



DEPARTMENT OF DEFENSE

AUDIT REPORT

BILLINGS FOR CENTREX AUTOVON
TERMINATIONS IN THE DEPARTMENT OF THE ARMY

No. 91-011

November 9, 1990

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November 9, 1990

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT)

SUBJECT: Audit Report on Billings for CENTREX AUTOVON
Terminations in the Department of the Army
(Report No. 91-011)

This is our final report on the Audit of Billings for CENTREX AUTOVON Terminations in the Department of the Army. 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 Army users of CENTREX service. Separate final reports will be issued at a later date to the Air Force, the Navy, the Defense Logistics Agency, 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 an Army installation and the AUTOVON. This transmission arrangement is known as an AUTOVON termination. We concluded that charges to Army installations for CENTREX AUTOVON terminations were proper. However, in reviewing accounting records pertaining to American Telephone and Telegraph Company (AT&T) billings we determined that three Army installations were being improperly charged for special assemblies.

We concentrated our audit effort on those three installations, and found overcharges at all three. Past overcharges amounted to \$179,830 through FY 1989, predominately at the U.S. Army Tank Automotive Command. This was due to inadequate inventory records and related contractual documentation showing equipment authorizations. These conditions caused installation communications officials to certify as accurate, billings that were both unsupported and incorrect. If the needed basic controls and procedures are not put in place, the Army could pay as much as \$223,321 in inappropriate charges from FY 1991 through FY 1995 at these installations, and undetermined additional amounts at other Army installations.

We recommended that the Commander, 7th Signal Command, obtain a credit of \$179,830 from AT&T for overpayments of charges for special assembly items and establish a 7th Signal Command oversight program to annually test the accuracy of inventories and bill paying procedures. We also recommended that the Army's Director of Information Systems for Command, Control, Communications, and Computers revise Army Regulation (AR) 25-1, "The Army Information Resources Management Program," dated December 18, 1988, to require: an annual update of Communications Service Authorizations, communications managers to maintain valid Communications Service Authorizations and Basic Agreements pertinent to base telecommunications services and to furnish the installation commander an annual inventory certification, and a provision addressing disciplinary action for communications managers who use improper bill certification procedures. Finally, we recommended that the Assistant Secretary of the Army (Financial Management) reduce the FY 1991 Army communications budget by \$221,421 (recurring savings of \$41,591 for FY 1991 plus \$179,830 in nonrecurring savings for FY 1991) and reduce the Army communications program element in the FY 1991 through FY 1995 Five Year Defense Plan by a total of \$403,151 subject to adjustments based on legal and contractual negotiations between the Army and AT&T. The results of the audit and the details, audit recommendations, and management comments are in Part II of this report.

A draft of this report was provided to the addressee for comments May 22, 1990. Comments from the Department of the Army were received on July 26, 1990. Appendix F contains the complete text of management comments.

The Army partially concurred with Recommendation 1.a. which directed the 7th Signal Command to obtain a credit of \$179,830 from AT&T for past overpayments. The Army reply stated that AT&T denies overbilling the Army for unidentifiable special assemblies. For reasons discussed in Part II of this report, we maintain that our recommendation to obtain credits from AT&T is valid. We request that the Army reconsider its position in response to the final report.

The Army nonconcurred with Recommendation 1.b. to establish an internal control program to annually test bill paying verification procedures at the base level. Although the reply stated that the Army has "reasonable assurance" that controls are in place and working, we maintain that the overcharges could have been prevented had an oversight program existed to periodically and randomly gauge the strength of internal controls specifically over bill paying certification procedures. Therefore, we request that the Army reconsider its position in response to the final report.

The Army concurred with Recommendations 2.a., 2.b., and 2.c.

Concerning Recommendation 2.d., requiring an annual inventory certification to the installation commander, the Army nonconcurred stating that a forthcoming (draft) directive from the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) allows installations to perform physical inventories less frequently, establishing a biannual milestone. We have clarified the distinction between physical inventory and annual certifications in Part II of the report, and we request that the Army reconsider its position to Recommendation 2.d. in response to the final report.

The Army nonconcurred with Recommendation 2.e., requiring a provision in the Army communications regulation for disciplinary action against communications managers who certify bills improperly. The reply stated that sufficient guidance exists in other Army regulations concerning provisions for disciplinary action. We revised our recommendation to provide an option of disciplinary action or a warning of disciplinary action for communications managers who improperly certify bills and who use inadequate bill paying procedures. We request that the Army comment on the revised recommendation in response to the final report.

The Army nonconcurred with Recommendations 3.a. and 3.b. in the draft report, which would have required a reduction to its communications budget for FY 1990 by \$219,782 and by \$395,471 for the FY 1990-1994 Five Year Defense Plan. The reply stated that the legal and contractual negotiations that the Army and AT&T enter into may result in the Army receiving less credits than those identified in the draft report. In addition, the Army believes that some of the overcharges at the Defense Metropolitan Area Telecommunications Service - St. Louis (DMATS) may be attributable to non-Army customers. We agree that the Army negotiations with AT&T might produce credits other than the amount specified in the draft report, and we have amended the language in Recommendations 3.a. and 3.b. in relation to the negotiations. However, there was only one instance where an overcharge at DMATS was incurred by a non-Army customer. In addition, we have updated our projections in this final report to \$221,421 for FY 1991 (Recommendation 3.a.) and to \$403,151 for the FY 1991-1995 Five Year Defense Plan (Recommendation 3.b.), recognizing that the amounts are subject to negotiations between the Army and AT&T. Therefore, we request that the Army provide comments on Recommendations 3.a. and 3.b. in response to the final report.

The Army requested our assistance in obtaining credits for past overpayments made to AT&T. We can provide copies of

invoices and relevant audit working papers that will support our basis for computing overcharges to the appropriate Army contracting officer.

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.b., and 2.a. through 2.e. 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 Office of the Army Chief of Staff.

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 the Army provide a concurrence or nonconcurrence with the \$403,151 in potential monetary benefits identified in Appendix D of this report, recognizing that this specific amount could be affected by negotiations. 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. 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. 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.



