identified in Part II of this report can be attributed to communications managers at DLA activities performing ineffective certifications

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1/ Defense Personnel Support Center, Philadelphia, Pennsylvania; Defense Contract Administration Services Management Area, Detroit, Michigan; Defense Contract Administration Services Management Area, Grand Rapids, Michigan.

of monthly communications bills. The overcharges identified in this report could have been avoided if Headquarters, DLA, had implemented an oversight program designed to evaluate the effectiveness of procedures for maintaining official inventories of services and equipment and for reconciling monthly bills at DLA installations.

Prior Audit Coverage

The Office of the Assistant Inspector General for Auditing, DoD, Report No. 90-005, "Requirements Validation For Telecommunications Services," dated October 16, 1989, stated that installation circuit inventories were often missing or inaccurate. The report recommended that DoD Components establish and accurately maintain at the user, communications command, or communications management levels, perpetual inventories of telecommunications circuits leased and owned by the Defense Communications Systems Organization. The Assistant Secretary of Defense (Command, Control, Communications and Intelligence) concurred with this recommendation and is implementing a DoD directive to accomplish the inventory objective. The results of our current audit reinforce the need to perform and maintain accurate inventories of telecommunications assets at the installation level.

PART II - FINDING AND RECOMMENDATIONS

AUTOVON Termination and Special Assembly Overcharges

FINDING

Three Defense Logistics Agency (DLA) installations were overcharged by the American Telephone and Telegraph Company (AT&T), or the Bell of Pennsylvania Telephone Company (Bell of Pennsylvania), or both for Automatic Voice Network (AUTOVON) termination service and for special assembly equipment. AT&T overcharges resulted from incorrect billings after divestiture in 1984. Bell of Pennsylvania overcharges, which began in 1982, occurred because of incorrect and illegal tariff charges for AUTOVON termination service. The overcharges were incurred for more than 6 years because DLA communications managers did not perform inventories of circuits and leased special assemblies and did not check the accuracy of telephone bills before certifying them for payment. As a result, DLA overpaid AT&T and Bell of Pennsylvania in excess of $283,000 for AUTOVON termination service and special assembly equipment. DLA may incur similar unnecessary telecommunications charges in the future if the payment certification process is not rectified.

DISCUSSION OF DETAILS

Background. The Basic Agreement and the Communications Service Authorization (CSA) are the two documents that together form the required communications contract between a DLA activity and the telephone company vendors. Individually, neither document constitutes a contract. In the Basic Agreement, the Defense Commercial Communications Office (DECCO), a subordinate activity of the Defense Communications Agency (DCA), sets forth the general terms and conditions between the DoD and the telephone company vendor. The CSA is then issued to the telephone company vendor to provide specific services and equipment; CSA's are not binding unless issued pursuant to a Basic Agreement. A contracting officer of a DLA activity is responsible for awarding and issuing CSA's for an activity's base communications services. Costs for services and equipment cannot exceed the stipulated dollar amount authorized in the CSA.

CSA's should accurately reflect the type of communications services and equipment that a DLA installation is requesting from a telephone company vendor. Normally, the CSA will define and classify telephone services by billing codes, commonly referred to by telephone company vendors as Universal Service Order Codes. AUTOVON termination service and special assembly equipment

service are two types of telephone services for which DLA Central Office Exchange Service (CENTREX) subscribers are charged for monthly.

AUTOVON Terminations. DLA AUTOVON users must pay a backbone network fee to DECCO for use of the AUTOVON. In addition, DLA CENTREX users pay a charge to the local Bell Operating Company for routing incoming and outgoing AUTOVON calls from the local Bell Central Office to the installation. Through a mechanized process, a CENTREX software function allows the Bell Central Office to act as a transmitter between the installation and the AUTOVON. This transmission arrangement is known as an AUTOVON termination. The monthly charge for termination service is directly proportional to the number of AUTOVON access lines located at a DLA installation and is controlled in most states through tariffs filed by the local Bell Operating Company with the appropriate state public utility commission.

Special Assemblies. Customer-premise equipment (leased equipment) that is specially designed for the specific needs of a DLA CENTREX user is known as a special assembly. Basically, a special assembly is equipment added to either existing equipment or voice (telecommunications) lines that enhance the ordinary capabilities of the existing equipment. There is a monthly equipment charge ranging from less than $5 per unit to more than $250 per unit for every special assembly device installed at a DLA activity.

Guidance on Telecommunications Policy. The DLA Telecommunications Management Manual (the Manual), DLAM 4650.X, the official telecommunications regulation for DLA, was issued in draft form on September 7, 1988. A statement on the cover of the draft Manual informed all DLA installation commanders that the draft represented official DLA policy until the Manual was published in final form. This policy was reemphasized in a DLA memorandum dated May 30, 1990. However, as of September 1990, a final version of the Manual had not been published.

The Manual requires communications managers to verify the accuracy of charges billed by telephone company vendors to ensure that charges agree with tariffs or schedules, to certify to the Accounting and Finance Office that the charges are proper and correct, and to verify the accuracy of all credits. Additionally, the Manual requires the Telephone Control Officer to provide an annual certification that all assigned and installed telephone equipment has been physically inventoried and is needed to conduct the organization's mission. For the purposes of this report, we refer to all parties involved in the management of telecommunications operations at a DLA activity as communications managers, unless otherwise noted.

Audit Methodology. The audit concentrated on AT&T and Bell Operating Company charges for AUTOVON termination service and special assembly items at DLA CENTREX installations for the period January 1, 1984, through March 31, 1989. However, because we identified Bell of Pennsylvania overcharges at the Defense Personnel Support Center (DPSC) that occurred between July 1982 and July 1984, we expanded the scope of our audit at this DLA installation to include these specific overcharges. This increased scope allowed us to verify billing errors involving AUTOVON termination service and subsequent overpayments from July 1982 through July 1984 at DPSC. Appendix C provides details of our audit approach and the methods we used to determine the occurrence of overcharges.

AUTOVON Termination Overcharges at DPSC. After divestiture of AT&T in January 1984, DLA communications managers received a monthly AT&T bill, which itemized leased equipment, and a monthly Bell Operating Company bill, which primarily reflected charges for local and long-distance telephone services. Ideally, immediately after divestiture, DLA communications managers should have identified the services and equipment associated with the AT&T bill and those associated with the local Bell Operating Company bill. Because this distinction was not made, billing errors relating to AUTOVON termination service at DPSC went undetected for more than 6 years.

AT&T Overcharges. Due to the erroneous transfer of billing codes at the time of diverstiture from the Regional Bell Operating Companies to AT&T (described in detail in Appendix B), AT&T overcharged DPSC for AUTOVON termination service. Since the AUTOVON termination service was provided by Bell of Pennsylvania and not AT&T, overcharges were incurred. We found that although DPSC communications managers were certifying monthly AT&T bills, they did not realize that AT&T was erroneously billing DPSC for AUTOVON terminations. Improper certifications and subsequent overpayments totaling $184,010 occurred from July 1984 through December 1988.

In 1986, although AT&T became aware of overcharging at DPSC, AT&T continued to overcharge through 1988 for minor costs associated with AUTOVON termination service. After discovering the incorrect billing at DPSC, AT&T issued credits to DPSC in September 1986, October 1987, and April 1988. The credits, totaling $128,014, represented AT&T's computation of AUTOVON termination overcharges at DPSC from April 15, 1985, through January 15, 1988. Appendix B provides further details on the discovery of AT&T billing errors and subsequent credits issued for overpayments.

