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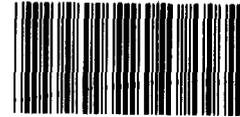
United States General Accounting Office

Report to the Chairman, Committee on
Government Operations, House of
Representatives

August 1992

FTS 2000 OVERHEAD

GSA Should Reassess Contract Requirements and Improve Efficiency



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**Information Management and
Technology Division**

B-247690

August 3, 1992

The Honorable John Conyers, Jr.
Chairman, Committee on
Government Operations
House of Representatives

Dear Mr. Chairman:

This report responds to your request for a review of the General Service Administration's (GSA) overhead costs for managing the Federal Telecommunications System (FTS) 2000 program. As agreed with your office, we assessed (1) whether overhead costs attributable to GSA's Office of FTS 2000 could be reduced and (2) whether GSA's oversight of the FTS 2000 program could be streamlined and its processes made more efficient.

In 1988 GSA awarded FTS 2000 contracts to two vendors—American Telephone and Telegraph Company (AT&T) and US Sprint Communications Company—to provide advanced telecommunications services to federal agencies governmentwide. GSA's costs for overseeing the program, totaling over \$53 million in fiscal year 1991, are recovered from agencies that use FTS 2000 through an overhead charge added to their bills for telecommunications services. The direct costs of GSA's oversight of the program account for almost two-thirds—about \$34 million—of the total overhead. The remaining \$19 million covers support services provided by other GSA offices plus state and local taxes on services provided by the vendors. FTS 2000 program managers have no control over support service costs or taxes. For this reason, our review concentrated on the \$34 million in direct program oversight costs over which program managers have control. Details of our objectives, scope, and methodology appear in appendix I. A description of the overhead cost elements is provided in appendix II.

Results in Brief

GSA's Office of FTS 2000 is directly responsible for \$34 million in overhead costs that are incurred to support specific management, operational, and oversight requirements contained in the FTS 2000 contracts. Most of the functions performed by GSA in meeting these requirements are needed to implement the program. However, we question whether some of these required functions add value to program management. For example, GSA is required—at an annual cost of more than \$4 million for facilities and over \$16 million for personnel—to operate separate service oversight centers for each vendor. Consolidating these centers could reduce operating and

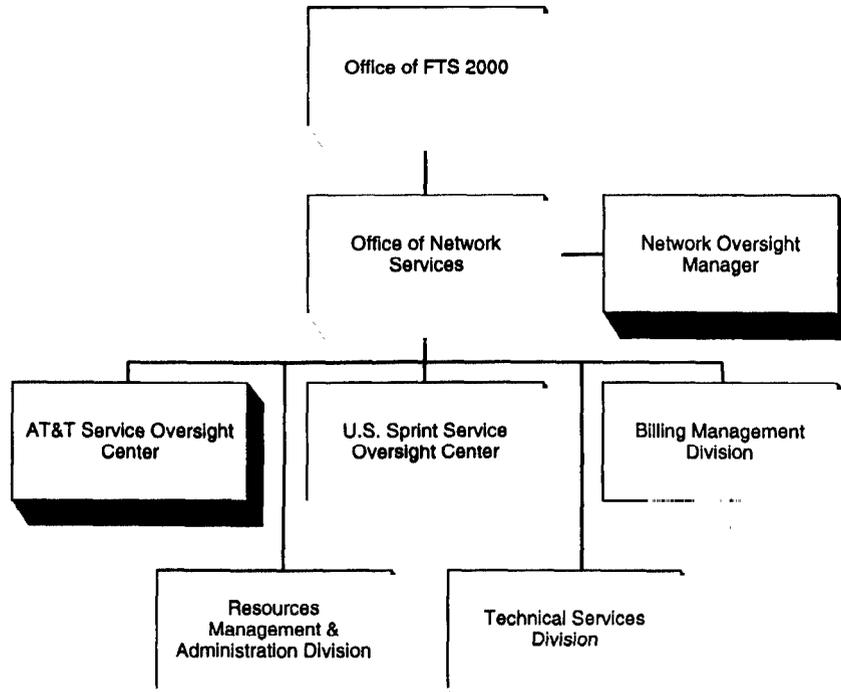
personnel costs. Additionally, GSA performs monitoring of network operations—a function very similar to that already provided by the vendors. In its upcoming management review of the FTS 2000 program, GSA has an opportunity to reassess the original contract requirements and determine their present validity.