Edward R. Jones
Deputy Assistant Inspector General
for Auditing

cc:

Secretary of the Army
Deputy Assistant Secretary of Defense (Command, Control, and
Communications)
Director, Defense Communications Agency

BILLINGS FOR CENTREX AUTOVON TERMINATIONS
IN THE DEPARTMENT OF THE ARMY

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Prepared by:
Readiness and Operational
Support Directorate
Project No: 9IC-0025.02

BILLINGS FOR CENTREX AUTOVON TERMINATIONS
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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 the 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.

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 systems 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.

After divestiture in 1984, DoD CENTREX installations received two monthly telecommunications bills, a local Bell Operating Company bill and an AT&T bill. Among the more significant billing items on the Bell Operating Company invoice were the charges for AUTOVON terminations. 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. 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 services.

A special assembly is equipment leased from AT&T and 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.

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 assemblies in accordance with existing tariffs and agreements. We also evaluated the adequacy of applicable internal controls. This report addresses only Army users of CENTREX. Separate final reports on Navy, Air Force, the Defense Logistics Agency, and the Defense Telecommunications Service-Washington CENTREX users will be issued at a later date.

The audit concentrated on AT&T and Bell Operating Company charges for AUTOVON termination service and special assembly items at Army CENTREX installations for the period January 1, 1984, through May 31, 1989.

AT&T provided us with the network configurations and official accounting records for the period January 1, 1984, through August 31, 1988. From these records, we determined that 11 Army installations were serviced by CENTREX. We found no instances where AT&T provided or charged for AUTOVON termination service and no indications of improper charges for this service by the Bell Operating Companies. Although there were no instances of overcharges for AUTOVON terminations at these 11 Army installations, we identified three ^{1/} installations that were being billed by AT&T for special assemblies. We concentrated our audit effort at those three installations to determine the validity of charges for special assemblies. We verified these charges with the records available at the three Army installations included in our audit. We provided Army installations commanders with our results immediately upon completion of the verification work at each site. Further, to provide timely audit results, we sent memorandums to the

^{1/} U.S. Army Tank-Automotive Command, Warren, Michigan; Defense Metropolitan Area Telecommunications Service-St. Louis, St. Louis, Missouri; and 4th Infantry Division and Fort Carson, Fort Carson, Colorado.

commanders summarizing our findings, and provided the same summaries to the appropriate higher Army commands and to DCA.

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. Army Regulation (AR) 11-2, "Internal Control Systems," dated December 4, 1987, contains policies and procedures for implementing the Army's internal control programs.

Headquarters, 7th Signal Command, did not have an internal control program for communications bill paying procedures at the time we conducted our audit. For the three Army installations included in our audit, we reviewed certification procedures relating to monthly communications bills from January 1, 1984, through February 28, 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 Army communications managers performing ineffective certifications of monthly communications bills. The overcharges identified in this report could have been avoided if Headquarters, 7th Signal Command, had implemented an oversight program designed to evaluate the effectiveness of procedures for maintaining official inventories of services and equipment and for reconciling monthly telecommunications bills at Army installations. As of the completion of our audit, Headquarters, 7th Signal Command, was establishing an oversight program for telecommunications procedures and is planning to implement the program in FY 1990.

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 level, 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 requiring inventories of all telecommunications assets. 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

Special Assembly Overcharges

FINDING

Three Army installations were overcharged by the American Telephone and Telegraph Company (AT&T) for special assemblies that could not be identified or located by Army communications managers. The overcharges resulted from incorrect billings by AT&T after divestiture in 1984. Overcharges were incurred continuously for more than 4 years, because Army communications managers did not perform inventories of leased special assemblies and did not check the accuracy of telephone bills before certifying them for payment. As a result, the Army overpaid AT&T about \$180,000 for special assembly equipment. Unless this condition is rectified, unnecessary special assembly charges could cost the Army as much as \$41,591 during FY 1991 and \$223,321 during the execution of the FY 1991 through FY 1995 Five Year Defense Plan.

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 the Army installation 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. Then, the CSA is issued to the telephone company vendor to provide specific services and equipment. Headquarters, 7th Signal Command, is responsible for awarding and issuing CSA's for Army base communications activities. Costs for services and equipment cannot exceed the stipulated dollar amount authorized in the CSA; CSA's are not binding unless issued pursuant to a Basic Agreement.

CSA's should accurately reflect the type of communications services and equipment that an Army installation is requesting from a telephone company vendor. Normally, the CSA will define and classify telephone services by billing codes, commonly referred to as Price Element Codes. The AT&T Price Element Code

for special assembly equipment is E99ZPYZZ++, which appeared on the monthly bills at the three Army installations ^{2/} included in our audit.

Special Assemblies. Customer-premise equipment (leased equipment) that is specially designed for the specific needs of an Army installation is a special assembly. Basically, a special assembly is equipment added to either existing equipment or voice (telecommunications) lines that enhances the ordinary capabilities of the equipment. A monthly equipment charge can range from less than \$5 per unit to more than \$250 per unit for special assembly devices installed at an Army installation.

Criteria. Army Regulation (AR) 105-23, "Administrative Policies and Procedures for Base Telecommunications Services," dated December 16, 1985, detailed the importance of maintaining current and accurate CSA's in order to acquire telecommunications services. However, AR 105-23, was superseded by AR 25-1, "The Army Information Resources Management Program," on December 18, 1988, which addresses only general telecommunications procedures at Army installations. In addition, 7th Signal Command Pamphlet 105-1, "Acquisition and Control of Local Leased Telecommunications," dated March 10, 1978, provides detailed supplemental guidance for Army personnel involved in the base communications mission. AR 105-23 vested overall operation of the base communications system with the commanding officer of each Army installation. The Communications-Electronics (C-E) Officer was delegated responsibility for daily base communications operations. With the implementation of AR 25-1, the duties associated with the C-E Officer were reassigned to the newly created Director of Information Management (DOIM). The Telephone Control Officer (TCO) performs subordinate duties under the DOIM. For the purpose of this report, we refer to the C-E officers, DOIM's, and TCO's as Army communications managers.

