Office of Inspector General

December 17, 2004
Report No. 05-001

The FDIC's Local Telecommunications Service

EVALUATION REPORT

Report No. 05-001
December 2004

The FDIC's Local Telecommunications Service

Results of Audit

Purpose of Audit

A telecommunications program should be cost-effective and responsive to the Corporation's business needs. The Federal Deposit Insurance Corporation (FDIC) maintains month-to-month local calling service agreements for all FDIC locations. Historically, these service agreements have been treated as utility contracts and have not been subject to competitive award. FDIC receives about 64 local telephone bills each month.

The Division of Information and Resources Management (DIRM) performed market research and discussed procurement options for local calling service plans with the Division of Administration (DOA) in 2003, but ultimately did not implement changes to the local telecommunications program. In June 2004, DIRM suggested that the Office of Inspector General (OIG) evaluate the program.

Our evaluation objective was to assess whether the FDIC is procuring local telecommunications service agreements that offer the best value to the Corporation.

To view the full report, go to
www.fdicig.gov/2005reports.asp

We concluded that DIRM and DOA should reconsider existing procurement options to ensure that the FDIC obtains the best value for local telecommunications service in its headquarters, regional, and field locations. The FDIC has monthly service agreements with various regional telecommunications carriers nationwide that should be competed and reviewed for potential consolidation. Market surveillance needs to be updated to fully understand procurement options available to the FDIC. DIRM has prepared Statements of Work (SOW) for the regional offices and Virginia Square to compete contract award for local calling service. The SOWs are being reviewed by DOA's Acquisition Services Branch (ASB). In addition, DIRM has begun discussions with the General Services Administration (GSA) regarding contracting options and telecommunication programs available to the FDIC. DIRM personnel indicated that the FDIC could reduce monthly local telecommunications costs by about 10 to 25 percent by:

- entering into long-term service agreements,
- competing individual contracts with multiple offerors, and
- evaluating local telecommunications programs offered by GSA.

Based on an annual budget of $1.3 million for local calling plans, the FDIC has the potential to save about $130,000 to $325,000 per year. The FDIC may also realize process efficiencies by consolidating local telecommunications billings.

We recommended that DIRM, in conjunction with DOA, implement a strategy for local telecommunications service that includes:

- working with ASB personnel to review all contracting options available to the FDIC;
- performing market research and surveillance in the commercial marketplace, including contacting GSA;
- comparing the FDIC's current monthly local calling rates for headquarters, field, and regional locations with rates obtainable through (a) long-term contracts such as 3 to 5 years, (b) competitive bids for local service where two or more service providers offer service, and (c) GSA's local service plans that are available to the FDIC. The comparison should also consider potential savings from consolidating invoice processing for telecommunications services.

FDIC management agreed with the recommendation. The report identified funds put to better use of $390,000 to reflect recurring savings over a 3-year period (i.e., $130,000 x 3) to be reported in the OIG's next *Semiannual Report to the Congress*. The FDIC concluded that projecting this amount was premature and could neither agree nor disagree with the OIG estimate at this time. We will determine the actual funds put to better use, if any, through our corrective action closure process.

Federal Deposit Insurance Corporation
801 17th Street NW, Washington, DC 20434

Office of Audits
Office of Inspector General

DATE: December 17, 2004

MEMORANDUM TO: Michael E. Bartell, Chief Information Officer and Director
Division of Information Resources Management

FROM: Russell A. Rau [Electronically produced version; original signed by Russell Rau]
Assistant Inspector General for Audits

SUBJECT: *The FDIC's Local Telecommunications Service*
Report No. 05-001

This report presents the results of our evaluation of the Federal Deposit Insurance Corporation's (FDIC) local telecommunications service program. The evaluation focused on local telecommunications service agreements at the FDIC's headquarters, regional, and field offices. Specifically, the objective of this evaluation was to assess whether the FDIC is procuring local telecommunications service agreements that offer the best value to the Corporation. Details on our objective, scope, and methodology are presented in Appendix I.

