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ENTREPRENEURIAL GOVERNMENT RUN AMOK? A REVIEW OF FSS/FTS ORGANIZATIONAL AND MANAGEMENT CHALLENGES

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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ENTREPRENEURIAL GOVERNMENT RUN AMOK? A REVIEW OF FSS/FTS ORGANIZATIONAL AND MANAGEMENT CHALLENGES

THURSDAY, OCTOBER 2, 2003

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 11:13 a.m., in room 2154, Rayburn House Office Building, Hon. Tom Davis of Virginia (chairman of the committee) presiding.

Present: Representatives Tom Davis of Virginia, Souder, Ose, Lewis of Kentucky, Murphy, Maloney, Cummings, Mr. Davis of Illinois, Tierney, Clay, Watson, and Norton.

Staff present: Peter Sirh, staff director; Melissa Wojciak, deputy staff director; Ellen Brown, legislative director and senior policy counsel; John Hunter, counsel; Teddy Kidd, professional staff member; Jennifer Safavian, chief counsel for oversight and investigations; Robert Borden, counsel/parliamentarian; John Brosnan, GAO detailee; Teresa Austin, chief clerk; Brien Beattie, deputy clerk; Karen Lightfoot, minority communications director/senior policy advisor; Michelle Ash, minority counsel; Mark Stephenson and Tania Shand, minority professional staff members; Earley Green, minority chief clerk; Jean Gosa, minority assistant clerk; and Cecelia Morton, minority office manager.

Chairman TOM DAVIS. The committee will come to order. Good morning, I want to welcome everybody to today's oversight hearing on the General Services Administration's ongoing efforts to restructure the organization of the Federal Supply Service and the Federal Technology Service, and the impact of recent GSA Inspector General investigations of FTS contract management. We will also touch upon GSA's plans for a new Governmentwide telecommunications program.

The hearing today will build on the information on structural and management challenges faced by the two services developed in a hearing held last Congress by my Subcommittee on Technology and Procurement Policy, and supplemented by the General Accounting Office in work performed for the subcommittee. Also key are recent revelations of mismanagement in FTS contracting surfaced by the GSA IG in a study of FSS/FTS organizational issues performed by Accenture last year for the General Services Administration.

Through various revolving funds, GSA buys products and services from the private sector. It resells them to Federal agencies.

FSS and FTS, which do a combined $30 billion in business each year, both fit within this model but take different approaches to filling agency customers' needs. The Federal Supply Service, through its Schedules program, provides Government agencies with the opportunity to quickly purchase needed products and services including, of course, IT. Customer agencies deal directly with vendors under their FSS contracts. Used properly, the Schedules have proved to be an invaluable tool for Federal contracting officers.

FTS, operating through GSA's Special Information Technology Fund, offers Federal agencies a range of IT and telecommunication services through varied contract vehicles it has traditionally managed and the Schedules. FTS views itself as a "value added" reseller of telecommunications and IT. FTS offers consulting and extensive contract management solutions to assist Federal agencies in complex acquisitions that require indepth technical knowledge. FTS seems to have been the primary source of GSA's recent management challenges.

The overlapping and redundant nature of the current structure has raised questions related to the relationship between these services. As a result of last year's hearing, GAO work and the Accenture report, the Technology and Procurement Policy Subcommittee found that overlaps existed between FSS and FTS in a number of areas, including information technology sales and marketing and IT contracting offerings. Administrator Perry, to his credit, has embarked upon a realignment effort in an attempt to coordinate the range of services provided to agencies. As a part of this effort, GSA has recently announced the result of a review of its IT contract vehicles. As I understand it, a number of those contracts will not be continued and those that remain will, for the most part, be managed by the Federal Supply Service.

Notwithstanding these efforts, there have been disturbing revelations of what may well be a pattern of contract mismanagement throughout the FTS. The GSA IG reported inappropriate contracting practices and misuse of the information technology funds by FTS officials at GSA's Bremerton, WA, office. I also understand that the IG will soon release another report documenting further contracting irregularities by FTS officials in other GSA regions. I believe that the problems are extensive and could involve acquisitions valued up to $100 million. The committee is closely following this unfolding story. We have to be ready to remedy the situation if allegations of wide-spread abuse and mismanagement at FTS prove to be true. Consequently, the committee intends to explore alternatives, including legislative solutions, to the current FSS/FTS structure that would lead to better management oversight of contracting activities.

I am keenly interested in hearing GSA's plan to remedy these growing difficulties and in exploring the relationship of these instances of mismanagement to the underlying structural issues. Finally, in addition to all this, GSA will soon issue a Request for Information seeking input for a next generation Governmentwide telecommunications program. This program is slated to be run by FTS. While we have yet to see the details of the GSA's telecom proposal, as the specifics unfold, the committee plans to address issues

concerning the appropriate location for this program and whether there is a need for it at all.

In closing, I want to emphasize that the committee will continue to follow these events. I will not hesitate to propose whatever solutions are needed to resolve GSA's structural and management challenges, but I look forward to the recommendations and working with Commissioner Perry in doing this. We have to be able to assure the American taxpayers that GSA provides best value as a supplier of IT products and services to the Federal Government. If this requires that we mandate permanent reorganization, we will do what we need to do.

But let us start today by hearing what the witnesses have to say. I want to welcome all the witnesses to today's hearing. I look forward to their testimony. Is there anyone else that wishes to make an opening statement this morning?

[The prepared statement of Chairman Tom Davis follows:]

Opening Statement of Chairman Tom Davis
"Entrepreneurial Government Run Amok? A Review of FSS/FTS Organizational and Management Challenges"
October 2, 2003
11:00 a.m.
Room 2157, Rayburn House Office Building

Good morning, I would like to welcome everyone to today's oversight hearing on the General Services Administration's (GSA) on-going efforts to restructure the organization of the Federal Supply Service (FSS) and Federal Technology Service (FTS) and the impact of recent GSA Inspector General (IG) investigations of FTS contract mismanagement. We will also touch upon GSA's plans for new government-wide telecommunications program.

The hearing today will build on the information on structural and management challenges faced by the two services developed in a hearing held last Congress by my Subcommittee on Technology and Procurement Policy and supplemented by the General Accounting Office (GAO) in work performed for the Subcommittee. Also key are recent revelations of mismanagement in FTS contracting surfaced by the GSA IG and a study of FSS/FTS organizational issues performed by Accenture last year for GSA.

Through various revolving funds, GSA buys products and services from the private sector and resells them to federal agencies. FSS and FTS, which do a combined $30 billion in business each year, both fit within this model but take different approaches to filling agency customers' needs. FSS, through its Schedules program, provides government agencies with the opportunity to quickly purchase needed products and services, including, of course, IT. Customer agencies deal directly with vendors under their FSS contracts. Used properly, the Schedules have proved to be an invaluable tool for federal contracting officers.

FTS, operating through GSA's special information technology fund, offers federal agencies a range of IT and telecommunications services through varied contract vehicles it has traditionally managed and the Schedules. FTS views itself as a "value added" reseller of telecommunications and IT. FTS offers consulting and extensive contract management solutions to assist federal agencies in complex acquisitions that

require in-depth technical knowledge. FTS seems to have been the primary source of GSA's recent management challenges.

The overlapping and redundant nature of the current structure--FTS is a major user of FSS contracts-- has raised questions related to the relationship between the services. As the result of last year's hearing, GAO work and the Accenture report, the Technology and Procurement Policy Subcommittee found that overlaps existed between FSS and FTS in a number of areas, including information technology sales and marketing and IT contracting offerings. Administrator Perry, to his credit, has embarked upon a realignment effort in an attempt to coordinate the range of services provided to agencies. As a part of this effort, GSA has recently announced the result of a review of its IT contract vehicles. As I understand it, a number of those contracts will not be continued and those that remain will, for the most part, be managed by the FSS.

Notwithstanding these efforts, there have been disturbing revelations of what may well be a pattern of serious contract mismanagement throughout the FTS. The GSA IG has reported inappropriate contracting practices and misuse of the information technology fund by FTS officials at GSA's Bremerton Washington office. I also understand that the IG will soon release another report documenting further contracting abuses by FTS officials in other GSA regions. I believe that the problems are extensive and could involve acquisitions valued at up to $100,000,000. The Committee is closely following this unfolding story, and we must be ready to remedy the situation if allegations of widespread abuse and mismanagement at FTS prove to be true. Consequently, the Committee intends to explore alternatives, including a possible legislative solution, to the current FSS/FTS structure that would lead to better management oversight of contracting activities.

I am keenly interested in hearing GSA's plans to remedy these growing difficulties and in exploring the relationship of these instances of mismanagement to the underlying FSS/FTS structural issues. Finally, in addition to all of this, GSA will soon issue a Request for Information seeking input for a next generation government-wide telecommunications program. This program is slated to be run by the troubled FTS. While we have yet to see the details of the GSA's telecom proposal, as the specifics unfold, the Committee plans to address issues concerning the appropriate location for this program and whether there is a need for it at all.

In closing I would like to emphasize that the Committee will continue to follow these events. I will not hesitate to propose whatever solutions are needed to resolve GSA's structural and management challenges. We must be able to assure the American taxpayer that GSA provides best value as a supplier of IT products and services to the federal government. If this requires that we mandate a permanent reorganization within GSA, I am prepared to introduce legislation that will do so.

Mr. CLAY. Mr. Chairman.

Chairman TOM DAVIS. Yes, Mr. Clay?

Mr. CLAY. Yes, Mr. Chairman, the GSA is the parent organization of the Federal Supply System and the Federal Technology Service. Both systems have functioned remarkably well since their creation. The FSS alone has operated since 1949 and, combined, they do more than $30 billion in business each year. This is a real testimony to the hard work of the employees and managers at offices and warehouses around the country. The procurement solutions they provide to Government through their contractors have been invaluable. However, lately, something has gone awry with these two systems, and that is what brings us here today, to examine the issues of waste, fraud and abuse.

Recently, I was reading a report issued by the GSA Inspector General's Office. I was astonished to learn that they found FTS funds were co-mingled. There has been abuse and misuse of the Small Business Administration 8(a) Contractor Program; improper coding procedures; duplication and overall inefficiency between FTS and FSS. These situations are unfortunate and are reflective of a troubled agency. Mismanagement on this scale is simply not acceptable. Finally, it is imperative that our constituents have confidence in the Government's ability to be fair and open in its procurement process.

