MCI Voice and Video Contract--Price Warranty

Evaluation Report No. 99-009

December 20, 1999

Office of Congressional Relations and Evaluations

Office of Inspector General

FDIC

Federal Deposit Insurance Corporation
Washington, D.C. 20434

Congressional Relations and Evaluations
Office of Inspector General

DATE: December 20, 1999

MEMORANDUM TO: Michael J. Rubino
Associate Director, Acquisition and Corporate Services Branch

FROM: Stephen M. Beard
Director, Office of Congressional Relations and Evaluations

SUBJECT: *MCI Voice and Video Contract—Price Warranty* (EVAL-99-009)

This report presents the results of one aspect of the Office of Congressional Relations and Evaluations' review of the subject contract. Our office is performing this review because we found billing discrepancies with another FDIC telecommunications contract that has since expired. The objectives of our review are to: (1) determine whether MCI WorldCom (MCI) was billing FDIC according to the terms of the contract—including the price warranty clause, and (2) assess whether FDIC was effectively monitoring and efficiently administering the contract. This report addresses a portion of objective 1—the price warranty clause—as it pertains to the final 2 years of the contract. We will continue to perform evaluation work related to this contract and expect to issue a separate report on the results at a later date.

On September 27, 1999, MCI certified in a letter to FDIC that its prices complied with the contract price warranty and that no price adjustment was necessary for option year 3 of the contract. On October 14, 1999, we requested documentation from MCI to support its pricing certification. On December 7, 1999, MCI provided a letter to FDIC's contracting officer confirming the September 27, 1999 certification and reiterating that the current contract pricing was in compliance with the price warranty. However, as of the date of this report, MCI has not provided us documentation to support its certification.

We presented the preliminary results of our analysis of contract pricing to FDIC in early November 1999. We found the long distance voice prices that MCI proposed for option year 3 of its contract with FDIC did not appear to be competitive with prices offered to other MCI customers under General Services Administration (GSA) contracts. Thus, MCI's proposed prices did not conform to the price warranty clause of the contract. We estimated that FDIC would save between $63,700 to $88,300 per month, or from $1.53 million to $2.12 million, over the remaining 2 years of the contract if MCI honored the terms of the price warranty. Such a reduction would achieve program savings of 35 to 49 percent, which we would report as funds put to better use.

November 24, 1999, MCI proposed new pricing to the Division of Information Resources Management. Assuming that MCI honored the proposed pricing for the remaining 2 years of the contract, we estimate that FDIC would save $32,825 a month, or about $787,800. While the proposed pricing would reduce program costs by 18 percent, the proposed pricing still did not meet the requirements of the contract price warranty. Consequently, we recommended that FDIC pursue adjustments by MCI to the contract prices to conform to the terms of the price warranty.

We provided the Acquisition and Corporate Services Branch (ASCB) a draft of this report on December 2, 1999. ACSB provided a written response to the draft report on December 16, 1999. Management agreed with our recommendation. ACSB's written response is included in its entirety as Appendix I of this report. Appendix II presents our assessment of management's response and shows that we have a management decision for the recommendation.

We also added information to the final report to reflect evaluation work that we performed related to the price warranty after we issued the draft report. We provided management the opportunity to review these revisions before we issued the final report.

In addition to pursuing MCI's conformance with the price warranty, management indicated it was going to perform a comparative analysis of the cost and services of the current MCI contract and the GSA's Federal Technology Services 2001 (FTS2001) contract. On December 17, 1999, ACSB issued a letter to MCI communicating the Corporation's expectation that it receive pricing equivalent to that offered under the FTS2001 contract. In addition, ACSB formed a task force to conduct a comparative analysis of the two contracts. ACSB's response, together with the actions it has already taken, provided the requisites of a management decision.

As noted previously, our draft report estimated funds put to better use of $1.53 million to $2.12 million. Management's response had no questioned costs or recovery amount noted. We discussed this with management officials and they indicated that the $0 amount reflected the unknown outcome of its corrective actions. Accordingly, our final report indicates that funds put to better use cannot be determined at this time. Should ACSB's actions result in savings, we will report those monetary benefits in our *Semiannual Report to the Congress* during the appropriate reporting period.