The 7th Signal Command Pamphlet 105-1 provides guidance for establishing an inventory of equipment and services by illustrating the relationships between the inventory, CSA, and vendor bills. The Pamphlet emphasizes the importance of communications managers maintaining valid CSA's and perpetual telecommunications inventories as a prerequisite for verifying the accuracy of monthly vendor bills. AR 105-23 included comprehensive language covering provisions for valid CSA's, annual CSA renewal requirements, inventory maintenance, and

^{2/} U.S. Army-Tank Automotive Command, Warren, Michigan; Defense Metropolitan Area Telecommunications Service-St. Louis, St. Louis, Missouri; and 4th Infantry Division and Fort Carson, Fort Carson, Colorado.

monthly bill paying verification procedures; however, the current telecommunications regulation, AR 25-1, makes only scant references to inventory maintenance and CSA preparation.

Methodology. The audit concentrated on AT&T and Bell Operating Company charges for AUTOVON termination service and for special assembly items at Army Central Office Exchange Service (CENTREX) installations for the period January 1, 1984, through February 28, 1989. However, there were no instances of AT&T charges for AUTOVON termination service at the Army installations included in our audit. Appendix B provides details of our audit approach and the methods we used to determine the occurrence of overcharges.

AT&T Special Assembly Overcharges. AT&T overcharged the U.S. Army Tank-Automotive Command, the Army's Defense Metropolitan Area Telecommunications Service-St. Louis, and Fort Carson for special assemblies that could not be identified or located by communications managers. 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. AT&T did not maintain records documenting the removal of special assemblies. Yet, AT&T continued to bill these three Army installations for special assemblies that could not be located.

Prior to divestiture in January 1984, the Bell Operating Companies, doing business as subsidiaries of AT&T, maintained inventory records of special assemblies. Upon divestiture, the Bell Operating Companies provided AT&T with the special assembly inventory listings. The inventories identified an installation's special assembly equipment by building location and provided a brief description of the equipment, the unit cost, and the total monthly cost. However, AT&T management informed us that most of the inventories were purged or destroyed by AT&T shortly after divestiture. We visited the regional AT&T Federal Billing Center in Chicago, Illinois, and obtained an inventory listing of special assembly equipment located at the Defense Metropolitan Area Telecommunications Service-St. Louis (DMATS). We visited the other four regional AT&T Federal billing centers to obtain inventory records; however, the DMATS inventory was the only listing, to our knowledge, that AT&T maintained.

The DMATS inventory listing expedited efforts to locate the special assembly items that were being billed monthly by AT&T. However, since AT&T inventory records were unavailable for the U.S. Army Tank-Automotive Command (TACOM) and for Fort Carson, and since the communications managers at TACOM and Fort Carson did not maintain special assembly inventories, we identified

special assemblies by conducting joint physical inventories with communications managers. Methods used by the communications managers to identify special assembly items are discussed below.

TACOM. AT&T special assembly overcharges at TACOM began in September 1984 and continued through February 1989. Monthly charges for special assemblies ranged from \$2.10 to \$1,106, as shown in Appendix C. In an effort to determine the validity of AT&T monthly charges, communications managers at TACOM requested AT&T to inventory all services, including special assembly items. Although the date of TACOM's request could not be determined, the request was made before our visit to TACOM in March 1989. AT&T did not honor the request, claiming that a physical inventory would create a labor intensive burden for AT&T. Further, communications managers could not identify the location or existence of the special assemblies. Accordingly, we viewed all AT&T assessments from 1984 through 1989 for special assemblies that could not be located as overcharges.

DMATS. AT&T special assembly overcharges at DMATS began in October 1984 and continued through January 1989, as shown in Appendix C. In September 1987, DMATS requested that AT&T either identify 51 special assembly charges that appeared on the monthly bill or remove the charges from the bill. Although AT&T had been billing for the 51 special assemblies since October 1984, it could not identify the location of the special assemblies. AT&T subsequently removed 48 of the 51 items from the DMATS bill. We believe that AT&T continued to charge for the remaining three special assemblies through January 1989 due to an oversight. We concluded that since AT&T could not locate any of the 51 special assemblies, the charges that began in October 1984 were not valid.

Fort Carson. AT&T overcharges for special assemblies at Fort Carson began in May 1984 and continued through January 1989, as shown in Appendix C. In September 1986, communications managers at Fort Carson requested that AT&T remove 12 special assembly items costing a total of \$269.26 per month. Although AT&T removed these special assemblies from the Fort Carson installation, it continued to bill for them from October 1986 through January 1989. Through Fort Carson communications managers, we obtained verification from an AT&T employee that the special assemblies were removed in September 1986.

Inventory Procedures. The 7th Signal Command Pamphlet 105-1 states:

The establishment and maintenance of an inventory of leased telecommunications is an essential ingredient to telecommunications

management. Properly constructed, the inventory can increase operational efficiency in numerous ways by providing rapid overviews of facilities, services and cost information.

The pamphlet further states: "The supporting C-E Officer will establish and maintain a current inventory of all local leased telecommunications services and facilities provided to host, tenant, and supported activities." The Army installations that we visited did not use the inventory procedures cited in the Pamphlet.

The DMATS was established with the expectation that improvements in services and a substantial reduction in telephone costs would occur. These two goals were to be achieved through consolidation of all DoD telecommunications services under a single management structure controlled by the Department of the Army. DMATS provides consolidated telephone service to the DoD and several other Government activities within the St. Louis area. In addition to the Army, the Navy, the Air Force, and other DoD Components; the Coast Guard, the Central Intelligence Agency, the Federal Bureau of Investigation, the General Accounting Office, the General Services Administration, and other Government offices obtain telecommunications support from DMATS.

The communications managers at DMATS did not practice sound inventory management procedures. They relied on their tenants to maintain inventories of telecommunications equipment and services, including special assembly items. In February 1989, we conducted an inventory of various special assemblies at selected locations in the DMATS region, assisted by DMATS communications managers. One of the special assembly items we were able to identify was an elaborate teleconferencing special assembly, leased at a monthly rate of \$535.70. The special assembly was partially inoperable, and an Army employee responsible for safeguarding the assembly stated that it had been repaired three times in the prior 2-year period and that the assembly was obsolete. Further, the employee stated that the assembly had been used no more than six times in 2 years. Over the 2-year period, the Army incurred a total cost of almost \$13,000 for this special assembly. The communications managers at DMATS could have avoided this expense if they had conducted periodic inventories and determined a bona fide need for all leased telecommunications equipment.

