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Report to the Chairman, Subcommittee on Technology and Procurement Policy, Committee on Government Reform, House of Representatives

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TELECOMMUNICATIONS

GSA Action Needed to Realize Benefits of Metropolitan Area Acquisition Program

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Supplementary Notes

Abstract
As you know, the Metropolitan Area Acquisition (MAA) program provides local telecommunications services to federal agencies in selected metropolitan areas. The MAA program manager, the General Services Administration (GSA), initiated the program in 1997 to achieve immediate, substantial, and sustained price reductions for local telecommunications for agencies, to expand their choices of high-quality services, and to encourage cross-agency sharing of resources. Further, service providers that are awarded contracts under the MAA program are allowed to compete for GSAs FTS2001 long distance service contracts, so that federal agencies may potentially acquire end-to-end local and long distance telecommunications services from one source.

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Highlights

TELECOMMUNICATIONS
GSA Action Needed to Realize Benefits of Metropolitan Area Acquisition Program

Highlights of GAO-02-325, a report to the Chairman, Subcommittee on Technology and Procurement Policy, Committee on Government Reform, House of Representatives.

Why GAO Did This Study

The Metropolitan Area Acquisition (MAA) program, managed by the General Services Administration (GSA), provides local telecommunications services to government agencies in selected metropolitan areas. Under this nonmandatory program, local telecommunications services are to be transitioned from existing service providers to MAA contractors within 9 months after contractors are given notice to proceed. GAO was asked to determine, among other things, the status of MAA contract implementation and identify reasons for any delays.

What GAO Recommends

To improve MAA program administration, GSA should develop current, realistic time frames for completing ongoing MAA contract implementations, and it should develop and apply appropriate performance measures to monitor and manage the progress of those implementation efforts.

In written comments on a draft of this report, the administrator of General Services agreed with our recommendations and indicated that GSA was acting to implement them.

What GAO Found

Although MAA contract implementation is progressing, in most metropolitan areas GSA remains behind schedule for completion. Of 19 areas that were to have completed the transition from existing services to MAA services by or before March 1, 2002, 5 have done so. In the remaining areas, implementation progress has been slow. For example, the first three pilot cities—New York, Chicago, and San Francisco—were to have completed implementation by April 2000. As of March 1, 2002, New York had converted 37 percent of users to MAA contracts, Chicago had converted 73 percent, and San Francisco had converted 68 percent. (The table below shows implementation status for the 19 areas, as of March 1, 2002.) Prompt implementation of MAA contracts is central to the major goal of the program: to achieve immediate and sustained price reductions by taking advantage of emerging competition in the newly deregulated telecommunications market. This goal has been met, in that MAA contracts do offer lower rates; however, savings cannot be fully realized until the transition to the new contracts is complete.

This transition has been delayed by a range of challenges facing GSA and the MAA contractors. Some stem from changes in the local telecommunications market as a result of deregulation and are beyond GSA's control (such as disputes concerning ownership and access to cables within buildings). Others include insufficient preparedness on the part of contractors and customers. However, the timely resolution of problems causing delays is hindered in part because GSA has not revised its 9-month goal for transition (even though this time has elapsed in most cases), nor has it devised performance measures for gauging progress. Without realistic time goals and adequate performance measures, GSA is hampered in effectively managing implementation.

Status of MAA Implementation as of March 1, 2002

MAA city	Months since notice to proceed	Percentage complete	MAA city	Months since notice to proceed	Percentage complete
Albuquerque	17	12%	Denver	18	93%
Atlanta	20	11%	Indianapolis	20	93%
Baltimore	20	22%	Los Angeles	20	25%
Boise	12[a]	100%	Miami	20	4%
Boston	18	8%	Minneapolis	12[a]	100%
Buffalo	NA	100%	New Orleans	16	81%
Chicago	32	73%	New York	32	37%
Cincinnati	NA	100%	San Francisco	32	68%
Cleveland	20	78%	St. Louis	10[a]	100%
Dallas	18	22%			

Note: NA indicates that Implementation was complete within 9 months of notice to proceed.

[a] Months from notice to proceed until 100 percent complete.

This is a test for developing highlights for a GAO report. The full report, including GAO's objectives, scope, methodology, and analysis is available at *www.gao.gov/cgi-bin/getrpt?GAO-02-325*. For additional information about the report, contact Linda Koontz (202-512-6240). To provide comments on this test highlights, contact Keith Fultz (202-512-3200) or E-mail *HighlightsTest@gao.gov*.

Contents

Abbreviations

FTS	Federal Technology Service
GSA	General Services Administration
MAA	Metropolitan Area Acquisition

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United States General Accounting Office
Washington, DC 20548

April 4, 2002

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

Dear Mr. Chairman:

As you know, the Metropolitan Area Acquisition (MAA) program provides local telecommunications services to federal agencies in selected metropolitan areas. The MAA program manager, the General Services Administration (GSA), initiated the program in 1997 to achieve immediate, substantial, and sustained price reductions for local telecommunications for agencies, to expand their choices of high-quality services, and to encourage cross-agency sharing of resources. Further, service providers that are awarded contracts under the MAA program are allowed to compete for GSA's FTS2001 long distance service contracts, so that federal agencies may potentially acquire end-to-end local and long distance telecommunications services from one source.

On June 13, 2001, we presented testimony on our preliminary work on the status of the MAA program,[1] reporting on three topics: the status of MAA contract implementations, the fees that GSA charges customer agencies for managing and administering MAA contracts, and the steps taken by GSA to enable MAA (local) and FTS2001 (long distance) contractors to cross over between these programs and competitively offer both types of services. Following our testimony, we agreed to pursue three objectives in our continuing evaluation of the program:

- to determine the status of MAA contract implementation and identify the reasons for delays encountered,
- to document the fees that GSA charges customer agencies for managing and administering the MAA contracts and determine the extent to which those fees are transparent to customer agencies, and

[1] U.S. General Accounting Office, *Telecommunications: Metropolitan Area Acquisition Program Implementation and Management*, GAO-01-798T (Washington, D.C.: June 13, 2001).

- to identify the steps that GSA is taking to enable the MAA and FTS2001 contractors to cross over between these sets of contracts and offer both local and long distance services.

This report is based on our June 2001 testimony and on further work we have performed since then. Appendix I contains a detailed discussion of our objectives, scope, and methodology. We conducted our work from April 2001 through March 2002 in accordance with generally accepted government auditing standards.

Results in Brief

Although MAA contract implementation continues to progress, in most metropolitan areas GSA remains behind schedule for completion. Of 19 metropolitan areas that were to have completed the transition from existing services to MAA services by or before March 1, 2002, 5 have done so. In the remaining metropolitan areas, implementation progress has been slow. For example, the first three MAA pilot cities—New York, Chicago, and San Francisco—were to have completed implementation by April 2000. As of March 2002, New York had converted 37 percent of users to MAA contracts, Chicago had converted 73 percent, and San Francisco had converted 68 percent.