GSA also has opportunities to reduce overhead costs by streamlining certain operations. GSA's contract for reporting service trouble may not be needed because the FTS 2000 vendors can provide the same service. This contract adds about \$1 million per year to program overhead costs. In addition, the Fairview Heights, Illinois, office—operating at a cost of about \$1.4 million annually—is not needed because its functions could be performed by personnel in the service oversight center or centers. Lastly, GSA's processing of vendor bills is not efficient and has led to unnecessary billing disputes.

Background

GSA's Office of FTS 2000 is responsible for managing all operational, administrative, and financial aspects of the program. Over 280 staff work in this office infrastructure. (See fig. 1.)

Figure 1: GSA's Office of FTS 2000



GSA recovers its costs for providing program oversight and FTS 2000 services through the Information Technology (IT) fund.¹ Agencies pay GSA (1) the cost of telecommunications services provided by the two vendors and (2) an additional percentage of this first cost to cover GSA's overhead. Currently, agencies pay 9 percent for overhead charges, down from 10 percent in fiscal year 1991. GSA places these payments in the IT fund, which is then used to pay FTS 2000-related expenses. If GSA's actual overhead costs exceed agencies' reimbursements, GSA recoups these costs by drawing from the capital reserve accounts established in the IT fund.² However, if collections exceed overhead costs, the surplus funds may be placed in a reserve account and GSA can adjust its overhead rate.

GSA's overhead costs totaled \$53.2 million in fiscal year 1991. (See fig. 2.) These costs included \$34 million in direct oversight charges for personnel to staff the service oversight centers, various support contracts, the service oversight center facilities, and administrative costs. FTS 2000 program managers have control over these costs.

Another \$13.2 million of the overhead represents costs allocated to the FTS 2000 program to cover support services provided by other GSA organizations. The Office of FTS 2000 has no control over this portion of the overhead costs. These costs include a portion of GSA's overall general management and administration (GM&A) costs—costs for operating offices, such as the Comptroller's Office, that provide staff support to all GSA programs.³ Also, in compliance with the core financial system requirements, costs are allocated to the FTS 2000 program from other GSA organizations that provide support and that are not included in the GM&A costs.⁴ These offices include the Information Resources Management Service's Offices of the Controller, Information Resources Procurement, and Telecommunications Services. We did not review the reasonableness of these allocated costs or whether the percentages used to allocate them

¹The IT fund, a revolving fund, is the financing mechanism for a number of GSA programs, including the FTS 2000 program.