At TACOM, we reviewed the available 1989 monthly AT&T invoices, which listed 231 special assembly units at a total cost of \$2,785 per month. The communications managers at TACOM

recognized the high dollar impact of these special assemblies and requested AT&T's assistance in conducting an inventory. When AT&T's assistance was not forthcoming, TACOM communications managers should have conducted their own inventories; however, an inventory of the special assembly items was not made.

Communications managers at Fort Carson did not perform an inventory of the installation's special assembly items. At the time of our audit field work at Fort Carson in February 1989, we urged the communications managers to verify from the AT&T installer at Fort Carson that 12 special assembly items were physically removed by AT&T in September 1986. An inventory at the time of removal would have shown Fort Carson communications managers that the subsequent recurring monthly billing of \$269.26 for the 12 special assembly items was erroneous.

Physical inventories should be performed periodically. Once a physical inventory of telecommunications equipment and services has been conducted, a written record of additions and deletions and other inventory changes should be maintained by the communications manager. This listing will provide the communications manager with a current and precise account of base telecommunications assets. The communications manager can then certify annually to the base commander that the inventory of telecommunications equipment and services is accurate. If periodic physical inventories had been performed, and annual certifications were made to the installation commanders, communications managers at TACOM, DMATS, and Fort Carson could have verified whether or not special assemblies existed and, subsequently, could have validated or promptly disputed the AT&T monthly charges. Use of the sound inventory procedures described in the 7th Signal Command Pamphlet 105-1 would have eliminated uncertainties during the payment certification process of monthly bills.

Payment Certification Procedures. Inadequate payment certification procedures existed at the Army installations we audited. Although DMATS and Fort Carson had established standard operating procedures for bill paying verification, the communications managers at those installations did not comply with the procedures. The Army installations could not properly certify the accuracy of the AT&T charges for special assemblies.

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. 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. However, none of the Army installations included in our audit had copies of the

AT&T Basic Agreement. In addition, the installations did not maintain a current CSA that reflected accurate services and charges. The AT&T CSA on file at TACOM was dated May 16, 1986, and authorized AT&T to charge for AUTOVON termination service, even though AT&T was not billing TACOM for the service. Michigan Bell Telephone Company has provided the service since January 1984. In an effort to correct this error, TACOM submitted a revised AT&T CSA to Headquarters, 7th Signal Command, in April 1987, omitting the authorization for AT&T to charge for AUTOVON termination service. However, TACOM's submission contained an authorization for AT&T to bill TACOM for 254 special assemblies at a monthly cost of more than \$2,800. The communications managers at TACOM had used an AT&T bill, which was erroneous, as a source of reference to revise the CSA.

Although AR 25-1 does not identify an action office responsible to issue CSA's, Army communications managers recognize that Headquarters, 7th Signal Command, has the responsibility to annually update CSA's. Further, the proposed (draft) 7th Signal Command Regulation 25-51 will specify the action office responsible for updating CSA's annually. Communications managers at DMATS and Fort Carson periodically submitted communications billing data to the 7th Signal Command in an effort to maintain accurate CSA's. However, the AT&T CSA on file at DMATS was dated January 17, 1983, and listed special assembly items that were no longer being billed by AT&T. The AT&T CSA on file at Fort Carson was dated August 15, 1984, and did not contain an authorization for AT&T to bill for special assemblies. Yet, communications managers at Fort Carson continued to pay AT&T monthly charges for nonexistent special assemblies through January 1989.

In our opinion, Headquarters, 7th Signal Command, has a responsibility to ensure that CSA's are updated annually and are provided to all base communications offices even though AR 25-1 does not include this requirement. In addition, Army communications managers have a corresponding responsibility to initiate follow-up action if CSA's are not issued by the 7th Signal Command. Monthly vendor bills should be periodically reconciled against the CSA and the inventory to provide assurance that telecommunications charges are valid. We found that Chapter 9 of the 7th Signal Command Pamphlet 105-1 provides an excellent illustration on the importance of maintaining current CSA's and inventories as a means of guarding against payment of erroneous telecommunications charges.

Erroneous charges by AT&T continued undetected for more than 4 years primarily because Army communications managers did not properly certify invoices before payment. The Army needs to reemphasize to base communications managers the importance of

performing baseline inventories, maintaining inventories and certifying them on an annual basis to the installation commander, and performing accurate certifications of monthly invoices by revising AR 25-1. In addition, AR 25-1 should require annual updating of CSA's. The 7th Signal Command should also establish an oversight program that annually tests the effectiveness of base communications inventory and bill paying certification procedures. Finally, AR 25-1 should contain a provision that addresses disciplinary action or, at a minimum, a warning to base communications managers that improper certifications and bill paying verification procedures may result in disciplinary action. This type of remedial measure should forewarn all communications managers on the need to properly certify bills before payment.

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.

AR 11-2, "Internal Control Systems," dated December 4, 1987, states, "Adequate internal controls will be maintained throughout the Army to ensure all resources are managed effectively and efficiently." AR 105-23 provided excellent guidance on the importance of verifying telecommunications bills, maintaining accurate CSA's, and managing telecommunications inventories. In addition, 7th Signal Command Pamphlet 105-1 expanded in detail in each of these areas. However, AR 105-23 has been superseded by AR 25-1, and the 7th Signal Command Pamphlet 105-1 does not have the authority of an Army regulation. AR 25-1, the current governing regulation for Army base communications procedures, needs to be revised to direct communications managers to submit, on an annual basis, any changes that affect telecommunications services contracts (CSA's) to Headquarters, 7th Signal Command. Accordingly, the 7th Signal Command should update CSA's annually based on the information received from communications managers. AR 25-1 should also include a requirement for communications managers to reconcile monthly communications charges against valid CSA's and Basic Agreements. In addition, communications managers should be required to annually certify the inventory of all telecommunications equipment and services to the installation commander.

To obtain maximum compliance with the certification procedures, a provision or warning addressing disciplinary action against communications managers who do not properly certify bills should

also be included in AR 25-1. Finally, command oversight responsibilities relating to internal controls over certification procedures are not addressed. Oversight or monitoring procedures by Headquarters, 7th Signal Command, will ensure compliance with internal controls and should be incorporated into AR 25-1 or other internal control guidance.