Implementation of the MAA contracts has been delayed by several significant challenges that have faced GSA and MAA contractors. Although the program was initiated by GSA to take advantage of emerging competition in the local telecommunications market, some of the sizable implementation challenges—access and use of building riser cabling,[2] the transfer of local numbers between service providers, and the financial difficulties of an MAA contractor—have their roots in this newly competitive environment. Delays have also arisen from challenges unrelated to the new market environment, including the charges associated with service initiation and equipment replacements, as well as a lack of contractor and customer preparedness. By delaying contract implementation, these challenges in turn postpone the realization of savings that could accrue from the MAA contracts, which can offer significantly lower costs to agencies.

[2] A riser cable carries telecommunications services from the network demarcation point to distribution facilities within a building. The network demarcation point, which is typically in the basement of a building, is the point of interconnection between the local exchange carrier's facilities and the wiring and equipment at the end user's facilities.

GSA has taken some positive measures to improve contract administration and implementation. For example, actions taken to improve GSA's personnel and processes in Chicago and to overcome contractor performance problems in Los Angeles and San Francisco have improved implementation progress in those cities. Nevertheless, the timely resolution of problems causing delays is hindered in part because GSA has not established current completion schedules and performance measures for its MAA contracts. Specifically, although its 9-month goal for implementing existing contracts has passed in most cases, GSA has not revised its targets for completing these implementations, nor has it established performance measures for monitoring their completion. Without revised time frames and appropriate performance measures, GSA managers have no baseline against which to monitor and more effectively manage the progress of specific MAA implementation efforts.

To support its MAA contract management services, GSA charges customer agencies fees that currently range in total from about 9 to 97 percent or from $1.20 to $8.49 per line per month (depending on the specific metropolitan area); these percentages are in addition to the cost of the contract services. Agencies can avoid one type of fee, the "full-service fee" for ordering and billing services, if they choose to perform these functions themselves. However, because GSA does not disclose its management fees unless specifically requested by customer agencies, these customers do not necessarily have complete information to help them determine whether using GSA's full range of services is their most cost-effective approach to these contracts.

GSA has taken action in the past 17 months to allow MAA and FTS2001 contractors to offer services in both the local and long distance markets, a process termed "crossover." In December 2000, GSA opened the contracts in the first three MAA cities to crossover from eligible MAA and FTS2001 contractors. In August 2001, GSA opened its FTS2001 contracts to crossover by MAA contractors, as envisioned in the 1997 strategy. As of March 1, 2002, GSA had opened all of its eligible MAA cities to crossover.

To address the shortcomings we identified and to improve program administration, we are making recommendations to GSA to establish current, realistic contract implementation time frames and to make management fees and the services they cover transparent to customer agencies.

In written comments on a draft of this report, the administrator of General Services agreed with our recommendations and said that GSA was acting to implement them.

Background

GSA began planning the MAA program just a few months after passage of the Telecommunications Act of 1996, which was intended to increase competition and reduce regulations in the telecommunications industry. The MAA program sought to take advantage of emerging competition in the local services market; the program focused on the largest cities in the country, whose population density would be likely to draw competitors into their markets. GSA recognized that this emerging competition would create an opportunity for the government to gain an immediate price reduction in local telecommunications services. Further, it envisioned the MAA contracts as a complement to existing contracts in metropolitan areas, as well as a solution for local service contracts that were expiring.

The MAA program is a set of contracts offering local voice and selected data telecommunications services. Each contract is a fixed-price, indefinite-delivery, indefinite-quantity contract with a base term of 4 years (48 months) from date of award, with four successive 1-year options. The contracts state that all initial service locations identified in these contracts are to be transitioned to the MAA contracts within 9 months after GSA gives “notice to proceed,” which is an authorization for the contractor to begin implementation.

As indicated in table 1, the initial stage of the MAA program (phase I) consisted of pilot acquisitions in the New York, Chicago, and San Francisco metropolitan areas in May 1999. Encouraged by substantially lower prices in these three pilot cities, GSA expanded the MAA program to other metropolitan areas throughout the country and awarded contracts in 17 additional cities (phase II) between February 2000 and February 2001. In its latest series of MAA acquisitions (phase III), GSA recently awarded contracts in three cities (San Antonio in August 2001, Detroit in November 2001, and Norfolk in January 2002), and contracts are planned to be awarded soon in two additional cities (Salt Lake City and Seattle). GSA estimates that the federal government could save about $1.1 billion over the 8-year life of the 37 phase I and phase II MAA contracts awarded to date.[3]

Table 1. MAA Contracts Awarded as of January 9, 2002

Metro area	Award date	Estimated savings (millions of dollars)	Contractor(s)
Phase I (pilot)			
New York	20 May 1999	$150.0	AT&T
Chicago	20 May 1999	75.0	AT&T
San Francisco	20 May 1999	32.0	AT&T
Phase II			
Buffalo	24 Feb. 2000	6.4	AT&T Verizon
Cincinnati	23 Mar. 2000	36.6	Winstar
Cleveland	24 Mar. 2000	20.0	Ameritech (SBC) AT&T
Los Angeles	24 Mar. 2000	47.0	Pacific Bell (SBC) Winstar
Baltimore	28 Mar. 2000	44.0	Winstar
Atlanta	26 Apr. 2000	174.0	Bell South Winstar
Miami	26 Apr. 2000	44.0	Bell South Winstar
Indianapolis	27 Apr. 2000	51.0	AT&T SBC Global Winstar
St. Louis	27 Apr. 2000	36.0	Southwestern Bell (SBC) Winstar
Minneapolis	31 May 2000	13.0	Qwest Winstar
Dallas	30 June 2000	128.0	AT&T Southwestern Bell (SBC) Winstar
Denver	12 July 2000	68.0	AT&T Qwest Winstar
Boston	31 July 2000	78.0	AT&T Southwestern Bell (SBC) Verizon Winstar
Albuquerque	31 Aug. 2000	19.0	Qwest
Boise	31 Aug. 2000	6.5	Qwest

[3] GSA based these savings estimates on the difference between current service prices in effect for each of the first 20 MAA cities and the total amount of the lowest offeror's prices for a given city. For the phase III cities, GSA did not estimate total savings.

Metro area	Award date	Estimated savings (millions of dollars)	Contractor(s)
New Orleans	16 Oct. 2000	11.0	Bell South
Philadelphia	27 Feb. 2001	66.0	AT&T Winstar
Phase III			
San Antonio	13 Aug. 2001	[a]	Southwestern Bell Winstar
Detroit	19 Nov. 2001	[a]	Southwestern Bell Winstar
Norfolk	9 Jan. 2002	[a]	Verizon

[a]According to GSA, it no longer reports estimated savings for MAA awarded cities because of difficulties forecasting for nonmandatory contracts.

Source: GSA Federal Technology Service.

Federal agencies are not required to use the MAA contracts. Depending on their specific requirements, federal agencies may use the telecommunications services provided through a GSA regional telecommunications services program[4] (using either the MAA contracts or one of GSA's other local services contracts or agreements), or they may acquire and manage their own local telecommunications services and the associated equipment.

