

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**LEASED BASE COMMUNICATIONS EQUIPMENT
AT NAVAL AIR STATION, OCEANA**

Report No. 93-161

August 24, 1993

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Department of Defense

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Acronyms

NAS
PBX

Naval Air Station
Private Branch Exchange



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



Report No. 93-161

August 24, 1993

**MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT)**

**SUBJECT: Audit Report on Leased Base Communications Equipment at Naval Air
Station, Oceana (Project No. 3RD-3004.01)**

Introduction

The report resulted from joint research by auditors of the IG, DoD, and the Naval Audit Service on base communications management as part of Project No. 3RD-3004, "DoD-Wide Audit of the Controls Over Expenditures for Base Communications Services and Equipment." The report discusses an opportunity to reduce the costs incurred for communications equipment by buying out an uneconomical lease at Naval Air Station (NAS), Oceana, Virginia Beach, Virginia.

Audit Results

NAS, Oceana, was leasing communications equipment that should have been purchased. The AT&T Dimension 2000 equipment upgrade was leased on a monthly basis at an annual cost of \$280,284 after the contract expired in FY 1989, although economic and lease versus purchase analyses showed that it was more cost-effective to purchase the upgrade. When this condition was brought to management's attention, prompt action was taken to purchase the upgrade, for about \$122,000, thus reducing base communications costs totaling about \$1.6 million during the execution of the FY 1993 through FY 1998 Future Years Defense Program. See Enclosure 1 for details on the resultant monetary benefits.

Objective

The overall objective of the DoD-wide project is to determine the adequacy of controls to ensure that expenditures for leased base communications services and equipment are proper and that billing rates are fully supported by valid contracts and published tariffs. The specific objective for this audit was to evaluate the use of economic analyses for leased base communications equipment at NAS, Oceana.

Scope

The audit included a review of contract documentation for 693 pieces of base communications equipment leased by NAS, Oceana, as of October 26, 1992. The equipment was leased at a monthly cost of about \$25,000. The Dimension 2000 equipment upgrade represents \$23,357 of that monthly cost. The audit also included discussions with NAS, Oceana, communications managers to determine whether lease versus purchase or other economic analyses were documented and used to obtain telecommunications equipment.

This economy and efficiency audit was made from October through November 1992 as part of the research phase for the overall DoD-wide audit project. 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. We visited or contacted Headquarters, Commander in Chief, U.S. Atlantic Fleet, Norfolk, Virginia; Headquarters, Naval Air Force, U.S. Atlantic Fleet, Norfolk, Virginia; and Naval Air Station, Oceana, Virginia Beach, Virginia.

Internal Controls

Due to the nature of the research phase of the project, we did not evaluate internal controls.

Prior Audits and Other Reviews

Prior audits by the Inspector General, DoD, and the Military Department audit organizations showed that similar problems occurred regarding uneconomical leases of telecommunications equipment. Details on those audits are discussed in Enclosure 2.

Background

Federal Acquisition Regulation subpart 7.4, "Equipment Lease or Purchase," 1990 edition, stipulates that Federal agencies should consider whether to lease or purchase equipment on a case-by-case evaluation of comparative costs and other factors.

DoD Instruction 4640.14, "Management of Base and Long-Haul Telecommunications Equipment and Services," December 6, 1991, establishes DoD policy guidelines; assigns responsibilities; and prescribes procedures to ensure effective, efficient, and economical use of base and long-haul telecommunications equipment and services. That Instruction requires periodic market surveys to ensure that the most economical means are selected for satisfying all base and long-haul telecommunications requirements, consistent with applicable law and policy guidance. The Instruction also requires that a

lease versus purchase analysis be made to ensure that equipment and services are being acquired at the most economical cost available and that uneconomical contracts be terminated.

Secretary of the Navy Instruction 5231.1C, "Lease Versus Purchase Analysis," July 10, 1992, stipulates that new leases or renewals of existing leases must be based on an analysis of the lease costs versus the purchase costs and must clearly establish the economical benefit of a lease instead of a purchase. The Instruction states that a lack of available purchase funds is not an acceptable justification for the lease of Federal information processing equipment.