Bell of Pennsylvania Overcharges. Bell of Pennsylvania overcharged DPSC for AUTOVON termination service from July 1982 through July 1984. Bell of Pennsylvania filed a tariff with the Pennsylvania Public Utility Commission (the Commission) requesting approval for pricing AUTOVON terminations at $34 per unit. The approval for the charge was granted by the Commission in July 1982, thereby setting a maximum limit of $34 per termination. However, Bell of Pennsylvania assessed DPSC an unregulated charge of $90.55 (for 52 Routine-AUTOVON lines) and $98.65 (for 2 Precedent-AUTOVON lines), in spite of the $34 limitation authorized by the tariff. These overcharges ceased in July 1984, when AUTOVON termination billing codes were erroneously transferred to AT&T. Bell of Pennsylvania overcharges incurred by DPSC total $73,678. As of the conclusion of our audit, no credits had been provided by Bell of Pennsylvania.

AT&T Special Assembly Overcharges. AT&T overcharged DPSC, the Defense Contract Administration Services Management Area (DCASMA)-Grand Rapids, and DCASMA-Detroit for special assemblies that could not be identified or located by communications managers at DPSC or at the DCASMA sites. Many of the special assemblies were installed by AT&T several years before divestiture, were removed by AT&T as assemblies became obsolete, and were replaced by state-of-the-art equipment available to all AT&T customers. However, AT&T did not maintain records documenting the removal of special assemblies. Yet, AT&T continued to bill these three DLA installations for special assemblies that could not be located. At DPSC, special assembly overcharges occurred from July 1984 through December 1988. In August 1985, the special assembly overcharges began at the DCASMA sites and discontinued in May 1987 at Grand Rapids and in June 1987 at Detroit. Details by DLA activity follow.

Summary Of AT&T Special Assembly Overcharges

Installation	Monthly Charges for Unidentified Special Assemblies	Months Billed	Amount Overcharged *
DPSC	$286.90	53	$15,206
DCASMA-Grand Rapids	158.00	22	3,476
DCASMA-Detroit	318.15	23	7,317
			$25,999

*Overcharges are rounded to the nearest dollar.

Inventory Procedures. The DLA activities included in our audit did not comply with the annual inventory provision required by the DLA Telecommunications Management Manual (the Manual), which requires an annual certification statement declaring that all installed telephone equipment has been physically inventoried. Had communications managers at DPSC accounted for and classified circuits properly, they could have assessed the accuracy of the number of AUTOVON termination charges by Bell of Pennsylvania. Circuits should have been classified as Routine-AUTOVON and Precedent-AUTOVON. Establishing an official base communications circuit inventory as required by the Manual could have been accomplished through coordinated efforts by the activity communications manager and the DCA; specifically, the Western Hemisphere Branch of the Defense Communications System Organization. The annual inventory certification would have detected unrecorded additions and deletions of circuits, facilitated certification of payments, and provided DPSC with a solid basis to dispute AUTOVON termination overcharges.

Communications managers at DPSC did not conduct a physical inventory or provide an annual inventory certification of special assemblies or other installed equipment. In addition, the communications managers at the Defense Contract Administration Services Region (DCASR)-Cleveland, which maintains payment records and invoices for the DCASMA sites included in our audit, did not ensure that inventories were performed at DCASMA-Grand Rapids and DCASMA-Detroit. If inventories had been performed, communications managers could have verified whether or not special assemblies existed and subsequently could have validated or promptly disputed the AT&T monthly charges. Sound inventory procedures are not only necessary and required by the Manual, they also help eliminate guesswork whenever uncertainties emerge during the payment certification process of monthly bills.

Payment Certification Procedures. Once inventories have been established, communications managers should ensure that monthly charges for telecommunications services and equipment are accurate. AT&T special assembly equipment charges are normally published on a general schedule, and prices are usually fixed for a 3- to 5-year period. None of the DLA installations we audited could properly certify the accuracy of the AT&T charges for special assemblies. Additionally, DPSC did not maintain copies of approved Bell of Pennsylvania tariffs for AUTOVON termination charges. These tariffs list the maximum authorized rate for AUTOVON terminations, and subsequent monthly invoice charges cannot, by state decree, exceed the authorized rate.

To complete the certification process, accurate CSA's and copies of the DECCO Basic Agreements, (i.e., AT&T and the servicing Bell

Operating Company Basic Agreements) must be on file at the installation and reviewed with some frequency. Monthly payments for telecommunications services should be made only if authorized under the general terms of the Basic Agreement and the specific terms of the CSA. The Manual requires invoices to be verified against the CSA. In addition, the Manual requires that CSA's be recapitulated and reissued at least every 2 years. However, at DPSC, the current CSA covering AUTOVON termination service provided by Bell of Pennsylvania was dated January 12, 1982. There were no AT&T CSA's for special assembly charges at DPSC. Communications managers at DCASR-Cleveland could not provide us with any CSA's authorizing AT&T to charge DCASMA-Grand Rapids or DCASMA-Detroit for special assemblies.

Inadequate inventory and payment certification procedures existed at all three DLA installations. The erroneous charges by AT&T and the Bell Operating Companies went undetected for more than 6 years, primarily because communications managers did not properly certify invoices prior to payment. As a result of improper certification procedures, the Government's monetary interests were unprotected at all levels of the base communications management structure. Communications managers did not identify erroneous monthly charges and continually certified and subsequently authorized erroneous invoices for payment to the supporting Accounting and Finance Offices at DPSC and the DCASMA sites.

In our opinion, telecommunications guidance from Headquarters, DLA, has been ineffective. The draft Manual was issued in September 1988; nearly all overcharges that we identified in our audit occurred before September 1988. In this regard, the Manual was of little or no value to DLA communications managers. Moreover, it appeared that, in spite of the statement by Headquarters, DLA, designating the draft Manual as official DLA policy, none of the communications managers that we met with were aware of the Manual's importance or even of its existence. The Manual needs to be issued in final form in order to emphasize the importance of telecommunications management at DLA activities.

Sufficient guidance covering inventory and bill paying procedures exists in the Manual. However, Headquarters, DLA, needs to establish an oversight program that annually tests the effectiveness of inventory and bill paying certification procedures. In addition, the Manual should contain a provision that addresses disciplinary action for communications managers who incorrectly certify bills and who do not use appropriate bill paying verification procedures. This remedial measure should forewarn all communications managers on the need to properly certify bills before payment. Finally, communications managers at DCASR-

Cleveland should periodically visit the DCASMA-Grand Rapids and DCASMA-Detroit offices to ensure that those subsidiary activities follow prescribed inventory and certification procedures.

Management Control. DoD Directive 5010.38, "Internal Management Control Program," dated April 14, 1987, guides DoD Components in establishing internal control programs. DoD Components should implement a comprehensive system of internal management controls to provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. An internal control program should also prevent mismanagement and correct specific weaknesses in a timely manner. DLA Regulation 5010.4, "Internal Management Control Program," dated June 29, 1987, states, "Internal management controls will be maintained throughout DLA to ensure all resources are well managed." The draft Manual provides sound guidance on the importance of verifying telecommunications bills, maintaining accurate CSA's, and managing telecommunications inventories. However, a provision for disciplinary action for communications managers who do not properly certify bills should be included in the Manual. Finally, Headquarters, DLA, oversight responsibilities relating to internal controls over certification procedures are not addressed in the Manual. Oversight or monitoring procedures by Headquarters, DLA, will ensure compliance with internal controls and should be incorporated into the final version of the Manual or other internal control guidance.

Corrective Action Taken. Although most of the affected DLA overcharges were incurred at DPSC, there is no assurance that other DLA activities were properly charged for telecommunications services. During the audit, we provided the commanders of the DLA activities with the results of our audit and interim recommendations for improvements. Additionally, we notified appropriate higher level DLA officials, the Defense Communications Agency, and the Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) of the conditions. Installation commanders were aware that stronger installation-level certification procedures were needed and that their communications managers needed to improve the accuracy of inventories. Headquarters, DLA, representatives informed us of its plans to implement the Manual in final form. DLA's concern at all levels is commendable; however, management actions on a DLA-wide basis are necessary to preclude a recurrence of the problems we identified or similar problems.

Cost Impact to DLA. From July 1982 to December 1988, AT&T and Bell of Pennsylvania overcharged DLA $283,687 for AUTOVON termination service and special assemblies as summarized below.