I look forward to hearing from today's witnesses, and I ask unanimous consent to submit my statement into the record. Thank you, Mr. Chairman.

[The prepared statement of Hon. Wm. Lacy Clay follows:]

Statement of the
Honorable Wm. Lacy Clay
Before the
Government Reform Committee
Thursday, October 2, 2003

"Entrepreneurial Government Run Amok? A Review of FTS / FSS Organizational and Management Challenges"

Mr. Chairman, the General Services Administration (GSA) is the parent organization of the Federal Supply System (FSS), and the Federal Technology Service (FTS). Both systems have functioned remarkably well since their creation. The FSS alone has operated since 1949 and combined they do more than $30 billion in business each year. This is a real testimony to the hard work of the employees and managers at offices and warehouses around the country. The procurement solutions they provide to government through their contractors have been invaluable. However, lately something has gone awry with these two systems. And that's what brings us here today, to examine the issues of waste, fraud and abuse.

Recently, I was reading a report issued by the GSA Inspector General's office (IG). I was astonished to learn that they found:

- FTS funds were co-mingled,
- There has been abuse and misuse of the Small Business Administration's 8 (a) Contractor Program,
- Improper coding procedures, and

- Duplication and overall inefficiency between FTS / FSS.

These situations are unfortunate and are reflective of a troubled agency. Mismanagement on this scale is simply not acceptable.

Finally, it is imperative that our constituents have confidence in the government's ability to be fair and open in its procurement process. I look forward to hearing from today's witnesses and I ask unanimous consent to submit my statement into the record.

Chairman TOM DAVIS. Thank you very much. Are there any other opening statements?

[No response.]

Chairman TOM DAVIS. Well, Members can have 5 legislative days to submit opening statements for the record. There is no vote, yet; we anticipate it momentarily, but let us move ahead with the hearing.

Our first witness is Steve Perry, the Administrator of the General Services Administration. Mr. Perry, you are accompanied by Sandy Bates, who is the Commissioner of the Federal Technology Service. Welcome, Sandy; you have been here before; and Donna Bennett, the Commissioner of the Federal Supply Service, so welcome.

It is the policy of this committee that all witnesses be sworn before they testify. Would you rise with me and raise your right hands.

[Witnesses sworn.]

Chairman TOM DAVIS. Please be seated. Your entire statement is in the record, Mr. Perry. If you can, try to take 5 minutes. You know how the buttons work. But whatever you need, on this important issue, we want to give you time to amplify; thank you and welcome.

STATEMENT OF STEPHEN PERRY, ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION, ACCOMPANIED BY SANDY BATES, COMMISSIONER OF THE FEDERAL TECHNOLOGY SERVICE, AND DONNA BENNETT, COMMISSIONER OF THE FEDERAL SUPPLY SERVICE

Mr. PERRY. Good morning Mr. Chairman and members of the committee. Thank you for the opportunity to testify today on behalf of the GSA with respect to our overall operations. At previous meetings of this committee, you have provided us with the opportunity to talk about the procedures we have established to improve the performance of GSA in terms of providing best value services, not only to our GSA customer agencies but, indeed, to the American taxpayers. This applies, obviously, to all parts of our agency: the Public Building Service, the Federal Supply Service, the Federal Technology Service, our Office of Governmentwide Policy and all other areas of GSA. Since the last time that the committee conducted an oversight hearing, GSA has undertaken many of the steps necessary to improve our operations; and as you point out, we have confronted new challenges since we last met, and I am pleased to have this opportunity to review them with you.

As requested in your invitation letter, I will be discussing three general areas. First, the changes we have made to improve the overall operations of our Federal Technology Service and Federal Supply Service by realigning and consolidating some functions within those two services. Second, I want to talk about the incidences that we have uncovered regarding cases where we have failed to follow proper contracting procedures, as required by the Federal Technology Services Information Technology Fund. And then third, to talk a little bit about the process that we are using to develop an acquisition strategy for the replacement of the expiring FTS 2001 telecommunications contract.

The first subject then is the initiative to improve the performance of our Federal Technology Service and our Federal Supply Service by realigning, combining and consolidating some of those functions. This initiative began, in part, because of GSA's agency-wide performance improvement program. But also, Mr. Chairman, this initiative began, in part, because you and members of this committee suggested at a previous hearing that we needed to review concerns expressed that GSA's process for enabling agencies to acquire information technology products and services seemed to have some areas of non-value adding duplication between our two services, in terms of what was available from Federal Technology and Federal Supply.

We have, in fact, established an FTS/FSS review study committee as a result of those discussions. That committee was to review whether the organizational structure and the functions of the Federal Supply and the Federal Technology Service could be enhanced to ensure that best value services were being provided to agencies and to the American taxpayers. It was determined that overlaps and non-value adding, duplicative functions did, in fact, exist between FTS and FSS and that this appeared to be creating inefficiencies and confusion among our customer agencies and industry partners. FSS and FTS have jointly developed and implemented a performance improvement plan to fix that situation.

First, in December 2002, the Commissioners of FSS and FTS and I announced that we would combine and realign certain functions in FSS and FTS, and that GSA's Office of Performance Improvement would provide oversight to the performance improvement process in order to assure that the changes would be implemented prudently but expeditiously. Of the most significant changes that were among our proposals, one was to consolidate the development and administration of all contracting vehicles into FSS. Second, to establish a Contract Vehicle Review Board to review and rationalize current contracts and to look at any future contracts. Third, to consolidate all marketing activities of FSS and FTS into FSS. And fourth, to respond to customer agency unmet requirements for the acquisition of certain professional services by having FTS begin to provide assisted acquisition service in that area. I am pleased to announce, Mr. Chairman and report to the members of the committee, that each of those changes have been implemented and are now fully operational. I have information and will be discussing during the question and answer session a lot of the specific details pertaining to that.

In the interest of time, and because I think it is a very important subject, I want to move to the next general topic that your invitation letter asked us to address. That next general topic is the cases that we have uncovered at GSA where we have failed to follow proper contracting procedures, as required by the Federal Technology Services Information Technology Fund. I will start with a bit of background.

The Federal Technology Service's IT Solutions Business Line acquires IT products and services for other Federal agencies. Unlike the Federal Supply Services's approach of providing contracting vehicles for agency contracting officers to use, the Federal Technology Service's IT Solution Business Line has contracting officers who ac-

tually do the contracting on behalf of the customer agencies. The IT Solutions Business Line has Client Support Centers in each GSA region. FTS central office management provides policy guidance and general oversight to all CSCs or all Client Service Centers. For day-to-day operations, however, the Client Service Centers in the regions report directly to the GSA regional management, with dotted line reporting relationships to the FTS central management.

With this organizational structure, obviously, achieving the desired results requires the FTS central office management and our GSA regional management to cooperate in a partnership, or matrix-type, of management operation. FTS enters into formal reimbursable agreements with its clients to provide IT products and services. FTS uses the Information Technology Fund, and IT and telecommunications costs are, in effect, run through that fund. We pay the vendors and then we bill the agencies for reimbursement. Part of the internal control system to ensure the proper use of the IT fund is that the management team request the GSA Inspector General to include in his annual audit regular reviews and audits of the CSC, Client Support Center, funds. FTS central office management requested the GSA Inspector General to include in its annual audit plan the audit of all FTS Client Support Centers; the IG agreed to do so.

Before the audits began for this audit cycle, the Regional Administrator in Region 10 in the State of Washington discovered contracting irregularities, which caused him to request the GSA Inspector General to begin the audit of that CSC in that region as the first audit to start this annual cycle. The IG's findings from that review resulted in the issuance of an alert in March 2003 that identified the contracting irregularities in Region 10's IT Solution Office in Bremerton, WA. The contracting improprieties were in two categories. First, the improper use of the Information Technology Fund to acquire non-IT products and services. And second, the improper use of the 8(a) contracting vehicles for small business, including splitting procurements and the misuse of the subcontracting.

Region 10 and its FTS central office officials have worked together to undertake corrective actions and resolve the problems and prevent their reoccurrence. Thus far, Region 10 and the central office have done the following things. First of all, each of the associates of the Bremerton office have been reassigned. All of the associates who were in that office are now under the direct supervision of managers in the Auburn, WA regional office headquarters facility. In May 2003, that re-assignment was accomplished. In addition, we have implemented new and refresher training courses for contracting and appropriate people to make sure that they are up-to-date with respect to the procedures and the requirements of the law and regulations. Further, we have restructured the Region 10 organization into teams in which network services, IT solutions and acquisition associates work together to assure a higher quality of work in their application and implementation of task order procedures. Fourth, we have assigned a Chief of Acquisitions responsible for oversight of acquisitions and for developing internal control procedures and/or statements of objectives for FTS work to be

performed in Region 10. The management team there, assisted by the IG, is gathering detailed information regarding the actions of individual associates. Using that information, Mr. Chairman and members of the committee, management will reach determinations regarding appropriate disciplinary and personnel actions that will follow.

I can tell you that on behalf of all of the associates at GSA, these items that were uncovered were very, very disturbing to us. It is not consistent with the way in which most of the people at GSA operate, and certainly not consistent with the direction we have received from the President or the direction that the GSA management team has, in general, given to our associates. Region 10, which is headquartered in the State of Washington, I have talked about that audit. But in addition to that audit, the GSA IG is currently conducting audits of the Client Support Centers with the largest volume of transactions. That includes our Region 4 based in Atlanta, Region 6 in Kansas City and Region 9 in California. Subsequently, each other region will have an audit of its client support center.

FTS has also begun to implement a series of actions and initiatives designed to improve acquisitions quality and integrity across the service. First, we have reiterated the policies and procedures that are already in place. On September 23rd of this year, the FTS Commissioner issued a memorandum that reiterated the applicable regulations and policies issued and/or pertaining to FTS over the past few years. This memorandum strongly admonishes all FTS activities to scrupulously adhere to the letter and spirit of all pertinent guidance, including the Federal Acquisitions Regulation and the December 6, 2001 memorandum to all IT solutions associates directly, which talked about how to grow the business responsibly.