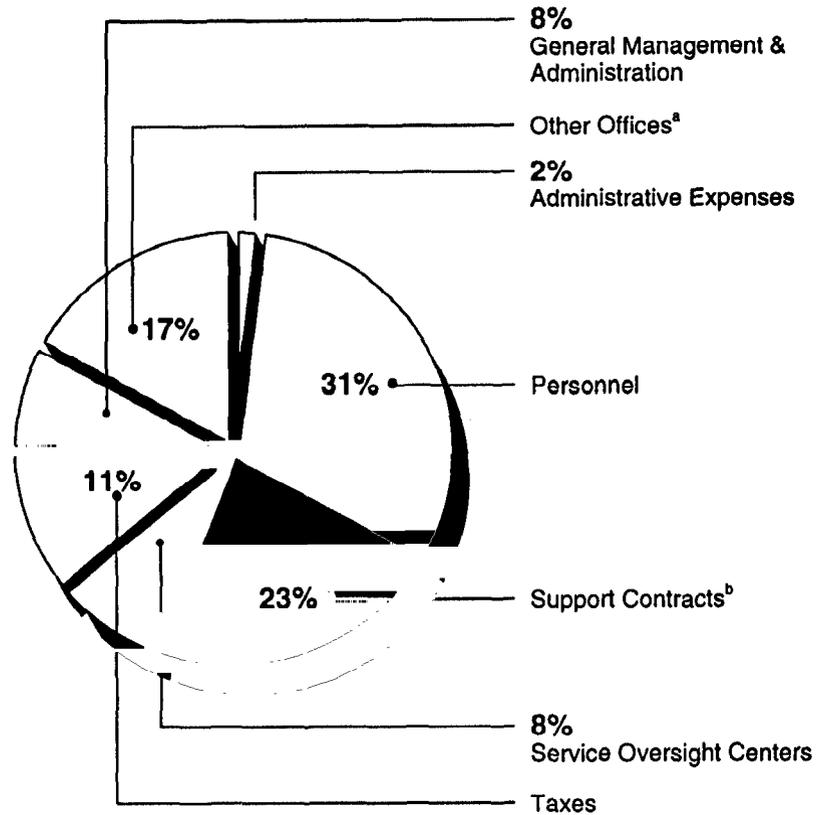
²Capital reserve accounts were established to set aside funds to (1) cover FTS 2000 conversion costs (one-time costs), (2) provide working capital (permanent reserves to ensure that sufficient cash is available for the timely payment of bills), and (3) pay for contingencies (a temporary account for such things as the upgrading of GSA switches at consolidated locations, contract modifications, and legal fees).

³Public Law 101-509 required the benefitting program to reimburse the general management and administration costs.

⁴These requirements were established under the Joint Financial Management Improvement Program and approved by GAO, the Department of the Treasury, and the Office of Management and Budget.

to the FTS 2000 program were appropriate. However, GSA's Office of Technical Assistance reviewed the allocations methodology and concluded that it was logical and should accurately allocate the costs.^b Finally, about \$6 million of the overhead is for state and local taxes on telecommunications services provided by the vendors.

Figure 2: GSA's Overhead Costs For Fiscal Year 1991 Totaled \$53.2 Million



^a Other Offices (Telecommunications Services, Controller, Procurement)

^b Support Contracts (MITRE, TAMS, THIS, etc.)

^b Preliminary Review of GSA Information Technology Fund Rate Development Processes, Office of Technical Assistance, October 1991.

Contract Requirements Account for Majority of FTS 2000 Overhead

GSA must perform numerous, complex functions to comply with contract requirements and to implement and oversee the FTS 2000 program. These functions account for almost two-thirds of GSA's overhead costs. For example, the FTS 2000 contracts require GSA to maintain two service oversight centers, which are physically separated in order to protect each vendor's proprietary information. Each center mirrors the other in most respects and operates to support contract administration for each vendor's network. Within the centers, approximately 140 GSA staff monitor the vendor's performance, ensure compliance with the contracts, approve customer agencies' requests for new or expanded services, and approve each vendor's national security and emergency preparedness plans.

The FTS 2000 contracts also require GSA to provide technical assistance to customer agencies to ensure that they are receiving high-quality services from the vendors. Thirty staff in GSA's FTS 2000 technical services division conduct various functions to ensure the cost-effectiveness and usefulness of the FTS 2000 networks, perform comparative analyses of the service provided by the vendors, and develop long-range plans for the program. These staff also coordinate engineering between the two FTS 2000 networks and the FTS 2000 networks and local telecommunications systems. In addition, they analyze trouble reports from the Trouble Handling Information System (THIS) to determine the scope and trend of FTS 2000 service problems.