BACKGROUND

A telecommunications program should be cost-effective and responsive to the Corporation's business needs, ensure that equipment with current technology is acquired and maintained, and employ safeguards to protect data. The FDIC budgeted $1.3 million for local calling service for 2004. The FDIC has month-to-month local calling service agreements for all headquarters, regional, and field offices. The FDIC has one provider for local calling service at its Washington, D.C., and Virginia Square locations. For regional and field offices, the FDIC has 13 providers for local calling service. The FDIC has contracted with Data Net Systems, which provides telecommunications related services for the FDIC. According to DIRM, one of the responsibilities of Data Net Systems is to review the 64 local phone bills that the FDIC receives each month to ensure that all charges are correct and in accordance with agreements. DIRM uses payment authorization vouchers (PAVs) as allowed by FDIC's *Acquisition Policy Manual*, to pay for local telecommunication service billings.[1]

The Division of Information Resources Management (DIRM) performed market research and discussed procurement options for local calling service plans with Division of Administration (DOA) personnel in 2003. DIRM proposed several options to DOA, including entering into 2-to 5-year contracts and discussed issues such as competing local telecommunications agreements to

[1] PAVs may be used for certain non-procurement administrative-related expenses, including utilities and local telephone services. PAVs are issued by FDIC organizational units and do not go through the normal invoice process.

obtain the best value for the Corporation, and potential savings available under GSA schedule contracts. DIRM did not enter into long-term agreements at that time, primarily because FDIC acquisition policies would not allow for the continued use of PAVs with formal contract agreements.

During a June 2004 evaluation planning meeting, DIRM suggested that our office evaluate the FDIC's local telecommunications program. DIRM and DOA resumed work on implementing procurement options concurrent with our review.

RESULTS OF EVALUATION

DIRM and DOA should reconsider existing procurement options to ensure that the FDIC obtains the best value for local telecommunications service in its headquarters, regional, and field locations. The FDIC has monthly service agreements with various regional telecommunications carriers nationwide that should be reviewed for potential consolidation. Historically, these service agreements have been treated as utility contracts and have not been subject to competitive award. Market surveillance needs to be updated to fully understand procurement options available to the FDIC. The FDIC's *Acquisition Policy Manual* (APM) requires DIRM and DOA to work as a team and to make efforts to obtain the best value for the Corporation in procuring goods and services while achieving adequate competition. DIRM has prepared Statements of Work (SOW) for regional offices and Virginia Square to compete contract award for local calling service. The SOWs are being reviewed by DOA's Acquisition Services Branch (ASB). In addition, DIRM has begun discussions with the General Services Administration (GSA) regarding contracting options and telecommunication programs available to the FDIC. DIRM personnel indicated that the FDIC could reduce monthly local telecommunications costs by about 10 to 25 percent[2] by:

- entering into long-term service agreements,
- competing individual contracts with multiple offerors, and
- evaluating local telecommunications programs offered by GSA.

Based on an annual budget of $1.3 million for local calling plans, the FDIC has the potential to save about $130,000 to $325,000 per year. The FDIC may also realize process efficiencies by consolidating local telecommunications billings.

Applicable APM Requirements

DIRM and DOA must follow the FDIC's APM when contracting for local telecommunications service. The APM states that the participants in the acquisition process must work together as a team, are empowered to make decisions within their area of responsibility, and exercise personal initiative and sound business judgment in providing goods or services at the "best value" to meet a program office needs. The acquisition process is based on the following guiding principles:

[2] Internal DIRM e-mail dated April 11, 2003, subject, Multi-year Contract for Local Telephone Service.

(1) attaining best value in award decisions, (2) enhancing acquisition planning and oversight management, (3) promoting fair and consistent treatment of offerors, and (4) providing outreach for socio-economic programs.

The APM also provides guidance for conducting market research and market surveillance. Market research is the systematic, objective collection and analysis of general data to obtain information and knowledge about availability and types of goods or services in the commercial marketplace. Market research is performed by the program office to stay current with the industry, to identify prospective offerors, and to ensure that existing pricing is competitive. For planned procurements, the program office must first contact the contracting officer who provides appropriate guidance for performing market research. Market surveillance is a method of market research and is an ongoing process of reviewing information about market trends, new developments, products, services, and technical features. Market surveillance is conducted as part of routine business when there is no planned or future procurement action. The program office may perform market surveillance without notification or assistance from the contracting officer.