Summary of Total Overcharges

Installation	Bell of Pennsylvania Overcharges	AT&T Overcharges	Previous AT&T Credit	Outstanding Overcharges
DPSC	$73,678	$199,216	$128,014	$144,880*
DCASMA-Grand Rapids	NA	3,476	NA	3,476
DCASMA-Detroit	NA	7,317	NA	7,317
Totals	$73,678	$210,009	$128,014	$155,673

* $71,202 in AT&T overcharges; and $73,678 in Bell of Pennsylvania overcharges.

Of the total amount overcharged, $3,845 of recurring annual costs for AUTOVON termination and special assembly charges at DPSC is attributable to FY 1989. The overcharges, stated in FY 1990 dollars (inflation factor of 4.1 percent for FY 1990), total $4,003. To project the recurring annual savings for FY 1991, we applied the established DoD inflation factor (4.1 percent for FY 1991) to the 1990 total and calculated the savings to be $4,167. Using the FY 1991 recurring savings ($4,167) as the base year, we then applied the established DoD inflation factors (3.8 percent for FY 1992, 3.6 percent for FY 1993, 3.3 percent for FY 1994, and 3.1 percent for FY 1995) for the next four fiscal years, calculating the total annual recurring savings for the Five-Year Defense Plan at $22,375. The net annual recurring savings for the Five-Year Defense Plan was calculated at $178,048 ($22,375 plus $155,673). We concluded, therefore, that DLA may save as much as $159,840 ($4,167 plus $155,673) during FY 1991 and $178,048 during FY 1991 through FY 1995 in avoiding unnecessary telecommunications charges. Budgetary projections for the Five-Year Defense Plan resulting from this audit are in Appendix F.

Conclusion. The telecommunications overcharges experienced by DLA can be attributed, in part, to the confusion resulting from divestiture and deregulation of AT&T in January 1984. DLA communications managers were unclear on the role that telephone company vendors assumed immediately after divestiture, which may explain why communications managers initially certified erroneous vendor bills. However, as the roles of AT&T and the Bell Operating Companies became better defined, DLA communications managers should have familiarized themselves with the types of service and authorized charges of each vendor. Yet, for more than 4 years after divestiture, AT&T continued to submit invoices with erroneous charges for special assemblies, and DLA communications managers continued to certify the bills. In some instances, improper certification occurred as late as

December 1988. In addition, the installations included in our audit maintained incorrect CSA's and did not perform inventories of circuits and special assemblies. Further, tariffs and Basic Agreements were not on file at any of the installations included in our audit. Proper certification of communications bills cannot be accomplished unless DLA communications managers perform inventories and maintain accurate CSA's, tariffs, and Basic Agreements. Finally, regional DLA offices need to ensure that subsidiary activities follow prescribed telecommunications procedures.

Policy officials at Headquarters, DLA, are eager to reverse the trends that exist not only at the activities included in our audit, but also at all DLA activities. Ensuring compliance with inventory and bill paying certification procedures through an oversight program and establishing remedial measures for disciplinary action for communications managers could produce positive results for DLA. An annual program that tests the accuracy of inventories by reconciling them to the CSA's and certified bills is an example of the type of oversight program that Headquarters, DLA, can pursue.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Director, Defense Logistics Agency:

a. Publish the Defense Logistics Agency Telecommunications Management Manual in final form.

b. Include a requirement in the Headquarters, Defense Logistics Agency, internal control program to annually verify compliance with the inventory and bill paying certification procedures outlined in the Telecommunications Management Manual.

c. Add a provision in the Telecommunications Management Manual for disciplinary action for communications managers who certify bills improperly and who use inadequate bill paying verification procedures.

d. Reduce the Defense Logistics Agency communications budget for FY 1991 by $159,840 or by the net amount determined to be overcharged based on the results of legal and contractual negotiations between the Defense Logistics Agency and the American Telephone and Telegraph Company, and between the Defense Logistics Agency and the Bell of Pennsylvania Telephone Company.

e. Reduce the appropriate Defense Logistics Agency communications program element for the FY 1991 through FY 1995 Five-Year Defense Plan by a total of $178,048 or by the net amount determined to be overcharged based on the results of legal

and contractual negotiations between the Defense Logistics Agency and the American Telephone and Telegraph Company, and between the Defense Logistics Agency and the Bell of Pennsylvania Telephone Company.

2. We recommend that the Commander, Defense Personnel Support Center recover $144,880:

a. by obtaining a credit of $71,202 from the American Telephone and Telegraph Company for Automatic Voice Network termination service and special assembly overcharges;

b. by obtaining a credit of $73,678 from Bell of Pennsylvania Telephone Company for Automatic Voice Network termination service overcharges.

3. We recommend that the Commander, Defense Contract Administration Services Region-Cleveland:

a. Recover $10,793 in overpayments by obtaining a credit of $10,793 from the American Telephone and Telegraph Company for special assembly overcharges.

b. Annually test the accuracy of telecommunications inventory and bill-paying procedures at the Defense Contract Administration Services Management Area-Grand Rapids and at the Defense Contract Administration Services Management Area-Detroit.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

DLA partially concurred with the finding. Regarding the recommendations, DLA concurred with Recommendations 1.d., 1.e., 3.a., and 3.b; partially concurred with Recommendations 1.a., 1.b., 2.a., and 2.b; and nonconcurred with Recommendation 1.c. The complete text of DLA's comments is in Appendix D.

We believe that many of DLA's comments are nonresponsive and disregard the chronology of events that occurred during the audit. We question the basis for management's position on various issues, especially since we provided installation commanders with our results immediately after completing the field work; sent memorandums to these commanders and to Headquarters, DLA, officials summarizing our audit results; and provided a series of comprehensive briefings to Headquarters, DLA, officials on our finding and recommendations. In addition, we provided DLA with an advance copy of the draft report and gave a detailed exit briefing on the draft report contents to Headquarters, DLA, officials. In spite of those efforts, DLA's comments contain inaccuracies and distort the facts presented to various DLA officials. DLA comments relating to bill paying

verification and certification procedures, Bell of Pennsylvania overcharges at DPSC, and disciplinary action are inaccurate and disregard the audit results and the facts presented in the draft report.

Management Comments. Concerning the finding, although DLA agreed that the three DLA installations were overcharged for AUTOVON termination service and special assembly equipment, DLA believed that the overcharges were an inevitable consequence of the confusion brought about by divestiture in 1984. DLA maintained that at the DPSC the billing invoices provided by AT&T and Bell of Pennsylvania were not sufficiently detailed for DPSC to discover possible billing discrepancies. DLA stated that at the DCASMA-Grand Rapids and at the DCASMA-Detroit offices, the actual customer of AT&T was the General Services Administration-Detroit (GSA-Detroit). Accordingly, DLA stated that GSA-Detroit received the AT&T invoices, not the DCASMA offices or DLA's Primary Level Field Activity, the DCASR-Cleveland. Without the benefit of the invoices, DCASMA-Grand Rapids, DCASMA-Detroit, or DCASR-Cleveland cannot reasonably expect to challenge questionable charges.

Audit Response. Our audit work for the DCASMA-Grand Rapids and DCASMA-Detroit offices was performed at the DCASR-Cleveland office. We examined AT&T invoices dated April 1986 through June 1987 for DCASMA-Grand Rapids and AT&T invoices dated April 1986 through July 1987 for DCASMA-Detroit. In addition, the communications manager at DCASR-Cleveland told us that both DCASMA offices certify the back of the AT&T bills and submit them for payment to DCASR-Cleveland. At the DCASR-Cleveland office, we examined payment vouchers that had AT&T invoices attached. To state that neither DCASMA office nor the DCASR-Cleveland office "have access to the actual bills" is a misstatement. In those instances where GSA-Detroit is the primary customer of record and not DCASMA-Grand Rapids and DCASMA-Detroit, GSA-Detroit provides a printout of the vendor charge to DCASMA-Grand Rapids and DCASMA-Detroit listing the charges applicable to each office. During our audit work at DCASR-Cleveland, we spoke with the communications manager at GSA-Detroit, and he assured us that printouts are provided on a regular basis to DCASMA-Grand Rapids and DCASMA-Detroit.