Second, as part of the FTS 2004 annual financial audit, the GSA Chief Financial Officer will ensure that financial auditors review the FTS control environment and risk assessment, and that proper control activities are in place. In addition, to ensure a sound system of internal controls, program performance will be routinely analyzed, assessed, and evaluated by management. Taken together, this is intended to provide reasonable assurance of a fully effective and efficient internal control program within FTS.

Third, FTS has implemented an additional legal review requirement to ensure sound legal regulatory and contractual principles. GSA's Office of General Counsel will review all FTS new contract awards over $5 million. All FTS actions that will result in the awards of blanket purchase agreements against the FSS Multiple Awards Schedules, regardless of dollar value, will also be reviewed. And all FTS actions that will result in the issuance of a task delivery order that contains leasing provisions, regardless of dollar value, will be reviewed. All FTS actions that will result in the issuance of task delivery orders under existing vehicles—GWACs, MVI, FSS Multiple Award Schedule—in excess of $5 million will be reviewed. All of those reviews will be done by our General Counsel's Office.

In addition to the matters set forth above, GSA associates are encouraged to seek legal advice from assigned counsel on any matter they deem appropriate. We have always had an open door policy

and have encouraged associates to be forthright if they suspect that there are any actions that are inappropriate going on in their respective areas. Associates are also encouraged to keep legal counsel involved in the progress of major acquisition matters, and to seek advice on such issues as to whether a procurement is appropriate for an SBA 8(a) procurement, and whether a procurement constitutes information technology or non-information technology. FTS is developing a series of detailed acquisition improvement plans for each regional and national CSC. Each improvement plan will specify required actions, methods, and results in such areas as the oversight of pre-award and post-award activities and the conduct of acquisition activities by associates with appropriate levels of experience and expertise.

Last, FTS IT Solutions is strengthening its long-term strategic goals, the statement of its annual performance goals and its performance measures to ensure the linkage of FTS measures to GSA vision, values, and goals; and to make sure that the goals and measures are not in any shape or form contributing to the driving of any kind of inappropriate contracting behavior. In addition, the intent is to ensure a balanced approach between linking performance with customer satisfaction, associate satisfaction and the quality of business results. In the next 2 months, the FTS Commissioner will solicit an independent review of contract and management operations to evaluate compliance with procurement laws and regulations and internal GSA policies and procedures.

Mr. Chairman, let me assure you that we take this audit report finding very seriously. While I said at the outset that we actually were conducting a performance improvement process which was looking for those kinds irregularities, we did not expect to find them, or at least we hoped that we would not find them, and actually we have. This failure to follow proper contracting procedures is totally inconsistent, as I said, with the President's direction and with GSA values and goals.

Now, Mr. Chairman, I will talk briefly then about the next general subject, which is the telecommunications services replacement of the expiring contract. As you know, FTS is responsible for ensuring that Federal agencies have access to affordable telecommunications services and solutions which meet agency mission requirements. FTS works very closely with this committee, with the agencies and with the entire community of stakeholders to leverage the Federal community's buying power.

Throughout the tumultuous period that has characterized the telecommunications deregulation, and despite the difficult industry environment that we face today, our acquisition strategies have served us well in FTS 2001. We contend that has successfully provided the state-of-the-art services that agencies need at very low prices; and we have also been able to provide competitive access to new technologies. Also, FTS 2001 achieved the objective established by this committee of ensuring the best practice, service and price for the Government, while maximizing competition in acquiring those services. Although FTS 2001 contracts are not mandatory, agencies have remained with FTS because we have managed the program to their satisfaction and have made continuous improvements during the life of the contracts. Mr. Chairman, as FTS 2001

and its related acquisition programs begin to approach expiration, we have begun our process of developing an acquisition strategy for the replacement contract.

Building on the experience that we gained in competing FTS 2001, we have established four primary goals for the new contract. First, we must assure continuity of current telecommunication services and solutions for our customers. FTS 2001 provides telecommunications services to tens of thousands of locations, and Government users depend upon FTS 2001 for uninterrupted service to perform their missions. Second, we must provide best value for all services and solutions by attracting the most innovative and highest quality services from industry at the best possible prices. Third, we must respond to the changing marketplace by providing access to a broader range of services and providers than on the previous FTS telecommunications contract. Finally, we seek to offer expanded opportunities for small businesses. We believe it would be possible for FTS to provide these opportunities to compete as both primes and as subcontractors.

Again, I want to thank you for the opportunity to comment on these very important subjects. Now Sandy Bates, Donna Bennett and I would look forward to any questions that you or members of the committee may have.

[The prepared statement of Mr. Perry follows:]

STATEMENT OF
STEPHEN A. PERRY

ADMINISTRATOR
OF
GENERAL SERVICES

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

OCTOBER 2, 2003

Statement of

Administrator Stephen Perry

Before the House Committee on Government Reform

GSA Oversight Hearing

October 2, 2003

Introduction

Good morning Mr. Chairman and members of the committee, thank you for the opportunity to testify today on the operations of the General Services Administration (GSA). At previous hearings of this Committee, I have discussed the approach we have established to improve our performance at GSA in terms of providing service which yields the "best value," not only for our federal agency customers, but also for the American taxpayers. This applies to our Public Buildings Service, Federal Supply Service, Federal Technology Service, Office of Governmentwide Policy and all other areas of GSA. GSA has undertaken many steps to improve our operations since our last oversight hearing before your committee. I welcome the opportunity to discuss our agenda with you today. Per your invitation, I will be discussing the changes we have made in regards to our Federal Technology Service (FTS) and Federal Supply Service (FSS) performance improvement project, the recent reports regarding management of FTS operations and the Information Technology (IT) Fund, and our new proposed replacement strategy for the FTS 2001 telecommunications contract called "Networx."

FSS/FTS Initiative to Provide Best Value Solutions in IT Procurements

The management team at GSA in 2001 chartered the FSS/FTS Initiative to Provide Best Value Solutions in Information Technology (IT) procurements to determine if the current structures and services of the Federal Supply Service (FSS) and the Federal Technology Service (FTS) could be enhanced to ensure the best value to our customer agencies as well as the American taxpayer. As the

marketplace in which GSA operates has continued to change, the offerings we provide must adapt to remain relevant and competitive. In responding to the market forces affecting IT, concern was expressed that the GSA contracts may have had unnecessary overlaps. It was noted that these overlaps existed between FTS, as a provider of IT and telecommunications services, and FSS, as a provider of the full spectrum of products and services, including IT, and that this appeared to be creating inefficiencies and non-value adding duplication. Industry partners, not to mention you, Mr. Chairman, communicated to GSA and Congress that these overlaps were burdensome and expensive because they required them to compete multiple times for similar opportunities. The FSS/FTS Initiative to Provide Best Value Solutions in IT Procurements took these issues as a starting point and worked to discover opportunities for improvement.

Changes to FSS and FTS

In December 2002, the Commissioners of FSS and FTS and I announced that GSA would combine and realign some functions of FSS and FTS to improve and expand procurement services for customer agencies. GSA's Office of Performance Improvement provided oversight to this FTS/FSS initiative in order to assure that the process of completing the study and implementing any necessary changes would be achieved expediously. The significant changes included consolidating responsibility for all IT contracting vehicles in FSS, consolidating responsibility for all marketing functions in FSS, responding to customer agency requirements by having FTS begin to provide assistance in the acquisition of professional services, and establishing a Contract Vehicle Review Board (CVRB) to review and rationalize current and future IT contract vehicles. We are pleased that all of these actions have been implemented.

Consolidation of IT contracting vehicles in FSS

Responsibility for the development and management of virtually all contracting vehicles has been consolidated in FSS. FTS retains contracting responsibility for certain single agency IT contracts and also for Network Services contracts. Additionally, we have reduced the number of Government-Wide Acquisition Contract (GWAC) Acquisition Centers from five to three, redeploying affected staff to needed contract management activities in FSS and FTS. The consolidation of contracting vehicles of FTS and FSS will eliminate non-value adding duplication and enable personnel to focus on previously unmet customer requirements, including assisted acquisition of professional services. Also, this consolidation will minimize confusion of customer agencies and industry partners. These changes reflect our continuing efforts to improve government procurement and also support the President's Management Agenda.

Consolidation of Marketing functions in FSS

FSS now has primary responsibility for market research and marketing in support of the business lines in both Services. This includes the FTS assisted acquisition services and network services, as well as all the products and services procured by FSS. The functions of the FTS Office of Strategic Planning and Business Development were transferred to the FSS Office of Marketing in January 2003. Eighteen FTS associates were transferred to the FSS Office of Marketing. Since the transfer, the two Services have been working together to complete coordinated marketing plans and messages. We are also pleased to report that GSA has combined the separate Customer Relationship Management (CRM) systems being developed independently in FTS and FSS into one system. This will allow us to share information across the GSA enterprise while reducing our overall costs of system development and deployment.

Expansion of FTS Assisted Service Offerings

As part of the FTS/FSS initiative, it was determined that customer agencies have a increased need for assistance in procurement of professional services. In response, GSA created the Office of Professional Services within FTS to provide assistance in the acquisition of professional services. FTS has been providing assisted services including acquisition expertise and management, project management and financial management to help agencies acquire IT Solutions and Network Services for many years. FTS helps agency customers specify requirements, write Statements of Work, solicit and evaluate proposals, manage the task, and manage the financial transactions. Since the realignment, FTS is now providing these services to agencies to help them acquire non-IT services from the following Multiple Award Schedules (MAS): Management, Organization, and Business Improvement Services (MOBIS); Logistics Worldwide (LOGWORLD); and Professional Engineering Services (PES). GSA will review and, as appropriate, expand this type of assistance to Federal agencies on other federal supply schedules in the future.

Contract Vehicle Review Board (CVRB)

In conjunction with the FSS/FTS functional realignment announced in December, 2002, GSA established a Contract Vehicle Review Board (CVRB) to apply a rigorous process that continues to assess whether existing GSA IT contracting vehicles should continue or be eliminated; and whether new GSA IT contracting vehicles should be added to meet the needs of customer agencies.

The CVRB was established to ensure that GSA's IT contract vehicles are appropriately coordinated and rationalized, now and in the future. The CVRB, which began work in February 2003, is chaired by FSS, has three members from FSS, three members from FTS, and one from the Office of Governmentwide Policy (OGP).