GSA's Federal Technology Service (FTS) has responsibility for the MAA program. FTS headquarters is responsible for planning and program management, while GSA's field offices implement and administer the MAA contracts. As a self-sustaining organization, GSA assesses customer agencies two types of management fees to finance its activities: a contract management fee and a full-service fee. The contract management fee is intended to recoup the cost of general program, acquisition, and contract management activities and is applied as a percentage of service cost. In addition to the contract management fee, the full-service fee is an optional fee charged to those agencies that use GSA staff to support MAA service ordering, implementation planning and coordination, and billing. It also is applied as a percentage of the cost of contract service.

[4] FTS offers a variety of programs through which agencies can acquire local telecommunications service. For example, the Aggregated System Procurement Program consolidated local requirements into an overall system procurement based on the Bell Operating Company boundaries. The Individual System Procurement Program serves locations that the aggregated program does not. In addition, regional FTS offices have also obtained Rate Stabilization Agreements that allow agencies to acquire local tariffed telecommunications services at short-term discounts.

Although the MAA program focuses on local services, it also has implications for increased competition in both the local services and the long distance markets. Part of the overall FTS program strategy, developed in 1997 in consultation with industry and the Congress, was to eventually permit contractors to offer both local and long distance services through three types of crossover: between the local MAA contracts; from local MAA contracts to the long distance FTS2001 contracts; and from the FTS2001 contracts to the local MAA contracts. This crossover was envisioned to yield two important benefits: first, ensuring the government the opportunity to receive the best contract price and service for local and long distance services, and second, maximizing competition for those services in both markets. Crossover was not intended to go into effect immediately: both the MAA and the FTS2001 contracts had to be in effect for 1 year, known as the forbearance period, before they could be modified to permit crossover. Furthermore, GSA delayed allowing MAA contractors to offer FTS2001 services until it could be sure that the minimum revenue guarantees to the current FTS2001 contractors would be met.[5]

MAA Implementation Is Progressing but Is Behind Schedule

Although MAA contract implementations continue to progress, in most metropolitan areas GSA remains behind schedule for completing these efforts. Specifically, of 19 metropolitan areas that were to have completed the transition from existing services to MAA services by or before March 1, 2002, 5 have done so. GSA had planned to complete the transition of 100 percent of its customer base in all 20 phase I and phase II MAA cities by the end of March 2002. GSA is unlikely to meet this March deadline, however, because as of March 1, 2002, the MAA program was providing service to about 52 percent of potential MAA users, so that about 77,000 potential customers are not yet transitioned.[6]

[5] Each FTS2001 contractor is guaranteed minimum revenues of $750 million over the life of the FTS2001 contract. The implications of these revenue guarantees on GSA's decision to allow other service providers to compete in the FTS2001 market were addressed in a previous report: U.S. General Accounting Office, *Telecommunications: GSA's Estimates of FTS2001 Revenues Are Reasonable*, GAO/AIMD-00-123 (Washington, D.C.: April 2000).

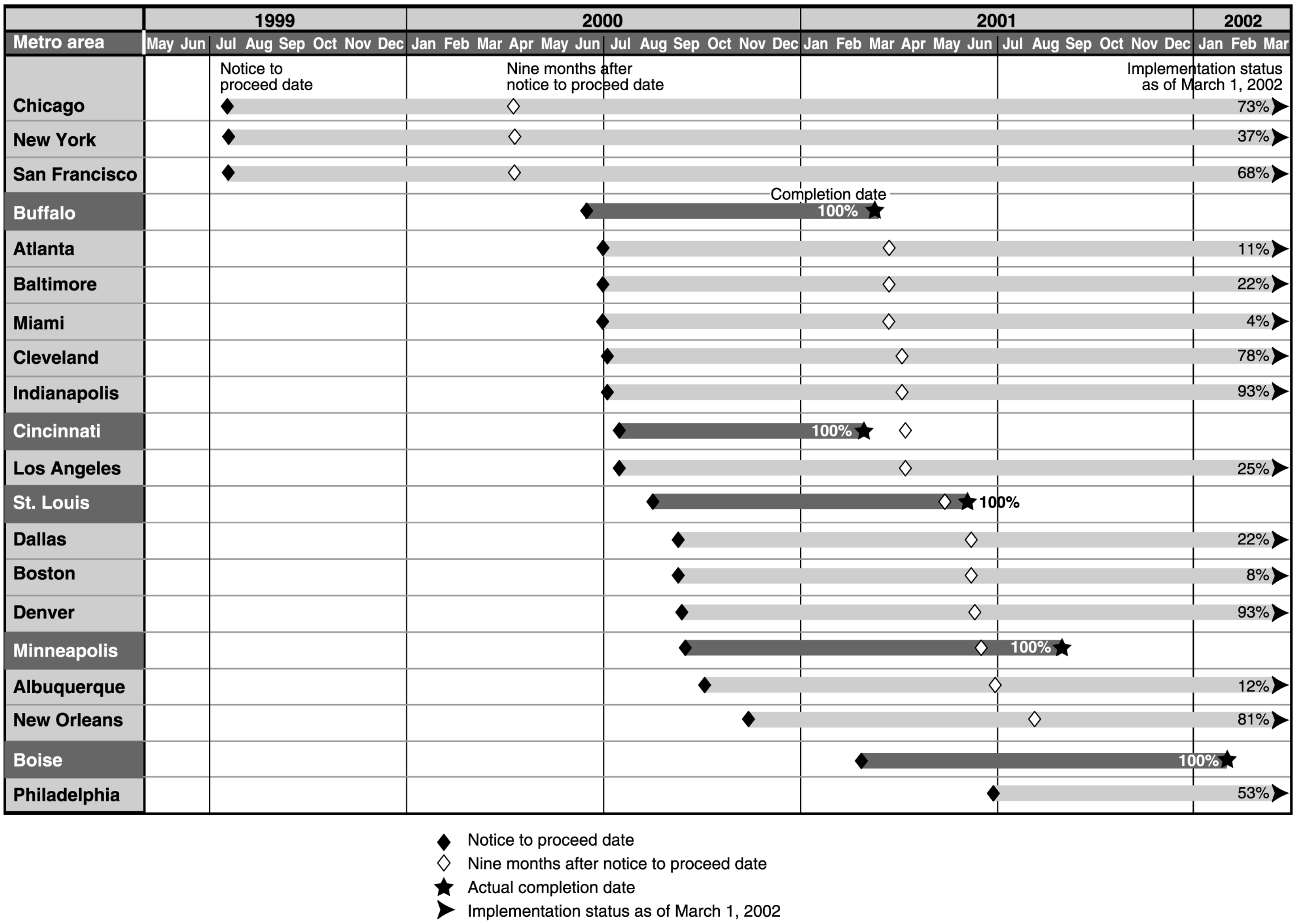
[6] The figure for currently serviced users is based on the number of users converted to MAA contracts as of March 1, 2002 (84,409), compared to the total number of potential MAA users identified by GSA (161,582), as recorded by GSA's MAA management reporting system.

