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KANSAS CITY, MISSOURI 64106

July 9, 1971

Colonel Seymour Stearns  
Commander  
Defense Commercial Communications Office  
Scott Air Force Base, Illinois 62225

Dear Colonel Stearns:

This letter is a summary of the [opportunities for reducing costs] which our staff has discussed with you and other personnel of the Defense Commercial Communications Office (DECCO). Briefly, the staff observed that costs could be reduced through:

- avoidance of interstate routing of intrastate services,
- improved evaluations of competitive quotations,
- re-evaluation of service contracts when changes occur in tariffs or policies of carriers,
- avoidance of polar<sup>1</sup> operation charges, where feasible,
- use of Telpak application in lieu of certain higher cost local channel and interexchange services, and
- use of Government-financed facilities where practicable.

Details concerning these matters follow.

ROUTING OF INTRASTATE SERVICES

Circuits were being routed interstate in the Telpak<sup>2</sup> network when they could be routed intrastate. This increases the cost of services because charges associated with interstate circuits are usually higher than those for intrastate circuits. Although conditions may require that circuits be initially routed or rerouted interstate, conditions often change so that intrastate routing can be used. But there were no established procedures in DECCO for re-examining circuit routing.

The benefits from re-examining the routings are demonstrated by circuit SB 30P 01206 which was being leased to provide service between Eglin, MacDill, and Homestead Air Force Bases, all in Florida. For several years the circuit

<sup>1</sup>Polar operation is the use of directional current to transmit telegraph signals thereby providing quality service between terminals.

<sup>2</sup>Telpak is an industry term for reduced pricing arrangement offered to users leasing quantities of circuits between rate centers.

was routed in Telpak through Georgia and the carrier charged interstate rates of \$105 a month for the three service terminals. After we brought this to the attention of the proper DECCO account manager the circuit was routed intrastate and service terminal charges were reduced to \$45 a month, or \$720 a year less.

We referred to DECCO personnel 55 other circuits with terminal points in the same states but being leased at interstate rates. Forty-four of these circuits were rerouted intrastate in Telpak and annual costs were reduced \$21,120. Of the 11 circuits not rerouted, 2 had been disconnected, intrastate Telpak routing was not available for 4, and 5 were more economical in interstate routing.

We understand that under new procedures circuits having terminal points in the same state but routed interstate will be identified and reviewed at 90-day intervals to determine whether they can be changed to intrastate.

#### EVALUATIONS OF COMPETITIVE QUOTATIONS

Although competitive quotations are to be obtained when more than one carrier can provide services, we found instances where services were not leased at the lowest possible costs because DECCO did not adequately evaluate the quotations.

A contract for service between Andrews, Maryland and Ft. Meade, Maryland (circuit WU T 03441) was awarded to one carrier which quoted a monthly recurring price of \$70 for the two service terminals. The quotation contained no circuit mileage charge, indicating that the carrier assumed the circuit would be placed in Telpak.

Another carrier quoted a monthly recurring charge of \$100.80 comprised of \$60 terminal service charges and \$40.80 for interexchange circuit mileage. Although this is higher in total, the terminal service charges are lower. Therefore, the second carrier's quotation containing the interexchange mileage charge should not have been compared with the first carrier's quotation until DECCO determined whether the circuit could have been placed in an intrastate Telpak. The routing of circuits in an intrastate Telpak would have permitted DECCO to lease the service from the second carrier at \$10 a month less costs, since the intrastate Telpak charge of \$6.09 a month is the same for both carriers.

But DECCO's procedures do not require a preaward determination as to whether a required service can be placed in Telpak although DECCO controls the leasing and routing of Telpak.

Circuits CPB 06T 00320, 00321 and 00322 are other examples where DECCO awarded contracts for services to the seemingly low bidder when a competing carrier would have been cheaper had the routings been determined prior to awards.

## RE-EVALUATING SERVICE CONTRACTS

DECCO continues to lease services from carriers who received orders several years ago although the services can now be obtained from other carriers at less costs. There is no procedure in DECCO for re-evaluating service contracts in the light of changes made in tariffs of competing carriers, and differences in how the carriers classify services as interstate or intrastate.

Circuit WU T 03338 provides service between Ft. Meade and Andrews Air Force Base, both with switching facilities. The carrier's policy is to charge interstate rates for services between switching facilities and has charged such rates for this service since 1968. A competing carrier charges intrastate rates for services between terminal points within a state.

The award was made to the first carrier because its interstate rate was \$15 a month less than the competitor's. Since the award interstate rates have increased, but the intrastate rates have remained rather constant. As a result the second carrier is providing comparable service between these two locations for \$25 a month less than the first.