Concerning DLA's assertion that DPSC did not have adequate or detailed information to dispute billing discrepancies, as early as September 1986, DPSC knew of billing problems concerning AUTOVON termination service with AT&T and Bell of Pennsylvania. AT&T issued a credit to DPSC in September 1986 as a result of erroneous AUTOVON termination billings.

We request that DLA reconsider its position on the finding in response to the final report.

Management Comments. DLA partially concurred with Recommendation 1.a., stating that the DLA Telecommunications Management Manual (the Manual) will be completed and distributed by December 31, 1990.

Audit Response. We find the December 31, 1990, publication date acceptable, and therefore accept the Comptroller's response as meeting the intent of our recommendation.

Management Comments. For Recommendation 1.b., DLA partially concurred to include a requirement in the DLA internal control program to annually verify compliance with inventory and certification procedures. DLA stated that each Primary Level Field Activity (PLFA) has the responsibility to verify bill paying accuracy prior to rendering payments. Further, DLA stated that both DPSC and DCASR-Cleveland have initiated additional internal controls to guard against improper telecommunications payments. Finally, DLA stated that there would be no added benefit to initiating additional controls for all DLA activities.

Audit Response. At the three DLA installations we audited, internal controls over bill paying certification procedures were deficient, had been deficient for long periods of time, and had contributed directly to the condition that led DLA to make overpayments of more than $283,000. Improper certification of monthly invoices at the three DLA installations was the rule, not the exception. We are concerned that the certification problems we found during our audit are a systemic DLA-wide weakness and are not isolated to just three installations. In an effort to obtain uniformity throughout its organization DLA needs to ensure that all other PLFA's have implemented these same "additional internal controls." We request that DLA reconsider its position in responding to this final report.

Management Comments. DLA nonconcurred with Recommendation 1.c. to implement disciplinary action for communications managers who improperly certify bills, stating that the current policy on the verification and payment of bills is "adequate." Conversely, DLA stated that since the actual user often is not provided the monthly bill, it would be inappropriate to hold the communications managers accountable for "100 percent accuracy in their verification and certification."

Audit Response. If it were true that the actual user is not provided a copy of the bill, then we would conclude that the internal controls relating to verification and payment of bills are unacceptable and inadequate. However, the AT&T monthly bill

listing the special assembly overcharges was provided to the actual users at the DCASMA-Grand Rapids and DCASMA-Detroit offices. In addition, GSA-Detroit provides a breakdown to DCASMA-Grand Rapids and DCASMA-Detroit on other vendor bills. DLA's statement that the GSA is "unable to break the billing information down to a point where it can be provided to the actual user" is inaccurate. The GSA-Detroit office provides the DCASMA offices with an itemized list of services and equipment. We reconfirmed that GSA was providing the lists with the telecommunications manager at GSA-Detroit as of October 9, 1990. We request that DLA reconsider its position on Recommendation 1.c. in response to this report.

Management Comments. In partially concurring with Recommendation 2.a., DLA stated that the DPSC claim for $71,202 submitted to AT&T did not contain the necessary documentation to support the overcharges. Both AT&T and DPSC believe that the inclusive documentation to support the overcharges is available only from the auditors.

Audit Response. With the assistance of DPSC and the AT&T Philadelphia regional Federal Billing Center, we developed a comprehensive file of records and documentation relating to the AUTOVON termination and special assembly overcharges. However, although our records have been available and remain available to both DPSC and Headquarters, DLA, neither DLA activity has contacted us for support. We are available to assist DPSC in its attempt to recover the overcharges from AT&T. To guard against the appearance of impropriety, we will not initiate any contact with AT&T unless directed or accompanied by appropriate DLA contracting officers. In view of our offer of assistance, we request that DLA reconsider its position in response to the final report. Our offer of assistance also applies to commanders and contracting officers at DPSC and DCASR-Cleveland.

Management Comments. DLA partially concurred with Recommendation 2.b. to obtain a credit from Bell of Pennsylvania for past overpayments. DLA maintains that although the overcharges by Bell of Pennsylvania should be credited to DPSC, efforts to recoup these monies were withheld "at the suggestion of the DoDIG" [Inspector General, DoD] due to a Department of Justice investigation.

Audit Response. DLA's decision to partially concur with Recommendation 2.b. does not include the events that occurred after August 1989. At a briefing for Headquarters, DLA, officials in August 1989, we did inform those officials that an investigation into the Bell of Pennsylvania overcharges was under consideration, and we instructed DPSC to withhold collection efforts. However, in January 1990, a decision by the Defense

Criminal Investigative Service was made that an investigation was not merited. This decision was promptly announced to DPSC officials. Moreover, this information was again conveyed to the Office of the Comptroller, DLA, and other Headquarters, DLA, officials during our briefing on the proposed draft report in June 1990. At that briefing, there was no discussion of a pending investigation, nor did any DLA participants question Recommendation 2.b. when it was discussed. Further, the draft audit report contained no mention of a pending investigation, nor did it request DPSC or Headquarters, DLA, to withhold efforts to recoup funds. DLA is free to pursue credits from Bell of Pennsylvania. Therefore, we request that DLA reconsider its position on Recommendation 2.b. in response to the final report.

Finally, although DLA concurred with Recommendations 1.d. and 1.e., we recognize that the budgetary reductions are dependent on the outcome of negotiations between the DLA contracting officers and AT&T and Bell of Pennsylvania. Therefore, we have revised Recommendations 1.d. and 1.e to reflect that contingency. In addition, we have updated our budgetary projections in this final report to FY 1991 and the FY 1991 through 1995 Five-Year Defense Plan (instead of FY 1990 and the FY 1990 through 1994 Five-Year Defense Plan as originally computed in the draft report). Accordingly, we request that DLA respond to revised Recommendations 1.d. and 1.e. in response to this final report.

GLOSSARY

AUTOVON	The Automatic Voice Network is a part of the Defense Communications System's long-distance telecommunications service.
AUTOVON Access Lines	Provides Defense Logistics Agency subscribers access to the AUTOVON network via line connections from the Central Office Exchange Service to the AUTOVON switch.
Backbone Network Costs	Costs associated with AUTOVON, incurred for lease of switches and interconnecting circuits, operations and maintenance of switching centers, and administrative expenses.
Base Communications	The local area telecommunications needs of a DLA activity.
Bell Operating Companies	The 22 independent Bell Telephone Companies that provide local telecommunications needs to a defined geographic area.
Central Office Exchange Service (CENTREX)	A highly automated telecommunications center where the Bell Operating Companies terminate customer lines and house the equipment that interconnects these lines. The CENTREX provides Defense Logistics Agency installations with access to long-distance networks (such as AUTOVON).
Communications Service Authorizations (CSA)	Telecommunications service contracts placed by Defense Logistics Agency installations against Basic Agreements established with various vendors.
Plan of Reorganization	The Federal court document that outlines the divestiture agreement between the American Telephone and Telegraph Company and the Bell Operating Companies.
Precedent-AUTOVON Termination	A prioritized AUTOVON call that can preempt all other AUTOVON calls.