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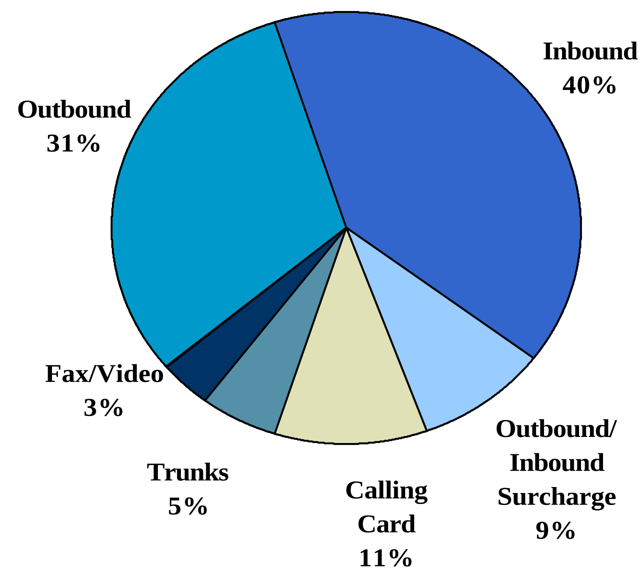
Evaluation Objectives

- The objectives of our review are to:
  - Determine whether MCI WorldCom (MCI) is billing FDIC according to the terms of the contract--including the price warranty clause.
  - Assess whether FDIC is effectively monitoring and efficiently administering the contract.
- This report addresses a portion of objective 1—the price warranty clause—as it pertains to the final 2 years of the contract. We will continue to perform evaluation work related to this contract and expect to issue a separate report on the results at a later date.

Scope of Evaluation

- Our evaluation focused on three contract services:
  - Outbound
  - Inbound (800)
  - Calling Card
- The costs for these services represented 91% of the contract fees.

Composition of 1999 Contract Fees



Note: Percentages do not total 100 due to rounding.

Methodology

- We met with the General Services Administration (GSA) Federal Technology Service (FTS) representatives. GSA provided FTS2001 prices for MCI and Sprint.

- We interviewed Acquisition and Corporate Services Branch (ACSB) and Division of Information Resources Management (DIRM) officials and reviewed MCI invoices and electronic call detail reports.

- We held telephone and e-mail discussions with Sprint representatives. Sprint provided average Sprint FTS2001 prices and clarifications about specific Sprint FTS2001 prices.

Methodology

- We researched the FTS2001 contract and pricing structure on the Internet.

- We conducted our field work during September and October 1999 in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*.

Results in Brief

- The long distance voice prices that MCI proposed for option year 3 of its contract with FDIC did not appear to be competitive with prices offered to other MCI customers under GSA schedule contracts. Thus, the prices did not conform to the terms of the contract price warranty.

- We estimated that FDIC could save between $63,700 to $88,300 per month, or from $1.53 million to $2.12 million, over the remaining 2 years of the contract if MCI honored the terms of the price warranty. Such a reduction would achieve program savings of 35 to 49 percent.

- Subsequent to our analysis, MCI proposed new contract pricing. Assuming MCI honored the proposed pricing for the remaining 2 years of the contract, we estimate that FDIC would save $32,825 a month, or about $787,800. While the proposed pricing would achieve a program cost reduction of about 18 percent, MCI's proposed prices still do not conform to the terms of the price warranty.

Background: FDIC Long Distance Contract with MCI

- Effective date: November 1, 1996.
- Term: one base year, four 1-year options.
- Scope: nationwide voice and video long distance services--including outbound, inbound (800), trunks, calling cards, video teleconferencing, fax, and dial-up data services.
- Fees: not to exceed approximately $3 million annually.

Price Warranty Clause

- Section C, Article VII

“...Contractor warrants that the prices offered for the goods and services to be provided under this Contract are no higher than any price charged to any other customer, including any governmental instrumentality, purchasing the same or substantially similar goods and services in like or similar quantities under similar conditions or otherwise available under a General Services Administration (GSA) schedule or contract during the preceding sixty (60) days (the “Price Warranty”). The Contractor hereby agrees that the prices offered for the annual options (i.e., Option Year 1 through Option Year 4), if exercised, shall be adjusted to conform with the terms of the Price Warranty...

Price Warranty Clause

- Section C, Article VII (Continued)

  “...but in no event shall the prices exceed the prices offered (as listed in the Price Schedule) for the annual options. Upon receipt of the FDIC’s notice to extend for any annual option, as the case may be, the Contractor shall provide to the FDIC Contracting Officer within thirty (30) calendar days a preliminary schedule of pricing that conforms to the format of the Price Schedule, including any modifications thereto. The Contractor agrees to revise such preliminary schedule to coincide with the effective date of any annual option in order to satisfy all terms of the Price Warranty.”

Price Warranty Clause

- Section C, Article II, of the contract incorporated by reference the contents of MCI's August 29, 1996 proposal, as modified by its clarifications and revisions dated October 14 and 23, 1996.

