



Highlights of [GAO-07-268](#), a report to the Ranking Member, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

The General Services Administration (GSA) and its customer agencies are preparing to transition new governmentwide telecommunications contracts known as the Networx program. GSA estimated the costs for which it is responsible to be \$151.5 million. This report addresses (1) the soundness of the analysis GSA used to derive the estimate of funding that would be required for the transition and (2) whether GSA will have accumulated adequate funding to pay for transition costs. In performing this work, GAO reviewed cost estimation best practices, analyzed relevant GSA documents, and performed an uncertainty analysis on GSA's estimate.

What GAO Recommends

GAO recommends that the GSA Administrator establish a cost estimation policy that reflects best practices. In addition, GAO recommends that the Administrator revise the transition cost estimate using best practices after the award of the Networx contracts and reassess the funding needed to meet its commitments. GSA concurred with these recommendations but questioned the way GAO characterized the soundness of GSA's analysis and whether this transition was comparable with the previous one. GAO clarified its characterization of GSA's analysis.

www.gao.gov/cgi-bin/getrpt?GAO-07-268.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Linda Koontz at (202) 512-6240 or koontzl@gao.gov.

TELECOMMUNICATIONS

GSA Has Accumulated Adequate Funding for Transition to New Contracts but Needs Cost Estimation Policy

What GAO Found

GSA did not use sound analysis when estimating the amount of funding needed to meet its transition-related commitments. Specifically, its analysis was not sufficiently accurate, comprehensive, documented, or validated. A primary weakness is that the estimate is largely based on an assumption—known as the transition traffic factor—that 76 percent of the services provided under the current contracts would be moved to a different provider under the Networx contracts. However, according to program officials, this assumption is intentionally conservative and represents a worst-case scenario that is unlikely to occur. Additionally, GSA may have double-counted a cost and did not update its analysis to reflect a nearly 2-year delay. Finally, GSA did not document significant assumptions and data sources used in its analysis, or validate it. These weaknesses can be attributed in part to the lack of a cost estimation policy that reflects best practices. While GSA's intentionally conservative approach minimizes the risk that it would have inadequate funds to pay for committed transition costs, it increases the risk that GSA will retain excess funds that could be used for other purposes.

GSA has accumulated adequate funding to support its anticipated transition costs. As of fiscal year-end 2006, GSA had approximately \$142 million in a transition reserve. GAO analysis of the estimate indicates it is unlikely that GSA will need more than it has already accumulated to fund the transition. Specifically, the \$142 million already retained will be adequate to cover anticipated costs 96 percent of the time. The recent merger of two GSA funds gives the agency additional flexibility that reduces its need to accumulate the entire \$151.5 million it estimated would be needed (see table). With Networx contracts scheduled to be awarded starting in March 2007, GSA will soon have the information necessary to reassess the main assumption underlying its estimate—the transition traffic factor—and address the weaknesses GAO identified. Once this has been accomplished, GSA can reevaluate the funding needed to meet anticipated commitments.

GSA's Transition Cost Estimate

Dollars in millions	
Cost element	Estimated cost
GSA contractor support	\$35.0
Certain agency transition costs	116.5
Total	\$151.5

Source: GSA.