To date, the CVRB has found areas of overlap and duplication within GSA's Government-wide Acquisition Contract vehicles and between the GWAC's and our Multiple Award Schedules program. We will reduce these overlaps and re-deploy certain resources to offer improved services and better manage existing contracts, thereby ensuring best value to our customers and to the American taxpayer.

The necessary actions, which we announced to the affected industry partners in the past week, have been designed in a way that we believe will meet customer agency needs, industry needs and GSA needs. The three largest GWAC's are Millennia, Millennia Lite, and Answer. Of these, Millennia and Answer have significant overlaps, while Millennia Lite, as a vehicle for mid-sized companies, fills a different market niche. GSA is developing a replacement strategy to combine the best of the Millennia and Answer GWAC's into a single new contract vehicle. This will permit the continuation of current tasks under these contracts while allowing us time for careful planning of the replacement contract. While we anticipate that Millennia Lite will continue for the next several years, a full business case will be prepared prior to initiating a re-competition of that contract.

GSA has numerous smaller GWAC contracts. Of these, FAST, which is an 8(a) contracting vehicle, and HUBZone are highly valuable socio-economic contract vehicles. Because they foster small business opportunities, help agencies meet socio-economic goals, and complement the services provided on the larger GWAC's and the Multiple Award schedules, both the FAST and HUBZONE contracts will be retained. In fact, GSA is proceeding on the re-competition of the FAST program. GSA plans to examine the need to establish other socio-economic contracting vehicles as well, such as a contract for service-disabled veteran owned businesses.

Our reviews have determined that several of the GWAC'S, including Disaster Recovery, Reverse Auctions, Seat Management, and Virtual Data Centers duplicate offerings found elsewhere in the GWAC's or the Multiple Award Schedules program. All will be allowed to expire and none will be re-competed. To expedite this transition, no orders under these vehicles will be allowed to extend beyond the end of the contract period.

SmartCard and ACES were also found to duplicate offerings elsewhere in the GWAC's or Schedules program. However, their elimination could potentially affect efforts to implement Government-wide standards. We intend to conduct a further review before a final decision is made on these contracts.

We believe the aforementioned actions meet the objectives of our review process. To avoid duplication in the future, we have taken several additional steps. All IT contracts between $3,000,000 and $20,000,000 will be reviewed and approved by the Assistant Commissioners for Acquisition for both FSS and FTS before a solicitation is issued. All IT contracts above $20,000,000 will be reviewed by the Contract Vehicle Review Board prior to any decision to solicit a new contract.

GSA's IT Multiple Award Schedules and GWAC contracts will continue to offer the entire range of IT solutions for projects of all sizes. However, these changes will reduce overlap and duplication. They allow GSA to re-deploy resources to improve contract management, to improve customer satisfaction, and to reduce GSA and vendor costs while providing for best value to the taxpayers. We believe GSA customers will now have a more integrated, one-stop shopping experience when buying IT and other professional services. The Contract Review Board will remain in place at GSA, and continuously review all new proposed major contracts to ensure there are no more overlaps in GSA contracting vehicles.

Management of FTS Operations and the IT Fund

Mr. Chairman, I would like to shift your attention to another important subject of great concern both to the Committee and to GSA. I plan to discuss FTS use of the Information Technology (IT) Fund in the context of recent Inspector General (IG) audits of our Client Support Centers (CSCs). I will describe the management and organizational structure as well as the pertinent fundamentals regarding the IT Fund, and then address more specifics regarding the audits.

Background

The Information Technology (IT) Solutions business line within FTS is a fully cost-reimbursable solutions provider to the Federal IT community. The core business of IT Solutions is the reselling of private sector IT solutions obtained through the award and administration of contracts. The IT Solutions business line is organized into three national CSCs located in Washington, DC, and eleven regional CSCs providing support to the Federal IT community worldwide.

The national CSCs report directly to FTS central office management. The regional CSCs report directly to the GSA regional management with a "dotted line" relationship to FTS central office management. FTS central office management provides policy, guidance and oversight to all the regional FTS organizations. The respective Regional Administrators have day-to-day operational authority. In order to achieve desired results, the FTS central office and the regions must manage operations in a cooperative partnership.

FTS enters into formal reimbursable agreements with its clients to provide IT products and services. FTS uses the Information Technology Fund (IT Fund), which is a revolving fund "available for expenses . . . to efficiently provide information technology resources to federal agencies", authorized under 40 U.S.C. 322 (c)(1). As a revolving fund, the IT Fund provides the financial mechanism

through which IT and telecommunication costs are paid to vendors and then billed to and reimbursed by Federal agencies. The IT Fund finances authorized activities such as salaries and benefits as well as the procurement of supplies and services requested by the agency. Once a requesting agency enters into a binding reimbursable agreement with FTS, the requesting agency may record a valid obligation in its accounting system. In order for the obligation by the requesting agency to be valid:

(1) The funds must be available for obligation by the requesting agency,

(2) GSA and the requesting agency must execute a binding reimbursable agreement, and

(3) The agency must have a current specific need (*bona fide*) for the goods or services to be provided by FTS at the time the agency enters into the reimbursable agreement.

Specifics Regarding Audits

Part of our annual internal control process is to request the GSA Inspector General to audit units on a regular basis. GSA management recommends areas for review, and the IG includes these areas in the IG's annual audit plan, as appropriate.

FTS central office management, requested the GSA Inspector General to include in its Annual Audit Plan the audit of all FTS Client Support Centers. Before these audits began, the Region 10 Regional Administrator discovered contracting irregularities, which caused him to request the GSA Inspector General to begin the audit of the CSC in that Region. A preliminary GSA IG Audit Alert was issued in March 2003 that identified IT contracting irregularities in Region 10's IT Solutions Office in Bremerton, WA. I understand that alert has been brought to your attention and I will address the findings here today. Currently the Inspector General is conducting an audit review of FTS Client Support Centers in Regions 4, 6, 9 and 10, and all of the other CSCs will be audited in future years.

Region 10, Bremerton Office (GSA IG Audit Alert Report – Issued March 2003)

On May 9, 2002, FTS central office leadership conducted an entrance conference with the Office of the Inspector General to start a review of procurements in the Client Service Centers across FTS. In June of 2002, a contracting officer brought some contracting problems to the attention of the Region 10 regional administrator (RA). The RA felt the issues called for a complete and comprehensive review and asked for the IG's assistance. Because of the concerns expressed by Region 10 management about the Bremerton office, the IG made the decision to initiate the audit plan beginning with Region 10. In addition, the IG's audit plan also included an audit of FTS CSC activities in Regions 6 and 4 due to the high volume of contracting activities in these regions. This review was conducted from November 2002 to February 2003. It examined task orders covering September 2000 – September 2002. The result of the review led to the issuance of an Audit Alert in March 2003, the IG's alert indicated that the Bremerton field office:

- Improperly used the Information Technology Fund for non-IT purposes
- Improperly used 8(a) contracting vehicles, including the splitting of procurements and misuse of subcontracting.

Region 10 and FTS central office officials have worked together to undertake corrective actions to resolve problems and prevent their recurrence. Thus far, Region 10 and FTS central office have:

- Reassigned all of the associates in the Bremerton office to the Regional Office in Auburn, WA, in May 2003 to enable strengthened supervisory oversight.
- Implemented new and refresher training courses in contracting and appropriations law.

- Restructured the Region 10 FTS organization into teams in which Network Services, IT Solutions, and acquisition associates work together to assure quality task order procedures.
- Assigned a Chief of Acquisition responsible for oversight of acquisitions and for developing internal procedures and/or statements of objectives for FTS work to be performed in Region 10.

Management, assisted by the IG, is gathering detailed information regarding actions by individual associates. Using this information, management will reach determinations regarding appropriate disciplinary or other personnel actions. Similar corrective actions are being developed for regions 4 and 6.

FTS ACTIONS TO IMPROVE ACQUISITION PRACTICES

FTS has begun to implement a series of actions and initiatives designed to improve acquisition quality and integrity across the Service:

1. **Reiteration of Existing FTS Policies**. On September 23, 2003, the FTS Commissioner issued a memorandum that reiterated applicable regulations and policies issued by and/or pertaining to FTS over the past few years. This memorandum strongly admonishes all FTS activities to scrupulously adhere to the letter and spirit of all pertinent guidance, including the Federal Acquisition Regulation (FAR) and the December 6, 2001 memorandum to all IT Solutions associates regarding "*Growing the Business Responsibly*".

2. **Strengthening of FTS Internal Controls.** As part of the FY 2004 financial audit, the GSA's Chief Financial Officer will ensure that the financial auditors review the FTS control environment and risk assessment, and that proper control activities are in place. In addition, to

ensure a sound system of internal controls, program performance will be routinely analyzed, assessed, and evaluated by management. Taken together, this is intended to provide reasonable assurance of a fully effective and efficient internal control program within FTS.

3. **Implementation of Additional Legal Review Requirements**. FTS has implemented additional legal review requirements to ensure sound legal regulatory and contractual principles. GSA's Office of General Counsel will review all FTS new contract awards over five million dollars; all FTS actions that will result in the award of BPAs against the FSS Multiple Award Schedules (MAS) regardless of dollar value; all FTS actions that will result in the issuance of a task/delivery order that contains leasing provisions, regardless of dollar value; and all FTS actions that will result in the issuance of a task/delivery order under existing vehicles (i.e., GWACS, MAIDIQs, FSS MAS) in excess of five million dollars. In addition to the matters set forth above, GSA associates are encouraged to seek legal advice from assigned counsel on any matter that they deem appropriate. GSA Associates are also encouraged to keep legal counsel involved in the progress of major acquisition matters and to seek advice on such issues as whether a procurement is appropriate for an SBA 8(a) procurement and whether the procurement constitutes information technology or non-information technology.

4. **Development of Acquisition Improvement Plans**. FTS is developing a series of detailed acquisition improvement plans for each regional and national CSC. Each improvement plan will specify required actions, methods, and results in such areas as the oversight of pre-award and post-award activities, and the conduct of acquisition activities by associates with appropriate levels of experience and expertise.

5. **Assessment of Performance Goals and Measures**. FTS IT Solutions is strengthening its long-term strategic goals, annual performance goals, and performance measures to ensure the linkage of FTS measures to GSA vision and goals. In addition, the intent is to ensure a balanced approach by linking performance with customer satisfaction, associate satisfaction and quantity and quality business results.