Reasons for delays vary. Although GSA initiated its MAA program to take advantage of emerging competition in the local telecommunications market, some sizable implementation challenges arose directly from this new environment. Challenges unrelated to the market environment have also noticeably delayed contract implementation: for example, the customer charges associated with service initiation and equipment replacements, as well as a lack of contractor and customer preparedness. Although it has taken some steps to move the implementation efforts forward, GSA has not established current, realistic time frames for completing ongoing MAA implementations, nor has it established performance measures for monitoring implementation. These gaps inhibit its ability to expeditiously resolve transition impediments. As a result, federal agencies in many locations are not realizing the potential cost savings offered by the MAA program.

Contract Implementation Has Been Delayed

Although the MAA contracts require the transition of initial service locations to be completed within 9 months after contractors are given notice to proceed, this transition has not been as fast as anticipated. The transition goal was achieved in two metropolitan areas (Buffalo and Cincinnati); three other metropolitan areas (Minneapolis, St. Louis, and Boise) have also completed MAA contract implementation, although not within the 9-month goal. Figure 1 gives the dates that GSA notified the respective contractors to proceed with contract implementation and the implementation status for each awarded city. As shown in figure 1, although the goal for completing MAA contract implementations for the three phase I cities was April 2000, only 68 percent of users in San Francisco, 73 percent of users in Chicago, and 37 percent of users in New York had been converted to MAA contracts by March 1, 2002.

Figure 1: Implementation Status as of March 1, 2002



Note: Complete implementation is indicated by dark progress bars and dark boxes around city names.

Source: GSA Federal Technology Service.

Those cities showing greatest progress with implementation have typically benefited from simpler transition requirements. For example, Denver, Cincinnati, and St. Louis were primarily transitioning private branch exchange trunks,[7] which are relatively few in number, as compared to transitioning individual business lines, which typically involve higher volumes and additional effort. Buffalo, Minneapolis, New Orleans, and Boise placed most of their MAA service orders with the incumbent service providers.

Numerous Causes Contribute to Delays in Implementation

The challenges facing GSA and the MAA contractors have hampered timely completion of the MAA contracts and thus the realization of maximum MAA contract savings. Some of these challenges arose as a result of the newly deregulated local telecommunications market: disputes over MAA contractors' access to and use of building riser cabling, problems in coordinating the transfer of local telephone numbers between service providers, and the financial difficulties of an MAA contractor. For example:

- Although the MAA contractor in New York was authorized to proceed with implementation in July 1999, more than 2 years later that transition effort is only 13 percent complete. Over half the estimated 21,000 lines to be transitioned were affected by a dispute over access to and use of building riser cables. That is, following the AT&T divestiture in 1984,[8] Verizon was permitted to retain ownership rights to substantially all the building riser cabling in the New York metropolitan area. This riser cabling carries telecommunications services from the local exchange carrier's facilities (typically located in the basement of a building) up to the end user's facilities, located on each floor throughout a building. In order for AT&T or another competitive local exchange carrier to provide service to tenants in an affected building, such a carrier must either construct its own cable riser in the building or compensate Verizon for access to and use of the existing riser cable. Clarification of riser cable access and compensation issues was the subject of a New York State Public Service Commission hearing. In June 2001, this commission issued an order allowing competitive local exchange carriers such as AT&T to have direct access to riser cable owned by other carriers. Following that decision, GSA and

[7] A private branch exchange (PBX) is a piece of equipment that acts as an organization's own internal telephone switch, handling internal calls and all the connections to and from the public telephone network.

[8] As a result of an antitrust suit by the U.S. government, in January 1984 AT&T divested itself of the Bell operating companies that provided local exchange service, yielding an AT&T corporation providing long distance services and seven independent regional telephone companies providing local services.

AT&T reached agreement on a contract modification in November 2001 recognizing this added cost; GSA expects this agreement to resolve this long-standing impediment.

- The riser cable access issue is also a transition impediment in Atlanta and Miami, affecting about 85 percent of buildings housing prospective MAA customers in those cities, and about half the total lines to be served. Although this issue first arose in Miami in December 2000, efforts are still pending to resolve the cost issue between GSA and the affected MAA contractor in both cities.
- Our review of program management data in Atlanta, Chicago, and Miami found problems associated with coordinating the transfer of telephone numbers from one local carrier to another. These problems have delayed the MAA contractors' implementations for periods ranging from 3 to 7 weeks.
- In Atlanta and Miami, another implementation impediment has been the financial condition of an MAA contractor.[9] This contractor's bankruptcy filing prompted several customer agencies to postpone their participation in the MAA program and caused one building manager in Miami to deny the contractor building access required to provide service to agencies in that location.

In addition to challenges associated with the recently deregulated local telecommunications market, other difficulties are slowing implementation of MAA contracts: these include the customer charges associated with initiating services and replacing equipment, as well as a lack of contractor and customer preparedness. Because costs can be incurred just to implement the MAA contracts (for example, service initiation charges and the cost of changing or upgrading customer telecommunications equipment), the ability of agencies to accommodate these added costs within their budgets can influence the timing of MAA implementation and in some cases deter agencies from participating. In Boston, for example, these costs have delayed implementation of about half the prospective MAA service lines in that city. Further, according to GSA records, contractors have not been prepared in some cases for implementing services or have had problems with their equipment. These issues have delayed implementations for times ranging from 12 days to 7 months in

[9] In April 2001, Winstar Communications, Inc., voluntarily filed for protection under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the District of Delaware. In December 2001, the IDT Corporation acquired substantially all the operating assets of Winstar Communications pursuant to a sale order by the U.S. Bankruptcy Court. Winstar MAA services continue to be provided to GSA and its customers at this time.

Atlanta, Chicago, Indianapolis, New York, and San Francisco. These records also show that customer preparedness and delays in making MAA decisions have also been factors slowing implementations in Chicago, New York, and San Francisco.

Although some factors hindering implementation progress are beyond GSA's ability to control, its ability to expeditiously resolve impediments and minimize delays has been constrained by two gaps in its program management. First, GSA has not established current time frames for implementing specific MAA contracts. For example, although only 2 out of 19 metropolitan areas that began implementation 9 months ago or more actually met GSA's initial 9-month implementation goal, GSA has not established new time frames that would enable it to manage the timely completion of the remaining efforts. Second, GSA has not established performance measures that would enable its managers to better monitor and measure the completion of specific contract implementation efforts. Without revised time frames for completing these specific contract implementations and without appropriate performance measures, GSA managers have no clear, current, or coherent measurement baseline against which to monitor and more effectively manage the progress of the various MAA implementation efforts.