Long-Term Service Agreements

The FDIC may be able to reduce its local telecommunications costs by entering into long-term service agreements. The FDIC has monthly service agreements for all headquarters, field, and regional offices for local calling service. The FDIC pays $.096 per message unit in Virginia Square and $.085 per message unit in Washington, D.C. A message unit is equivalent to a single telephone call. In May 2004, the FDIC paid $22,120 for local calling service at its 8 regional and area offices and $26,003 for local calling service at its 84 field offices.

As discussed earlier, during 2003, DIRM researched the possibility of entering into longer term agreements, including GSA local service offerings. However, DIRM discontinued its research upon discovering that FDIC’s acquisition policies would not allow for the payment of long-term contract billings using PAVs.

Based on our discussions with GSA officials and DIRM personnel responsible for telecommunications services, if the FDIC agrees to long-term contracts, for example 3- to 5-year contracts, the message rates may be more cost-effective. However, DIRM should ensure that long-term agreements are flexible and include clauses to guarantee that the FDIC continues to receive competitive rates and current technology during the contract period.

Competition for Service Contracts

None of the FDIC’s current agreements with local service providers have been competed. Competing a local calling service contract to multiple providers would help to ensure that the FDIC receives the best rates for its local calling needs. Some local areas may have a limited number of providers to compete for the local service contract; however, many of the FDIC office locations have multiple providers that could compete to provide telecommunications service.

DIRM performed some market research in 2003. That research included assessing the merits of competition and the risks of awarding to the lowest cost vendor (e.g., contracting with a reputable, established service provider and preserving phone number portability). Concurrent with our review, DIRM representatives resumed working with DOA to understand contracting options and have contacted GSA representatives to obtain more information about GSA offerings.

DIRM indicated it had prepared SOWs for competing local telecommunications service for the Virginia Square and FDIC regional offices. The FDIC is in the process of building new office space at Virginia Square for its employees and will need about 1,600 additional phone lines. DIRM personnel anticipate that at least five providers will compete for the contract at Virginia Square. DIRM stated that competing local telecommunications service at Virginia Square and the FDIC regional offices is the first step in improving the FDIC's rates for local telecommunications service. However, FDIC will delay competing local telecommunications service for the Washington, D.C., locations until the Corporation can determine service requirements for employees that are moving to Virginia Square.

GSA Telecommunications Programs

The FDIC should also reconsider local telecommunications programs available from GSA. GSA has obtained telecommunications services, including long-distance and local telephone services for use by federal agencies through contracts with the private industry.

- The Washington Interagency Telephone System (WITS) 2001 program offers competitive rates for local calling service in the Washington, D.C., metropolitan area for all government agencies. This contract could be advantageous if the FDIC makes many interagency calls because there is no message unit charge for in-network calls (those to other agencies participating in WITS 2001). For off-network calls, the per message unit price range from $.06 to $.09 per call in the metropolitan Washington, D.C., area.

- GSA initiated its "Metropolitan Area Acquisition" (MAA) program to take advantage of the changes brought about by the Telecommunications Act of 1996.[3] The MAA program was intended to replace existing GSA contracts in selected metropolitan locations; to achieve immediate, substantial, and sustained price reductions for local telecommunications for agencies; to expand agencies' choices of high-quality services; and to encourage cross-agency sharing of resources. Although GSA might not be able to provide local calling service under its existing plans to all FDIC locations, more plan acquisitions are forthcoming. Specifically, GSA is in the process of expanding the MAA program to additional areas (including Puerto Rico where the FDIC has a field office) and could include specific FDIC locations, depending on the level of service needed by the FDIC.

Another issue that the FDIC needs to factor into its analysis of procurement options is billing consolidation. GSA can consolidate billings for the FDIC to reduce the costs of processing

[3] The Telecommunications Act was designed to open up the local markets to competition and to create incentives for the investment in and deployment of advanced telecommunications services.

payments for the 64 invoices that the FDIC currently receives. The FDIC's costs for reviewing and paying local calling service bills should be considered when analyzing local calling plans for FDIC locations. As discussed earlier, a contractor processes monthly billings for the FDIC. Because this contractor also performs other telecommunication and information technology-related functions, DIRM could not readily estimate the portion of contract costs attributable to processing invoices for local telecommunications services.

