



Testimony

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FTS2001

Contract Transition Delays and Their Impact on Program Goals

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G A O

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Mr. Chairman and Members of the Subcommittee:

Thank you for inviting us to participate in today's hearing on the FTS2001 long distance telecommunications program. As you know, telecommunications services are increasingly critical in transforming the way the federal government conducts business, allowing us to streamline our processes, reduce paperwork and delays, increase efficiency, and improve our interaction with the public. It is therefore important that a far-reaching program like FTS2001 be successfully implemented in order to maximize benefits to the taxpayers.

Although GSA planned to complete the transition from FTS 2000 to the FTS2001 contracts by December 6, 2000, this date was not met. We discuss in our report, released today, several factors that contributed to transition delays.¹ At this point, progress has been made in resolving the problems described, and most remaining transition requirements are scheduled for completion by the end of June 2001. Nevertheless, the collective effect of delays encountered during this complex transition has jeopardized the timely achievement of FTS2001's two program goals: ensuring best service and price to the government and maximizing competition.

My testimony to you this afternoon will address

- the status of the transition from FTS 2000 to FTS2001,
- reasons for delays and the steps taken to eliminate transition impediments,
- the effects of the delays on meeting the FTS2001 program goals, including the effects on maximizing competition, and
- the steps being taken by GSA to address our recommended actions for positioning the FTS2001 program for greater success.

¹ *FTS2001: Transition Challenges Jeopardize Program Goals* (GAO-01-289, March 30, 2001).

Background

Between 1994 and 1997, GSA and the Interagency Management Council (IMC)² cooperated to develop a strategy for FTS2001, the successor to FTS 2000. Unlike its predecessor, FTS2001 is not mandatory. The program is expected to attract and retain customers by providing good services at low prices.

GSA awarded an FTS2001 long distance service contract to Sprint in December 1998 and another to MCI WorldCom in January 1999. Under the terms of these contracts, each contractor is guaranteed minimum revenues of \$750 million over the life of the contracts, which run for 4 base years and have four 1-year options (8 years in all). The federal government began transitioning from FTS 2000 to FTS2001 in June 1999. This transition has been a sizable and complex undertaking, involving a variety of voice, data, and video communications services provided to more than 1.7 million users across the country.

To avoid any service interruptions during the transition, GSA awarded extension contracts in December 1998 to the two FTS 2000 contractors—AT&T and Sprint. These extension contracts had a 12-month base period with two 6-month options. The second options expired on December 6, 2000—the expected completion date for the FTS2001 transition.

Delays lengthened the FTS2001 transition period beyond that original target, however. As a result, in December 2000 GSA negotiated contract modifications with Sprint and AT&T to further extend FTS 2000 services until the transition to FTS2001 is completed. The Sprint contract modification extends its FTS 2000 services for an additional 6 months through June 6, 2001, while the AT&T modification extends that contractor's FTS 2000 services for an additional 12 months, expiring on December 6, 2001.

FTS2001 Strategy and Goals

In consultation with industry and the Congress, IMC and GSA set two goals for the FTS2001 program: to ensure the best service and price for the government and to maximize competition

² IMC, established in 1992, is made up of a senior information resources management official from each of the 14 cabinet-level departments, the Environmental Protection Agency, the National Aeronautics and Space Administration, the U.S. Postal Service, the Office of Management and Budget, and the Small Agency Council.

for services. Part of this program strategy was to move beyond long distance telecommunications services, eventually permitting contractors to offer both local and long distance services. Consistent with this strategy, the FTS2001 program allows further competition in the long distance market beyond the first two FTS2001 contractors. Specifically, Metropolitan Area Acquisition (MAA) contractors, who provide local telecommunications services, may be permitted to compete for FTS2001 long distance business where allowed by law and regulation, after the FTS2001 contracts have been awarded for a year, and if GSA determines that it is in the government's best interests to allow such additional competition.