Without such an established baseline, managers may not take prompt action to resolve impediments before they cause lengthy delays. For example:

- Although the MAA contractor in Albuquerque was authorized to proceed with implementation in October 2000, over a year later only 2 percent of prospective MAA users have been converted. One factor hindering implementation was higher contract pricing for one required service, affecting more than 60 percent of prospective MAA users in Albuquerque. GSA executed a contract modification in August 2001 to improve pricing for this service and enable its implementation to go forward. Prompt understanding of the severity of this impediment could have hastened its resolution.
- A further disagreement between GSA and the Albuquerque MAA contractor, concerning the network demarcation point,[10] first arose in October 2000, stalling progress on an additional 36 percent of the

[10] A network demarcation point is the point of interconnection between the local exchange carrier's facilities and the wiring and equipment at the end user's facilities.

prospective MAA lines in that area. Although agreement on a solution was ostensibly reached by GSA regional staff and the contractors involved in April 2001, it was not until October 2001 that GSA FTS headquarters finally issued a decision that defined network demarcation points and brought the matter to a close. Had the extent of this obstacle been more quickly understood, the problem might have been resolved more rapidly.

The slow completion of contract modifications is not unique to Albuquerque; MAA implementations in Chicago and in Indianapolis have also been held up, pending completion of necessary modifications.

In an effort to improve contract administration and implementation, GSA has revised its aggregate program-level goals. Specifically, GSA has changed its goal of completing the transition of 100 percent of prospective customers in all phase I and phase II MAA cities by March 2002; its new goal is to transition 50 percent of prospective customers by April 2002. GSA believes that this goal is sufficient to manage MAA implementation. GSA is also developing aggregate program-level performance measures and is refining the processes that will be used for tracking and reporting.

Although these are positive steps, they are not a substitute for specific contract implementation time frames and performance measures. Aggregate goals and performance measures are not adequate to manage MAA implementation, because they do not allow managers to readily determine (1) when a specific implementation effort is taking more time than expected, (2) how to measure the loss of potential savings in such cases in order to prioritize and expedite corrective actions, or (3) how many resources and how much time they should devote to overcoming impediments.

Despite this shortcoming, GSA has taken positive measures to improve contract administration and implementation. In Chicago, for example, GSA's implementation efforts had initially been hampered in part by its own turnover in staff, an inadequate approach to managing service order implementations, and poor communications with its MAA contractor. By January 2001, GSA began taking steps to solve its staffing problems and bring order and focus to its regular communications with its contractor, and in June 2001, it implemented a new ordering process for MAA services. Our analysis of GSA management data indicates that after these steps were completed, the pace of MAA implementation improved in Chicago (although some implementation problems remain). In San Francisco and Los Angeles, GSA's managers also took steps to overcome performance problems with the contractors by exercising existing contractual remedies to prompt performance improvement.

GSA's positive steps notwithstanding, the implementation delays that persist lead to increased cost: the loss of the potential savings afforded by the MAA contracts. GSA had estimated that the MAA program could save about $1.1 billion, basing its estimate on the difference between service prices in effect for each of the 20 phase I and phase II MAA cities at the outset of the program and the total amount of the lowest MAA offeror's prices for a given city. However, this estimate did not take into account the time required to implement these contracts. Because savings are not realized until the service is actually implemented, delays in implementing the contracts in turn delay the realization of substantial cost savings and limit what can be realized over the 8-year term of the contracts. For example, we analyzed average monthly line rates for all 20 MAA cities within Phase I and Phase II before and after MAA contract awards, and determined that federal agencies in these cities may be forgoing as much as $1.1 million dollars per month in cost savings for those users not yet transitioned to MAA contracts (approximately 75,000 users[11]).

Management Fees Vary Widely and Are Not Transparent to Customers

The two types of management fees that GSA charges vary widely among the metropolitan areas served. When expressed as a percentage of the contractor's base rate, GSA's full-service fee ranges from a low of 5.5 percent in St. Louis to a high of almost 51 percent in San Francisco.

Table 2 identifies the fees that GSA has set for its MAA contracts. For purposes of comparison, we have also computed a total fee that combines the contract management and full-service fees.

[11] These 75,000 potential users are those in the first 20 MAA awarded cities; the figure of 77,000 potential users, given earlier, represents users in all MAA cities.

Table 2: GSA Local Telecommunications Management Fees for FY 2002 (Sorted by Total Fee Percentage)

	Fees (%)			Fees (in dollars)		
Metro area	Contract management	Full service	Total fee[a]	Contractors' line rate[b]	GSA's total fee[c]	Total line rate[d]
New York	47.27%	50.13%	**97.40%**	$3.85	$3.75	**$7.60**
San Francisco	24.81%	50.95%	**75.76%**	$4.18	$3.17	**$7.35**
Philadelphia	33.00%	30.70%	**63.70%**	$9.33	$5.94	**$15.27**
San Antonio	15.04%	40.26%	**55.30%**	$6.78	$3.75	**$10.53**
Boston	38.12%	15.68%	**53.80%**	$10.97	$5.90	**$16.87**
Baltimore	31.96%	17.11%	**49.07%**	$4.85	$2.38	**$7.23**
Denver	8.25%	40.74%	**48.99%**	$17.33	$8.49	**$25.82**
Albuquerque	14.98%	32.23%	**47.21%**	$15.95	$7.53	**$23.48**
Dallas	17.00%	25.60%	**42.60%**	$10.47	$4.46	**$14.93**
Buffalo	32.93%	8.25%	**41.18%**	$13.09	$5.39	**$18.48**
Miami	28.00%	11.52%	**39.52%**	$10.50	$4.15	**$14.65**
Detroit	30.00%	9.00%	**39.00%**	$12.49	$4.87	**$17.36**
Chicago	11.99%	24.85%	**36.84%**	$3.42	$1.26	**$4.68**
Atlanta	25.98%	8.80%	**34.78%**	$9.20	$3.20	**$12.40**
Boise	5.17%	28.90%	**34.07%**	$15.05	$5.13	**$20.18**
New Orleans	14.03%	19.06%	**33.09%**	$12.33	$4.08	**$16.41**
Los Angeles	13.92%	13.92%	**27.84%**	$7.55	$2.10	**$9.65**
Indianapolis	1.77%	19.40%	**21.17%**	$9.59	$2.03	**$11.62**
St. Louis	9.46%	5.49%	**14.95%**	$13.85	$2.07	**$15.92**
Minneapolis	1.97%	11.26%	**13.23%**	$16.78	$2.22	**$19.00**
Cincinnati	4.27%	8.87%	**13.14%**	$9.13	$1.20	**$10.33**
Cleveland	0.89%	7.78%	**8.67%**	$21.33	$1.85	**$23.18**

Note: Table 2 does not include Norfolk, which GSA recently awarded.

[a] Total fee equals contract management fee plus full-service fee.

[b] GSA computes a monthly weighted average analog line rate for all contractors within a single MAA city.

[c] GSA's total fee equals contractors' line rate times total fee.

[d] Total line rate equals contractors' line rate plus GSA's total fee.

Source for contract management, full-service fee percentages, and weighted average line rate: GSA Federal Technology Service.