NAS, Oceana, was leasing communications equipment, at a cost of \$280,284 annually, to upgrade two AT&T Dimension 2000 switches, or private branch exchanges (PBXs). The PBXs provide telecommunications switching service for on-base needs and serve as an interface for the base and the local telephone company central office to satisfy requirements for both the local calling area and certain long-haul telecommunications.

Discussion

The audit showed that NAS, Oceana, communications managers made periodic market surveys and lease versus purchase analyses to determine whether it was more economical to lease or purchase telecommunications equipment. However, those analyses were not used as justification to satisfy base communications requirements at the most economical cost. Documentation showed that the equipment upgrade for the two AT&T Dimension 2000 PBXs were leased at an annual cost of about \$280,284 and that the equipment could have been purchased for a total one-time cost of about \$121,971.

NAS, Oceana, communications managers told us that sufficient funds were not available to purchase the equipment. Upon completion of our research, we provided the results of our analyses to communications managers. In response to the results, the managers took aggressive actions to obtain the necessary funding to purchase the equipment. Documentation provided to us in April 1993 showed that the equipment purchase was completed on March 16, 1993. The purchase will result in the reduction of base-level communications expenditures of about \$1.6 million during the execution of the FY 1993 through FY 1998 Future Years Defense Program. We highly commend NAS, Oceana, managers for their prompt action to buy out the uneconomical communications equipment lease. Because of the responsive action taken by management, recommendations for corrective action are not necessary.

Request for Comments

We provided a draft of this report to the Assistant Secretary of the Navy (Financial Management) on June 23, 1993. The Department of the Navy agreed with the finding and potential monetary benefits described in the draft report on August 12, 1993. Therefore, no further action or comments on the final report are required.

The courtesies extended to the audit staff are appreciated. If you have any questions on this report, please contact Mr. Robert M. Murrell, Program Director, at (703) 692-2945 (DSN 222-2945) or Mr. Charles M. Hanshaw, Project Manager, at (703) 692-2887 (DSN 222-2887). The report will be distributed to the organizations listed in Enclosure 3.



Robert J. Lieberman
Assistant Inspector General
for Auditing

Summary of Potential Benefits Resulting from Audit

Program	Element No.	Element Title	FY 1993 ¹	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	Total
<u>Recurring Savings (Operation and Maintenance)</u>									
Intelligence and Communications	0303196N	Base Operations-Communications	\$147,928	\$289,505	\$299,261	\$309,466	\$320,359	\$331,636	\$1,698,155 ²
<u>Nonrecurring Costs (Operation and Maintenance)</u>									
Intelligence and Communications	0303196N	Base Operations-Communications	(\$121,971) ³	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	(\$ 121,971)
Net Recurring Savings (Funds put to better use)			\$ 25,957	\$289,505	\$299,261	\$309,466	\$320,359	\$331,636	\$1,576,184

Footnotes:

- 1 March 1993 through September 1993. The equipment was purchased during March 16, 1993, and was reflected in the April 26, 1993, telephone bill. The telephone company provided a credit for one-third of the leased equipment costs for March 1993.
- 2 Using an annualized recurring cost (\$280,284) for FY 1993 as the base year, we applied the established DoD inflation factors (3.29 percent for FY 1994, 3.37 percent for FY 1995, 3.41 percent for FY 1996, 3.52 percent for FY 1997 through FY 1998) for each of the fiscal years.
- 3 Nonrecurring cost for the purchase of the switch upgrade equipment.

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Prior Audits and Other Reviews

IG, DoD

Office of the Assistant Inspector General for Auditing, DoD, Report No. 93-021, "Management of Leased Modulators/Demodulators at Dover Air Force Base," November 9, 1992, states that payments were being made for telecommunications equipment that was no longer in service and that equipment was being leased that should have been purchased. The report recommended that the Air Mobility Command terminate lease payments for 64 modems that were no longer in service and issue a Request For Service to purchase 6 long-haul modems from the Defense Communications Office Commercial Bulk Modem Contract. The report states that if the Air Mobility Command terminated the leases and purchased the modems, DoD could realize monetary benefits of about \$660,000 and \$124,000, respectively, during the execution of the FY 1993 through FY 1998 Future Years Defense Program. Management concurred with the finding and the recommendation, but nonconcurred with the potential monetary benefits totaling about \$784,000. Management stated that about \$503,000 would be more realistic because the leases would have expired in April 1996 and would not have been renewed.