However, a DIRM representative indicated that the contractor is paid $43.08 per hour and spends roughly one-third of her time processing local telecommunication invoices, including checking invoices for new or unusual charges, validating all entries, and seeking and tracking credits for inappropriate charges. Projecting this amount for a year yields $29,570 ($43.08 x 2,080 (hours in a work year) x .33). DIRM officials indicated that the contractor had identified several hundred thousand dollars in overbillings which more than offset the cost of the contractor staff. Regardless, invoice consolidation may allow DIRM to make better use of contractor resources.

Recommendation

We recommend that the Chief Information Officer and Director, DIRM, in conjunction with the Director, DOA, implement a strategy for local telecommunications service that includes:

- working with ASB personnel to review all contracting options available to the FDIC;

- performing market research and surveillance in the commercial marketplace along with contacting GSA officials to discuss and review local calling plans and rates that are available to the FDIC through the GSA at sites that GSA has under contract; and

- comparing the FDIC's current monthly local calling rates for headquarters, field, and regional locations with rates obtainable through (a) long-term contracts such as 3 to 5 years, (b) competitive bids for local service where two or more service providers offer service, and (c) GSA's local service plans that are available to the FDIC. The comparison should also consider potential savings from consolidating invoice processing for telecommunications services.

As discussed earlier, we estimated that the FDIC could save $130,000 to $325,000 annually by entering into long-term, competed service agreements. Accordingly, we will report funds put to better use of $390,000 to reflect recurring savings over a 3-year period (i.e., $130,000 x 3) in our next *Semiannual Report to the Congress*.

CORPORATION COMMENTS AND OIG EVALUATION

The CIO and Director, DIRM, and the Director, DOA, provided a written response on December 15, 2004 to a draft of this report. Their response is presented in its entirety in Appendix II.

DIRM and DOA agreed with our recommendation. DIRM and DOA agreed to complete work related to competing local telecommunication service to identify more cost-effective options, where applicable, and implement appropriate contract revisions by December 31, 2005 for local calling plans. In addition, DIRM stated that it completed market research and will work on implementing procurement strategies and options for the telecommunications market. These options include longer term agreements, such as 2-5 year agreements; GSA local service plans that are available to the FDIC; and competitive bids for local service where two or more service providers offer service. DIRM will also evaluate consolidated billing, utilizing GSA's MAA program and will work with telecommunication carriers to further consolidate billing. However, DIRM and DOA indicated that further bill consolidation may not be possible at this time due to disparate billing systems of telecommunication carriers when covering large geographical areas.

DIRM and DOA also stated that although they agreed with the recommendation, they believed that projecting the potential cost savings is premature stating:

> The amount of the savings generated, if any, can only be determined once the actions undertaken are in place. As such, we cannot agree or disagree with the OIG estimate at this time. In addition, it should be noted that the potential cost savings may be difficult to ascertain. The competitive environment and deregulation in the industry has resulted in extreme variability in pricing that has resulted in a multitude of options offered through bundled services. As a result, if asked to determine the specific savings achieved, identification of such savings may be difficult and blurred because of the inability to isolate the local telecommunications service costs as industry business changes occur.

We will determine the actual funds put to better use, if any, through our corrective action closure process.

DIRM and DOA also had general comments regarding specific language used in the draft report, and we have addressed those concerns in the final report, where appropriate.

Overall, management's proposed actions are sufficient to resolve the recommendation. However, the recommendation will remain undispositioned and open for reporting purposes until we have determined that the agreed-to corrective actions have been completed and are effective. Appendix III presents a summary of DIRM's and DOA's response to our recommendation.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our evaluation was to assess whether the FDIC is procuring local telecommunications service agreements that offer the best value to the Corporation. In performing our work, we interviewed officials from DIRM's Telecommunication's Section and DOA's ASB. We also spoke with officials from GSA's Federal Technology Service and MAA program.