GSA is also required to perform an array of billing functions. The FTS 2000 Billing Management Division, with a staff of 66, analyzes, verifies, and validates all vendor invoices for FTS 2000 services and certifies them for payment. The division is the central point of contact with the vendors for resolving disputed charges. This division also develops the annual audit plan, audits the vendor's billing for FTS 2000 services, and prepares financial reports.

Furthermore, GSA has awarded several contracts that support FTS 2000 contract requirements. Among these is a contract with MITRE Corporation that provides GSA with technical support, including traffic and pricing analyses. These analyses are needed to support specific contract requirements that call for GSA to maintain a 60/40 percentage revenue split between the two vendors, conduct periodic price redeterminations, and assure comparability between FTS 2000 and commercial telecommunications prices. The THIS contract provides customer agencies with a focal point for reporting trouble with their telecommunications services. Such a trouble-reporting system is specifically called for in the

FTS 2000 contracts. Another ongoing contract, the Technical Assistance and Management Services contract, provides for such things as an organizational study to develop the structure needed to carry out assigned FTS 2000 responsibilities and the development of the interim and new billing systems. The contract with Systems Automation Software, Inc., supports GSA's FTS 2000 Resources Management and Administration Division in automated data processing. These and other support contracts totaled about \$13 million in fiscal year 1991.

GSA Should Reassess the Value of Current Contract Requirements

Although most of GSA's oversight costs are incurred to fulfill contract requirements, some of these requirements may not be needed or worth the cost of implementing them. GSA, the vendors, and customer agencies, in many cases, are required to perform different aspects of the same function. However, in some areas, GSA's implementation of contract requirements either creates some degree of inefficiency or duplicates vendor-provided services.

For example, GSA is required to operate two separate service oversight centers. These centers—costing more than \$4 million for facilities and over \$16 million for personnel annually—perform nearly identical functions in monitoring the performance of each vendor. Among their responsibilities, staff in each center oversee the vendor's network management to ensure they are in compliance with the contract, analyze contractor performance, coordinate the transition of service to customer agencies, track implementation plans, and evaluate problems customer agencies are having with the network. With about 140 staff allocated to the two centers, consolidating the operations could possibly reduce personnel and total overhead costs.

GSA's monitoring of network operations also appears to largely duplicate vendor-provided services. Approximately 13 GSA staff are assigned to observe and evaluate each vendor's network and to identify anomalies, such as network outages at specific sites, as they occur. When a problem is identified, these staff coordinate efforts to resolve the problem, limiting any impact on customer agencies. However, vendor staff also provide similar network monitoring service and are ultimately responsible for resolving any problems that occur.

Similarly, some of GSA's customer service functions—performed in accordance with contract requirements—appear to duplicate tasks performed by the vendors. GSA personnel act as account representatives to

customer agencies by responding to inquiries, receiving information on service trouble, and visiting customer agencies. In addition, these staff also facilitate the resolution of billing disputes between agencies and the vendors. However, the contracts also require each vendor to establish and operate a customer service office to serve as the primary point of contact for customer agencies and the service oversight centers for conducting business with the contractor.

The requirements GSA must adhere to under the FTS 2000 program were formulated well before the contracts were awarded, and many of the unique aspects of how the program would operate were unknown. Major changes to these requirements would ultimately need to be made through contract modifications, which could be costly and possibly require months to implement. However, with more than 3 years of experience with FTS 2000, GSA is in a better position to reassess these requirements and determine their validity. GSA has already taken steps in that direction by recently awarding a contract for a comprehensive management review of the FTS 2000 program. Part of this review will focus on FTS 2000 overhead.

GSA Could Make Its Oversight Operations More Efficient Now

GSA could take immediate action in three areas to streamline its oversight operations and eliminate inefficiencies and duplication. These areas involve the trouble-reporting process, the Fairview Heights office of the Billing Management Division, and the processing of Sprint's bills.