Like other federal agencies that provide centralized services, GSA charges these fees to recover the costs of managing the program. For example, the contract management fee is meant to cover GSA's cost to issue the contracts and to resolve contract interpretation issues, disputes, and discrepancies and to issue contract modifications. This fee is also intended to recoup the cost of MAA program management and oversight. The optional full-service fee is meant to cover costs associated with such functions as initiating and executing service orders and monitoring service implementation, monitoring contractor performance, coordinating government-furnished property availability, coordinating site access for contractor personnel, reviewing contractor invoices, and serving as customer point of contact for technical issues.

In this type of service model, making the amounts and purposes of fees transparent to users is appropriate and useful. First, disclosing fee amounts provides user agencies with key input for deciding whether to acquire services from the service provider or from alternative sources. Second, such disclosure helps enable customers to hold the service provider accountable for providing a level of performance commensurate with the fees charged.

Because use of the MAA contracts is not mandatory, agencies can choose to procure local services on their own, if they believe they could do so more economically than going through GSA. In addition, to avoid paying the full-service fee, a customer agency can opt to use the MAA contracts' direct ordering and direct billing option. In so doing, the agency assumes responsibility for its service ordering, implementation planning and coordination, and billing management.

Rather than disclosing to agencies the fees that GSA charges, the MAA contracts require contractors to embed the contract management fee in their service pricing. GSA took this approach to focus agencies' attention on making decisions based on the total cost of obtaining telecommunications services, rather than on the management fee percentage. Its position was that even with the management fees included, the total cost of local telecommunications services under the MAA contracts is dramatically lower than what is available under its other local service contracts.

As shown in table 2, comparing the fees according to percentages provides only a partial picture—it is important to consider also the dollar amounts. For example, the fee that GSA charges to manage and administer MAA contracts in New York is 97 percent in addition to the contractor's monthly line rate. Although this fee appears high when viewed on a percentage basis, it equals $3.75 per line. In contrast, MAA customers in Denver are charged a total management fee of 49 percent (about half New York's total fee percentage); this translates, however, into $8.49 per line—more than double the dollar amount that GSA charges in New York.

Of the 12 MAA customer agencies we met with in Atlanta, Chicago, Dallas, Denver, and New York, none were aware of the actual amounts of the GSA management fees that they were being charged. However, they were all pleased with the bottom-line cost savings that they were receiving by obtaining local telecommunications services through the MAA program.

The total cost of service is an important factor in making decisions on how to buy local services, but specific information on fees would be a further aid to agency decisionmaking. Without such information, an agency in San Francisco, for example, would not be aware that it could lower its local MAA monthly service costs by almost 29 percent or $2.13 per line if it assumed additional service ordering, billing, and administration responsibilities.[12] Lacking full information on these fees, agencies cannot readily compare the cost of GSA services with the costs they would incur if they performed these services themselves. As a result, agencies cannot determine whether it is more economical for them (1) to procure their own local services, (2) to procure services through GSA but perform ordering and billing activities themselves, or (3) to procure services through GSA and pay GSA for support. If customers were aware of both the fees and rates for their city, they would be able to make more informed decisions.

At the subcommittee's June 2001 hearing on MAA contract implementation, we noted that GSA was not disclosing to agencies the fees it charged for MAA-related services. At that hearing, the GSA FTS commissioner disclosed the total percentage of fees GSA was charging. The commissioner further testified that GSA would reveal fees to customer agencies. Since that time, GSA has revised its policy on disclosure of fees, and regional telecommunications directors have been instructed to disclose fees to those customer agencies that request such information. GSA has also drafted a listing of the services that agencies can expect in return for these fees.

This action does not ensure adequate disclosure and transparency of fees for three reasons. First, GSA intends to inform agencies of the fees being charged only if an agency inquires. Second, GSA has not informed its customers of this change in policy. As a result, agencies may be unaware

[12] An agency's total local MAA service cost could include the cost of contractor service, GSA's contract management fee, and GSA's full-service fee. In San Francisco for example, GSA's full-service fee (51 percent as high as the cost of contractor service) would represent 29 percent of an agency's total monthly MAA service cost.

that they can now learn what fees they are being charged by GSA. Third, the listing of services GSA developed to describe what customers receive in return for their fees does not clearly indicate what fees support the cost of which services. For example, GSA's lists of services bought by its full-service fee and those bought by its contract management fee overlap considerably. That is, almost 88 percent of the services it identifies as being supported by its contract management fee are also identified with its full-service fee, making it difficult to determine which fee is supporting which service.

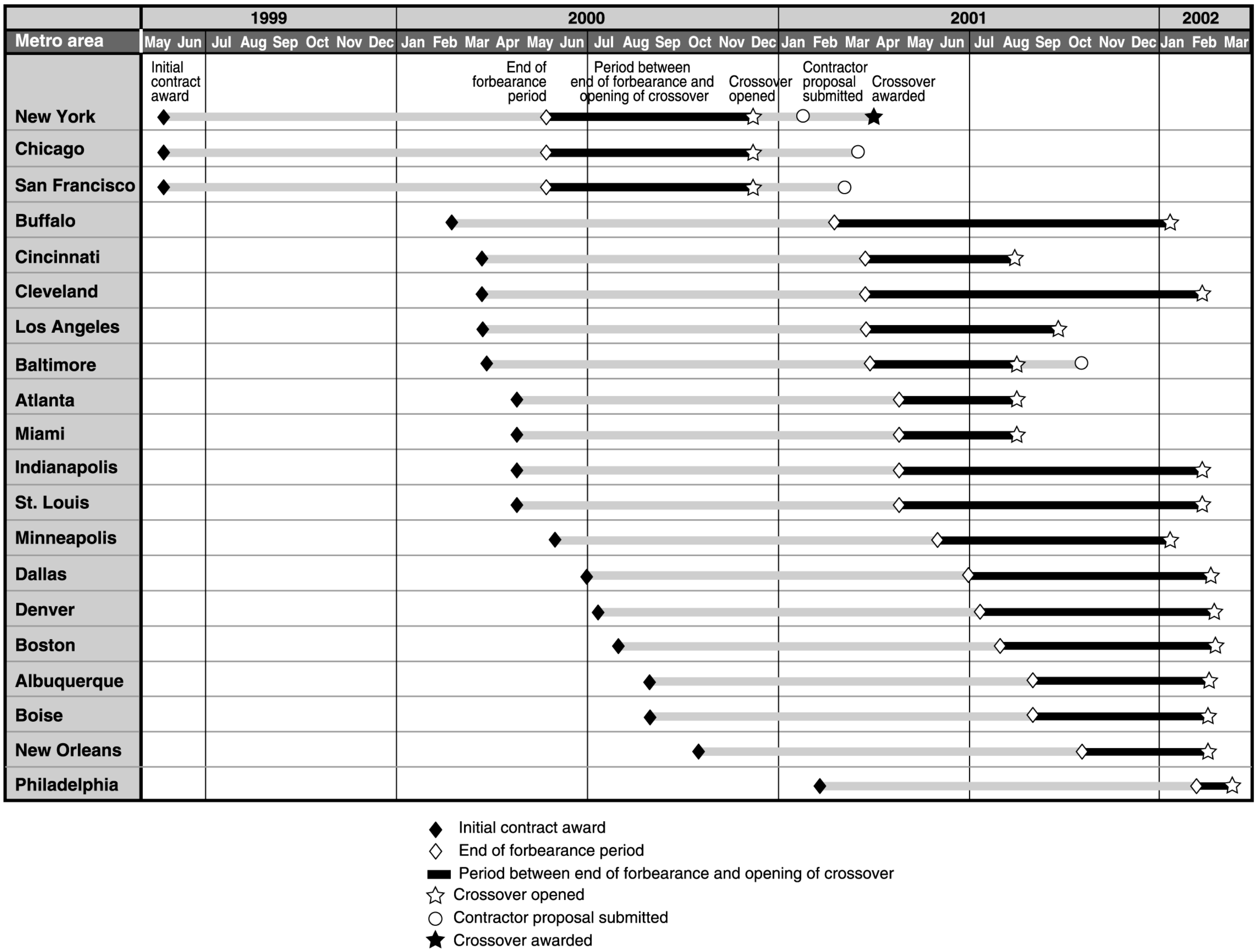
GSA has recently initiated action to reexamine and simplify its management fee structure. On November 27, 2001, GSA's Local Rate Setting Redesign Team, composed of GSA FTS financial, program, and regional telecommunications personnel, held its first meeting. This group is expected to report to the FTS assistant commissioner for Local Services in the spring of 2002 on ways to simplify its fee structure in recouping its costs and to achieve greater consistency in its fees between regions. At this time, this effort is focused predominantly on how GSA calculates its fees, rather than on services rendered in return. However, without disclosure of the management fees it is charging and a clear delineation of what services are supported by those fees, the actions taken by GSA will not be adequate to provide the transparency needed to provide agency decisionmakers with full information.

