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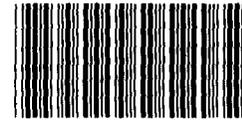
Before the Subcommittee on Treasury,
Postal Service, and General Government
Committee on Appropriations
House of Representatives

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FTS 2000

Status and Mandatory Use

Statement of
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Mr. Chairman and Members of the Subcommittee:

I am pleased to participate in the Subcommittee's hearing on the governmentwide FTS 2000 telecommunications program. As you requested, my testimony today will address the current status of the FTS 2000 program, and whether a mandatory use provision is needed in the 1994 Treasury, Postal Service, and General Government Appropriations Act to ensure compliance.

GSA has lowered FTS 2000 prices over the past year. As a result of GSA's recent recompetition (Price Redetermination/Service Reallocation), FTS 2000 prices are now generally competitive with known commercial prices. Further, GSA has negotiated new mechanisms--PAPCAPs--which should ensure that FTS 2000 rates remain competitive.¹ As for mandatory use, a provision in appropriations language is not necessary to ensure compliance since GSA already has sufficient authority to enforce this requirement.²

BACKGROUND

FTS 2000 is providing voice, data, and video telecommunications services for the federal government through 1998 at an estimated total program cost of \$10 billion to \$12 billion. As stipulated in the original contracts, awarded to American Telephone and Telegraph Co. and U.S. Sprint in 1988, GSA can target up to 40 percent of each vendor's revenue for recompetition at the end of the fourth and seventh years of the contracts. These recompetitions between the incumbent vendors are intended to foster ongoing competition and ensure that FTS 2000 prices are at or below commercial prices.

GSA concluded the first recompetition in September 1992, and announced its decision that each vendor would retain its current share of the projected FTS 2000 revenue. The prices bid by each vendor became effective December 7, 1992. To further ensure that FTS 2000 prices remain competitive with commercial prices, GSA

¹ Publicly Available Price Cap (PAPCAP) agreements are contract modifications, voluntarily agreed to by the two FTS 2000 vendors, that define how and when FTS 2000 price reductions should occur. These reductions are based on periodic comparisons of FTS 2000 prices with publicly available prices.

² The government's policy of mandatory use means that federal agencies must use FTS 2000 services for procurements subject to Section 111 of the Federal Property and Administrative Services Act (40 U.S.C. 759, popularly known as the Brooks Act) unless GSA grants an exception based on its determination that (1) the agency's procurement requirements cannot be satisfied by the FTS 2000 program, and (2) the agency procurement would be cost-effective and would not adversely affect the cost-effectiveness of the FTS 2000 network.

last December negotiated new PAPCAPs with both vendors covering all services. The first comparisons under these new PAPCAPs will be made this month.

A policy of mandatory use has been an integral part of the FTS 2000 program since its inception. This policy was intended to make bidding attractive to potential vendors by providing high levels of government telecommunications traffic. Additionally, it was believed that mandatory use would ensure the economies of scale and scope necessary to provide telecommunications services at prices advantageous to the government. As such, the request for proposals for the FTS 2000 contracts, as well as the contracts themselves, provide for mandatory use. Further, the Administrator of General Services, under his authority granted by the Brooks Act to regulate automated data processing and telecommunications procurements, added a provision to the Federal Information Resources Management Regulation (FIRMR) implementing the government's policy of mandatory use. Finally, Congress has reinforced this policy by including a mandatory use provision in its annual appropriations act since fiscal year 1989.

CURRENT STATUS OF THE FTS 2000 PROGRAM

In September 1991 we reported that FTS 2000 prices were well above commercial prices.¹ In a later report we endorsed GSA's strategy of conducting the recompetition with an end objective of obtaining telecommunications services at rates below that of available commercial services.

In conducting the recompetition, GSA followed a well-defined, appropriate process that resulted in greatly reduced prices which, according to GSA, will save the government an estimated \$450 million over the final 6 years of the contracts when compared with FTS 2000 prices in place before the recompetition. At the time of the recompetition, GSA found that the proposed FTS 2000 prices were generally below commercial prices. We reviewed these commercial cost comparisons and found GSA's methodology and conclusions to be reasonable. One caveat, however, should be noted. GSA could only compare FTS 2000 prices with published tariffs, commercial contracts filed with the Federal Communications Commission, and other government telecommunications contracts. GSA acknowledges that lower prices may be available to very large private users, but information about those contracts is not publicly available.

On March 1, 1993, GSA released a report to the Congress on the cost-effectiveness of the FTS 2000 program, and found that FTS 2000 prices, in aggregate, are still at least as good as the best

¹ FTS 2000: GSA Must Resolve Critical Pricing Issues (GAO/IMTEC-91-79, Sept. 11, 1991).

equivalent commercial prices. However, in a few instances, FTS 2000 prices for certain services were found to be above commercial levels. GSA attributed this condition to the fact that for these services, commercial prices have dropped rapidly during the few months between the recompetition and these latest cost comparisons. GSA also pointed out that the services for which FTS 2000 prices exceed commercial prices account for less than 10 percent of projected FTS 2000 business, and asserted that "there is every reason to believe that the [new] PAPCAPs will be effective in ensuring that FTS 2000 service prices will be kept below the lowest equivalent commercial prices."

As discussed in our recent report, we recognized that price comparisons made after the recompetition but before the first calculation of the new PAPCAPs could reveal some FTS 2000 prices to be above commercial prices.⁴ This is now the case. However, we agree that the new PAPCAPs, if implemented as planned, should correct any current price disparities and ensure that FTS 2000 prices remain competitive with commercial prices in the future.

MANDATORY USE

I would now like to address the question of whether a provision regarding mandatory use of FTS 2000 should be included in the 1994 Treasury, Postal Service, and General Government Appropriations Act.

In February 1992 we reported to this Subcommittee that the government's mandatory use policy should continue to be reinforced by including a provision in the appropriations act for fiscal year 1993.⁵ We believed that attempts to change the appropriations act provision at that time, when the recompetition was ongoing, could have disrupted the process and jeopardized GSA's efforts to obtain favorable prices. Now that the recompetition has been successfully completed and prices have been reduced to commercial levels, the risks associated with not including a provision in future appropriations acts appear to be minimal. GSA already has sufficient legal authority to sustain the government's policy of mandatory use. As a result, we believe that it is unnecessary to include a mandatory use requirement in the 1994 appropriations act.

⁴ FTS 2000: GSA's Price Redetermination Yields a Reasonable Decision and Lower Prices (GAO/IMTEC-93-22, Mar. 4, 1993).

⁵ FTS 2000: Mandatory Use (GAO/IMTEC-92-33R, Feb. 28, 1992).

Mr. Chairman, GSA has obtained competitive FTS 2000 prices. We are continuing to review the program but are now focusing on how the government should best obtain telecommunications services after the current contracts expire. We are evaluating alternative procurement strategies as to their capabilities to provide state-of-the-art, cost-effective, high-quality telecommunications services to the government. We intend to report on these issues within a year.

This concludes my remarks. I will be happy to answer any questions you or other members of the Subcommittee may have at this time.

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