Corrective Action Taken. While most of the Army overcharges were incurred at TACOM, there is no assurance that other Army installations are being properly charged for telecommunications services. During the audit, we provided the commanders of the three Army installations with the results of our audit, and provided interim recommendations for improvements. Additionally, we advised appropriate higher level Army officials, the Defense Communications Agency, and the Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) of the conditions. Installation commanders took immediate corrective actions. Stronger installation level certification procedures were enforced, and a concerted effort was undertaken to improve the accuracy of inventories. Headquarters, 7th Signal Command, representatives informed us of its plans to implement new telecommunications regulations and an oversight program covering telecommunications procedures.^{3/} The Army's prompt action is commendable. However, management actions on an Army-wide basis are necessary to preclude a recurrence of the problems we identified or similar problems.

Cost Impact to the Army. From May 1984 to February 1989, AT&T overcharged the Army \$179,830 for special assemblies as itemized in Appendix C and summarized below.

SUMMARY OF TOTAL OVERCHARGES

<u>Installation</u>	<u>Total AT&T Overcharges</u>
TACOM	\$160,699
DMATS	7,806
Fort Carson	<u>11,325</u>
Total	<u>\$179,830</u>

^{3/} 7th Signal Command planned to implement an Information Management Area oversight program in FY 1990 that includes provisions for monitoring telecommunications procedures.

Of the total amount overcharged, \$38,379 of recurring annual costs for special assembly charges is attributable to FY 1989. The overcharges, stated in FY 1990 dollars (inflation factor of 4.1 percent for FY 1990), total \$39,952. 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 \$41,591. Using the FY 1991 recurring savings (\$41,591) 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 \$223,321. The net annual recurring savings for the Five Year Defense Plan (\$223,321 plus \$179,830) was calculated at \$403,151. We concluded, therefore, that the Army may save as much as \$221,421 (\$41,591 plus \$179,830) during FY 1991 and \$403,151 during FY 1991 through FY 1995 in unnecessary telecommunications charges.^{4/} Budgetary projections for the Five Year Defense Plan resulting from this audit are in Appendix E.

Conclusion. The telecommunications overcharges experienced by the Army can be attributed, in part, to the confusion resulting from divestiture and deregulation of AT&T in January 1984. Army 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, Army 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 Army communications managers continued to certify the bills. In some instances, improper certification occurred as late as 1989. In addition, the installations included in our audit maintained incorrect CSA's and did not perform inventories of special assemblies. Further, AT&T Basic Agreements were not on file at any of the installations in our audit. Proper certification of communications bills cannot be accomplished unless Army communications managers perform and certify inventories and maintain accurate CSA's and Basic Agreements.

Policy officials at Headquarters, 7th Signal Command, are eager to reverse the trends that exist not only at the installations included in our audit, but also at all Army installations. Strengthening certification procedures and increasing

^{4/} Actual savings may be less than projected as a result of negotiated agreements between the Army and AT&T.

Headquarters, 7th Signal Command's oversight function relating to base communications certification procedures could produce the desired results. 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, 7th Signal Command, can pursue.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Commander, 7th Signal Command:

a. Direct the responsible Army contracting officer to obtain a credit of \$179,830 from AT&T for the three Army installations (U.S. Army Tank-Automotive Command, Defense Metropolitan Area Telecommunications Service-St. Louis, and 4th Infantry Division and Fort Carson) that were overcharged for special assemblies.

b. Establish a command internal control program to annually test the accuracy of base communications bill paying procedures by reconciling base communications inventories to the Communications Service Authorizations and certified bills, and provide the results of this annual program to all major commands within the Army.

2. We recommend that the Army's Director of Information Systems for Command, Control, Communications, and Computers, change Army Regulation 25-1, "The Army Information Resources Management Program" to require:

a. Installation communications managers to submit changes affecting telecommunications services to Headquarters, 7th Signal Command, on an annual basis;

b. Annual updating of Communications Service Authorizations;

c. Installation communications managers to maintain valid Basic Agreements and Communications Service Authorizations so that monthly charges for telecommunications services can be reconciled and certified;

d. Installation communications managers to certify annually the inventory of all telecommunications equipment and services to the installation commander; and

e. Either a provision for disciplinary action or, at a minimum, a warning of disciplinary action against communications managers who use improper bill certification and inadequate bill paying verification procedures.

3. We recommend that the Assistant Secretary of the Army (Financial Management):

a. Reduce the appropriate Army communications budget for FY 1991 by \$221,421 or by the net amount determined to be overcharged based on the results of legal and contractual negotiations between the 7th Signal Command and American Telephone and Telegraph Company;

b. Reduce the appropriate Army communications program element for the FY 1991-1995 Five Year Defense Plan by \$403,151 or by the net amount determined to be overcharged based on results of legal and contractual negotiations between the 7th Signal Command and American Telephone and Telegraph Company.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

The Army concurred with Recommendations 2.a., 2.b., and 2.c.; partially concurred with Recommendations 1.a., 3.a., and 3.b.; and nonconcurred with Recommendations 1.b., 2.d., and 2.e. The complete text of the comments is in Appendix F.

Management Comments. In response to Recommendations 1.a., 3.a., and 3.b. the Army agreed to obtain credit from AT&T for overpayments for special assemblies and to reduce the Army's communications budget for amounts overpaid. However, the Army did not agree with the amount identified as overcharges in the finding. Further, the reply stated that since the DMATS, St. Louis, services many non-Army customers on a reimbursable basis, it would be inappropriate to reduce the Army budget by amounts those customers overpaid. Last, the Army stated a final determination of the amounts overpaid must be made before the Army's FY 1990 budget or the Five Year Defense Plan are reduced.

Audit Response. Regarding the comments on Recommendation 1.a., the Army did not indicate how or when action would be taken to obtain a credit of \$179,830 from AT&T. Also, the reply did not indicate the amounts the Army considers to be correct. Regarding the contention that reductions to the Army's communications budget should be tempered because certain DMATS, St. Louis, customers are not Army activities, we found that only 3 of 51 special assembly overcharges at DMATS, St. Louis, were billed to 1 non-Army customer. The monthly recurring charge for these three units was \$3.20. Therefore, the offset of the cost of these three units to the total reduction in the Army communications budget would be negligible. Further, because of independent actions taken by DMATS officials to curtail overpayments, there were no overcharges in 1989. During our audit, we provided Army commanders, communications managers, officials of the 7th Signal Command, the DCA, and the Office of

the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) with details of overcharges at each Army activity included in the audit. Our computations were not challenged. Army commanders and communications managers fully accepted our results and have challenged AT&T to identify the special assemblies or remove those charges from the monthly bills. In response to this final report, we request that the Army provide us with the dates corrective actions have or will be taken and the specific amounts that the Army agrees or disagrees with as overcharges.