GSA Has Taken Action to Enable Crossover

GSA has taken action in the past 17 months to allow MAA and FTS2001 contractors to offer services in both the local and long distance markets. In December 2000, GSA allowed FTS2001 and other MAA contractors to submit proposals to offer local services in the three pilot MAA cities (New York, Chicago, and San Francisco). In August 2001, GSA published guidance on the submission and evaluation of proposals to initiate crossover between these local and long distance contracts, allowing local service providers to offer long distance services and long distance service providers to offer local services in MAA markets. Further, as of March 1, 2002, GSA had opened all 20 eligible metropolitan areas to crossover, had received contractor proposals for 4 of those MAA cities, and had completed a contract modification to allow crossover in 1 city.

Figure 2 summarizes the current status of MAA crossover activity.

Figure 2: Progress of MAA Crossover by Metropolitan Area as of March 1, 2002



Note: According to the MAA contracts, once the forbearance period is over, GSA can award crossover contract modifications when it is in the government's best interests.

Source: GSA Federal Technology Service.

Conclusions

GSA continues to make progress in implementing the MAA program. Nevertheless, in many locations GSA has not met its schedules for transitioning agencies' telecommunications services to MAA vendors, because of impediments including challenges posed by recent deregulation of telecommunications services, as well as a lack of MAA contractor and customer preparedness. As a result of these delays, federal agencies may be forgoing substantial cost savings—as much as $1.1 million—for each month of delay in transitioning the remaining approximately 77,000 prospective MAA customers.

Achieving these cost savings for local telecommunications services—the primary goal of the MAA program—is hindered because GSA managers are missing opportunities to improve program administration. Specifically, GSA has not yet established current and realistic implementation time frames and associated performance measures to guide and manage the timely completion of specific, ongoing contract implementations. As a result, GSA lacks a basic yardstick for more consistent, reliable, and effective measurement and management actions to address impediments before they cause lengthy delays. In addition, GSA has not yet made its fees and services transparent to its customer agencies and disclosed what it charges agencies for the services it offers.

Recommendations

To improve MAA program administration, we recommend that the administrator of General Services direct the commissioner of the Federal Technology Service to

- develop current, realistic timeline objectives and schedules for expeditiously completing those MAA contract implementations that are currently in progress and
- use these objectives to develop and apply reliable performance measures to gauge MAA progress and manage implementations.

To assist federal agencies in making well-informed telecommunications choices and to improve management of GSA's own support services, we recommend that the administrator direct the commissioner of the Federal Technology Service to

- routinely disclose to MAA customers the fees that GSA charges them for managing the MAA contracts and for the ordering and billing services it provides and
- clarify for MAA customers the services that each of the fees supports.

Agency Comments

In written comments on a draft of this report, the administrator of General Services agreed with our recommendations and indicated that GSA was acting to implement them. In response particularly to a recommendation in the draft report regarding opening MAA contracts to crossover on a consistent basis, GSA agreed to open all eligible MAA cities to crossover by March 1, 2002. After confirming that GSA had taken that action, we updated this report to reflect the current status. GSA also provided a number of technical comments that we have incorporated into this report as appropriate. GSA's written comments are presented in appendix II.

As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from its issue date. At that time, we will send copies of this report to the ranking minority member, Subcommittee on Technology and Procurement Policy, and interested congressional committees. We will also send copies to the director of the Office of Management and Budget and the administrator of the General Services Administration. Copies will be made available to others upon request. This report will also be available on our home page at http://www.gao.gov.

If you have any questions regarding this report, please contact me or Kevin Conway at (202) 512-6240 or by E-mail at koontzl@gao.gov or conwayk@gao.gov, respectively. Individuals making key contributions to this report included Scott Binder, Barbara Collier, Michael Koury, Frank Maguire, Mary Marshall, and Debra Rucker.

Sincerely yours,

Linda D. Koontz
Director, Information Management Issues

Appendix I: Objectives, Scope, and Methodology

The objectives of our review were to identify (1) the status of Metropolitan Area Acquisition (MAA) contract implementation and reasons for any delays, (2) the fees charged customer agencies by the General Services Administration (GSA) for the management and administration of those contracts and the extent to which those fees are transparent to customer agencies, and (3) the steps being taken by GSA to enable MAA and FTS2001 contractors to cross over between these sets of contracts and offer both local and long distance services.

To evaluate the status of MAA contract implementation efforts, we reviewed MAA contracting, including solicitations, contracts, and associated modifications. We reviewed an internal GSA management report on MAA implementation challenges prepared by GSA's Office of Inspector General and interviewed the staff who prepared this report. In addition, we reviewed reports generated by GSA's automated MAA status tracking system and verified the information in the reports against other documentation gathered, such as tracking reports used by regional GSA staff.

To better gauge specific MAA implementation efforts, we visited five GSA FTS regional staff offices. We selected these regional offices because they were responsible for implementing contracts in 14 of the 22 cities that had MAA contracts in place at the time of our review. These contracts reflected a range of MAA implementation experiences, as they encompassed a mix of multiple and single award cities, and included contract awards to competitive local exchange carriers and to incumbent local exchange carriers. The staff offices we visited were

- GSA's Northeast and Caribbean Region in New York, responsible for two MAA contracts;
- the Southeast Region in Atlanta, responsible for two MAA contracts;
- the Great Lakes Region in Chicago, responsible for five MAA contracts;
- the Greater Southwest Region in Dallas, responsible for four MAA contracts; and
- the Rocky Mountain Region in Denver, responsible for one MAA contract.