GLOSSARY (Continued)

Private Branch Exchange (PBX)	Customer-owned or leased switching equipment that is located on Defense Logistics Agency installations.
Private Line Terminations (AUTOVON terminations)	A physical switching mechanism that allows Defense Logistics Agency CENTREX subscribers to connect local area telecommunications with the AUTOVON. Termination charges are controlled by state public utility commissions as a result of tariffs filed by the Bell Operating Companies.
Regional Bell Operating Company	Seven Bell holding companies that are parent corporations to the 22 local Bell Operating Companies (for example, the Bell of Pennsylvania Telephone Company is controlled by Bell Atlantic).
Routine-AUTOVON Termination	An AUTOVON call which has no preemptive capability.
Special Assembly	The addition of equipment to either existing equipment or voice (telecommunications) lines. Special assemblies enhance the ordinary capabilities of equipment or lines and are designed for the specific needs of the Defense Logistics Agency.
Tariff	A schedule of authorized charges or rates of the Bell Operating Companies approved by a state public utility commission.
Universal Service Order Code	An alpha-numeric designation that classifies or identifies telecommunications services appearing on the monthly Bell Operating Company bill.

BILLING EFFECTS OF DIVESTITURE

This appendix describes some of the billing problems experienced by Defense Logistics Agency (DLA) Central Office Exchange Service (CENTREX) users as a result of the court-ordered divestiture of the American Telephone and Telegraph Company (AT&T).

Overview. Most DLA installations either own or lease an on-premise switch, a Private Branch Exchange, which provides the user with dial tone service, control of telephone routing, and options for telephone features. Some DLA installations neither own nor lease a switch and subsequently rely on a local exchange carrier (usually a Bell Operating Company) for their switch services. The Bell Operating Companies provide switch services and other features to DLA users through a Central Office. A Central Office is a highly automated telecommunications center where the Bell Operating Companies terminate customer lines and house the equipment that connects these lines. Users who are serviced by a Central Office refer to their service as CENTREX. As part of the divestiture agreement, the Bell Operating Companies retained their Central Office operations and the right to provide all services associated with CENTREX.

The divestiture redistribution and assignment of telecommunications services between AT&T and the Bell Operating Companies occurred in early 1984. The actual assignment of services was accomplished through a transfer of billing codes from the Regional Bell Operating Companies to AT&T. The realignment of assets between AT&T and the Bell Operating Companies brought about the Plan of Reorganization allowed AT&T the ability to provide special assemblies and customer-premise (leased) equipment and the Bell Operating Companies to provide Automatic Voice Network (AUTOVON) termination service. AT&T and the Bell Operating Companies provide other telecommunications services that were excluded from the scope of our audit.

Divestiture Billing Codes Transfer. Telecommunications services are classified by an alpha-numeric billing code known as a Universal Service Order Code (USOC). The AT&T USOC normally associated with special assembly charges is E99ZPYZZ++. In compliance with the Federal court-ordered divestiture decree, all USOC's with this exact 10-character designation were to be transferred from the Bell Operating Companies to AT&T. The transfer of the special assembly USOC's was handled by the Regional Bell Operating Companies, the holding companies for the Bell Operating Companies. However, due to an apparent programming oversight, all other USOC's beginning with the first 3-character designation, E99, were inadvertently transferred by the Regional Bell Operating Companies to AT&T. Prominent among this transfer was the E99BFDKC billing code associated with

AUTOVON termination service at the Defense Personnel Support Center (DPSC), Philadelphia, Pennsylvania. In addition, for reasons we could not determine, erroneous AUTOVON termination charges at DPSC were billed by AT&T under a second USOC, E99ZPYZZ++, which designates special assembly charges. Accordingly, through these erroneous USOC transfers, the Bell of Pennsylvania Telephone Company allowed AT&T to bill for AUTOVON termination service, although Bell of Pennsylvania provided the service.

Discovery of AT&T Billing Errors. In 1986 and 1987, the AT&T billing discrepancy relating to AUTOVON terminations was identified. The errors were detected by various Bell Operating Company marketing representatives who discovered that their respective companies were not billing DoD CENTREX installations for the AUTOVON termination service. Bell marketing representatives notified the various regional AT&T billing offices of the billing error. In concert with the Bell Operating Companies, AT&T agreed that Defense installations that were assessed AUTOVON termination charges after April 15, 1985, would be eligible for a credit equal to the amount overcharged by AT&T. (No effort was made to compensate installations for charges assessed for unidentified special assemblies). The period immediately before April 15, 1985, and extending back to January 1, 1984, was viewed as a "wash" by AT&T and the Bell Operating Companies; that is, AT&T absolved itself from issuing credits for erroneous AUTOVON termination charges from January 1, 1984, through April 15, 1985. This internal policy decision was made with the concurrence of all 22 local Bell Operating Companies. In turn, the Bell Operating Companies agreed that they would not seek remuneration for AUTOVON termination service provided to Defense installations from January 1, 1984, to April 15, 1985. They did, however, retroactively bill Defense installations from the time the errors were detected in either 1986 or 1987 back to April 15, 1985.

The April 15, 1985, benchmark is regarded by AT&T and the Bell companies as the end of the "true-up" period, as provided by the Plan of Reorganization. Generally, the Federal court allowed the divested parties a grace period of 1 year as a "... discovery of record errors and of mistaken assignments...."1/ AT&T interpreted the Plan of Reorganization as allowing AT&T to retain revenue accrued from the erroneous AUTOVON termination charges from January 1, 1984, through April 15, 1985, and as exempting AT&T from liability for erroneous billing actions during this time. We considered AT&T's interpretation and subsequently discussed

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1/ Stated in the Plan of Reorganization, Civil Action No. 82-0192, United States District Court for the District of Columbia.

the matter with lawyers of the Antitrust Division, Department of Justice. The Antitrust Division handled the Government's interest during the court-ordered deregulation of AT&T. The Antitrust Division legal staff did not agree with AT&T's interpretation, mainly asserting that the "true-up" period did not relieve AT&T of incurred liability. The Department of Justice position is that all AT&T overcharges assessed against DoD CENTREX installations from January 1, 1984, forward must be credited to the affected installations.

Finally, in a breach of its policy (refusing to provide credits for overcharges incurred before April 15, 1985), AT&T provided a credit to a U.S. Naval installation for overcharges relating to AUTOVON termination service incurred in late 1984. We believe that a precedent was created that would justify future credit requests for overcharges incurred by all Defense installations from January 1, 1984, through April 15, 1985.

AUDIT METHODOLOGY

This appendix describes our audit approach in determining the accuracy of AT&T charges for Automatic Voice Network (AUTOVON) termination service and special assembly items at Defense Logistics Agency (DLA) Central Office Exchange Service (CENTREX) installations for the period July 1, 1982, through March 31, 1989.

We identified the DLA CENTREX universe from network schematics available in the AT&T Routing Guide, dated December 15, 1987. The guide shows that of 44 DoD installations serviced by CENTREX, 7 were DLA activities. To determine if these DLA activities had been erroneously charged for AUTOVON termination service or for special assemblies, we requested AT&T to provide official company accounting records for the period January 1, 1984, through August 31, 1988. The records indicated whether or not billing codes associated with AUTOVON termination service and special assembly charges appeared on AT&T invoices to the seven DLA installations for that period. From an initial list of seven DLA CENTREX users, we identified three installations 1/ that were being erroneously billed for AUTOVON termination service and special assemblies. The remaining four installations were not charged by AT&T for AUTOVON termination service or special assemblies. In addition, since there were no indications of Bell Operating Company overcharges at these installations, we excluded them from our audit.

All instances of potential AT&T overcharges were then verified to billing information available for the three DLA installations included in our audit. However, because the Defense Contract Administration Services Region-Cleveland (DCASR-Cleveland), Cleveland, Ohio, maintains payment records and invoices for both Defense Contract Administration Services Management Areas (DCASMA)-Grand Rapids and DCASMA-Detroit, and because of the total potential minor overcharges at each DCASMA site, we did not perform audit verification work at the Grand Rapids or the Detroit offices. Instead, we reviewed available billing invoices and other documents at the DCASR-Cleveland office and contacted the communications managers at the two DCASMA sites from the DCASR-Cleveland office.

At DPSC, we examined available AT&T invoices, Bell Operating Company invoices, available CSA's, work orders, and Basic

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1/ Defense Personnel Support Center, Philadelphia, Pennsylvania; Defense Contract Administration Services Management Area (DCASMA), Detroit, Michigan; Defense Contract Administration Services Management Area (DCASMA), Grand Rapids, Michigan.