GSA, however, has been unwilling to allow MAA contractors to offer FTS2001 services until it can be sure that the minimum revenue guarantees to the current FTS2001 contractors are met. The total \$1.5 billion minimum revenue guarantees represent a more substantial portion of FTS2001 program revenues than was originally estimated. When the FTS2001 contracts were awarded, GSA believed that they might be worth more than \$5 billion over an 8-year period. However, a subsequent GSA analysis of FTS2001 savings completed on January 28, 1999, revealed that the contracts' lowest prices could actually result in total contract revenues of only \$2.3 billion over 8 years. Revised program estimates developed in February 2000 affirmed this \$2.3 billion revenue estimate.³

FTS2001 Transition Responsibilities Are Spread Among Participants

Although administered by GSA, the FTS2001 long distance contracts involve several parties sharing responsibility for their transition and implementation. GSA's role in this process is generally to act as a facilitator and furnish assistance, rather than actively managing and directing it, as it had done with FTS 2000. Although GSA did manage transitions for 20 small agencies, most agencies chose to manage their own transitions, taking principal responsibility in conjunction with their service providers. Nevertheless, GSA does retain important program-level responsibilities including FTS2001 program management, contract administration, centralized customer service, coordination and procurement of services, and billing support. GSA also supports agencies with engineering, planning, and performance by reviewing transition plans and monitoring contractor performance.

³ *Telecommunications: GSA's Estimates of FTS2001 Revenues Are Reasonable* (GAO/AIMD-00-123, April 14, 2000).

The IMC also played an important role in managing and overseeing the FTS2001 transition. Specifically recognizing that neither GSA nor the FTS2001 customer agencies could realize the benefits of these new contracts if the transition was hindered or delayed, in October 1999 the IMC chartered a Transition Task Force to

- share information and “lessons learned” among agencies,
- identify and resolve common transition problems, and
- advise GSA regarding transition management and contractual issues.

In so doing, the IMC Transition Task Force held monthly meetings with FTS2001 contractor and agency personnel, highlighted transition obstacles of importance to the responsible parties, and helped devise actions to mitigate these obstacles. This Transition Task Force held its final meeting in February 2001.

The FTS2001 Transition Is Behind Schedule

Although the original schedule called for completing the transition to FTS2001 by December 6, 2000, that transition continues today. As of April 11, 2001, the overall FTS2001 transition was about 92 percent complete. The transition of voice services from FTS 2000 to FTS2001 is almost entirely complete, and switched data services (SDS) and dedicated transmission services (DTS) are about 82 and 88 percent complete, respectively.⁴

These final services to be transitioned have become increasingly time-consuming to complete. That is, the number of days on average required to complete a service order increased significantly during the later stages of transition for dedicated transmission and switched data services. For example, orders for dedicated transmission services took more than twice as long to complete by January 2001 than they did in August 2000. Although the increase in time to provision switched data services was less substantial, completing these orders also took significantly longer: switched data service orders completed in August 2000 took about 108 days to complete; by January 2001, the time required to provision those services rose to 158 days.

⁴ Switched data services are primarily large agency data communications networks using frame relay or ATM (asynchronous transfer mode) technologies.

Schedules developed by the contractors earlier this month indicate that Sprint now expects to complete most of its transition requirements by June 30, 2001. Sprint's schedule indicates nine Sprint requirements for which completion dates have not yet been determined, however. WorldCom also expects to substantially complete its FTS2001 transition service orders during June 2001, with a switched data services requirement for the Social Security Administration scheduled for completion in August, and orders for dedicated transmission service placed by FAA scheduled for completion in October 2001.

Several Factors Contributed to Transition Delays

The FTS2001 transition delays occurred for several reasons, which involve all the key players in the program, including GSA, federal agencies, FTS2001 contractors, and local exchange carriers:

- First, while GSA developed an automated system to track transition progress, the FTS2001 contractors did not provide GSA with the necessary management data so that the system could be used to accurately measure and effectively manage this complex transition.
- Second, the inability of GSA and the long distance contractors to rapidly add transition-critical services to the FTS2001 contracts impeded agency efforts to order FTS2001 services.
- Third, FTS2001 customer agencies were slow to place orders for transition services, due in part to Year 2000 computing concerns and in part to a lack of staff resources dedicated to managing their transition efforts. In particular, only about half of the service orders required to transition switched data services were submitted by last June.
- Fourth, problems with staffing shortages and turnover, billing, and procedures impaired the efforts of FTS2001 contractors to support agencies' transition activities.
- Fifth, some local service providers outside the FTS2001 program did not provide services and facilities as scheduled that were needed to deliver FTS2001 services to discrete locations.