- MCI's original proposal and revised proposal, dated October 3, 1996, included the following language for item 2.a.2, Article VII – <u>Price Warranty and Pricing of Work Orders</u>:

    "MCI will comply with the Price Warranty with the understanding that this Article applies only to the same services, specifications, scope of work and terms and conditions that are set forth in the Solicitation. Our proposal includes MCI's Price Schedule ("Price Schedule") which incorporates tariff telecommunications services."

Price Warranty Clause

- The contract proposal file indicates that in mid-October 1996 FDIC and MCI discussed the price warranty language further and MCI agreed to submit clarifying information for the price warranty clause.

- MCI's submitted a second revised proposal, dated October 23, 1996, which included the following for item 2.a.2, Article VII – <u>Price Warranty and Pricing of Work Orders</u>:

  > "MCI will comply with the Price Warranty with the understanding that the clause will be limited to sales by MCI's Government Markets and that the parties will negotiate adjustments, if any, in good faith."

Price Warranty Clause

- We contacted a former FDIC employee who was involved in the proposal discussions with MCI. The employee also negotiated and drafted the price warranty language. The employee confirmed that both parties agreed to the "…otherwise available under a General Services Administration (GSA) schedule or contract …" price warranty language to allow for future price warranty comparisons to FTS contracts, regardless of the supplier--in this case, MCI or Sprint under FTS2001. The former employee noted that MCI marketed its ability to offer pricing better than FTS during the 1996 solicitation of the FDIC contract.

- The former employee stated the intent of the "otherwise" was to remove the "...same or substantially similar goods and services in like or similar quantities under similar conditions…" price warranty caveat when making comparisons to FTS contracts.

Price Warranty Clause

- Finally, the former employee clarified that MCI added the language "...limited to sales by MCI's Government Markets…" because MCI was concerned with the prospect of certifying pricing for the entire MCI corporation. MCI representatives concluded that it would be unreasonable for MCI Government Markets to know the specifics of contracts between MCI commercial divisions and other clients.

Price Warranty Clause

- On September 27, 1999, MCI certified in a letter to FDIC that its prices conformed with the contract price warranty and that no price adjustment was necessary for option year 3 of the contract.
- On October 14, 1999, we requested documentation from MCI to support its pricing certification.
- We presented the preliminary results of our analysis of contract pricing to DIRM and ACSB in early November 1999.
- On November 22, 1999, MCI e-mailed proposed reduced contract pricing to DIRM.

Price Warranty Clause

- On December 7, 1999, MCI sent a letter to FDIC's Contracting Officer confirming that MCI's pricing complied with the requirements of the price warranty clause of the contract and that no price adjustment was necessary for option year 3 of the contract. MCI offered the following rationale for its price warranty decision:

  > "We base this on the fact that we know of no other government or commercial contract that provides the same or substantially similar services (same specifications, scope of work, bundle or services, etc.) in like or similar quantities under similar conditions, as defined by the price warranty clause of the Contract."

- However, MCI still did not provide documentation supporting its price warranty certification. MCI's letter also included a table presenting pricing under FDIC's contract, MCI's Tariff number 7, and FTS2001. The table appears on the following page.

Price Warranty Clause

Figure 1: MCI Price Comparison Chart

FDIC Rate Comparison
11/23/99

	FDIC Rates/Min.	Tariff 7 Rates/Min.	FTS Rates/Min.
Outbound			
Ded to Ded	$ 0.040000	$ 0.050000	$ 0.021600
Ded to Sw	$ 0.065000	$ 0.091600	$ 0.042150
Sw to Ded	$ 0.065000	$ 0.097800	$ 0.042150
Sw to Sw	$ 0.100000	$ 0.140400	$ 0.062700
800 (Domestic)			
Sw to Ded	$ 0.065000	$ 0.108200	$ 0.042150
Sw to Sw	$ 0.100000	$ 0.140400	$ 0.062700
Card (Domestic)			
Surcharge (per call)	$ 0.25	$ 0.26	$ 0.270000
Sw to Ded	$ 0.065000	$ 0.097800	$ 0.042150
Sw to Sw	$ 0.100000	$ 0.140400	$ 0.062700

Note 1: FTS rate comparisons based upon contract year 2 FTS rates.
Note 2: FTS rates exclude 15% year 2 end of the year credits, calculated after GSA fee.
Note 3: FTS rates include 8% GSA management fee.
Note 4: FTS 800 Sw to Ded and Sw to Sw exclude $50 MRC per 800 number.
Note 5: FTS 800 Sw to Ded exclude $162 NRC per 800 number.
Note 6: Tariff 7 800 Sw termination rates exclude $150 MRC.
Note 7: Tariff 7 800 Ded termination rates exclude $50 MRC.