Agreements to determine the validity and appropriateness of charges. We also reviewed internal controls over communications bill paying procedures and inventoried special assembly items at DPSC. Additionally, we visited the Pennsylvania Public Utility Commission offices to verify that AUTOVON termination charges billed to DPSC agreed with the amounts allowed to be charged (tariffs) for termination services. We also met with Bell Operating Company officials to discuss issues relevant to the audit. We met with Defense Communications Agency (DCA) officials periodically throughout the audit to obtain official DoD telecommunications guidance. Through the cooperation of these officials, we were provided with DCA certified circuit inventory data that was valuable to our audit.

We provided the DPSC and DCASR-Cleveland installation commanders with our results immediately upon completion of the field work at each site. Further, to provide timely audit results, we sent memorandums to these commanders and provided the same summaries to the appropriate higher DLA headquarters officials and to DCA. We discussed the details of our results and recommendations with Headquarters, DLA officials; with senior officials of the Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence); and with the Director, Defense Communications Systems Organization, DCA. Finally, we held an exit briefing on the draft report contents for Headquarters, DLA, officials. In our correspondence and meetings, we explained the basis for our conclusions and stressed the need to take corrective action: to eliminate erroneous charges, to initiate collection action against AT&T and Bell of Pennsylvania for prior overpayments, and to conduct baseline inventories of telecommunications assets.

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

IN REPLY REFER TO DLA-CI

31 AUG 1990

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
ATTN: DIRECTOR, READINESS AND OPERATIONAL SUPPORT

SUBJECT: Draft Report on Billings for CENTREX AUTOVON Terminations in the Defense Logistics Agency (Project No. 9IC-0025.04)

This is in response to your 28 Jun 90 memorandum requesting our comments to one finding and nine recommendations of subject report. We are providing you with a partial response containing all of the positions except for one, Recommendation 1.b, which will be forwarded to you as soon as possible. The enclosed positions have been approved by Ms. Helen T. McCoy, Deputy Comptroller, Defense Logistics Agency.

9 Encl

REATHEA E. HOLMES
Chief, Internal Review Division
Office of Comptroller

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 AUG 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Billings For CENTREX AUTOVON Terminations In The Defense Logistics Agency, (Project Number 9IC-0025.04)

FINDING: AUTOVON Termination and Special Assembly Overcharges. Three DLA installations were overcharged by AT&T, or the Bell of Pennsylvania, or both for AUTOVON termination service and for special assembly equipment. AT&T overcharges resulted from incorrect billings immediately after divestiture in 1984. Bell of Pennsylvania overcharges occurred because of incorrect and illegal tariff charges for AUTOVON termination service. The overcharges were incurred for more than 6 years because DLA communications managers did not perform inventories of circuits and leased special assemblies and did not check the accuracy of telephone bills before certifying them for payment. As a result, DLA overpaid AT&T and Bell of Pennsylvania in excess of $283,000 for AUTOVON termination service and special assembly equipment. Unless this condition is rectified, unnecessary AUTOVON terminations and special assembly charges could cost DLA $4,000 during FY 1990 and $21,600 during FY 1990 through FY 1994.

DLA COMMENTS: Partially Concur. Yes, three DLA installations were overcharged by AT&T, or by the Bell of Pennsylvania, or both for AUTOVON termination service and for special assembly equipment. The overcharges were incurred for more than 6 years. The reasons that the overcharges were incurred are not exactly as stated by the audit finding. In the case of our Defense Contract Management Area Operations (DCMAOs Detroit and Grand Rapids), the actual customer to the AT&T was the General Services Administration (GSA). Neither of the DCMAOs nor their Primary Level Field Activity have access to the actual bills for the service in question. AT&T will only provide the necessary billing information to their customer of record, GSA. The GSA has not responded positively to DCMR Cleveland requests to provide the required information to this Agency. The GSA has many customers behind their CENTREX. The GSA claims they do not have the capability, to break the billing down to reflect the actual DCMAO Detroit and Grand Rapids billing information. In the case of our Defense Personnel Support Center (DPSC) Philadelphia office, neither AT&T nor Bell of Pennsylvania billing documentation was adequate nor detailed enough to determine that the DPSC had reason to suspect any incorrect billing. The actual occurrence of Divestiture during 1984 created massive confusion resulting in many operational and billing changes on the part of the telephone industry. The improper billing condition has been rectified. The unnecessary AUTOVON termination and special assembly charges have been removed from the respective billings and no further unnecessary charges are being paid to the vendors.

MONETARY BENEFITS:
DLA COMMENTS: The finding was that three DLA sites were being overcharged by AT&T and/or Bell of Pennsylvania. The billing discrepancies have been corrected and no further funds are being expended.
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: $283,000.00
DATE BENEFITS REALIZED: N/A

INTERNAL MANAGEMENT CONTROL WEAKNESS:

(X) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)

We do consider the finding an internal management control weakness. However, the specific findings were identified at DLA sites, where for the most part the required telephone company billing information was not available at the site. The present controls provide reasonable, but not absolute, assurance that the objectives of the system will be accomplished. The established standards recognize that the cost of a control should not exceed its benefits, and that the benefits consist of reductions in the risks of failing to achieve the stated control objectives.

ACTION OFFICER: James W. Livengood, DLA-ZIC, 274-5156, 8/22/90

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 AUG 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Billings For CENTREX AUTOVON Terminations In The Defense Logistics Agency, (Project Number 9IC-0025.04)

RECOMMENDATION 1.a.: We recommend that the Director, DLA, publish the DLA Telecommunications Management Manual in final form.

DLA COMMENTS: Partially Concur. Administrative hurdles have precluded successful publication of the final document. Current projections for completion and distribution is 31 December 1990. DLA-Z letter of 7 September 1988 identified to each PLFA that the draft document is our official policy on telecommunications management until the final product could be published and distributed. Chapter VII, Telephone System Operations Management, adequately identifies our policy that PLFA Communications Managers are responsible to verify the accuracy of billings prior to payment. Publication of the final document will not provide any additional policy guidance on the subject.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 31 Dec 90
( ) Action is considered complete.

MONETARY BENEFITS: NONE
DLA COMMENTS: Recommendation 1.a. recommends that the Agency publish the Telecommunications Management Manual in the final form. There are no monetary deficiencies identified with this actual finding and therefore, for the benefit of this specific finding there is no monetary information identified.
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE BENEFITS REALIZED: N/A

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)

We do consider recommendation 1.a. an internal management control weakness. We must, however, remember that DLA telecommunications policy has been provided. The act of final publication does not make the established policy any more valid.

ACTION OFFICER: James W. Livengood, DLA-ZIC, 274-5156, 8/22/90

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 AUG 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Billings For CENTREX AUTOVON Terminations In The Defense Logistics Agency, (Project Number 9IC-0025.04)

RECOMMENDATION 1.c.: We recommend that the Director, DLA, add a provision in the Telecommunications Management Manual for disciplinary action for communication managers who fail to certify bills properly and who use inadequate bill paying verification procedures.

DLA COMMENTS: Non-Concur. As noted in our response to Format 3 of 10, our current Headquarters procedures and internal management control policy on the verification and payment of bills is felt to be adequate. We feel that our telecommunications managers comply with this policy guidance to the extent possible. The implementation of the DoD Management of Base and Long Haul Communications Services will further enforce our current policy guidance. In many cases the DLA activity is not the actual customer of the telephone company. The telephone company will only provide the actual billing information to their customer. In most cases the Host, as in two of the three CENTREX site issues, is unable to break the billing information down to a point where it can be provided to an actual user. It would not be appropriate to hold our telecommunications managers responsible for 100 percent accuracy in their verification and certification under these circumstances.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: NONE
DLA COMMENTS: The finding recommended that a provision be added in the Telecommunications Management Manual for disciplinary action for communications managers who fail to certify bills properly and who use inadequate billing paying verification procedures. There are no monetary deficiencies identified with this actual finding and, therefore, for the benefit of this specific finding, there is no monetary information identified.
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE BENEFITS REALIZED: N/A

INTERNAL MANAGEMENT CONTROL WEAKNESS:

(X) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)

For reasons as explained above, we do not consider recommendation 1.c. to be an internal management control weakness. The present controls provide reasonable, but not absolute, assurance that the objectives of the system will be accomplished. The established standards recognize that the cost of a control should not exceed its benefits, and that the benefits consist of reductions in the risks of failing to achieve the stated control objectives.

