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United States General Accounting Office
Washington, DC 20548

July 27, 2001

The Honorable Tom Davis
Chairman
Subcommittee on Technology and Procurement Policy
Committee on Government Reform
House of Representatives

Subject: *Metropolitan Area Acquisition (MAA) Implementation Issues*

Dear Mr. Chairman:

As you know, the General Services Administration (GSA) initiated its Metropolitan Area Acquisition (MAA) program in 1997 to achieve immediate, substantial, and sustained price reductions for local voice and selected data communications services in selected metropolitan areas. As of June 2001, GSA had awarded 37 MAA contracts for 20 metropolitan areas. The transition from existing GSA contracts to the MAA contracts is still under way.

In your letter of June 27, 2001, you asked that we respond to several follow-up questions pertaining to your Subcommittee's June 13, 2001, oversight hearing regarding the MAA contracts. My responses to your questions follow below.

1: In your testimony, you note that GSA envisioned that these MAA contracts would complement its existing contracts, as well as provide a solution for local service contracts that were expiring. Are there any indications that these local contracts are conflicting with each other rather than complementing each other?

There is an indication or appearance of conflict between the MAA contracts and GSA's existing contracts for local telecommunications services.¹ This conflict stems from terms in existing contracts regarding termination of service; according to some MAA contractors, these terms put them at a competitive disadvantage by reducing the incentive for agencies to move to the MAA contracts. For example, contractual agreements in effect in New York, New Jersey, and Pennsylvania establish a

¹ In addition to the MAA contracts, FTS offers a variety of programs through which agencies can acquire local telecommunications service. For example, the Aggregated System Procurement program consolidates local requirements into an overall system procurement based on the Bell Operating Company boundaries. The Individual System Procurement program serves locations where the aggregated program does not. In addition, regional FTS offices have obtained rate stabilization agreements that allow agencies to acquire local tariffed telecommunications services at short-term discounts.

minimum number of lines that the government agrees to buy. This minimum requirement continues throughout the term of the contract even if agencies transition to the MAA contracts, unless the MAA contractor is an incumbent carrier. Effectively, the result is a termination “penalty,” because the government must either pay prevailing higher tariff rates for the remaining lines, or continue to pay for the minimum number of lines whether it uses them all or not. Another instance of such a disincentive is the Aggregated System Procurement (ASP) contract for Western Zone I, which includes the Dallas-Fort Worth MAA market; this contract includes a specific one-time disconnect charge of \$25.90 per line.

We do not know, however, whether this indication or appearance of conflict is actually responsible for delaying MAA implementation in these regions. We plan to address this issue in our continuing work.

In commenting on a draft of this report, the GSA Federal Technology Service’s Assistant Commissioner for Regional Services stated that the terms of the existing local service contracts reflect the fact that they were negotiated before telecommunications reform. As a result, these terms are less favorable than they would have been if negotiated in today’s more competitive telecommunications environment. While acknowledging that the timing, terms, and conditions of these existing local contracts do create MAA implementation issues, GSA contends that these concerns will be mitigated as those existing contracts expire.

2: You also stated that GSA charges customer agencies two types of fees. What are these two types and what are they for?

GSA’s Federal Technology Service (FTS), which has responsibility for the MAA program, is a self-sustaining organization. As such, it assesses customer agencies two types of management fees to recover the costs of contract management and administration activities: a contract management fee and a full-service fee. The contract management fee is to cover general program, acquisition, and contract management activities and is applied as a percentage of service cost. The full-service fee covers service ordering, implementation planning and coordination, and billing. The full-service fee is an additional percentage applied to the total of service costs plus the contract management fee.

Those customer agencies that choose the direct-order/direct-billing option available to them under the MAA contracts would pay only the GSA contract management fee. They would not be assessed the full-service fee, because they would shoulder responsibility for billing and ordering themselves, rather than obtaining those support services from GSA.

3: The management fees that GSA charges range in total from about 28 to over 80 percent. Based on your work to date, what is your view on these rates?

Our view is that GSA should be disclosing the rates it is charging customer agencies for its management services. As I stated in my testimony, the MAA contracts

presently require contractors to embed the GSA fees in the service pricing that they disclose to agencies during marketing activities, as well as on the invoices submitted for payment of services. As a result, agencies do not have complete information to help them determine whether using GSA's services is their most economical option. For example, an agency in St. Louis could lower its local MAA service costs by almost 18 percent if it assumed additional service ordering, billing, and administration responsibilities and their associated cost. However, lacking full information on these fees, agencies cannot readily determine whether it is more economical for them to procure their own local services, to procure services through GSA but perform management support activities themselves, or to procure services through GSA and pay GSA for support.