We identified 66 other services of this type and examined into 26 of them, 18 of which were leased under competitive procedures. Of the 26 services, 23 appear to be available from carriers, other than those holding the contracts, at a reduction of about \$5,120 a year.

Information on these services has been furnished to DECCO officials.

## HIGHER COSTS FOR POLAR OPERATIONS

Teletype circuits with polar transmission capability are being leased from a carrier at prices in excess of those charged by a competitor. The tariffs of the lessor specify a monthly polar charge for each terminal whereas the competing carrier's do not.

In a test we identified 15 circuits with polar transmission capability between the Pentagon and Ft. Meade, Maryland. Nine of these circuits are furnished by a carrier which charges \$35 a month for each service terminal plus \$15 for each polar operation. Another carrier provides the other six circuits at \$35 a month including the polar capability. If these 15 circuits were provided by this carrier costs would be reduced \$1,980 a year.

These 15 circuits represent only a small number of the total being leased with polar charges. DECCO's records for one of several polar classifications show annual costs of \$46,000.

The reason for leasing the more costly service was not evident from an examination of records. Many of the services were leased before DECCO implemented competitive leasing procedures, and DECCO has no review procedures that would uncover such situations.

APPLYING TELPAK TO LOCAL CHANNEL  
AND INTEREXCHANGE SERVICES

Circuits are being leased to provide services in the Washington, D.C., area on a fractional mileage basis - local channel service. These services in some instances can be provided by a different carrier at lower costs by applying Telpak. The more costly services were leased, and continued to be leased, because DECCO procedures do not provide either at the start of service, or thereafter, for considering Telpak application when carriers state that local channel service is to be furnished. The lack of such a procedure is based on the premise that services classified as local channel by carriers are not eligible for Telpak. But some services in the Washington area classified as local channel are interexchange channel services subject to Telpak.

For example, since April 1964 circuit CPB 70T 00350 has been leased as a local channel at a monthly recurring cost of \$134.20 for service between Andrews, Maryland and Langley, Virginia. The only quote received by DECCO shows that the carrier was to provide local channel service and it has been so classified in DECCO records. But a circuit between these locations leased from another carrier is in Telpak and the monthly charge is \$64.20 less. Therefore, an annual cost reduction of \$770 is likely to be realized by changing the local channel service to Telpak.

We identified 13 other circuits in the Washington area that are leased on a fractional mileage basis although they appear to be eligible for Telpak. If these services can be changed to Telpak, costs could be reduced an estimated \$5,100 a year. Information on these circuits has been furnished to DECCO officials.

The lack of review also permits errors in service classification to continue undetected resulting in higher costs. For instance, for circuits CPB 70T 00606 and 00607 the carrier furnished DECCO proper interexchange mileage quotes. These circuits, however, are shown in DECCO's records as local channels, apparently because of erroneous input data, and have been excluded from Telpak application. Information on the circuits was brought to the attention of DECCO employees and the services are now provided by Telpak at an annual reduction in charges of \$423.

We also noted three interexchange services that were recorded properly in DECCO records but apparently not considered for Telpak application. After discussing these services with DECCO employees they were placed in Telpak which reduced the charges \$1,467 a year.

In another instance we found that the cost of interexchange mileage was recorded in DECCO's records as equipment costs. This excluded the service from being considered for Telpak application. When brought to the attention of DECCO employees the service was changed, and is now provided by Telpak at an annual savings of \$1,221.

USE OF GOVERNMENT FINANCED FACILITIES

Although we did not make an in-depth review of this area, we noted that three circuits were being leased when Government financed and controlled facilities had spare capacity to meet these requirements. We discussed these with DECCO officials and the three leased circuits were disconnected and the spare channels used to provide the service. This will result in an annual savings of \$1,512.

CONCLUSIONS

DECCO should establish procedures for re-examining:

- existing contracts for service, considering changes in tariff rates and carriers' policies, to assure that the most economic services are currently being leased,
- local channel services to assure that they are properly classified and, if not, whether they can be incorporated into Telpak at reduced costs, and
- spare Government facilities to determine whether they can replace leased circuits.

To assure that awards are made to low bidders the procedures for evaluating quotes should be improved so that adequate consideration is given to the different means of providing service proposed by competing carriers.

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We shall appreciate your comments and information on any actions taken on the above discussed matters.

A copy of this letter is being sent to the Director, Defense Communications Agency.

Sincerely yours,

(SIGNED)

K. L. Weary  
Regional Manager