In the next 2 months, the FTS Commissioner will solicit an independent review of contract and management operations to evaluate compliance with procurement laws, regulations, and internal GSA policies and procedures. The review will identify appropriate actions to ensure that FTS associates adhere to sound procurement practices and procedures while serving the diverse needs of Government agency clients. The review will provide recommendations concerning flow of communication, effectiveness of existing structures, workflow, training, reference materials, and any policy and/or procedural changes that need to be made to mitigate shortcomings or defects.

Mr. Chairman, let me assure you that we take the audit report findings very seriously. This failure to follow proper procedures is totally inconsistent with both the President's management agenda and with the values and goals of the General Services Administration. Since its inception in 1996, FTS has facilitated the procurement process and streamlined IT acquisition for Federal customers. This program has been extremely valuable to our agency customers and has overwhelmingly provided best value for the taxpayer. It is now clear from these preliminary findings, however, that in some instances, the safeguards and oversight were not adequate to ensure the integrity of the program and its services. We believe the action GSA has taken, is taking, and will be taking will maintain the integrity of these programs.

The FTS program is a critical part of our mission to deliver fast, quality services to the agencies that are serving our citizens and our Nation. We are committed to correcting the problems we found and are working to ensure they are not repeated. To that end we have worked with the FTS Commissioner, her management team and members of the GSA Executive Committee to implement corrective actions. Let me reiterate, GSA is addressing both the lack of screening and supervisory oversight of FTS contracting operations at the regional and national level, and the intentional failure to comply with policies and procedures to gain customer satisfaction to generate new business.

We have already instituted a number of policy and operational changes in response to the audit report's recommendations. We are currently developing improved performance measures and internal controls to help prevent future violations of procurement law, regulation, or policy. We will continue to make every effort to ensure that FTS associates adhere to sound procurement practices and receive training to comply with current procurement policies and procedures. The audit indicates there were some cases where some associates deliberately did not fulfill their responsibilities. Those cases are being reviewed and if they prove to be true then appropriate action will be taken.

Telecommunications Services (Networx)

Now, Mr. Chairman, I'd like to discuss another topic of interest to this committee, namely our replacement strategy for our telecommunications contract. As you know, FTS is responsible for ensuring that Federal agencies have access to affordable telecommunication services and solutions which meet agency mission requirements. FTS has a tradition of meeting this responsibility by working closely with this committee, with our user agencies through the Interagency Management

Council (IMC), and with the entire community of stakeholders to leverage the Federal community's buying power. We are grateful today to have the opportunity to advise you of plans to replace several of our contracts which are expiring, including FTS2001, and to seek your counsel and support as we develop our acquisition strategy and begin a dialogue with industry on this large and important undertaking.

Throughout the tumultuous period that has characterized telecommunications deregulation, and despite the difficult industry environment we face today, our acquisition strategies have served us well. FTS2001 is a resounding success, providing state of the art services at unparalleled low prices, stability, flexibility, and competitive access to new technologies. The program achieved its primary objective, as established by this committee, of ensuring the best service and price for the government while maximizing competition in acquiring those services. It reaffirmed the benefits of coordinating across the Government to achieve economies of scale in the acquisition of services. And by working together, with the agencies and your committee, we were able to successfully procure a large volume of telecommunications services at significantly reduced prices. Although the FTS2001 contracts are not mandatory, agencies have remained with FTS because we have managed the program to their satisfaction and made continuous improvements during the life of the contracts. This includes awarding over 150 modifications to the MCI and Sprint contracts that benefit all agency users, not just the agencies for which the modifications were initiated. This also includes implementation of the unique crossover provisions of the FTS2001/MAA program whereby AT&T and Qwest were able to offer FTS2001 services by crossing over from the MAA program. As you recall, this innovative characteristic resulted from the extensive collaboration between this committee, industry and our customer agencies in the development of our earlier strategy. Additionally, FTS has gained invaluable

experience in managing the transition process which is a key element of any telecommunications acquisition.

Mr. Chairman, as FTS2001 and related FTS acquisition programs begin to approach contract expiration, we must look ahead to their replacement. Accordingly, we have initiated plans for a follow-on acquisition program based on the successes of current programs and lessons learned from the past. I would now like to turn the Committee's attention to our initial plans for the successor program we are developing.

First of all, FTS has selected "FTS Networx" (with an "X") as the name for our follow-on program. We have chosen this name because it conveys our belief that the future of telecommunications is increasingly about networking. While Networx must be designed, first and foremost, to support the continuity of our customers' communications infrastructure, it will also look to the future in providing new capabilities enabled by the networks of tomorrow. The infrastructure for these newly emerging networks is being deployed as we speak. These so-called "converged" networks will allow delivery of all types of services – voice, data, and video – over a single unified infrastructure. We will be able to access information using mobile, fast, and secure communications. FTS intends to deliver these capabilities to our agency customers as industry brings them to market. Networx will provide the service contracts vital to supporting the complex missions of a twenty-first century American Government.

Building on the experience we gained by competing the FTS2001 contract, we have established four primary goals for Networx. First, we must assure continuity of current telecommunication services and solutions for our current customers. FTS2001 provides telecommunications services to tens of thousands of locations and Government users depend on FTS2001 for uninterrupted service to perform

their missions. Second, we must continue to provide best value for all services and solutions by attracting the most innovative and highest quality services from industry at the best possible prices. With your guidance and support, FTS2001 established a benchmark for innovative acquisition that successfully leveraged competition and provided a means to engage the predominant industry players during the life of the program. FTS intends for the Networx program to do no less in creating a competitive framework that will achieve comparable success within the current environment. Third, we must respond to a changing marketplace by providing access to a broader range of services and service providers than on previous FTS telecommunications contracts. We have seen the benefits of the FTS2001/Metropolitan Area Acquisition strategy as defined in the Federal Telecommunications Statement of Principles. We must similarly develop a process whereby the benefits of continuous competition and ongoing technology infusion are firmly established as elements of the overall acquisition strategy. Finally, we seek to offer expanded opportunities for small businesses. We believe it will be possible for FTS to provide opportunities for small businesses to compete as primes within the structure of the Networx strategy.

Focusing on these goals and working in collaboration with our customers through the IMC and the CIO Council, we have developed an initial acquisition strategy for the Networx program. We are ready to share that approach publicly and to solicit input from all Networx stakeholders. Our schedule includes the release of a Request for Information that will provide us with needed industry feedback as we calibrate our approach with industry's ability to respond.

As I mentioned previously, the Networx program is designed to build on our collective successes from the FTS2001 and the MAA programs. As technology evolves and the distinction between local and long distance services continues to blur, the Networx program will provide all of the services on the FTS2001 contracts and many of the services now provided on the MAA contracts. It will also include

wireless and satellite services. Let me briefly summarize the highlights of the Networx program strategy.

FTS plans to accomplish these program goals through the use of two parallel acquisitions, which we call Networx Universal and Networx Select. The acquisitions will be conducted nine months apart, with both awarded before expiration of FTS2001 contracts in December of 2006 and January of 2007.

Networx Universal will be awarded to providers who can offer a complete range of domestic and international services. Service must be provided to all government locations currently served under FTS 2001, as well as all commercial locations served by the offeror. This acquisition is intended to ensure that Government agencies have the ability to maintain service to all locations currently served and provide uninterrupted continuity for mission essential activities. The competition will be structured such that the initial opportunity to win a sizable amount of business will create incentives for industry to offer their most competitive prices. The success of FTS2001 is our model for this acquisition.

The second acquisition will be called "Networx Select." Networx Select will establish more focused service offerings with more flexible coverage requirements. While Networx Universal will require a full and comprehensive set of global offerings, Networx Select will allow providers to propose a specific set of services and geographic coverage based on their core competencies and competitive advantages. Follow-on competition will be available not only from local service providers, but potentially from data providers whose services or geographic coverage is more focused, and other

niche providers whose portfolios of managed services and network related offerings will provide long term competition for the larger more "universal" providers.

Based on expressed customer interest and evolving industry plans, we are actively seeking blended local and long distance offerings through both Networx Universal and Networx Select.

Let me hasten to add that we have closely coordinated this approach with our agency customers and have received their active support in developing the strategy and technical requirements. From this point forward, we seek comments from our broader stakeholder community on all aspects of our strategy. We encourage comments and perspectives that will further shape and refine the process we have initiated. We are pleased to bring to you, Mr. Chairman, and the other Members of this Committee, a strategy that can serve as the basis for our initial and ongoing discussions. We intend to build on our past accomplishments, incorporate lessons we have learned, and ultimately harness the innovation and entrepreneurial spirit of American industry to capture the networking solutions required to meet the requirements of our agency customers and the American People.

Thank you for the opportunity to testify before your committee today, and I look forward to answering any questions you may have.

Chairman TOM DAVIS. Thank you very much.

GSA's Inspector General obviously found that, in the Bremerton regional office, certain employees were rewarded for increasing revenues for that office from, as I understand it, $53 million in 1998 to $522 million in 2002, which was a huge increase. Also, the Inspector General referenced 2 percent fees being paid to clients. I guess my questions are, did any FTS employees in the Bremerton office receive incentives for sales? I will do one at a time, but I have a series of questions about that.

Mr. PERRY. We have an incentive program that rewards associates for good performance and for accomplishments. It is correct that in FTS IT Solutions, one of the factors that is taken into account is the volume of sales; customer satisfaction is another; coming up with innovative solutions is another. But among the aspects taken into account is also compliance with the procedures. So while it would be the case that if someone did something to generate additional sales and there could potentially be a financial benefit resulting from it, that same person would be in jeopardy of losing the entire incentive if they were determined to have violated the procedures in doing so.

Then, last, I will add to that question that, as we have looked at the gross numbers with respect to bonuses issued in the years of 2000, 2001, and 2002, we see that actually as sales were growing at the pace that you mentioned, the FTS bonuses for FTS as a whole, and for specifically Region 10, which includes Bremerton, those bonus amounts were going down in each of those successive years. The total bonus amount went down and the average bonus amount went down. Although we have not completed the review, we think it is in part because of the fact that we have taken a deliberate effort to not have sales be the overarching issue with respect to bonus awards. It is more to be derived based upon the achievement of specific identified goals in each business unit's business plan.