Regarding Recommendations 3.a. and 3.b., we recognize that budgetary reductions would be dependent on the outcome of negotiations between the Army contracting officer and AT&T, and we have revised those recommendations to reflect that contingency. Accordingly, we request that the Army respond to revised Recommendations 3.a. and 3.b. in response to this report.

Management Comments. In nonconcurring with Recommendation 1.b., the Army maintains that the 7th Signal Command had an adequate internal control program that provided reasonable assurance that controls were in place and functioning. Further, the response asserted that the effectiveness of internal controls was certified annually by commanders and was checked by "managers, auditors, and inspectors."

Audit Response. We recognize that the overall 7th Signal Command internal control program may be adequate, but we continue to maintain that the program does not specifically address bill paying verification procedures and the monthly certification process of telecommunications services. There is a void in the 7th Signal Command internal control program that allowed the deficiencies noted in our report to go undetected. At the three Army installations included in our audit, internal controls over bill paying certification procedures were deficient, had been deficient for long periods of time, and had contributed directly to conditions that led the Army to make overpayments of almost \$180,000. Improper certification of monthly invoices at the three Army installations was the rule, not the exception. Moreover, these three Army installations represent three different major Army commands and we believe that the weaknesses disclosed in our report are indicative of inadequate telecommunications procedures Army-wide. Therefore, a danger exists that improper certification procedures are occurring at other Army communications activities. In addition to the reasons stated in this report, we maintain that a pressing need exists to establish a command internal review program that is designed to prevent overpayments, to reconcile inventories to current contracts, and to provide the results of this program to other Army commands. We request that the Army reconsider its position in responding to this final report.

Management Comments. The Army nonconcurred with Recommendation 2.d. to require communications managers to annually certify the inventory of telecommunications equipment and services. The position was taken on the premise that a DoD directive will be issued shortly that will require biannual, not annual physical inventories.

Audit Response. Our draft report apparently did not provide a clear distinction between physical inventories and annual certifications of inventories. Therefore, we have provided the Army with further clarification in this final report. We emphasize that an annual certification of inventories would provide Army commanders with the assurance that billed equipment and services actually exists or were provided. Once baseline inventories are established, annual certifications can be accomplished with a minimal effort. By updating additions, deletions, and other inventory changes as they occur, the installation communications manager can effectively certify the inventory of equipment and services to the installation commander. Since we have further amplified our position concerning annual certifications of telecommunications equipment and services, we request that the Army reconsider its position in response to the final report.

Management Comments. The Army nonconcurred with Recommendation 2.e. stating that sufficient guidance already exists in other Army regulations that provide for disciplinary action.

Audit Response. At the Army installations included in our audit, overpayments were made to the vendor for almost 5 years. During that time and now, disciplinary measures have been outlined in existing regulations, but those measures have had no effect on the practice of improper certification and subsequent overpayment of erroneous bills. By adding a disciplinary action provision or a warning of disciplinary action to AR 25-1, the Army can fix responsibility for proper certifications on the communications manager. Therefore, we maintain that Recommendation 2.e. is still warranted, and we request that the Army reconsider its position in response to this report.

The Army requested our assistance in recouping overpayments. We are available to provide audit assistance to contracting officers of the 7th Signal Command in negotiations with AT&T. To guard against the appearance of impropriety, we will not initiate any contact with AT&T.

GLOSSARY

AUTOVON	The Automatic Voice Network is a part of the Defense Communications System's long-distance telecommunications service.
Backbone 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 an Army installation.
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 Army installations with access to long-distance networks (such as AUTOVON) from local bases.
Communications Service Authorizations (CSA)	Telecommunications service contracts placed by Army installations against Basic Agreements established with various vendors.
Plan of Reorganization	The Federal court document that outlines the divestiture agreement between AT&T and the Bell Operating Companies.
Private Line Terminations (AUTOVON terminations)	A physical switching mechanism that allows Army 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.

GLOSSARY (CONTINUED)

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 Army user.

Tariff

A schedule of authorized charges or rates of the Bell Operating Companies approved by a state public utility commission.

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 Army Central Office Exchange Service (CENTREX) installations for the period January 1, 1984, through February 28, 1989.

We identified the Army CENTREX universe from network schematics available in the AT&T Routing Guide, dated December 15, 1987.

The guide showed that of 64 DoD installations serviced by CENTREX, 11 were Army installations. To determine if these Army installations 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 billing codes associated with AUTOVON termination service and special assembly charges appeared on AT&T invoices to the 11 Army installations for that period. From an initial list of 11 Army CENTREX users, we identified 3 installations that were being billed by AT&T for special assemblies. However, there were no instances of AT&T charges for AUTOVON termination service at any of the 11 Army installations. We reviewed Bell Operating Company charges for AUTOVON termination service at the three installations included in our audit and found no errors; since there were no indications of Bell Operating Company overcharges at the other eight Army installations, we excluded them from our audit.

All AT&T charges for special assemblies were then verified to billing information available at the three Army installations included in our audit. To determine the validity and appropriateness of charges, we examined available AT&T invoices, available Communications Service Authorizations, work orders, and Basic Agreements. We inventoried special assembly items at the three Army installations in an effort to identify the location and existence of these items. Finally, we reviewed internal controls over communications bill paying certification procedures at each installation.

We provided Army 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 the commanders of the three Army installations audited. We also provided the same summaries to the appropriate higher Army commands and to the Defense Communications Agency (DCA). We discussed the details of our results and recommendations with senior officials of the Office of the Assistant Secretary of

AUDIT METHODOLOGY (Continued)

Defense (Command, Control, Communications and Intelligence) and with the Director, Defense Communications Systems Organization, DCA. 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 for prior overpayments, and to conduct baseline inventories of telecommunications assets.

