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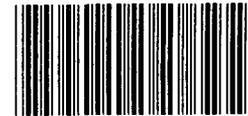
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February 28, 1992

The Honorable Edward R. Roybal
Chairman, Subcommittee on
Treasury, Postal Service,
General Government
Committee on Appropriations,
House of Representatives



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Dear Mr. Chairman:

In response to House Report 102-109 and subsequent discussions with your office, this letter addresses the two following questions regarding FTS 2000.

- Within the context of the ongoing FTS 2000 contracts, should the requirement for mandatory use of FTS 2000, which has been included yearly in the House appropriations bill for Treasury, Postal Service, and General Government since fiscal year 1989, be continued for fiscal year 1993?
- Should the proposed modification to the mandatory use policy, which would make mandatory use contingent upon the General Services Administration's (GSA) reporting that FTS 2000 is satisfying the government's telecommunications requirements in the most cost-effective manner, be made?

Our review focused on the issue of mandatory use, within the context of the ongoing FTS 2000 contracts. We did not have sufficient time or data to evaluate the effect of the mandatory use policy on prices or the provision of services under the FTS 2000 contracts. Our work included reviewing prior reports, testimonies, and corresponding supporting workpapers on FTS 2000 and mandatory use. In addition, we interviewed officials from and reviewed documentation supplied by GSA, the Office of Management and Budget, American Telephone and Telegraph (AT&T) Company, US Sprint Communications Company, MCI Communications Corporation, and Metromedia Communications Corporation.

GAO/IMTEC-92-33R, FTS 2000: Mandatory Use

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BACKGROUND

Mandatory use of FTS 2000 was included in the 1988 contracts to support a dual vendor award by providing enough telecommunications traffic to make bidding attractive. Additionally, it was believed that mandatory use would provide the economies of scale and scope necessary to provide telecommunications service at prices advantageous to the government. As such, the request for proposals for the FTS 2000 contracts, as well as the contracts themselves, provide for mandatory use by most federal agencies. In addition, the Congress has included a mandatory use provision in its annual appropriations act for Treasury, Postal Service, and General Government since fiscal year 1989.

Since the FTS 2000 contracts were awarded in 1988, the mandatory use policy has proven to be very controversial. In a number of cases, individual agencies have resisted transitioning to FTS 2000 claiming that they could obtain services at a better price outside the FTS 2000 procurement. In response to such protests, GSA has maintained that FTS 2000 represents the most cost-effective alternative for the government as a whole. GSA has asserted that although prices offered by outside vendors for a specific location, agency, or service may appear to be economical, it is misleading to compare such prices with FTS 2000 prices that represent a package of services offered to all locations governmentwide.

GSA'S CURRENT EFFORTS UNDER THE FTS 2000 CONTRACTS

GSA is currently in the midst of conducting the first of two price redeterminations called for in the contracts. Price redetermination is intended to reduce prices by competing a target of each vendor's projected revenues.¹ GSA has stated that a major objective of this process is to obtain prices that are below the lowest possible commercial prices. Both vendors are proceeding with this price redetermination under the auspices of contracts that specifically provide for mandatory use.

In addition, GSA is in the process of negotiating with both vendors to put in place indexing mechanisms designed to ensure that FTS 2000 prices keep pace with changes in commercial prices. As stated in previous testimony, we believe that

¹ Under price redetermination, at the end of the fourth and seventh years of the contracts, GSA can target 40 percent of each vendor's estimated revenue for recompetition. Only the incumbent vendors will be permitted to participate in price redetermination.

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GSA's stated approach for conducting the price redetermination is both reasonable and appropriate and, if followed, should result in a favorable price for telecommunications services for the government.

**MANDATORY USE POLICY
SHOULD CONTINUE**

In light of the ongoing price redetermination, we believe that the mandatory use requirement should continue to be reinforced in the appropriations language for fiscal year 1993. GSA is conducting the price redetermination within the context of the existing FTS 2000 contracts, which provide for mandatory use. We believe that attempts to change the mandatory use provision of the contracts at this critical juncture could seriously disrupt the price redetermination process and jeopardize GSA's efforts to obtain favorable prices. In the absence of data demonstrating the effect mandatory use has on telecommunications prices, it appears that the risks associated with repealing the provision at this time warrant its continued reinforcement.

We believe that getting better prices for telecommunications services is still the most important aspect of GSA's current efforts. If price redetermination fails to yield favorable prices, we believe GSA should consider conducting a new, full and open competition.

**PROPOSED LEGISLATIVE LANGUAGE
IS ACCEPTABLE**

The President's budget for fiscal year 1993 proposes a modification to the mandatory use language. The proposed modification would, after March 1, 1993, require mandatory use of FTS 2000 only if "...the Administrator of General Services has reported that the FTS 2000 procurement is producing prices that allow the government to satisfy its requirements for such procurement in the most cost-effective manner." According to GSA officials, this provision is intended to serve as a public statement supporting GSA's verification, made during price redetermination, that FTS 2000 is the most economical approach for procuring telecommunications services.

We believe that the modification to mandatory use proposed in the President's budget is acceptable. The provision can be used as a vehicle to ensure that FTS 2000 is providing telecommunications services in the most cost-effective manner. It will keep continued focus on prices by providing a forum for outside vendors to make proposals and requiring GSA to report, even beyond price redetermination, that FTS 2000 prices are below commercial levels. On the other hand, regardless

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of the proposed revision, the FTS 2000 contracts would still provide for mandatory use unless changed by contract modification. Therefore, we believe that, on balance, any provision to keep GSA's efforts focused on obtaining the best FTS 2000 prices has value.

If you have any questions about this letter, please contact me at (202) 336-6406 or Linda Koontz, Assistant Director, at (202) 336-6209.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jack L. Brock', with a stylized, wavy flourish extending to the right.

Jack L. Brock
Director, Government Information
and Financial Management

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