ACTION OFFICER: James W. Livengood, DLA-ZIC, 274-5156, 8/22/90

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 AUG 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Billings For CENTREX AUTOVON Terminations In The Defense Logistics Agency, (Project Number 9IC-0025.04)

RECOMMENDATION 1.d.: We recommend that the Director, DLA, reduce the DLA communications budget for FY 1990 by $159,675.

DLA COMMENTS: Concur. Since the overcharges have been identified by the DoD IG team, action has been taken by the DLA Primary Level Field Activities to stop the incorrect charges. The overcharges identified total $159,675. DLA-CB will take action to reduce the DLA communications budget supporting DPSC and DCMR Cleveland by the identified amount.

DISPOSITION:
(X) Action ongoing; Final Estimated Completion Date: 30 SEP 90.
( ) Action is considered complete.

MONETARY BENEFITS:
DLA COMMENTS: DLA-CB advises that now that they are aware of the issue, action will be taken to correct the situation no later than the end of this FY. The site funding will be adjusted by the amount identified in the finding.
ESTIMATED REALIZATION DATE: By 30 Sep 90
AMOUNT REALIZED: $159,675.00
DATE BENEFITS REALIZED: By 30 Sep 90

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)

The act of reducing a PLFA budget does not reflect a weakness in current policy.

ACTION OFFICER: James W. Livengood, DLA-ZIC, 274-5156, 8/22/90

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 31 AUG 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Billings For CENTREX AUTOVON Terminations In The Defense Logistics Agency, (Project Number 9IC-0025.04)

RECOMMENDATION 1.e.: We recommend that the Director, DLA, reduce the appropriate DLA communications program element for the FY 1990 through FY 1994 Five Year Defense Plan by a total of $177,276.

DLA COMMENTS: Concur. We agree with the audit finding and the audit team rationale to arrive at the stated amount of $177,276. Action will be taken to reduce the DLA communications program element as identified in the recommendation.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 30 Sep 90.
( ) Action is considered complete.

MONETARY BENEFITS:
DLA COMMENTS: DLA-CB advises that now that they are aware of the issue, action will be taken to correct the situation no later than the end of this FY. The DLA communications program element will be adjusted as identified in the finding.
ESTIMATED REALIZATION DATE: By 30 Sep 90
AMOUNT REALIZED: $177,276.00
DATE BENEFITS REALIZED: By 30 Sep 90.

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)

The act of reducing the telecommunications budget does not reflect a weakness in current policy.

ACTION OFFICER: James W. Livengood, DLA-ZIC, 274-5156, 8/22/90

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 31 AUG 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Billings For CENTREX AUTOVON Terminations In The Defense Logistics Agency, (Project Number 9IC-0025.04)

RECOMMENDATION 2.a.: We recommend the Commander, DPSC, recover $144,880 by obtaining a credit of $71,202 from the American Telephone and Telegraph Company for Automatic Voice Network termination service and special assembly overcharges.

DLA COMMENTS: Partially Concur. DPSC-L letter of 25 September 1989 requested from AT&T appropriate credits in the amount of $71,201.20. AT&T letter of 21 March 1990 refused the requested DPSC credit. The AT&T letter stated that the DPSC claim, as submitted, contains virtually no supporting documentation except for a summary statement which references selected Price Element Codes and totals the alleged overcharges. The AT&T letter quoted portions of the DPSC letter that stated, "provided DPSC the results of audit work conducted at the AT&T regional office in Philadelphia in August of 1988." The AT&T letter further stated, "in an attempt to evaluate the claim on its merits, I requested a copy of the Audit Report." We are led to believe that the information gained by the IG was acquired directly from the AT&T regional office. The information was not available at the DPSC office. Upon resolution of the above apparent conflict, the DPSC will again attempt to have the amount credited to their billing. DLA-Z will coordinate efforts between the DoD IG, DPSC and AT&T to resolve the issues.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 30 Sep 91
( ) Action is considered complete.

MONETARY BENEFITS:
DLA COMMENTS: Comments are as identified above.
ESTIMATED REALIZATION DATE: Unable to determine. See above comments.
AMOUNT REALIZED: $144,880 total. Balance required is $71,202.
DATE BENEFITS REALIZED: Unable to determine. See above comments.

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)

Concur. Recommendation 2.b is an internal management control weakness; however, action as identified above has been taken to correct the situation.

ACTION OFFICER: James W. Livengood, DLA-ZIC, 274-5156, 8/22/90

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 AUG 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Billings For CENTREX AUTOVON Terminations In The Defense Logistics Agency, (Project Number 9IC-0025.04)

RECOMMENDATION 2.b.: We recommend the Commander, DPSC, recover $144,880 by obtaining a credit of $73,678 from Bell of Pennsylvania Telephone Company for Automatic Voice Network termination service overcharges.

DLA COMMENTS: Partially Concur. DPSC is aware of their need to obtain a credit in the amount of $73,678. We are led to believe that the overcharges by Bell of Pennsylvania have been turned over to the Department of Justice (DoJ) for investigation. The DLA Comptroller, at the suggestion of the DoD IG, has advised DPSC to hold up on their request for the credit pending completion of the DoJ investigation. Pending completion of the investigation or upon this Agency being told that we can resume our efforts to recoup the funds, DPSC will do so.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 30 Sep 91
( ) Action is considered complete.

MONETARY BENEFITS:
DLA COMMENTS: None
ESTIMATED REALIZATION DATE: Within six months of actual confirmation that the DPSC is permitted to request the credit.
AMOUNT REALIZED: $73,678
DATE BENEFITS REALIZED: Unknown

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)

Concur. Recommendation 2 b is an internal management control weakness, however action as identified above has been taken to correct the situation.

ACTION OFFICER: James W. Livengood, DLA-ZIC, 274-5156, 8/22/90

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 AUG 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Billings For CENTREX AUTOVON Terminations In The Defense Logistics Agency, (Project Number 9IC-0025.04)

RECOMMENDATION 3.a.: We recommend that the Commander, DCMR-CLE, recover $10,793 in overpayments by obtaining a credit of $10,793 from the American Telephone and Telegraph Company for special assembly overcharges.

DLA COMMENTS: Concur. Action has been taken by DCMR CLE to stop the incorrect charges. The DCMR CLE contracting office has been tasked to take actions to recover the overpayment.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: 31 Jan 91
( ) Action is considered complete.

MONETARY BENEFITS:
DLA COMMENTS: None
ESTIMATED REALIZATION DATE: Jan 91
AMOUNT REALIZED: $10,793.45
DATE BENEFITS REALIZED: 7 Jan 91

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)

Concur. Recommendation 3.a is an internal management control weakness; however, action as identified above will be taken to correct the situation.

ACTION OFFICER: James W. Livengood, DLA-ZIC, 274-5156, 8/22/90

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 AUG 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Billings For CENTREX AUTOVON Terminations In The Defense Logistics Agency, (Project Number 9IC-0025.04)

RECOMMENDATION 3.b.: We recommend that the Commander, DCMR-CLE, annually test the accuracy of their telecommunications inventory and bill paying procedures at the DCMAO Grand Rapids and at the DCMAO Detroit.

DLA COMMENTS: Concur. DCMR CLE has established local Internal Management Controls to enable testing the accuracy of their telecommunications inventory and bill-paying procedures.