Office of the Assistant Inspector General for Auditing, DoD, Project No. 2RD-0020, "Draft Audit Report on the Management of Leased Modulators/Demodulators at the Air Mobility Command," April 27, 1993, states that Air Mobility Command communications managers did not prepare documentation required to discontinue payments for modems no longer in service, purchase rather than lease modems, and disconnect circuits no longer required. As a result, about \$2.2 million was spent unnecessarily from October 1989 through July 1992. Further, at seven installations, 53.6 percent of the telecommunications equipment could not be accounted for and the Air Mobility Command could not validate its equipment inventories. The report states that if Air Mobility Command managers prepared the required documentation to terminate lease payments, to purchase leased modems, and to disconnect circuits, DoD could realize monetary benefits of about \$4.5 million during the FY 1993 through FY 1998 Future Years Defense Program. The report further states that claims against the communications vendor could result in a potential credit to DoD of \$826,000. The report recommended that the Air Mobility Command initiate documentation to terminate payments for equipment no longer in service; purchase leased modems, and disconnect circuits no longer needed; establish procedures on the management of equipment and services; and conduct and maintain inventories of all leased and owned equipment and services. The

Prior Audits and Other Reviews

report also recommended that the Director, Defense Commercial Communications Office, determine the total amount paid to the vendor for modems no longer in service during the period November 1, 1989, to the termination dates of the modem leases and file a claim for that amount against the vendor.

Department of the Army

U.S. Army Audit Agency Report No. 89-207, "Audit of Leased Communications, Fort Huachuca, Arizona," August 14, 1989, states that Fort Huachuca, Arizona, was leasing communications equipment that could result in savings of about \$34,000, if lease versus purchase analyses were done to determine the most cost-effective method of obtaining communications equipment. The report recommended that the Commander, U.S. Army Garrison, Fort Huachuca, conduct lease versus purchase analyses before acquiring new communications equipment; review all existing leases, and report uneconomical leases for buy out; and if uneconomical leases were not approved for buy out using the management fund, then use the Quick Return on Investment Program and the Productivity Enhancing Capital Investment Program to purchase the equipment. The Commander agreed to implement each recommended action.

U.S. Army Audit Agency Report No. 89-203, "Audit of Leased Communications, U.S. Army Soldier Support Center, Fort Benjamin Harrison, Indiana," August 28, 1989, states that economic analyses were not made before equipment was leased or purchased and potential savings of about \$375,000 were not realized. The report further states that all uneconomical leases were not identified and that the wrong method was used to analyze equipment cost. The report recommended that the Commander, U.S. Army 7th Signal Command, and the Commander, U.S. Army Soldier Support Center, recompute the lease versus purchase analyses using correct lease costs and submit the analyses to the U.S. Army Information Systems Command for the buy out of uneconomical leases; develop procedures to require an economic analysis before telecommunications equipment is leased or purchased; and identify all leases that were not analyzed properly or not analyzed at all, and submit the analyses to the U.S. Army Information Systems Command for the buy out of the leases. The Commander, U.S. Army 7th Signal Command, and the Commander, U.S. Army Soldier Support Center, agreed to implement each recommended action.

Department of the Air Force

U.S. Air Force Audit Agency Report No. 9066412, "Air Force Use of Communications Service Authorizations to Acquire Telecommunications Equipment and Services," April 27, 1990, states that lease versus purchase analyses were not performed on 179 Communications Service Authorizations associated with Headquarters, Air Force Communications Command; Headquarters, Air Training Command; and 8 other Air Force installations. The report further states that if the McClellan Air Force Base purchased equipment instead of leasing it, about \$1.7 million could be saved over 3 years and that Wurtsmith Air Force Base could save about \$59,000 over 5 years if it also purchased equipment instead of leasing. The report recommended that all Air Force major commands perform lease versus purchase analyses before leasing; buy out uneconomical equipment leases; conduct annual physical equipment inventories; and update equipment inventories when equipment is added or deleted. The responsible Air Force organizations agreed to implement each recommended action.

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