- The FDIC and FTS2001 pricing presented in Figure 1 agree with the pricing presented in our report.
- On December 10, 1999, MCI contacted FDIC's Contracting Officer and offered to implement the proposed pricing originally delivered by e-mail on November 22, 1999.

Background: FTS2001 Contract

- GSA awarded the FTS2001 contract to MCI and Sprint. The contract began in February 1999.
- It is an 8-year contract with final year prices lower than $.01 per minute
- Year 2 of the contract began October 1, 1999.
- We looked at FTS2001 prices because our contract specifically mentioned GSA for price warranty purposes.

Cost Comparison of Alternatives

- Table 1 presents prospective, option year 3 estimated monthly costs using FDIC's 1999 average monthly usage, FDIC's existing prices with MCI, FTS2001 prices available from MCI, and the proposed contract pricing that MCI provided to DIRM on November 22, 1999. Table 3 presents the prices that we used for our calculations.

Table 1: Estimate of MCI Monthly Costs for Option Year 3

Service	Existing FDIC Contract Prices	MCI FTS2001 Prices	Difference: Existing FDIC –vs- MCI FTS2001	Proposed FDIC Contract Prices	Difference: Existing –vs- Proposed FDIC Contract Prices
Outbound	$65,973	$40,877	$25,096	$53,512	$12,461
Inbound	90,228	58,502	31,726	76,275	13,953
Calling Cards	25,490	18,537	6,953	19,079	6,411
Total	$181,691	$117,916	$63,775	$148,866	$32,825

Cost Comparison of Alternatives

- Table 2 presents prospective, option year 3 estimated monthly costs using FDIC’s 1999 average monthly usage, FDIC’s existing prices with MCI, and FTS2001 average Numbering Plan Area/Exchange Area (NPA/NXX) based prices from Sprint. Table 3 presents the prices that we used for our calculations.

Table 2: Estimate of Monthly Costs for Option Year 3

Service	Existing FDIC Contract Prices	FTS 2001 Sprint Prices	Difference: Existing FDIC –vs- Sprint
Outbound	$65,973	$32,407	$33,566
Inbound	90,228	46,782	43,446
Calling Cards	25,490	14,162	11,328
Total	$181,691	$93,351	$88,340

Summary Comparison of Prices

Table 3: Prices Used in Table 1 & Table 2

Type of Service	Existing FDIC Contract w/ MCI	FTS 2001 w/ MCI	Proposed FDIC Contract Prices	FTS 2001 w/ Sprint (1)	Pricing Method
Outbound					
Dedicated to Dedicated	.04	.0216	.035	.0152	Per Minute
Dedicated to Switched	.065	.04215	.055	.034	Per Minute
Switched to Dedicated	.065	.04215	.055	.0337	Per Minute
Switched to Switched	.10	.0627	.065	.0525	Per Minute
Inbound (800)					
Inbound to Dedicated	.065	.04215	.055	.0337	Per Minute
Inbound to Switched	.10	.0627	.065	.0525	Per Minute
Calling Card					
Calling Card to Dedicated	.065	.04215	.055	.0337	Per Minute
Calling Card to Switched	.10	.0627	.065	.0525	Per Minute
Access Charge/ Authorization Code	.25	.27	(2)	.16	Per call
Access Charge/Operator- Assisted Authorization	(2)	1.62	(2)	.81	Per call

Notes:

1. Postalized off-net rate used in calculation to be conservative.
2. We have not yet obtained this information.

Pricing Structure Comparison

Table 4: Matrix of Pricing Structure Components

FDIC/MCI Contract	FTS2001 MCI	FTS2001 Sprint
Postalized per minute price.	Postalized per minute price comprised of three separate charges: • Originating access, • Transport, • Terminating access.	Price comprised of three separate charges: • Originating access, • Transport, • Terminating access.
Same price regardless of origination or termination of call.	Same price regardless of origination or termination of call.	Access charges depend on NPA/NXX.
Same price regardless of whether call is to/from a non-MCI number.	Same price regardless of whether call is to/from a non-FTS number (Off-Net).	Postalized price for calls to/from non-FTS number (Off-Net).

FTS2001--MCI Prices

- In September 1999, GSA provided a CD ROM containing detailed MCI FTS2001 pricing. The CD ROM-based prices appear in Table 6 on the following page. We used the CD ROM-based pricing for our calculations in Table 1, on page 12.