Among these factors, three problems require GSA's continued attention: the availability of transition information; the timely completion of transition-related contract modifications; and the resolution of billing problems. I would like to focus on these three problems.

To maintain the information needed to manage this complex transition, GSA acquired an automated transition management system, the Transition Status and Monitoring System, for use by GSA and agency transition managers. This system was intended to automatically generate

transition status reports by agency and location that tracked data regarding completed and missed transitions, who was at fault and why, the cost of missed transitions, and other relevant management information and statistics.

This system could not be used as planned, however, because GSA could not obtain usable and complete transition management information from the contractors to populate the system. For example, although Sprint had completed 37 agency transition plans by January 2000, its transition database at that time contained information on only two agencies, making it impossible for GSA to verify transition status information. GSA had similar problems obtaining a transition database containing usable and complete information from WorldCom. These shortcomings reduced the effectiveness of transition management by GSA and affected agencies, and despite workarounds, they added to the cost of transition.

GSA did receive more complete transition databases from WorldCom and Sprint in December 2000. Following its review of those deliverables, GSA formally accepted the WorldCom database in late December 2000, and GSA is currently working to import these data to its transition management system. GSA has not yet accepted Sprint's transition database.

Although most of the transition effort has now been completed, this management information—required by contract—is still important to managers at GSA and at the agencies. Complete, up-to-date information will provide an accurate and reliable baseline inventory for use in on-going telecommunications planning activities and in future acquisition planning and implementation efforts.

The second area that continues to require GSA's attention is the timely completion of contract modifications to add transition-critical services to the FTS2001 contracts. Because the FTS2001 contracts did not initially contain all the services required, GSA has had to process numerous FTS2001 contract modifications to add services required by agencies for completing their transitions.

Beginning last August, at the request of the IMC Transition Task Force, GSA prioritized the processing of transition-related contract modifications and by the middle of this month had completed processing almost all such modifications. GSA and WorldCom have also used workarounds to minimize the effect of delays: for example, by allowing managed network services on a trial basis while the associated contract modifications are developed and processed. GSA has completed all but one transition-related contract modification with Sprint,

and all but three additional transition-related modifications with WorldCom. GSA expected to complete all remaining transition-related contract modifications by April 25, 2001.

The third ongoing problem area is billing. A lack of accurate, current billing information and improper billing of services have forced agencies to take resources available for the FTS2001 transition and redirect them toward solving these problems. In some instances, FTS2001 contractors have billed agencies at higher commercial rates; such incorrect bills have sometimes resulted in collection actions against agencies, and in a few cases services were erroneously disconnected for nonpayment.

These billing problems occurred in part because GSA did not ensure that the FTS2001 contractors met all billing requirements at the outset of transition. For example, WorldCom was required to have a contract-compliant service ordering and billing system in place before services were ordered, but that requirement was waived in order to permit WorldCom to accept and process transition orders. Formal acceptance was completed in April 2001.

Transition Delays Jeopardize Timely Achievement of FTS2001 Goals

FTS2001 transition delays have three important effects on the program goals of ensuring the best service and price for the government and maximizing competition.

- Delays increase the costs of services.
- The government cannot ensure that service meets expectations, because performance requirements are waived until the transition is complete.
- Delays slow the accumulation of revenues needed to meet the minimums guaranteed to the current contractors, so GSA has deferred adding more contractors and thus promoting further competition.