The Trouble Handling Information System May Not Be Needed

Under the old FTS, GSA awarded a contract to US West Information Systems for handling trouble reports in local and long-distance telecommunications service. US West established the Trouble Handling Information System to deal with agency reports of trouble affecting telecommunications service. Under this system, agencies had one centralized telephone number for reporting trouble, such as not being able to make a connection, being disconnected, or experiencing outages. Such a system was needed under FTS because of the hundreds of vendors involved in providing service. Now, agencies using FTS 2000 continue to report their telecommunications trouble to the THIS contractor. The THIS contractor determines whether it is a local or long-distance problem and, if long-distance, reports it to the appropriate FTS 2000 vendor, who then resolves it.

The FTS 2000 vendors could, however, provide the same services as THIS and improve efficiency by eliminating the intermediate step. To streamline this process, customer agencies could report their trouble directly to their

respective FTS 2000 vendor. In some instances this is already occurring. GSA has granted exceptions to seven agencies, allowing them to report data communications trouble directly to their respective vendors. Trouble with local service could be reported to the local exchange carrier serving the agency.

According to the deputy associate administrator for network services, it made sense to keep the THIS contract at the time the FTS 2000 program was being implemented. It offered a convenient mechanism that was already in place to handle customer agency trouble. He stated that now, however, the contract may no longer be needed because the vendors can provide the same services as THIS. As such, he is reviewing the THIS contract to determine whether it is still relevant and effective for the FTS 2000 program, and whether the FTS 2000 vendors are willing to provide the service instead and, if so, at what cost.

A related issue concerns GSA's allocation of costs for the service provided by the THIS contract. GSA does not allocate the costs for THIS equitably. In fiscal year 1991, the FTS 2000 program was charged about \$1 million for the THIS contract. GSA allocates the costs for THIS evenly between the FTS 2000 and local communications programs. However, only one-third of the trouble reported to THIS concerns the FTS 2000 network; the remaining two-thirds concern trouble with local networks. As a result, the FTS 2000 program pays a disproportionate amount for the THIS contract.

Need for Fairview Heights Office Is Not Justified

GSA's Fairview Heights, Illinois, office is no longer needed. The major functions currently performed by this office are either being phased out or could be performed more efficiently by the service oversight centers.

GSA's Fairview Heights office houses the operations branch of the FTS 2000 Billing Management Division. It is staffed with 34 people and cost about \$1.4 million to operate in fiscal year 1991. This office was originally established to handle billing operations for the old FTS; its location was selected for its proximity to the Defense Commercial Communications Office, which provided computers and equipment for the FTS billing system. According to GSA officials, although the Defense Commercial Communications Office provides no computer support for the FTS 2000 program, GSA has retained this office because of its high-quality staff and because the cost of living and wages are lower there than in the metropolitan Washington, D.C., area.

Under FTS 2000, the Fairview Heights office's primary functions are to verify and identify disputes for the remaining FTS bills, manually verify FTS 2000 bills, identify FTS 2000 billing disputes, and review customer service orders.⁶ However, the first two functions will be eliminated in the near future. Billing under the old FTS system has dwindled to a very low level and GSA plans to implement its new billing management system next year, which will automate the billing verification process. GSA has already installed the hardware for the billing management system at Fairview Heights, and plans to connect it to each service oversight center through a network. However, GSA could not justify locating the system there instead of at the service oversight centers.

Another of the office's primary functions—identifying billing disputes—could be handled more efficiently by the service oversight centers because these centers are already performing many related contract-management functions. Until March of this year, the Fairview Heights office handled billing dispute identification while the service oversight centers handled dispute resolution. As a result, staff in both locations had to examine each dispute independently and then work with each other to resolve it. Separation of these functions also required the exchange of voluminous amounts of paperwork between the two sites. In March 1992 GSA transferred the resolution function to Fairview Heights. While this transfer should improve efficiency, GSA could offer no justification for why these functions should not be performed at the service oversight centers.