- On October 20, 1999, we met with GSA to discuss FTS2001. In anticipation of our meeting GSA obtained FTS2001 pricing from MCI which appears in Table 5.

Table 5: MCI Per Minute Rates

Access Type	10/20/99 FTS 2001 MCI Quoted Prices	11/22/99 Proposed FDIC Contract Prices
Dedicated to Dedicated	.0216	.035
Dedicated to Switched	.042	.055
Switched to Dedicated	.042	.055
Switched to Switched	.062	.065

- On November 22, 1999, MCI sent an e-mail to DIRM proposing new per minute voice rates for FDIC's long distance contract. Those rates also appear in Table 5.

FTS2001--MCI Prices

Table 6: MCI FTS2001 CD ROM-Based Prices

Type of Call	Origination Charge (1)	Transport Charge	Termination Charge (1)	Total Charge for Call (2)
Outbound, Inbound, Calling Card				
Dedicated to Dedicated	0	.0216	0	.0216
Dedicated to FTS Switched	0	. 0216	.02055	.04215
FTS Switched to Dedicated	.02055	.0216	0	.04215
FTS Switched to FTS Switched	.02055	. 0216	.02055	.0627
Dedicated to Non-FTS Switched	0	.0216	.02055	.04215
Non-FTS Switched to Dedicated	.02055	. 0216	0	.04215
Non-FTS Switched to Non-FTS Switched	.02055	. 0216	.02055	.0627

Note:

(1) MCI has a single, postalized rate for all origination and termination access charges regardless of whether the call is a non-FTS (Off-Net) call.

(2) We identified several differences between the FTS2001 rates listed on the CD ROM disk and the rates provided by GSA on October 20, 1999. Using FDIC's average monthly usage, we estimate the CD ROM-based rates would be about $521 a month higher than the rates that MCI quoted to GSA. We used the CD ROM-based rates in our draft report calculations to be conservative.

FTS2001--Sprint Prices

- In September 1999, GSA also provided a CD ROM containing detailed Sprint FTS2001 pricing. The CD ROM-based prices appear in Table 7 on the following page.

- During October 1999, Sprint representatives provided Sprint's FTS2001 prices and pricing structure via e-mail.

- During November 1999, we reconciled the prices provided by Sprint representatives to a Sprint FTS2001 pricing CD ROM. We identified minor differences between the pricing listed on the CD ROM disk and the pricing provided by the Sprint representatives via e-mail. Using FDIC's average monthly usage, we estimate the e-mail-based rates would be about $150 a month higher than the CD ROM-based rates. To be conservative, we used the e-mail-based rates in our draft report calculations.

FTS2001--Sprint Prices

Table 7: Sprint FTS2001 CD ROM-Based Prices

Type of Call	Origination Charge	Transport Charge	Termination Charge	Total Charge for Call
Outbound, Inbound, Calling Card				
Dedicated to Dedicated	0	.01517	0	.01517
Dedicated to FTS Switched	0	.01517	.0175(1)	.03267
FTS Switched to Dedicated	.0175(1)	.01517	0	.03267
FTS Switched to FTS Switched	.0175(1)	.01517	.0175(1)	.05017
Dedicated to Non-FTS Switched	0	.01517	.01878	.03395
Non-FTS Switched to Dedicated	.01847	.01517	0	.03364
Non-FTS Switched to Non-FTS Switched	.01847	.01517	.01878	.05242

Note:

(1) Average per minute rate. Actual charge depends on the NPA/NXX for each call. The normal cost range for NPA/NXX is $.005 to $.04 per minute, with highly populated areas, such as Washington, D.C., being priced lower than rural areas. The Sprint CD contained prices for 64,700 NPA/NXX numbers.

Reasonableness Testing

MCI

- MCI's FTS2001 prices were postalized and constant regardless of the origination or termination of the call. Therefore, we concluded there was no need to test the reasonableness of MCI FTS2001 prices that were used to project monthly costs in Table 1 on page 12.

Sprint

- For Sprint projected monthly costs, however, the information presented in Table 2 was based on average FDIC usage and average NPA/NXX-based prices. To test the reasonableness of using average usage and prices, we performed calculations using actual call detail information and actual FTS NPA/NXX-based prices.

Reasonableness Testing

Sprint (continued)

- We recalculated, by individual call, outbound charges for July 1999 and inbound charges for June 1999 using NPA/NXX-specific FTS2001 pricing.