SUMMARY OF AT&T SPECIAL ASSEMBLY OVERCHARGES

U.S. Army Tank-Automotive Command
For September 1984 Through February 1989

<u>Monthly Recurring Charge</u>	<u>No. of Units Billed</u>	<u>Total AT&T ^{1/} Monthly Billing</u>	<u>Number of Months Billed</u>	<u>Overcharges</u>
\$ 1.41	2	\$ 2.82	16	\$ 45.12
1.58	2	3.16	16	50.56
2.09	10	20.90	36	752.40
2.82	3	8.46	36	304.56
2.83	7	19.81	36	713.16
3.15	1	3.15	36	113.40
4.06	10	40.60	36	1,461.60
4.24	1	4.24	36	152.64
4.36	1	4.36	36	156.96
7.67	2	15.34	36	552.24
8.26	1	8.26	36	297.36
11.29	1	11.29	36	406.44
23.78	8	190.24	36	6,848.64
42.89	1	42.89	36	1,544.04
.42	5	2.10	53	111.30
.94	3	2.82	53	149.46
2.10	1	2.10	53	111.30
2.18	1	2.18	53	115.54
2.56	1	2.56	53	135.68
2.82	53	149.46	53	7,921.38
2.83	1	2.83	53	149.99
2.94	1	2.94	53	155.82
3.15	42	132.30	53	7,011.90
4.06	28	113.68	53	6,025.04
4.54	1	4.54	53	240.62
10.49	25	262.25	53	13,899.25
11.74	1	11.74	53	622.22
23.73	21	498.33	53	26,411.49
24.32	1	24.32	53	1,288.96
26.42	1	26.42	53	1,400.26
31.60	35	1,106.00	53	58,618.00
50.94	5	254.70	53	13,499.10
177.98	1	177.98	53	9,432.94
Total AT&T Overcharges				<u>\$160,699.37</u>

See footnotes at end of chart.

SUMMARY OF AT&T ASSEMBLY OVERCHARGES (CONTINUED)

Defense Metropolitan Area Telecommunications
Service - St. Louis
For October 1984 Through January 1989

<u>Monthly Recurring Charge</u>	<u>No. of Units Billed</u>	<u>Total AT&T ^{1/} Monthly Billing</u>	<u>Number of Months Billed</u>	<u>Overcharges</u>
\$ 3.20	3	9.60	51	\$ 489.60
3.45	14	48.30	36	1,738.80
7.86	14	110.04	10	1,100.40
7.86	17	133.62	26	3,474.12
8.60	2	17.20	36	619.20
15.35	1	15.35	25	<u>383.75</u>
Total AT&T Overcharges				<u>\$7,805.87</u>

4th Infantry Division and Fort Carson
For May 1984 Through January 1989

<u>Monthly Recurring Charge</u>	<u>No. of Units Billed</u>	<u>Total AT&T ^{1/} Monthly Billing</u>	<u>Number of Months Billed</u>	<u>Overcharges</u>
\$ 12.95	1	12.95	45 ^{2/}	589.23 ^{3/}
12.95	2	25.90	11	284.90
16.83	8	134.64	27	3,635.28
19.42	1	19.42	27	524.34
25.89	1	25.89	27	699.03
45.31	1	45.31	27	1,223.37
161.81	1	161.81	27	<u>4,368.87</u>
Total AT&T Overcharges				<u>\$11,325.02</u>

- ^{1/} AT&T - American Telephone and Telegraph Company.
^{2/} Number of months billed is rounded to the nearest month.
^{3/} Total overcharges represent exact amount billed by AT&T.

SUMMARY OF POTENTIAL MONETARY AND OTHER
BENEFITS RESULTING FROM AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefit</u>
1.a.	Compliance - obtain credits for overpayments.	Monetary benefits are included in Recommendation 3.a. below.
1.b.	Internal Control - Establishes oversight and monitoring of base communications by Headquarters, 7th Signal Command.	Nonmonetary
2.a. through 2.e.	Internal Controls - Improves base communications management.	Nonmonetary
3.a.	Compliance - Reduces Army communications budget as a result of overpayments.	\$221,421 ^{1/} - Funds put to better use/budgetary reduction (\$41,591 in recurring savings for FY 1991 plus \$179,830 of credits due from overpayments made from 1984 through 1989) for FY 1991. \$179,830 of credits due may be adjusted after negotiations between 7th Signal Command and AT&T. ^{2/}
3.b.	Compliance - Reduces communications budget as a result of overpayments.	\$403,151 - Funds put to better use/budgetary reduction (\$223,321 total recurring savings for the Five Year Defense Plan plus \$179,830 of credits due from overpayments made from 1984 through 1989), for the Five Year Defense Plan. \$179,830 of credits due may be adjusted after negotiations between 7th Signal Command and AT&T.

^{1/} This amount is included in the \$403,151 of the Five Year Defense Plan total recurring savings identified in Recommendation 3.b.

^{2/} AT&T - American Telephone and Telegraph.

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FY 1991- FY 1995 FIVE YEAR DEFENSE PLAN (FYDP) BUDGETARY IMPACT

Recurring Savings (Operation and Maintenance)

<u>Installation</u>	<u>Program Element</u>	<u>Number</u>	<u>Element Title</u>	<u>FY 1991</u>	<u>FY 1992</u>	<u>FY 1993</u>	<u>FY 1994</u>	<u>FY 1995</u>	<u>Total FYDP</u>
U.S. Army Tank- Automotive Command	Intelligence and Communications	0305701A	Base Communications- CONUS	\$ 36,220	\$37,596	\$38,950	\$40,235	\$41,482	\$194,483
Fort Carson	Intelligence and Communications	0305701A	Base Communications- CONUS	5,371	5,575	5,775	5,966	6,151	28,838
Total Recurring Savings				<u>41,591</u>	<u>43,171</u>	<u>44,725</u>	<u>46,201</u>	<u>47,633</u>	<u>223,321</u>

Nonrecurring Savings (Operation and Maintenance)

U.S. Army Tank- Automotive Command	Intelligence and Communications	0305701A	Base Communications- CONUS	160,699					160,699
Fort Carson	Intelligence and Communications	0305701A	Base Communications- CONUS	11,325					11,325
Defense Metro- politan Area Telecommuni- cations Ser- vice - St. Louis	Intelligence and Communications	0305701A	Base Communications- CONUS	7,806					7,806
Total Nonrecurring Savings				<u>179,830</u>					<u>179,830</u>
Total Savings				<u>\$221,421</u>	<u>\$43,171</u>	<u>\$44,725</u>	<u>\$46,201</u>	<u>\$47,633</u>	<u>\$403,151</u>

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DEPARTMENT OF THE ARMY
OFFICE OF THE SECRETARY OF THE ARMY
WASHINGTON, DC 20310-0107



July 26, 1990

Office, Director of Information
Systems for Command, Control,
Communications, & Computers

SAIS-PS

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, 400
ARMY NAVY DRIVE, ARLINGTON, VA 22202-2284

SUBJECT: Draft Audit Report on Billings for CENTREX AUTOVON
Terminations in the Department of the Army (Project No.
9IC-0025.02)

The purpose of this memorandum is to provide input to
your draft audit report, dated 22 May 1990.