Chairman TOM DAVIS. So it is not like a sales commission. It is just one of several factors that are weighted in your views?

Mr. PERRY. That is right. It is not like sales commission.

Chairman TOM DAVIS. What is the bonus incentive structure for FTS employees? Can you describe to me how you would describe how an FTS employee would get bonuses at the end of the year?

Mr. PERRY. Sandy, would you take that question, please?

Chairman TOM DAVIS. Sandy, obviously there are a number of factors. Could you try to give us a feel for it?

Ms. BATES. There are a number of factors. First, though, it is not a formula. It is not something that you can fit in "x" percent for this or "x" percent for that.

Chairman TOM DAVIS. So it is subjective, to some extent.

Ms. BATES. It is subjective.

Chairman TOM DAVIS. You understand what I am trying to do?

Ms. BATES. Sure.

Chairman TOM DAVIS. I have to ask this. One of the allegations here is that somehow, because they could get bonuses if they could shift these sales there and that was an incentive for them to cheat.

Ms. BATES. You know, as Mr. Perry said, that certainly is one area. As we get further into this and into our review, we may find

instances where too much emphasis was placed on getting new customers and retaining old customers at the expense of other priorities.

Chairman TOM DAVIS. Right.

Ms. BATES. But it is subjective, although I think FTS has put out policies that try and make the whole award environment consistent with guidelines across the service, so that we are all working within the same framework. But as you know, anytime there is subjectivity involved, there is room for variance.

Chairman TOM DAVIS. But the bonus incentive program for FTS employees includes incentives for sales and customer satisfaction. I think Mr. Perry talked about those. What are the other factors?

Ms. BATES. Coming up with the innovative solutions, following the rules and regulations, working as a team, being on the FTS team. I would also like to point out that while we are using the term "bonus" and "incentive plan", that is not the same as industry uses those words. These are rewards based on performance. I think sometimes it is not an incentive plan like the industry would have that would say, "the more you sell or sell a certain product." It would be incentive directly for that.

Chairman TOM DAVIS. Having come out of industry, I can tell you that the sales are No. 1. Customer satisfaction and obeying the rules, generally, are secondary. [Laughter.]

Ms. BATES. Well, that is something that I believe FTS faces. Mr. Perry referenced in his testimony a policy statement and a general guiding principle that we have of growing the business responsibly. We recognize first and foremost that we are a Government agency and we have to perform as such. However, we also want to employ the best business practices of industry, and that can be a delicate balance. But this is something we are striving for.

Chairman TOM DAVIS. But you understand why we are asking this, and why we have to ask it, and why you have to ask it.

Ms. BATES. Absolutely.

Chairman TOM DAVIS. Because in point of fact, these things can get out of kilter when you send this out.

Ms. BATES. Yes, sir.

Chairman TOM DAVIS. We will be interested to get the results when they come in. What you are telling me is interesting; the fact that the bonus structure in that region did not writhe as a result of this, or at least it does not appear to have.

Let me ask a couple more questions. Is there any idea what action will be taken against the individuals who knowingly violated the program? And would it matter if they had benefited from it on a bonus structure, versus if they did not benefit, or is it too early to make that decision until we have gotten all the facts?

Ms. BATES. It is really too early to make that decision. We have teams in place consisting of representatives from the region, obviously, our chief people in the Office of General Counsel, looking at the specifics around each case. Then we will take that and marry it against the standard personnel procedures dealing with this. So it is too early to tell. It could run the gamut.

Chairman TOM DAVIS. Part of the problem is, we try to encourage our managers to be innovative and to try new things and so on. If they step outside and then they get slapped down, it encour-

ages people to stay within the box and not be innovative, and that is a tough balance. But I think in this case, just from the facts that we have been able to see so far, they were clearly outside the bounds.

Ms. BATES. I agree with you. The cases that the Inspector General cited in Bremerton, and some that may come up in other regions, were far outside the box and were extreme examples; not of a hairline question of judgment, but that it went outside. But we, as you pointed out, certainly do not want to return to a time in our life where innovation is discouraged and acceptable risk is discouraged. What we need to do is to have a responsible approach to our business.

Chairman TOM DAVIS. In fact, just if you asked my philosophy on it, I am always willing to put up with a few people making mistakes out there and maybe stepping over the line, in a willingness to be innovative and try to do the kind of things we ask Government to do. That is kind of the price you pay by encouraging that, and we all need to understand that things happen. But I think in this case, let us wait until the report is finally in, as there may be other things involved.

I just have a couple more questions. Do you think that the current structure of the FTS regional offices are too independent to provide the kind of oversight by GSA that appears to be necessary in the wake of the IG findings? And do you think GSA should implement more direct headquarters oversight and management, rather than continuing to rely on the FTS to reform the system, or is it too early?

Mr. PERRY. I do not think that our current organizational structure is wrong. I think that what we need to continue to work on perfecting is this balance between having a central organization that can look for opportunities to leverage our synergies across the organization and, in some instances, meet our customer needs on a global basis from a central office perspective. But as you know, a great deal of our customer needs have to be met regionally or at the local level. A great example of that would be, the facilities that they work in are obviously at the local level. We would sub-optimize if we were to somehow consolidate the process of providing their local services too much.

What we have struggled to do, and I think we are making great progress on, as a matter of fact, is to move from an old model, which was "siloed," in terms of central office versus regional office, to make that a cooperating, collaborating team. There are two things that need to happen in order that can be done. One is that we need to be on the same page with respect to what our goals are. When there is no disagreement as to what it is we are supposed to be achieving for our customer agencies and for the American taxpayer, then the disconnects between the central office and the regional office begin to disappear. Then second, we also need to have a strong teamwork approach to our work, so that central office people and regional office people are, in fact, working collaboratively toward those same goals; we are achieving that. I think, and this is told to me by veterans of GSA who have been around for many years, that the collaborative working relationship between the management of our regions and the management of our

central office operations are as close as they have ever been, or at least as close as they have ever seen it. I think that is very, very encouraging, and I think we ought to continue to pursue that, as opposed to making an organizational change which would have at its end a reduction in our ability to serve the customer.

Chairman TOM DAVIS. Thank you, my time is up; questions?

Ms. NORTON. Thank you, Mr. Chairman. I thank you, Mr Perry, for your work and especially your work with us here in the District of Columbia.

I have some questions. I can understand that as IT has become more pervasive, there would be confusion between FSS and FTS, and there would be a need for realignment, some merging, and that you are, of course, in the process of doing that. I would be particularly concerned that apparently some contracts were providing the same services through the same contractors, and there were underused contracts, which I understand now are being allowed to expire or to merge. Of course, I am interested in that, because I am interested in how this confusion may have had an effect on who gets contracts and who understands how you become a supplier or a provider. I was pleased to hear you say that you understood that part of what needs to be done is to expand the pool of providers and suppliers, and especially among small businesses.

I have a question about the GSA Schedule. I am a fan of the Schedule. I had pressed the District of Columbia, which had the most complicated procurement procedures known to the universe, to adopt a similar system. Indeed, for awhile there, the District was using for some of its services your own Schedule. I have, however, received a fair number of complaints about the difficulty of learning how to get on the Schedule. I wonder if you could summarize in a few minutes how, if one is a small business and one has never been on the Schedule before, could you summarize how a small business goes about getting on the GSA Schedule, including issues like size, experience and procedures? If you cannot summarize it, you can imagine the position I am put in, when they come and say, "how in the hell do you get on this thing?"

Mr. PERRY. Well, I will summarize it, and I will talk a little bit about some of the things we are trying to do. The objective of the paperwork that we have small businesses fill out, in the event that they are attempting to get on GSA's Schedule, I think is a worthwhile objective. But we have gone too far in terms of how complicated it is, and we have some steps in place to minimize that. Of course, the objective is to make sure that we know enough about the business' track record in the particular commodity area that they are interested in selling to the Government. So we ask them to explain, "what is your business; who are some of your customers; what kind of services have you provided; who are some of the people in your organization; what is their background; what are their credentials; how can they indicate what abilities they have in this arena." There are questions also about financials, including their tax returns and their business financials, so that we can see to what extent they appear to be a financially viable organization. So the questions are of that nature, so that when we say to another Federal agency, "this organization has a GSA Schedule contract," we are, in effect, saying that we have reviewed their financial

wherewithal and their wherewithal to accomplish the business line that they are in, successfully enough that they can meet your needs, oftentimes on a national basis.

Given that requirement, the question then becomes, "are we asking questions that go beyond that, or is there a way to streamline and make more simple the whole process?" Donna and her team have answered that question, and the answer to that question is yes. We are putting this in place, and actually it is October 1, so it should have happened by now. We had planned for October 1 to begin the implementation; that is, the businesses should begin to see the implementation of this effort to streamline the process and actually go to an online process. I would hasten to add, the reason I add the point about online is, a lot of the small businesses become discouraged with this application process, not just because it is a 100 page application, but more so because, after they submit the application, the time that is spent in going back and forth and making corrections is what uses up most of the time that gets involved in the process. By moving to an online approach, we believe those questions can be asked back and forth between GSA and the small business much more quickly.

Another thing that we are doing in all regions is that, in most regions, they have a weekly meeting which is open to any small business to attend. The subject matter of that weekly meeting is how to get on the GSA Schedule. We take each of the small businesses or their representatives through the tutorial. We also have that tutorial online. So if you go to GSA.gov, one of the questions on the main screen is, "how to do business with the Government." Then they can click on that and be led through this process of how to get on the Schedule.

So I agree with you, and every time I have attended a small business workshop, the No. 1 question that people ask is, why does it take so long? I emphasize, that is partly because of the application, which we are streamlining; but that is only a part of it. The biggest part, I think, is the time that is spent when they send something in, and then we send up a request for additional information or clarification, and then they send that back. That timeframe back and forth takes so much time. Some of that is going to be addressed with the online system. If I may, I would like to ask Donna to elaborate on that answer, if she will.

Ms. BENNETT. That was pretty thorough. There are a couple of things that I would add to that. One is that we made a couple of process improvements before we even got to the electronic solutions to this problem. One of them involves the initial screening of offers as they come in, so that a business that submits an offer does not wait for weeks to find out whether or not they provided the right information. Our goal for ourselves is to actually go back within 3 days of receiving that and say either, "your package looks pretty good and it is now in the queue," or to let them know up front if we think there may be defects or deficiencies in it so that they have a chance to correct that.