We reviewed monthly local telecommunications service charges for May 2004 for the FDIC field locations and obtained comparative GSA pricing when available. We did not evaluate whether invoice charges complied with the FDIC's existing service agreements.

We also reviewed relevant sections of the APM and consulted with OIG's legal counsel to obtain an understanding of the statutory and the regulatory framework for local telecommunication services.

We conducted our field work from July through September 2004 in accordance with generally accepted government auditing standards.

CORPORATION COMMENTS

FDIC

Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226-3500

Office of the Chief Information Officer
Office of the Director Administration

December 15, 2004

To: Russell A. Rau
Assistant Inspector General for Audits

From: Michael E. Bartell [Electronically produced version; original signed by Michael E. Bartell]
Chief Information Officer and
Director, Division of Information Resources Management

Arleas Upton Kea [Electronically produced version; original signed by Arleas Upton Kea]
Director, Division of Administration

Subject: Draft Evaluation Report Entitled, The FDIC's Local Telecommunications Service (Assignment No. 2004-047)

The Division of Information Resource Management (DIRM) and Division of Administration (DOA) have completed their review of the subject Office of Inspector General (OIG) report. We would like to thank the OIG for agreeing to take on this timely evaluation when DIRM made the request to the OIG in July 2004. We also appreciate the efforts by the OIG to revise the original draft report. We believe the revised draft report, dated November 23, provides a more accurate representation and history of the telecom issues and recognizes the positive efforts made to date by both DIRM and DOA.

We have evaluated the report recommendation, and have provided a detailed "Management Response" that includes planned corrective actions and expected completion dates as appropriate. You will also find a section entitled "General Comments," where we have proposed certain language changes be made and incorporated into the final report.

Management Response.

OIG Recommendation: We recommend that the Chief Information Officer and Director, DIRM, in conjunction with the Director, DOA, implement a strategy for local telecommunications service that includes:

- working with ASB personnel to review all contracting options available to the FDIC;

- performing market research and surveillance in the commercial marketplace along with contacting GSA officials to discuss and review local calling plans and rates that are available to the FDIC through the GSA at sites that GSA has under contract; and

- comparing the FDIC's current monthly local calling rates for headquarters, field, and regional locations with rates obtainable through (a) long-term contracts such as 3 to 5 years, (b) competitive bids for local service where two or more service providers offer service, and (c) GSA's local service plans that are available to the FDIC. The comparison should also consider potential savings from consolidating invoice processing for telecommunications services.

As discussed earlier, we estimated that the FDIC could save $130,000 to $325,000 annually by entering into long-term, competed service agreements. Accordingly, we will report funds put to better use of $390,000 to reflect recurring savings over a 3-year period (i.e., $130,000 x 3) in our next *Semiannual Report to the Congress*.

DIRM and DOA Response: DIRM and DOA concur with the recommendation made by the OIG. Although we agree with the recommendation, we believe that projecting the potential cost savings is premature. The amount of savings generated, if any, can only be determined once the actions undertaken are in place. As such, we cannot agree or disagree with the OIG estimate at this time. In addition, it should be noted that the potential cost savings may be difficult to ascertain. The competitive environment and deregulation in the industry have resulted in extreme variability in pricing and a multitude of options offered through bundled services. As a result, if asked to determine the specific savings achieved, identification of such savings may be difficult and blurred because of the inability to isolate the local telecommunications service costs as industry business changes occur. The subparts of the recommendation are addressed below:

Recommendation. DIRM should work with ASB personnel to review all contracting options available to the FDIC;

> **Response.** DIRM's Voice and Video Operations Unit (VVOU) and DOA ASB plan to complete work related to the competition of the SOW / proposals now in ASB, identify more cost effective options where applicable and implement appropriate contract revisions by 12/31/05.

Recommendation. DIRM, in conjunction with DOA, should perform market research and surveillance in the commercial marketplace along with contacting GSA officials to discuss and review local calling plans and rates that are available to the FDIC through the GSA at sites that GSA has under contract

> **Response.** Completed. DIRM VVOU has performed market research and discussed the various procurement options for local calling service with DOA Acquisition Services Branch (ASB). DIRM has researched the possibility of entering into longer term agreements, including entering into 2 and 5 year contracts, to compete local telecommunications agreements to obtain the best

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value for the Corporation. DIRM has also evaluated potential savings under the GSA local service options under scheduled contracts. The research included assessing the merits of competition and risks of awarding to the lowest cost vendor (e.g. contracting with a reputable service provider and preserving phone number portability).