Transition Delays Caused Telecommunications Costs to Rise

Those agencies that did not complete their transition from FTS 2000 to FTS2001 by December 2000 saw their telecommunications costs increase for several reasons:

- Sprint temporarily offered discounts under its FTS 2000 extension contract; after those discounts expired on September 30, 2000, the cost to agencies for those services increased by about 20 to 25 percent.
- Similarly, AT&T offered discounts of 20 to 65 percent under its FTS 2000 extension contract; however, these discounts were discontinued in the December 2000 contract modification that further extends those FTS 2000 services.
- Sprint and AT&T have also reinstated volume-sensitive pricing for select services, which reduces per-unit service costs as the volume of services purchased increases. As a result, as the transition approaches completion and the volume of FTS 2000 services declines, the unit price for these services increases.⁵
- The December 2000 extension contract modification also required a one-time payment to AT&T of \$8 million. To cover this payment, GSA temporarily assessed a 20 percent surcharge against agencies' monthly FTS 2000 bills. After January 2001, GSA suspended that surcharge, having collected the \$8 million.⁶

Performance Requirements Are Deferred Until Transition Is Complete

Because some performance requirements are waived until after the FTS2001 transition, the government cannot hold the FTS2001 contractors fully accountable for performance shortcomings. These performance requirements include such things as the timeliness of service delivery, the availability of services, the quality or grade of service, and the restoration of failed or degraded service. As a result, transition delays not only increase the price the government pays for telecommunications services during the protracted transition period, they also hinder the government's ability to hold the FTS2001 contractors accountable for timely and effective service delivery. Thus, the government will not be able to ensure that it gets the best service until the transition is complete.

⁵ For example, once calling volume declines to less than 50 million minutes, the cost of a telephone call placed with AT&T increases by more than 77 percent, to almost 10 cents per minute. However, this estimate includes only transport cost, not access cost, because access cost is sensitive to a particular location. Access costs may range from a low of 5.7 cents per minute for a volume of 2,000,000 minutes, rising gradually to 17.2 cents per minute for 6,000 minutes of volume, then rising sharply to more than \$1 per minute for only 1,000 minutes of volume.

⁶ Although it had planned to assess the surcharge on FTS 2000 bills through June 6, 2001, FTS 2000 revenues were sufficiently high in December 2000 and in January 2001 that GSA was able to recoup the \$8 million in those 2 months alone.

Transition Delays Hamper Efforts to Add Competition

Before opening the FTS2001 program to further competition (and enabling customer agencies to reap the potential benefits), GSA needs assurance that it can meet the FTS2001 contracts' minimum revenue guarantees. These guarantees, totaling \$1.5 billion, represent about 65 percent of an estimated total revenue value of \$2.3 billion over 8 years. By slowing the accumulation of FTS2001 revenues, transition delays add to the challenge of promptly meeting these revenue guarantees, because some proportion of the money spent on telecommunications is still going to the old FTS 2000 contracts rather than to the new contracts.

FTS 2000 expenditures are diminishing as the transition continues, but are still a considerable amount. As recently as February 2001, for example, agencies spent almost \$32.5 million for one month of FTS 2000 services—in spite of the fact that GSA was reporting the overall FTS2001 transition to be about 90 percent complete by that time. Of that sum, over \$7.5 million went to Sprint; because those revenues were for FTS 2000 services, however, they did not count toward Sprint's FTS2001 revenue guarantee. From the start of the FTS2001 transition in June 1999 through February 2001, Sprint has received almost \$369 million in revenue from FTS—60 percent of it for services billed under its FTS 2000 extension contract. These FTS 2000 extension revenues (over \$221 million) do not reduce the government's minimum revenue commitments to Sprint under the FTS2001 contract.

The information available on FTS2001 revenues to date paints a mixed picture of progress in ensuring timely satisfaction of the contracts' minimum revenue guarantees. GSA's report on FTS2001 revenues through February 2001 indicates that Sprint has accumulated about \$147.1 million in revenues, while WorldCom has accumulated about \$301.9 million against its guarantee, as shown in table 1.

Table 1: FTS Revenues Through February 2001 Compared to Guaranteed Minimums

Contractor	FTS2001 revenues (in millions)			Percentage of guarantee met
	To date	Guaranteed	Difference	
Sprint	\$147.05	\$750	\$602.95	20%
WorldCom	\$301.88	\$750	\$448.12	40%
Total	\$448.93	\$1500	\$1051.07	30%

Source: GSA.