- We used an audit database program to join FDIC electronic call detail reports (over 330,000 calls) with Sprint's NPA/NXX rate database (64,700 prices).

Reasonableness Testing

Sprint (continued)

- We then recalculated actual usage for each call using three rate scenarios:

  (A) FTS2001 Off-Net prices (Non-FTS postalized prices)--These were the same prices that we used to calculate Sprint costs in Table 2.

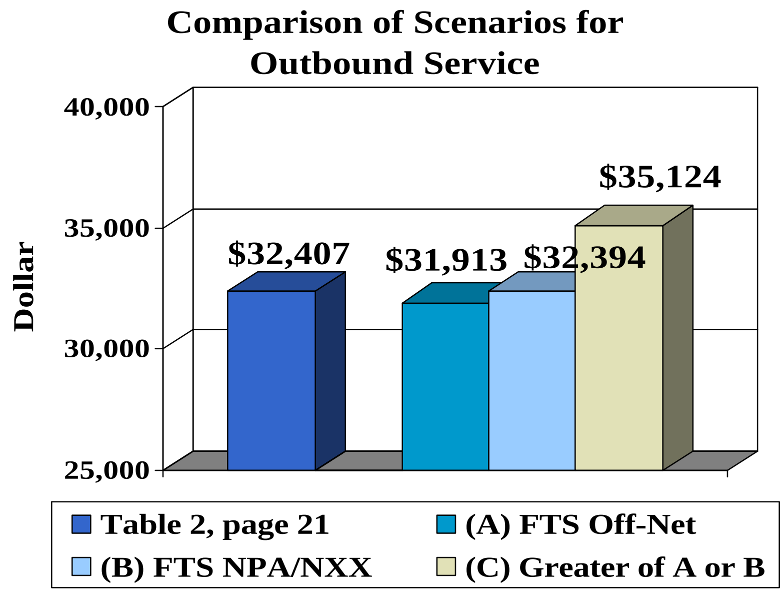
  (B) FTS2001 NPA/NXX-based prices--About 30% of FDIC's calls did not match Sprint's table of NPA/NXX prices. In those instances we used the Off-Net prices from Scenario A.

  (C) For each call, the greater of Scenario A or B.

Reasonableness Testing

Sprint (continued)

- For outbound service, we identified a range of $3,211 between scenarios A and C.
- We concluded it was reasonable to use average usage and prices to project monthly outbound costs for option year 3 of FDIC's long distance contract.

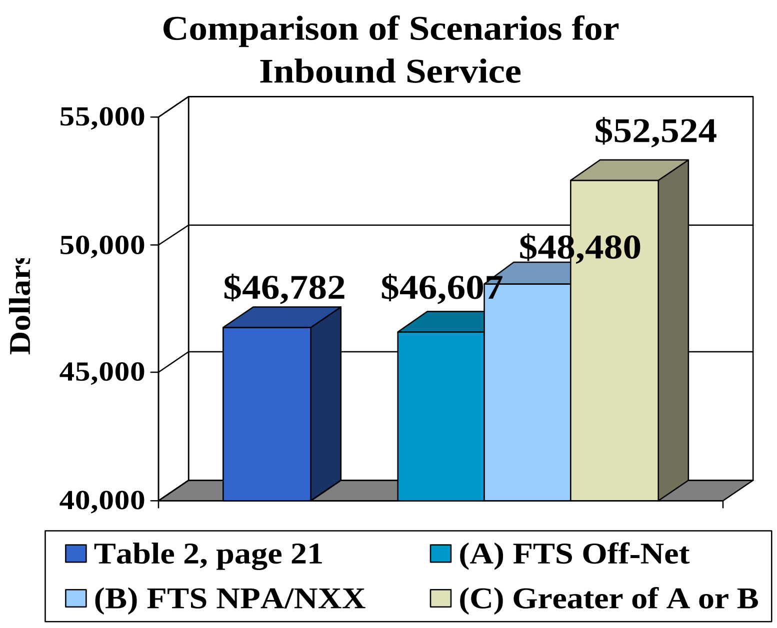


Reasonableness Testing

Sprint (continued)

- For inbound service, we identified a range of $5,917 between scenarios A and C.

- We concluded it was reasonable to use average usage and prices to project monthly inbound costs for option year 3 of FDIC's long distance contract.



Conclusions

- FDIC's long distance voice and video contract requires MCI to offer FDIC prices comparable to other MCI customers or otherwise available under a GSA schedule contract. We found that FTS2001 prices available through MCI and Sprint were significantly lower than the prices MCI proposed for option year 3 of its contract with FDIC. Thus, the prices did not conform to the terms of the contract price warranty.