Recommendation. DIRM, in conjunction with DOA, should compare the FDIC's current monthly local calling rates for headquarters, field, and regional locations with rates obtainable through (a) long-term contracts such as 3 to 5 years, (b) competitive bids for local service where two or more service providers offer service, and (c) GSA's local service plans that are available to the FDIC. The comparison should also consider potential savings from consolidating invoice processing for telecommunications services.

Response. Beginning in July 2004, DIRM analyzed the FDIC's local telecommunications program and teamed with DOA ASB to resume work on implementing procurement strategies and options concurrent with DIRM review of the telecommunications market. Subparts (a) and (c) above have been completed. As part of this effort, the VVOU has forwarded several Statements of Work (SOW) to ASB for Regional, Area and Virginia Square offices. The outcome of these competitive contracts will assist DIRM in making future strategic decisions for moving forward to other field offices. This action is in process and will address subpart (b) above. DIRM is also evaluating consolidated billing utilizing GSA's Metropolitan Area Acquisition (MAA) program. This work will be completed in conjunction with those identified in the response to bullet one on the first page of this response.

<u>General Comments</u>:

- Page 1, 2nd paragraph, 5th sentence: Please insert the word "**related**" following the word "**telecommunications**" and prior to "**services**" to accurately state the services provided.
- Statement from middle of page 2 of the OIG report: The FDIC has monthly service agreements with various regional telecommunications carriers nationwide that should be reviewed for additional consolidation.
  - DIRM Voice & Video Operations Unit (VVOU) has been aggressively working towards billing consolidation since 2000. Each year, the number of monthly payment authorization vouchers (PAV) continues to decline due to invoice consolidation. We continue to work with the telecommunication carriers to further consolidate the bills, but further consolidation is not possible at this time. This is due to the disparate billing systems of telecommunication carriers when covering large geographical areas.

3

- Page 4, 2nd full paragraph, last sentence should read: However, FDIC will delay competing local telecommunications service for the Washington, D.C., locations until the Corporation can determine service requirements **for** employees **that** are mov**ing** to Virginia Square.

If you have any questions regarding the response, the points of contact for this matter are: Rack Campbell, DIRM Audit Liaison (703-516-1422) and Andrew Nickle, DOA Audit Liaison. (202-942-3190).

cc: James H. Angel Jr., OERM
Russ Pittman, DIRM ISB
Steve Anderson, DIRM BAB
Dan Mahoney, DIRM BAB
Ann Bridges Steely, DOA ASB
David McDermott, DOA ASB

MANAGEMENT RESPONSE TO THE RECOMMENDATION

This table presents the management response made on the recommendation in our report and the status of the recommendation as of the date of report issuance. The information in this table is based on management's written response to our report.

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Monetary Benefits	Resolved:[a] Yes or No	Dispositioned:[b] Yes or No	Open or Closed[c]
1	DIRM and DOA responded that: • DIRM and DOA plan to complete competition of local service proposals, which ASB has for review. • DIRM has completed market research, including entering into longer term agreements and researching GSA local service options. • DIRM will evaluate possibilities for consolidating billing.	December 2005	$130,000 - $325,000 (annually)	Yes	No	Open

[a] Resolved – (1) Management concurs with the recommendation, and the planned corrective action is consistent with the recommendation.
(2) Management does not concur with the recommendation, but planned alternative action is acceptable to the OIG.
(3) Management agrees to the OIG monetary benefits, or a different amount, or no ($0) amount. Monetary benefits are considered resolved as long as management provides an amount.

[b] Dispositioned – The agreed-upon corrective action must be implemented, determined to be effective, and the actual amounts of monetary benefits achieved through implementation identified. The OIG is responsible for determining whether the documentation provided by management is adequate to disposition the recommendation.

[c] Once the OIG dispositions the recommendation, it can then be closed.