During these visits, we met with responsible GSA management staff and analyzed information pertaining to each region's MAA marketing and transition plans, service ordering and billing processes, and implementation and administration roles and responsibilities. We also analyzed documentation pertaining to the challenges each faced in implementing its MAA contracts. In addition to the offices visited, we reviewed marketing, transition planning, and contract administration documentation from each of the four other GSA regional offices with MAA contracts.

To gain customers' perspectives on MAA contract implementation status, we interviewed 15 agency managers in 5 cities who were responsible for their agency's local telecommunications services, as shown in table 3. We also met with officials from the Executive Office for U.S. Attorneys and the Executive Office for U.S. Trustees, located in Washington, D.C. Officials in each of these two offices had nationwide responsibility for local telecommunications services and were able to offer insight into their agencies' participation in the MAA program for multiple cities.

In determining which agencies to contact, we chose from a range of larger and smaller agencies and also selected from both current MAA customers and potential MAA customers. In our meetings with managers from these agencies, we obtained documentation and discussed their GSA contract marketing experience, their transition progress and challenges, their MAA cost savings, and their knowledge of GSA management fees, where possible and as appropriate.

Table 3: Current MAA Customer and Potential Customer Sites Visited

City	Agency
Atlanta	Department of Labor, Regional Administrative Services Office Natural Resources Conservation Service U.S. Fish and Wildlife Service[a]
Denver	National Institute of Standards and Technology, Boulder, Colo.[a] National Renewable Energy Laboratory, Golden, Colo.[a] U.S. Courts for the Tenth Circuit, Office of the Circuit Executive
Dallas	Health and Human Services, Program Support Center, Administrative Operations Service Social Security Administration, Southwest Regional Office
Chicago	Environmental Protection Agency Health and Human Services, Program Support Center, Administrative Operations Service Internal Revenue Service
New York	Internal Revenue Service, Office of the Regional Inspector North East Region Corps of Engineers, New York District[a] Health and Human Services, Program Support Center, Administrative Operations Service[a] Housing and Urban Development, New York Administrative Service Center

[a]Potential MAA customer; has not converted yet.

To gain additional information and documentation pertaining to contractor experiences with MAA implementation, we met with AT&T MAA program managers in Washington, D.C., and in New York; Verizon MAA program managers in Washington, D.C.; and Winstar MAA program managers in Herndon, Virginia.

To determine the management fees charged to customer agencies by GSA and how those fees were derived, we reviewed GSA's method for calculating its management fees and supporting documentation. We also reviewed statutory and regulatory guidelines[13] governing the establishment of such program fees. In addition, we reviewed GSA's MAA management roles and responsibilities and interviewed FTS program managers as well as the FTS Network Services Financial Services Center manager responsible for developing the GSA management fees. We also interviewed customer agencies to determine what information GSA was disclosing to them regarding the fees that GSA charged and services rendered.

Finally, to evaluate the actions being taken by GSA to enable MAA and FTS2001 contractors to cross over within and between these programs, we obtained and reviewed GSA's contract language on the forbearance concepts and process and reviewed both its current guidance on the crossover process and a report on crossover status. We reviewed GSA's June 2001 and August 2001 presentations to the Industry Advisory Group, as well as GSA's response to questions raised at those presentations. We also reviewed documentation pertaining to GSA's December 2000 decision to lift forbearance in the MAA pilot cities and its first crossover award.

We conducted our review from April 2001 through March 2002, in accordance with generally accepted government auditing standards.

[13] P. L. 99-500, October 18, 1986, 100 Stat. 1783-340, and OMB Circular No. A-25, Revised (July 8, 1993).

Appendix II: Comments from the General Services Administration

GSA

GSA Administrator

March 1, 2002

The Honorable David M. Walker
Comptroller General of the United States
General Accounting Office
Washington, DC 20548

Dear Mr. Walker:

Thank you for the opportunity to respond to the General Accounting Office (GAO) draft report entitled "GSA Action Needed to Realize Benefits of Metropolitan Area Acquisition Program." The report addressed three primary areas: Metropolitan Area Acquisition (MAA) contract implementation status, fees charged to customer agencies, and crossover.

Prior to responding to the recommendations, I would like to outline some significant accomplishments of the MAA program. From its inception, the MAA program was designed to obtain the maximum benefit from the newly deregulated marketplace. The General Services Administration (GSA) chose to seize this unique opportunity recognizing the potential benefits and risks. The result was an immediate, substantial and sustained price reduction for local telecommunications services to the Federal Government customer. However, the local competitive environment today has developed more slowly than anyone expected and is far from mature. Consequently, MAA implementation progress has been slower than anticipated and overall savings have been impacted.

Despite the challenges, I continue to believe that the strategy we jointly crafted with Congress and industry is as sound today, as it was when we developed it five years ago. We have brought explicit competition to the local market and have established a new local service pricing paradigm. I continue to be committed to the program and to realizing the benefits it has to offer to the Federal Government customer and the taxpayer.

I agree with the GAO recommendations and will implement additional actions to improve our program. In response to the recommendation regarding establishment of realistic timelines, GSA has begun corrective measures. The Federal Technology Service (FTS) Regional Offices will submit detailed plans outlining completion timeframes and milestones on a city-by-city basis. The plans will be evaluated,

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approved, and milestones will be tracked by the FTS National Office. In addition, FTS National Offices responsible for contract modifications have taken actions for process improvements to expedite the MAA contract modification process. The GAO recommendation on performance measures is timely as this effort has been underway and is consistent with my emphasis on performance measures. GSA has included measures specific to MAA in its fiscal year 2002 performance goals and measures, which have been reviewed by the Office of Management and Budget. The three MAA performance measures are timely and effective service delivery, cost savings, and timeliness of contract modifications.

I agree with the GAO recommendations on disclosing fees and clarifying associated services. Through our cooperative working relationship with the GAO review team, concerns regarding the MAA fees were identified early in the review and corrective measures have been initiated. GSA has established a team tasked to develop a simplified rate setting process to be implemented for fiscal year 2003. Fiscal year 2003 fees and clarification of associated services will then be published.

Regarding the GAO recommendation on local services crossover, I agree and will open all remaining eligible cities to crossover by March 1, 2002. A city is considered eligible for crossover one year after contract award. A detailed crossover schedule is enclosed.

In conclusion, I would like to commend the professionalism and diligence of the GAO Review Team. I believe the openness of the dialogue between GSA and GAO enabled the collective focus to be on substantive improvements to the program. This open dialogue also facilitated GSA's initiation of corrective measures throughout the review process. We believe that the relationship developed during this review process served GSA and GAO well.

Sincerely,

Stephen A. Perry
Administrator

Enclosure

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