DISPOSITION:
(X) Action is ongoing; Final Estimated Completion Date: One calendar year from initiation of the Internal Review Process. This will enable an analysis of the changes.
( ) Action is considered complete.

MONETARY BENEFITS:
DLA COMMENTS: The finding recommended that DCMR-CLE annually test the accuracy of their telecommunications inventory and bill-paying procedures. There are no monetary deficiencies identified with this actual finding and therefore, for the benefit of this specific finding there is no monetary information identified.
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE BENEFITS REALIZED: N/A

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)

We do not consider the weakness to be material. The weakness doesn't fit the definition of a material weakness as identified in Encl 2, Definitions of DLAR 5010.4; and it doesn't satisfy the two conditions as identified Encl 8 to DLAR 5010.4, Guidance in Applying the Definition of a Material Weakness. Further, in Encl 8 the regulation identifies in paragraph 3 that monetary value impact "generally" will be considered material when the weakness has or could cause loss of control over 5 percent or more of the resources for which an organization in responsible (including money, personnel, equipment, etc.). The identified loss was not equal to 5 percent of the resources for which the DLA PLFA is responsible.

ACTION OFFICER: James W. Livengood, DLA-ZIC, 274-5156, 8/22/90

DLA APPROVAL: Helen T. McCoy

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100

IN REPLY REFER TO DLA-CI

1990

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
ATTN: DIRECTOR, READINESS AND OPERATIONAL SUPPORT

SUBJECT: Draft Report on Billings for CENTREX AUTOVON Terminations in the Defense Logistics Agency (Project No. 9IC-0025.04)

This is in response to your 28 June 1990 memorandum requesting our comments on subject report. We are providing you with Recommendation 1.b, which has been approved by Ms. Helen T. McCoy, Deputy Comptroller, Defense Logistics Agency.

1 Encl

REATHEA E. HOLMES
Chief, Internal Review Division
Office of Comptroller

TYPE OF REPORT: AUDIT DATE OF POSITION: 7 Sep 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Billings For CENTREX AUTOVON Terminations In The Defense Logistics Agency, (Project Number 9IC-0025.04)

RECOMMENDATION 1.b : We recommend that the Director, DLA, include a requirement in the HQ, DLA, internal control program to annually verify compliance with the inventory and bill paying certification procedures outlined in the Telecommunications Management Manual.

DLA COMMENTS: Partially Concur. Currently, the DLA Telecommunications Management Manual (DRAFT), DLAM 4605.X, Chapter VII, Telephone System Operations Management, Section II, Policies and Responsibilities for Telephone Service, 7-2-13, 7-2-14, 7-3-4, and Section III, Billings and Charges for Telephone Services, Part A - Billing and Payment, 7-3-1 and 7-3-2 identifies PLFA responsibility to verify the accuracy of bills prior to a PLFA rendering payment. The stated policy guidance is part of our existing internal control program. Both of the sited PLFAs have initiated additional internal control to annually verify compliance with the inventory and bill paying certification procedures outlined in the Telecommunications Management Manual. In view of the already adequate policy guidance contained in the Headquarters manual and the fact that the sited PLFAs have already initiated additional internal control, there appears to be no value added by initiating additional internal controls.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: NONE
DLA COMMENTS: Recommendation 1.b recommends that we include a requirement in the HQ, DLA internal control program to annually verify compliance with the inventory and bill paying certification procedures outlined in the Telecommunications Management Manual. There are no monetary deficiencies identified with this actual finding and, therefore, for the benefit of this specific finding there is no monetary information identified.
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE BENEFITS REALIZED: N/A

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)

We consider the lack of an annual verification as noted in recommendation 1.b to be an internal management control weakness. However, our current Headquarters policy and procedures (internal management controls) as identified above are felt to be adequate.

ACTION OFFICER: James W. Livengood, DLA-ZI, 274-5156, 8/22/90

DLA APPROVAL: Helen T. McCoy

SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.a. and 1.c.	Internal Control - Improves communications management at Defense Logistics Agency (DLA) activities.	Nonmonetary
1.b.	Internal Control - Establishes oversight and monitoring of communications by Headquarters, DLA.	Nonmonetary
1.d.	Compliance - Reduces communications budget as a result of overpayments.	$159,840* - Funds put to better use/budgetary reduction FY 1991 ($4,167) in recurring savings for FY 1991, plus $155,673 of credits due from overpayments made from 1982 through 1989 (see Appendix F).
1.e.	Compliance - Reduces communications budget as a result of overpayments.	$178,048 - Funds put to better use/budgetary reduction ($22,375 total recurring savings for the Five-Year Defense Plan plus $155,673 of credits due from overpayments made from 1982 through 1989), for the Five-Year Defense Plan (see Appendix F).
2.a., 2.b, and 3.a.	Compliance - Obtain credits for overpayments made to vendor.	Monetary benefits are included in Recommendation 1.e. above.
3.b.	Internal Control - Improves communications management at DLA subordinate activities in Grand Rapids and Detroit, Michigan.	Nonmonetary

*This amount is included in the $178,048 of the Five-Year Defense Plan total recurring savings identified in Recommendation 1.e.

FIVE-YEAR DEFENSE PLAN (FYDP) BUDGETARY IMPACT

Recurring Savings (Operation and Maintenance)

Installation	Program Element	Element Number	Element Title	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	TOTAL FYDP
Defense Personnel Support Center, Philadelphia, PA	Central Supply and Maintenance	0708021S	Logistics Support Activities - Communications	$4,167	$4,325	$4,481	$4,629	$4,773	$22,375
		Total Recurring Savings		$4,167	$4,325	$4,481	$4,629	$4,773	$22,375

Nonrecurring Savings (Operation and Maintenance)

Defense Personnel Support Center, Philadelphia, PA	Central Supply and Maintenance	0708021S	Logistics Support Activities - Communications	$144,880					$144,880
Defense Contract Administration Services Management Area-Grand Rapids, MI	Central Supply and Maintenance	0708021S	Logistics Support Activities - Communications	3,476					3,476
Defense Contract Administration Services Management Area-Detroit, MI	Central Supply and Maintenance	0708012S	Logistics Support Activities - Communications	7,317					7,317
	Total Nonrecurring Savings			$155,673					$155,673
	Total Savings			$159,840	$4,325	$4,481	$4,629	$4,773	$178,048

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence), Washington, DC

Defense Logistics Agency

Headquarters, Defense Logistics Agency, Washington, DC
- Defense Personnel Support Center, Philadelphia, PA
- Defense Contract Administration Services Region - Cleveland, Cleveland, OH
- Defense Contract Administration Management Area - Grand Rapids, Grand Rapids, MI
- Defense Contract Administration Management Area - Detroit, Detroit, MI

Other Defense Activities

Headquarters, Defense Communications Agency, Washington, DC
- Defense Commercial Communications Office, Scott Air Force Base, IL

Non-DoD Activities

Department of Justice, Antitrust Division, Washington, DC
Federal Communications Commission, Washington, DC
Pennsylvania Public Utility Commission, Harrisburg, PA

Non-Government Activities

Headquarters, American Telephone and Telegraph Company (AT&T) Federal Systems, Washington, DC
Headquarters, AT&T Federal Business Center, Silver Spring, MD
AT&T Federal Business Center, Chicago, IL
AT&T Federal Business Center, Philadelphia, PA
Bell Atlantic Regional Bell Operating Company, Philadelphia, PA
Bell of Pennsylvania Telephone Company, Philadelphia, PA

AUDIT TEAM MEMBERS

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FINAL REPORT DISTRIBUTION

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Deputy Assistant Secretary of Defense (Command, Control and Communications), Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence), Washington, DC

Defense Agencies

Director, Defense Communications Agency
Director, Defense Logistics Agency, Washington, DC

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information Center

Congressional Committees

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Subcommittee on Communications, Committee on Commerce, Science, and Transportation
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
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