I think that the only other point that I would add to what the Administrator cited, unless you would like more detail, is that, of course, all of the Schedule solicitations are posted on FedBizOps.Org on a continuous basis, so the information is con-

stantly out there. We do find that the training classes that we offer on a periodic basis, and particularly in the IT Center, are extremely helpful to the small businesses that attend them. The final thing that we are doing is putting more resources into the IT Center to speed up the processes. So we have reallocated some of our existing resources, and I have authorized the hiring of more, so that we can do things more quickly.

Ms. NORTON. The timeliness of this hearing, on October 2nd, pleases me to no end. I understand that Chairman Davis has been doing procurement fairs around the country on this very issue. He has offered, as I understand it, to do one with me here in the District of Columbia. I would very much appreciate the opportunity to do that.

Mr. PERRY. Well, we would be honored to do that. I know that GSA puts on a great show, and we would be happy to work with you on that.

Ms. NORTON. I would very much appreciate that. Mr. Chairman, could I ask one question?

Chairman TOM DAVIS. Sure.

Ms. NORTON. This is about another issue that has plagued small businesses. The Congressional Black Caucus was particularly concerned about it, and we have a tri-caucus meeting of the Black Caucus, the Hispanic Caucus and the Asian Caucus. All the small businesses, frankly, in the United States have raised this question, and I really do not know what the answer is. It has to do with bundling. Years ago, of course, bundling became the fashion. Now you can imagine that if you bundle contracts together, a small business may be read out of the process altogether. I would like to know the status of bundling; how small businesses can continue to do business with the Government if there is pervasive bundling of contracts which, in effect, make the contract a very large contract, which sets it up for not a small business, but a medium size or larger business. I am asking what the effect is of bundling on the ability of small businesses to compete for Federal Government business.

Mr. PERRY. Well, your point is certainly correct; that the general result that could occur from a bundling of items that were previously purchased separately and are now being added together could be to make it more difficult for small businesses to compete on that level.

Ms. NORTON. Just let me say, Mr. Perry, so you do not misunderstand me, I am a great devotee of efficient Government. I believe those of us who believe in Government have the preeminent responsibility to make it proficient. Some of my friends on the other side of the aisle, not including the chairman, do not believe in Government at all. [Laughter.]

So to see it become inefficient does not really much matter.

Chairman TOM DAVIS. Will the gentlelady yield?

Ms. NORTON. Always to the chairman.

Chairman TOM DAVIS. The bundling issue is a difficult issue because when the ground rules change, your marketing strategies need to change. One thing we have found is that Government is a poor integrator of services. When the Government would pick different small businesses together and give them to an integrator, it

generally did not work as well when Government tried to put it together. So they pick a large integrator, who then picks their small business partners. One of the problems that this committee has uncovered is that, many times, the percentages that are envisioned in the original contract, whether it was 8(a) or small business, are not well enforced. Of course, the pieces that go with that generally are not as advantageous to small business as you had before.

We are, as we speak, working on language in the Defense Authorization Bill to try to correct some of that. We are interested in working with you on that. But one thing I am concerned about is that Government is not a good integrator; and that is why we bundle things together, to allow the prime to basically pick its partners and its teammates on these issues, because it seems to work more efficiently. But in the process, we do not want to sacrifice. It may mean for some of these smaller companies that they have to market the larger companies, instead of the Government directly; that is my understanding. I would be interested in what the Commissioner has to say.

Mr. PERRY. Well, I can cite a couple of examples where we have tried to achieve the best of both worlds, because we are after the efficiency, and at the same time, we are after the benefits that derive to our economy by encouraging the growth and development of small businesses. An example would be our Connections contract. We have done this when FPS was a part of GSA, and a number of our security guard contracts. We have done it, or we are doing it, or are contemplating doing it in our real estate brokerage contracts. That is where we, first of all, incorporate into the specifications that the large integrator company that is going to be the prime on the project will commit at the time of submitting the proposal, to achieving a percentage of small business involvement. The statutory requirement that Congress mandates is 23 percent, so often we start with that number. But our actual achievement, in terms of small business purchases at GSA, is over 40 percent. It was 42 percent last year. It probably will be 44 percent of our total spending this year. So we put the 23 in, but where we believe we can go higher, we attempt to go higher.

Then, Mr. Chairman, we have been addressing the point that you make; that is that the prime contractor will agree that the monitoring of actually achieving what was specified in the bid proposal will be something that GSA will do. That makes it real, as opposed to being able to submit a bid and then never live up to it. Our intent is that they will submit a bid, and if they are the winning proposer, then they will submit information indicating that they do, in fact, have "x" percent of small businesses involved. As I say, we have some contracts in place where those specifications are in there.

Chairman TOM DAVIS. There obviously is still an issue, if you look at it from the perspective of the small business or the 8(a) business; that is, many times, without the Government involved, the percentage or the piece that you are likely to get from the large contractor is not as advantageous a piece or as lucrative a piece as you might have been able to negotiate with the Government. But that is another issue.

Ms. NORTON. Well, of course, if there is real accountability from the GSA through to the contractor and to the sub, and this is not just window dressing, it could work.

Chairman TOM DAVIS. Right, well, I think we may need to work on some legislative language to ensure that. I would add this; that although this has not been a priority of mine in terms of the procurement, I recognize that it is a priority to a large number of Members, and I think this is going to have to be addressed. We recognize Ms. Norton, that you, Mr. Danny Davis and many other Members have raised this as their top legislative procurement priority. I think if we can address this issue we can probably do away with other mischief in the procurement process that is being aimed at directly. So this is something we look forward to working with you on. It is an important issue to a lot of contractors in this region, particularly in your jurisdiction, and we will be discussing it more, so thank you very much.

Mr. Murphy.

Mr. MURPHY. Thank you, Mr. Chairman.

Could someone explain to me what Millennia, Millennia Lite, and Answer are?

Ms. BATES. Good morning, they are governmentwide contracts for IT services. They are Multiple Award Contracts where you have multiple companies that were successful offerors in each of those contracts.

Mr. MURPHY. Just in plain English, what are they? What do they do? I do not need all the "gibber-jabber."

Chairman TOM DAVIS. Well, you are asking her to put Government contracts language in plain English?

Mr. MURPHY. Yes. [Laughter.]

Or do we have to hire a new agency to do that?

Ms. BATES. I could do it, I believe. They are contracts that provide IT services and equipment.

Mr. MURPHY. Now let me make reference here to some of my background in psychology. It caught my attention about a company called Titan Corp. and a $229 million contract to provide some mental health services, EAP services. Of course, Titan has nothing to do with that, from what I understand. They provide communications and combat systems to the military. In recognition of that, they then sub to Ceridian Corp., which is well known for its leadership in the payroll processing industry, which has no experience also in dealing with these kinds of things. Then it says something about a solicitation issued to Millennia Lite vendors as part of this, too. I am wondering, since this is through FTS, how a company that has nothing to do with providing mental health services and does information technology work is involved in a contract like that?

Mr. PERRY. Let me start that question and see if anybody has more detail than I. That contract, as I understand it, includes putting an Employee Assistance Program in place for members of the military that will be an online system; so that any eligible party or family member who has an issue would be able to go to this online system and, while I do not know exactly how it works, use that online system to be able to find someone in the Employee Assistance Program who could provide assistance. So some portion of

that contract was to develop the online, computer-based system, and that is where the information technology part comes in.

When we have contracts of that type, many contracts have some component of putting in place an information technology system and some component of something else; maybe professional engineering services or whatever. What we have to do is, to look at the specifics of the contract and only use the IT Fund as a means of making the procurement if it is predominantly IT. So that would be the question that would have to be raised as to whether this is predominantly putting in an online system.

Mr. MURPHY. So this does not necessarily include EAP services for employees. It is just the computer system network so that they can connect with someone?

Ms. BATES. Yes, sir, that is the overwhelmingly predominant requirement for that.

Mr. MURPHY. And having worked with military families, I certainly understand the incredible value of having people being able to contact someone. But I also know that on bases, there are computers, there are people there. If you just take the number of military personnel and divide it by $229 million, that is a heck of a lot of money per person to cover this; and it is by a company that does not do EAP work. They had to sub out to another company, who also does not do EAP work, who I am assuming got somebody else to do it. If this is all a computer system where people can log on and talk to someone who is an EAP person, it just does not seem to make a lot of sense to me. I am wondering if this is along the same lines as doing IT work to build buildings, which is part of the whole scandal that kicked this off anyway.

Mr. PERRY. Well, what we could do, and we would be happy to do, since we do not have that level of detail, is maybe get back to you specifically on that.

Mr. MURPHY. That would be great.

Mr. PERRY. I could tell you though what our intent would be, or what would be a proper contract. The only thing that would be a proper contract would be if this was predominantly an information technology system and not predominantly medical services. But I would be happy to provide a specific answer to you on the Titan question.

Mr. MURPHY. I appreciate that, because just looking at it from what little information I have, this looks like a $400 hammer to me.

Thank you, Mr. Chairman.

Chairman TOM DAVIS. Thank you very much.

Let me ask a couple more questions of this panel. It looks like, by the way, that the 11:15 vote is going to be a little later. They voiced the rule and we are going to have a final vote, it says, around noon or 12:30. They have moved it now.

What role have contractors, operating under small business programs, played in reported abuses?

Mr. PERRY. Well, part of what was reported in the IG's alert was that there were cases where 8(a) contracts were split. In other words, there is a $3 million limit below which, if there is a compelling need, a contracting officer can make the decision to, in effect, do what would be called a sole source to an 8(a) small business

under that limitation. However, if the customer requirement is $5 million, and if that gets broken into two separate contracts of $2.5 million apiece, then that is inappropriate. You should not split the contracts up in order to make them fit below the threshold. Now one could argue that if the customer agency, the military or whoever it was—given all that we have gone through with the aftermath of September 11 and the war on terror and so forth—you could contrive an argument that says this was an urgent item or somebody believed it was an urgent item, and so for the speed, they broke it into two pieces. But that, just prima facie, should not happen.