- We estimated that if MCI honored the terms of the price warranty and adjusted FDIC's prices to conform with prices available under FTS2001, FDIC would reduce monthly costs by $63,700 to $88,300 per month, or from $1.53 million to $2.12 million, over the remaining 2 years of the contract. Such a reduction would achieve program savings of 35 to 49 percent.

Conclusions

- After we completed our analyses, MCI proposed new per minute voice rates to DIRM for the long distance contract. Assuming that MCI honored the proposed rates for the remaining 2 years of the contract, we estimate that FDIC would save $32,825 a month, or about $787,800, a 18 percent reduction in program costs. Although MCI's proposed pricing is lower than the existing contract pricing, the proposed pricing still does not meet the requirements of the contract price warranty.

Recommendation

- We recommended that the Associate Director, Acquisition and Corporate Services Branch, with consultation from the Legal Division and Division of Information Resources Management:

  (1) Pursue adjustments by MCI WorldCom to the prices it has offered for option year 3 of the FDIC Voice and Video Contract so the prices conform to the terms of the price warranty (Funds put to better use in the range of $1.53 million to $2.12 million).

Corporation Comments and OIG Evaluation

- The Associate Director, ACSB, provided the Corporation's written response to a draft of this report. The response is presented as Appendix I to this report. ACSB agreed with our recommendation. ACSB's response, together with the actions it has already taken, provides the requisites of a management decision.
- ACSB's response indicated that it would: (1) perform a comparative analysis of the services and costs between FDIC's existing contract with MCI and FTS2001, including the costs of transitioning to FTS2001, and (2) communicate FDIC's understanding and expectations of the price warranty clause to MCI. FDIC will then renegotiate the contract with MCI based on the results of its analysis.

Corporation Comments and OIG Evaluation

- FDIC sent a letter to MCI, dated December 17, 1999, requesting that MCI incorporate its FTS2001 rates into FDIC's contract.
- Our draft report estimated funds put to better use of $1.53 million to $2.12 million. Management's response had no questioned costs or recovery amount noted. We discussed this with management officials and they indicated that the $0 amount reflected the unknown outcome of its corrective action.
- Accordingly, we cannot quantify funds put to better use from our recommendations at this time. Should future ACSB actions result in program savings, we will report those monetary benefits in our *Semiannual Report to the Congress* during the appropriate report period.

Glossary

- **<u>Outbound Calling Services</u>.** The MCI Voice and Video Contract provides for six types of outbound calls:
  - Dedicated to Dedicated Access services. Such as calls made from FDIC Headquarters to a Regional Office, or from a Regional Office to Headquarters or another Regional Office.
  - Dedicated to Switched Access services. Such as calls made from Headquarters or a Regional Office to a Field Office.
  - Switched to Dedicated Access services. Such as calls made from a Field Office to Headquarters or a Regional Office.
  - Switched to Switched Access services. Such as calls made from one Field Office to another Field Office.
  - Dedicated to Non-FDIC Number services. Such as calls from a Headquarters or Regional Office to a private residence.
  - Switched to Non-FDIC Number services. Such as calls from a Field Office to a private residence.

Glossary

- **<u>Inbound Calling Services</u>.** The MCI Voice and Video Contract provides for two types of inbound calls using the 800 area code number system, Switched to Dedicated and Switched to Switched.
- **<u>Calling Cards</u>.** The MCI Voice and Video Contract calling card services include a $0.25 charge each time the card is used in addition to the Dedicated or Switched per minute rate.
- **<u>Federal Telecommunications System 2001 (FTS2001) Program</u>.** The FTS2001 Program provides long distance voice and data services to federal agencies. The General Services Administration (GSA) administers the FTS2001 Program and selected MCI and Sprint as the contractors to provide the long distance services to federal agencies. GSA awarded the Sprint contract in December 1998, and the MCI contract in January 1999.
- **<u>Postalized Rates</u>.** Long distance telephone calls priced at a constant rate regardless of the origination, distance, or termination of the calls are referred to as postalized rates. MCI's prices under FTS2001 and its contract with FDIC are postalized.

Glossary

- **<u>NPA/NXX-Based Prices</u>.** NPA refers to the Numbering Plan Area, namely the Area Codes. NXX refers to the Exchange Area, the first three digits of a seven-digit local phone number. NPA/NXX-based prices for long distance telephone calls depend upon the originating and terminating points of the calls and whether the calls originate from or terminate to a non-FTS number. Sprint's prices under FTS2001 are NPA/NXX-based prices.
- **<u>On-Net</u>.** For FTS2001, on-net refers to a location that is pre-subscribed to any FTS2001 service (an FTS2001 customer).
- **<u>Off-Net</u>.** For FTS2001, off-net is defined as a location that is not pre-subscribed to any FTS2001 service.