Finally, the Fairview Heights office's review of customer service orders is redundant. Customer service orders are the means by which agencies order new and expanded telecommunications services under FTS 2000. Agencies submit customer service orders to their respective FTS 2000 vendors, who in turn submit the orders to GSA. All customer service orders, averaging from 2,000 to 5,000 monthly, are then completely reviewed twice—once by the service oversight centers and again by the Fairview Heights office. While the service oversight centers are primarily concerned with reviewing the orders for appropriateness and cost-effectiveness, the Fairview Heights office's primary responsibility is to ensure that the service is priced correctly. The Fairview Heights office also uses some of this information for administrative purposes, such as maintaining a manual log of customer

⁶Although transition to FTS 2000 has been completed, billing disputes that have not been resolved under the old FTS contract remain.

service orders. Clearly, the consolidation of these two reviews at the service oversight centers would improve efficiency.

The deputy associate administrator for network services agreed that this operation is inefficient and is looking at this process to determine which review to eliminate. GSA is also studying whether all customer service orders need to be reviewed, or whether reviewing these orders on a sample basis would be sufficient.

GSA's Processing of Sprint's Billing Is Inefficient

GSA's processing of Sprint's bills also represents an area of inefficiency. Under the FTS 2000 contracts, each vendor is permitted to bill GSA in a different manner. AT&T bills GSA after it has confirmed that an ordered service has been performed and accepted by the customer agency. Sprint, on the other hand, bills much earlier in the process, before GSA has been notified by the customer agency that its ordered service has been accepted. GSA's procedures require bills to be disputed when no corresponding completion or acceptance notice has been received from the customer agency. As a result, many of Sprint's charges are disputed; GSA and vendor staffs have to resolve each of these disputes. From October 1989 through July 1991, GSA handled over \$18 million in disputed charges. Of this amount, over \$14 million was attributable to Sprint. According to the director of the Billing Management Division, the large amount of disputed Sprint charges was due primarily to the way the bills were submitted and processed.

The deputy associate administrator for network services acknowledged the processing of Sprint's bills as a problem and has taken steps to implement new procedures, which should significantly decrease the number of disputed charges. GSA now assumes that a service being billed has been received and accepted unless GSA receives notification from the customer agency indicating that the service has not been accepted. According to the director of the Billing Management Division, GSA does not plan to follow up to ensure that all ordered services have been received. The director informed us that customer agencies are responsible for notifying GSA that ordered services have been received and accepted, but have been lax in fulfilling this requirement. The director indicated, however, that GSA's review of related documentation (such as service orders) and customer agencies' reviews of their invoices should prevent GSA from paying for services that have not been received. GSA plans to address this issue more fully in its ongoing review of its service-acceptance procedures.

Conclusions

Contract requirements define much of GSA's overhead functions, and, for the most part, these functions are necessary adjuncts to management of the FTS 2000 system. GSA, however, has two sets of opportunities to lower its overhead rate. First, some required functions—GSA's direct involvement in customer service and network monitoring activities—appear to largely duplicate vendor-provided services. In addition, GSA's operation of separate service oversight centers appears to create some degree of inefficiency. Changing GSA's role and operations would require modifying the contracts and should not be undertaken without due consideration. We believe, however, that the value provided by these functions, in relation to their cost, is questionable and worthy of such consideration. Second, GSA has opportunities for streamlining operations in trouble handling, billing, and through elimination of the Fairview Heights office. Taking such actions would not only reduce the overhead rate, but would also make GSA's service functions more efficient.

Recommendations

To improve the efficiency of GSA's oversight under the FTS 2000 program, we recommend that the Administrator of General Services

- use the ongoing management review of the FTS 2000 program to reassess current contract requirements—especially in areas such as service oversight center operations, monitoring of network operations, and customer service responsibilities—to determine whether they are still appropriate and worth their associated cost;
- determine whether savings could be achieved by transferring the responsibilities of the THIS contractor to the FTS 2000 vendors;
- eliminate the separate office at Fairview Heights, Illinois, whose functions could be consolidated and performed by the service oversight centers; and
- ensure that GSA obtains adequate documentation to support its payments to the vendors for services received by the customer agencies.