In managing the minimum revenue guarantees, GSA must cope not only with transition delay, but also with transition deferral and the loss of program customers. The FTS2001 revenue estimates

of \$2.3 billion were based on projections of the number of federal customers who planned to transfer their FTS 2000 services to the FTS2001 contracts. However, because the FTS2001 contracts are not mandatory and in some cases because of transition difficulties, some agencies changed their transition plans. As of April 2001, some 16 departments or agencies that had been using FTS2000 for their services had decided to use alternative suppliers for all or part of their services rather than transition them to FTS 2001; GSA values these services at about \$77 million annually.

Two factors could mitigate the constraining effect posed by the FTS2001 contracts' minimum revenue guarantees. The first of these is unforeseen growth in demand for FTS2001 services. For example, a revised revenue estimate prepared in September 2000 for GSA by Mitretek Systems indicated that the program was experiencing unforeseen growth in demand for switched data communications services and higher speed dedicated transmission services; this demand could potentially add more than \$250 million over the life of the contracts.

A second factor is the potential participation of the FTS2001 contractors in the MAA program once GSA permits those contractors to cross over to those contracts. As I indicated earlier, just as MAA contractors might be allowed to offer FTS2001 long distance services, so too will FTS2001 contractors be permitted to cross over into the local MAA markets. For instance, in December 2000, GSA opened the MAA markets in New York, Chicago, and San Francisco to additional MAA and FTS2001 contractors. Should an FTS2001 contractor pursue and receive permission to cross over, any revenues earned would accrue against its FTS2001 revenue commitment. According to GSA FTS officials, WorldCom had expressed interest in pursuing MAA opportunities, although it has not yet submitted proposals to offer services in those initial MAA markets.

If the transition can be rapidly completed, if there is no additional loss of customers from the program, and if there is continued growth in service demand beyond that originally forecast, FTS2001 will be in a better position to meet the minimum revenue guarantees, which will give GSA greater latitude to increase competition by adding contractors.

Next Steps

In our report, we make several recommendations to the Administrator of General Services concerning actions that should be taken to address the outstanding issues impeding transition, and to better position the program to fully achieve its basic goals of ensuring the best service and

maximizing competition. GSA managers agreed to implement all these recommendations, and have already begun taking these next steps:

- To enable more accurate tracking of FTS2001 transition progress and improve telecommunications planning, GSA has received transition management information from WorldCom and is also working with Sprint to obtain acceptable information. Further, GSA is determining how to incorporate measures into its FTS2001 transition reports that reflect the final step in the transition process, which is the issuance and completion of disconnect orders required to turn off FTS 2000 services. This is an important factor in ensuring the timely and orderly close-out of FTS2000 services.
- To ensure the prompt availability of all services needed by agencies to complete their transitions to FTS2001, GSA expects to complete the remaining five transition-related contract modifications with Sprint and with WorldCom by the end of this month.
- To promptly identify and resolve remaining billing issues, GSA has completed its testing and formal acceptance of WorldCom's service ordering and billing system, and GSA's billing issues team has cataloged billing problems and developed an action plan for resolving outstanding billing issues.
- Finally, in light of the contractors' failure to meet management information and billing requirements within contractual time frames, GSA has plans underway to obtain consideration as appropriate for failures that have ensued.

Completing these steps will be important to completing the transition and realizing the program's objective of increasing competition. The process of planning and managing future telecommunications service acquisitions—both by GSA and by the agencies themselves—will benefit from an accurate and robust inventory of current telecommunications services. Further, the value of this critical program to customer agencies will be improved through the application of lessons learned in streamlining and prioritizing the contract modification process, in effectively and expeditiously resolving billing problems, and in holding contractors accountable for meeting agency requirements in a timely manner.

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Mr. Chairman, that concludes my statement. At this time I would be happy to respond to any questions that you or other members of the Subcommittee may have.