Appendix I: Corporation Comments

FDIC
Federal Deposit Insurance Corporation
Washington, D.C. 20429

Division of Administration

DATE: December 16, 1999

MEMORANDUM TO: Steven M. Beard
Director, Office of Congressional Relations and Evaluations

FROM: Michael J. Rubino
Associate Director
Acquisition and Corporate Services Branch

SUBJECT: MANAGEMENT DECISION
Draft Report Entitled *FDIC Voice and Video Contract---Price Warranty*

The Acquisition and Corporate Services Branch (ACSB) has completed its initial review of the subject Office of Inspector General (OIG) draft report. Our review focused on the recommendation in the report that would be entered into the Internal Review Information System (IRIS). The management decision is presented in three parts: (1) the Executive Summary; (2) Management Decision detail; and (3) an Office of Internal Control Management working summary, presented as Exhibit A.

EXECUTIVE SUMMARY

The following table represents an overview of the management decision. A more comprehensive summary of the decision that details specific areas of agreement or disagreement with the finding and describes necessary corrective actions, including milestone dates, is presented in Exhibit A.

Finding #	Finding Description	Questioned Costs	Management Response	Recovery Amount	Difference
1	The pricing proposed by MCI does not meet the requirements of the contract price warranty	$0	Agree	$0	$0

Appendix I: Corporation Comments

MANAGEMENT DECISION

FINDING # 1: The Pricing Proposed by MCI does not meet the Requirements of the Contract Price Warranty

CONDITION: OIG concluded that FDIC's long distance voice and video contract requires MCI to offer FDIC prices comparable to other MCI customers or otherwise available under a GSA schedule contract.

RECOMMENDATION: The FDIC should pursue adjustments by MCI WorldCom to the prices it has offered for option year 3 of the FDIC Voice and Video Contract so the prices conform to the terms of the price warranty (Funds put to better use in the range of $1.53 million to $2.12 million).

MANAGEMENT DECISION: We agree with the recommendation.

CORRECTIVE ACTION: We will analyze the services provided under the current MCI contract now and to be provided in the near future, whether all services required are available under the GSA contract, costs of services under the current contract and GSA contracts (MCI and Sprint), and transition impacts and costs. In addition, we will communicate our understanding of the price warranty clause to MCI WorldCom to ensure that they understand that our expectations are to receive pricing which is equivalent to those offered under the GSA contract. We will renegotiate the contract with MCI based on the result of our analysis.

cc: Howard Furner
Andrew Nickle
Mary Rann
Freddie Cook

Appendix I: Corporation Comments

EXHIBIT A

SUMMARY OF ACQUISITION SERVICES BRANCH MANAGEMENT DECISIONS

NO.	FINDING DESCRIPTION	QUESTIONED COST/OTHER FINANCIAL ADJUSTMENT	MANAGE-MENT RESPONSE	DESCRIPTION OF CORRECTIVE ACTION	EXPECTED COMPLETION DATE	DOCUMENT VERIFYING COMPLETION
1	The pricing proposed by MCI does not meet the requirements of the contract price warranty	$ 0	Agree	*CORRECTIVE ACTION:* We will analyze the services provided under the current MCI contract now and to be provided in the near future, whether all services required are available under the GSA contract, costs of services under the current contract and GSA contracts (MCI and Sprint), and transition impacts and costs. In addition, we will communicate our understanding of the price warranty clause to MCI WorldCom to ensure that they understand that our expectations are to receive pricing which is equivalent to those offered under the GSA contract. We will renegotiate the contract with MCI based on the result of our analysis.	Jan. 31, 2000	**Contract for Voice and Video Services**

Appendix II: Management Response to Recommendations

This table presents the management responses that have been made on the recommendation in our report and the status of management decisions. The information for management decisions is based on ACSB's written response to our draft report.

Rec. Number	Corrective Action: Taken or Planned / Status	Expected or Actual Completion Date	Documentation that will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
1	ACSB issued a letter to MCI requesting that MCI honor the terms of the contract price warranty and provide FDIC with FTS2001 pricing levels. ACSB will also perform a comparative analysis of the services and costs between FDIC's existing contract with MCI and FTS2001.	12/17/99 January 2000	Letter to MCI requesting FTS2001 pricing. Documented comparative analysis.	To be determined	Yes