Our review was performed between July 1991 and April 1992, in accordance with generally accepted government auditing standards. As requested, we did not provide a draft of this report to GSA for its review and comment. However, we discussed the information contained in this report with GSA's deputy associate administrator for network services, who agreed with the facts as presented. We have incorporated his comments where appropriate. We did not obtain the views of AT&T or Sprint.

Unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the date of this letter. We will then send copies to interested congressional committees, the Administrator of General Services, and other interested parties. Copies will also be made available to others upon request.

This report was prepared under the direction of Jack L. Brock, Director, Government Information and Financial Management, who can be reached at (202) 512-6406 if you have any questions about this report. Other major contributors are listed in appendix III.

Sincerely yours,



For Ralph V. Carlone
Assistant Comptroller General

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Abbreviations

AT&T	American Telephone and Telegraph Company
FTS	Federal Telecommunications System
GAO	General Accounting Office
GM&A	General Management and Administration
GSA	General Services Administration
IMTEC	Information Management and Technology Division
IT	Information Technology
THIS	Trouble Handling Information System

Objectives, Scope, and Methodology

This report was requested by the Chairman, House Committee on Government Operations, who asked that we assess (1) whether overhead costs attributable to GSA's Office of FTS 2000 could be reduced and (2) whether GSA's oversight of the FTS 2000 program could be streamlined and its processes made more efficient. To accomplish our objectives, we reviewed the relevant sections of the FTS 2000 contracts to determine the responsibilities of GSA, customer agencies, and the FTS 2000 vendors. We interviewed officials at GSA, at selected customer agencies, and the two FTS 2000 vendors to identify the functions actually being performed and the areas that could be streamlined to enhance operations. We did not review the financial transactions of charges made to the FTS 2000 program, or the overhead costs allocated to the program by other GSA offices to determine whether they were appropriate.

We also reviewed documents related to the administration and operation of the FTS 2000 program and GSA's responsibilities in overseeing the two contracts. In addition, we analyzed GSA's work-load studies and Centel Federal Services Corporation's organizational study for the Office of Network Services. We also analyzed the existing oversight processes to determine whether they could be performed more efficiently.

We performed a comparative analysis of the roles and functions of the FTS 2000 vendors, GSA, and customer agencies to determine areas in which duplication exists among these parties, and whether certain functions could be eliminated.

We conducted our review at GSA headquarters and selected agencies in Washington, D.C.; GSA Service Oversight Centers in Vienna and Herndon, Virginia; GSA's Billing Management Operations Branch in Fairview Heights, Illinois; and AT&T and Sprint offices in the Washington, D.C., area.

GSA's FTS 2000 Overhead Components

Elements	Description
Operations of the Service Oversight Centers	Recurring costs for space, maintenance, and other services associated with the two service oversight centers.
Support contracts	Payments to contractors for support of the program. Costs include contracts with the MITRE Corporation, Centel Federal Services Corporation, Systems Automation Software, Inc., and US West.
Personnel	Salaries, benefits, travel, and training for staff in the Office of FTS 2000 infrastructure.
Taxes	State, local, and municipal taxes appearing on the FTS 2000 vendors' invoices.
Administrative expenses	Rent for office space in Fairview Heights, equipment, supplies, motor pool, and other common costs, such as postage and local telephone services for the Office of FTS 2000 infrastructure.
Other offices	Offices of the Information Resources Management Service (Controller, Information Resources Procurement, and Telecommunications Services) that provide support to the FTS 2000 program.
General Management and Administration	A portion of GSA's overall general management and administration costs.

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