During the course of our continuing work on MAA contract implementation, we will more thoroughly evaluate the management fees that GSA is collecting on these contracts, as well as the support that GSA provides in exchange.

4: Based on your work to date, do you have any advice on how MAA contract implementation could be improved?

Yes, based on our work to date, there is one immediate step that GSA could take to improve MAA contract implementation in New York. As discussed in my testimony, our work on the New York MAA indicated that AT&T and GSA had different perspectives on such issues as vendor marketing and the time frames for completing transition requirements. Given the complexity and newness of this particular implementation effort, some of these differences are understandable. However, this situation also warrants an increased quantity and quality of communication between these two parties. In commenting on a draft of this report, the Assistant Commissioner for Regional Services stated that GSA has scheduled vice president-level meetings with the MAA contractors in order to improve communication and resolve related issues.

Our review of the MAA program is continuing. We may offer additional suggestions to improve MAA program implementation in our final report.

5: Both Qwest and WinStar suggest that GSA provide better information to agencies and vendors on transition. In your view, is there a benefit to publishing a monthly report card or other transition report in order to push both FTS regional offices and federal agencies to transition?

In our view, the reporting of MAA implementation progress to agencies and to contractors by GSA would be a useful management tool. According to the Project Management Institute, performance reporting is a valuable element of project management; these reports should cover such matters as status or percentage completion in relation to schedules, what is completed versus what is in progress,

and the forecasting of future status and progress.² The recommendations made to you during the hearing by both Qwest and WinStar reiterate this point.

For its FTS2001 transition, GSA did post this type of information on its Web site, contained in transition bulletins and status reports. While GSA also posts MAA program information, the MAA Web pages do not contain information on transition or implementation progress. Although several factors are influencing the actual pace of MAA implementation, as a general management practice we would view regular MAA status reporting to all program stakeholders as a positive step by GSA. According to the FTS Assistant Commissioner for Regional Services, GSA is now looking at how to make MAA implementation status information publicly available.

In addition to the questions set forth in your letter of June 27, 2001, I was also asked by Congressman Horn during the hearing to determine whether GAO obtains its local telecommunications equipment and services from GSA, and whether we or GSA provides the related computer security. We do not currently obtain local telecommunications services from GSA (with the exception of our office in Boston, Massachusetts). Starting October 1, GAO offices in the Washington, D.C., area will obtain local telecommunications services and equipment from GSA, using its Washington Interagency Telecommunications Services 2001 (WITS2001) contract.

With regard to computer security, we have a computer security unit—the Information Systems Security Unit within the Information Systems and Technology Services organization—that is responsible for information security across the agency. For local telecommunications procured under the WITS2001 contract, GSA does not perform computer security functions for customer agencies such as GAO; however, GSA requires the contractor providing those services and equipment to meet certain security requirements.

In providing the agency's official oral comments on a draft of this letter, the GSA FTS Assistant Commissioner for Regional Services generally concurred with the information presented. We have incorporated GSA's comments where appropriate.

During the course of our work to address the questions posed in your June 27 letter, we reviewed the documentation we prepared in support of our earlier testimony before the Subcommittee. We also met with the GSA FTS Assistant Commissioner for Regional Services and other MAA program management staff. We conducted this work in July 2001 in Washington, D.C., and Fairfax, Virginia, in accordance with generally accepted government auditing standards.

² Established in 1969, the Project Management Institute (PMI®) is a not-for-profit project management professional association, with nearly 80,000 members worldwide. The PMI has published the project management standard, *A Guide to the Project Management Body of Knowledge (PMBOK® Guide)*.

We are sending copies of this correspondence to the Ranking Minority Member, Subcommittee on Technology and Procurement Policy, and interested congressional committees. We are also sending copies to the Administrator of General Services and to the Director, Office of Management and Budget. Copies will be made available to others upon request. The correspondence will also be available on GAO's Web site at <http://www.gao.gov>.

If you have any questions regarding this correspondence, please contact me or Kevin Conway, Assistant Director, at (202) 512-6240 or by e-mail at koontzl@gao.gov or conwayk@gao.gov, respectively.

Sincerely yours,

A handwritten signature in cursive script that reads "Linda D. Koontz".

Linda D. Koontz
Director, Information Management Issues

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