Concur with recommendation 2a, 2b, and 2c as written.

Partially concur with recommendations 1a, 3a, and 3b - to
obtain credit from AT&T for overpayment for special
assemblies and to reduce the communications budget for the
amount being overbilled. Nonconcur with the amounts
specified in the finding. DMATS-St. Louis services many
non-Army customers on a reimbursable basis, however, Army
does not program and budget for these non-Army customers
therefore the amount being overpaid by them should not come
out of the Army budget. Also, AT&T does not believe that
Army is being overbilled for Special Assemblies or on the
amount of overpayment, if any. Final determination of
overpayment amount must be made prior to any decision as to
the amount of money to deduct from Army's FY 1990 budget and
the FY 1990 - 1994 Five Year Defense Plan.

Nonconcur with recommendation 1b. Headquarters 7th
Signal Command has an internal control program that meets the
requirements of AR 11-2. The "management Control" section of
the draft report, states that 7th Signal Command Pamphlet
105-1 is detailed in its guidance. The internal controls
program requires "reasonable" not "absolute" assurance that
the controls are in place and working. 7th Signal Command
provides "reasonable assurance" through Annual Assurance
Statements submitted by the USAISC activity
commanders/directors. Adherence to the controls is checked
by individual managers, auditors, and inspectors.

Nonconcur with recommendation 2d. Army does not agree to
the annual requirement to inventory telecommunications
equipment and services. OSD(C3I) is presently finalizing a
DOD

SAIS-PS

SUBJECT: Draft Audit Report on Billings for CENTREX AUTOVON
Terminations in the Department of the Army (Project No.
9IC-0025.02)


Directive on the management of base and long-haul telecommunications which will require biannual inventories of leased telecommunications equipment and services.

Nonconcur with recommendation 2e. There is already sufficient guidance in existing regulations that outlines disciplinary actions against personnel who do not follow Army regulations. There is no need for additional disciplinary provisions in AR 25-1 in this aspect.

Request assistance in recouping overpayments. In the enclosure, AT&T requests a copy of the audit report for each location including all worksheets, detailed back-up information, and an explanation of the methodologies utilized in determining that the Special Assemblies are no longer in the Army's possession.

The point of contact for this action is Major Robert Jones, SAIS-PSP, 694-0320.

Enclosure


JEROME B. HILMES
Lieutenant General, GS
Director

CF:
SAIG-PA
SAFM-BOU-A



Federal Systems

1120 20th Street, N.W.
Washington, DC 20036

JM90-20035
June 28, 1990

Department of the Army
Headquarters, 7th Signal Command
Fort Ritchie, MD 21719-5010
ATTN: Beverly M. Lanier
Contracting Officer

Subject: Special Assemblies

Reference: Your letter dated May 29, 1990

Dear Ms. Lanier,

With regard to your assertion that AT&T has billed the Army for Special Assemblies that no longer exist at TACOM, DMATS St. Louis and Ft. Carson, please provide the undersigned with the following information:

1. A copy of the DoD Inspector General Audit Report for each of the locations in question, including but not limited to all worksheets, detailed back-up information and a complete explanation of methodologies utilized in the determination that the Special Assemblies are no longer in the Army's possession.

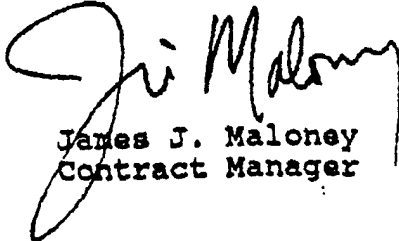
2. An explanation of the systems, protective measures, or other steps taken at each site in question to safeguard AT&T assets leased to the Army.

Further, since you have requested a refund of \$179,830.26, and we anticipate the expenditure of staff time and expense in evaluating your request, please provide your certification by return mail that you have personally reviewed the audit findings and certify their accuracy. AT&T will rely on your certification, and retains its right to all applicable remedies, including recovery of costs from the 7th Signal Command should the DoD IG audit be found inaccurate in whole or in part.

JM90-20035
June 28, 1990
Page 2.

It is our sincere desire to do business with the Army in an accurate fashion. Toward that end, your request will be evaluated on its individual merits. We look forward to a timely resolution of this issue. Should you require additional information regarding this matter, please contact the undersigned at (202) 457-3504.

Sincerely,



James J. Maloney
Contract Manager

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

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

Department of the Army

Office of the Director of Information Systems for Command, Control, Communications, and Computers, Washington, DC
U.S. Army Tank-Automotive Command, Warren, MI
Defense Metropolitan Area Telecommunications Service-St. Louis, St. Louis, MO
4th Infantry Division and Fort Carson, Fort Carson, CO
7th Signal Command, Fort Ritchie, MD

Defense Agencies

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

Non-Government Activities

Headquarters, American Telephone and Telegraph (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, Denver, CO

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AUDIT TEAM MEMBERS

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John A. Gannon, Program Director
Francis C. Bonsiero, Project Manager
Deborah A. Gilliam, Team Leader

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FINAL REPORT DISTRIBUTION

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Deputy Assistant Secretary of Defense (Command, Control and Communications)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Commander, 7th Signal Command

Defense Agencies

Director, Defense Communications Agency

Non-DoD Activities

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

Congressional Committee:

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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House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations
House Subcommittee on Telecommunications and Finance, Committee on Energy and Commerce

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Billings for Centrex Autovon Terminations in the Department of the Army

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C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
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