The other cases that we are beginning to hear about, and do not have many details on, are what I called subcontracting abuse. That is where you would use the 8(a) process and process a contract with a small business, and then have that small business hire a more competent subcontractor to really do the work, in which case that would be a "pass-through." That, obviously, is also inappropriate. So those are the two examples that we have heard of the IG is investigating.

Chairman TOM DAVIS. Do you have any idea how long these abuses have been going on?

Mr. PERRY. The time period for this audit is 2000 to 2002. There have been previous audits in previous years that did not reveal these same things, or we do not know whether they did not find them or did not look for them, or that they did not exist. So at least in the 8(a) area, I am not aware of any information that we have that shows, in the previous year—2000—that those kinds of abuses were found. But the IG may explore that, and we may know more about that soon.

Chairman TOM DAVIS. I have a million other questions that I would like to ask but we had a good conversation yesterday. I do not need to put everything on the record in terms of how the agency is going.

I want to just say again how comfortable I feel with you at the helm over there. I think you are doing a great job. Not everything goes perfectly with an agency of your size. I think you are acting quickly to remedy problems as they are identified; and as you note, in this case, they were pre-existing, to some extent, before you even got there. I think that is important to note.

But I have to ask a couple of questions. Do you think that a future telecommunications program could be based on the use of various Schedule contracts that agencies could use to acquire telecommunications services? Also, from either Ms. Bennett or Ms. Bates, if you have any thoughts on that, as well. I know we are getting ready to look at the next wave, and I just wondered if any thought is given to that.

Mr. PERRY. Well, I will start, and then I will ask both Sandy and Donna to comment on it, if they care to. But your point is one that we have explicitly incorporated, or will explicitly incorporate, into the Request for Information document that will be circulated, because we have asked ourselves that question—whether it would serve customer agencies' needs. In some instances, they obviously will need the assisted acquisition service that FTS provides. There may be some instances where they believe that they do not, and

we would want to look into providing them with other contracting opportunities. Today, we believe that sometimes what they do is, to use contracting vehicles which exist outside of GSA because they can do that, if they elect to, as opposed to using FTS. We think that the Multiple Award Schedules are the most efficient contracting vehicles that could be put in place. So if some agency was going to use an option other than the assisted service of FTS, our view is that the likely next most efficient way to go would be the GSA Multiple Award Schedule. Sandy or Donna.

Ms. BATES. First off, I think Mr. Perry covered, in his opening statement, the four things that we are looking for that will serve as the checklist. We need to have continuity for our current customers. People are very much reliant—and agencies' missions are reliant—on this basic infrastructure. We also need to have something in place that provides best value.

The third is, we also need to take a look at, and make sure that we address, the changing market. No one knows better than you and the people in this room that the telecommunications landscape is far from settled and continues to change every day. We cannot even predict, not necessarily technology, but the business landscape. The fourth is, we need to expand the opportunity for small business. Given that, and where we are today in releasing a Request for Information very shortly, to really signal the beginning of the formal dialog with this committee, members of other committees, the industry, our customers, and other stakeholders, to truly determine which is the best strategy. I think we have to examine all of that against our criteria and let the chips fall where they may. A Schedule contract approach should be considered seriously; the multiple award, IDIQ, the whole range. But I think some things remain clear: that we have a strong track record of leveraging the Government's buying power and also setting the bar for industry. Our customers, I am pleased to report, are still with us, in terms of saying, "GSA, we want you to do this for us and put in place something we can use," and to give it, as Steve Perry referenced not too long ago in talking about small business, the GSA seal of approval of really getting the best terms and conditions, price and best value and allowing flexibility. So it is all of those attributes, and it is a long list, but it is something we must do and we will do.

Chairman TOM DAVIS. Great, thank you very much.

Ms. Bennett, you do not need to say anything on this, if you do not want to.

Ms. BENNETT. I would simply add, we look forward to being part of the process.

Chairman TOM DAVIS. Well, thank you; I could spend the whole day asking questions. But we have had some good conversations and we will continue to do that, and we have another panel to hear from.

I want to thank all of you for being here. I appreciate your input on this. We will obviously continue to stay in touch with you on this. I will just declare a 2-minute recess as you exit, and we will move our next panel up to the microphones. Thank you very much, Commissioner Perry.

[Recess.]

Chairman TOM DAVIS. All right, if we could get the witnesses up to the table. Just stand behind your name, because I have to swear you in.

We have William Woods, the Director of Acquisition and Sourcing Management at the U.S. General Accounting Office; Larry Allen, executive vice president for the Coalition for Government Procurement; and Don Scott, the senior vice president of Electronic Data Systems, testifying on behalf of the ITAA. Thank you very much for being here. It is the policy of the committee that we swear witnesses in.

[Witnesses sworn.]

Chairman TOM DAVIS. Thank you, we try to keep it to 5 minutes. We gave Commissioner Perry a few more minutes. He was under the gun on some issues and he wanted to lay it out. We have lights in front of you. It will be green for 4 minutes, yellow for 1, and then when it is red, if you could move to summary. Mr. Woods, we will start with you and move straight on down. Again, thank you for being with us.

STATEMENTS OF WILLIAM T. WOODS, DIRECTOR, ACQUISITION AND SOURCING MANAGEMENT, U.S. GENERAL ACCOUNTING OFFICE; LARRY ALLEN, EXECUTIVE VICE PRESIDENT, COALITION FOR GOVERNMENT PROCUREMENT; AND DONALD E. SCOTT, SENIOR VICE PRESIDENT, EDS, INC. ON BEHALF OF INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA

Mr. WOODS. Thank you, Chairman Davis, it is a pleasure to be here this afternoon. I appreciate your inviting GAO to testify at this hearing on the restructuring of GSA's Federal Technology Service, the Federal Schedule and the Federal Supply Service. I assume that my entire statement will be part of the record.

Chairman TOM DAVIS. It is. Your entire statements are in the record.

Mr. WOODS. I would just like to touch on three basic points in the time we have available this morning. First, I want to provide some observations on the restructuring that GSA has gone through. Second, I want to talk about the incentives that are in place at the two organizations that we are discussing here this afternoon. Third, I want to touch on some further opportunities that we think are available to both of these organizations to help their customer agencies.

Starting first with our observations on the restructuring, we testified in April 2002 before the Technology Subcommittee that you chaired at the time. We and others put on the table a number of issues regarding the two GSA organizations that we are talking about here; primarily the potential for duplication and overlap among a number of the services and functions that they provide.

Following that hearing, as a result of this and other committees' urging and GSA initiatives, they undertook a management study to see how they could realign themselves and reorganize to eliminate some of this duplication and overlap. At the request of this committee, we have been, for many months, monitoring the implementation of that reorganization plan, and I want to provide just our bottom line, in terms of work.

We think that the initiatives that Administrator Perry outlined here this morning are steps in the right direction, very positive developments. There were definitely some areas of duplication and overlap, and the steps that have been taken should, over time at least, go a long way toward eliminating that duplication and overlap.

We do have some concerns, however, about the third leg of the plan; that is, the expansion of the activities of the Federal Technology Service into other areas that are unrelated to information technology. The first panel covered at some length the issues that had been uncovered by the GSA Inspector General. We have seen the alert report. We have not, of course, seen the draft report, which we understand is still in development. But having said that, the findings that the IG uncovered with regard to the Bremerton office are quite disturbing. We are pleased to see that GSA is equally disturbed by those findings, and are pleased to see that they have taken a number of steps to fix that. But having said that, we would have some reservations about the plan to move the Federal Technology Service into other areas, given the disturbing findings that the IG has found and those that are perhaps yet to come.

Second, in terms of incentives, Mr. Chairman, you were pursuing a line of questions with Administrator Perry that I think was right on the mark, in terms of trying to address the incentives that are at play at GSA. In preparation for this hearing, I reviewed the annual performance plan for GSA, and I think they are right on the mark in terms of understanding their role and mission. Their central mission, of course, as it has been for many years, is to provide customer agencies with the goods and services they need to carry out their missions. That is fundamental, and it is encouraging to see that they understand that and have taken many positive steps over the years to fill that mission. When we look, however, at the performance plans of the Federal Technology Service and the Federal Supply Service, we see that, at least in some respects, their performance plans are geared toward increasing revenues.

I think it is absolutely the correct line of thinking to question to what extent some of the underlying difficulties that have surfaced are the result of these agencies trying to push sales volume and not focusing on what we think their core mission ought to be, which is helping customer agencies maximize the efficiency of their operation and be able to carry out their missions. Just an example of the incentive that was at work, we issued a report in 2002 that took a look at the fee structure that was in place at FSS and FTS, and we found that at least with respect to the FSS, their fees were greatly in excess of their costs. The schema that is supposed to be at play here is that they are entitled to and, in fact, they are required to recover their costs in terms of their fee structure. But the objective is not to derive a profit, if you will, through the use of these fees. Our report identified a greatly excessive amount; I think somewhere in the neighborhood of $150 million over their costs. We are pleased to see that they have since taken action to reduce the fee that they charge customer agencies to bring that more in line with actual costs.

The third item that I wanted to touch on, which is elaborated upon in our statement, is the opportunity that we see for both of these organizations to help their customer agencies maximize efficiencies. We think that both of them are in a position to be able to provide meaningful data and meaningful analysis to their customer agencies to help them identify where they are spending their money, with whom they are spending their money and on what, and to be able to take that data and that analysis and do what we have termed "spend analysis" to be able to maximize efficiencies and leverage buying power. We have a recommendation in our statement to that effect, and we would hope that would be favorably received by GSA.

With that, let me stop there. I would be pleased to take your questions.

[The prepared statement of Mr. Woods follows:]

United States General Accounting Office

GAO

Testimony
Before the Committee on Government Reform, House of Representatives

For Release on Delivery
Expected at 11:00 a.m. EDT
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CONTRACT MANAGEMENT

Restructuring GSA's Federal Supply Service and Federal Technology Service

Statement of William T. Woods, Director
Acquisition and Sourcing Management

GAO-04-132T

October 2, 2003

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Highlights

Highlights of GAO-04-132T, a testimony before the Committee on Government Reform, House of Representatives

CONTRACT MANAGEMENT

Restructuring GSA's Federal Supply Service and Federal Technology Service

Why GAO Did This Study

The General Services Administration's (GSA) Federal Supply Service (FSS) and Federal Technology Service (FTS) play an important role in assisting agencies procure a wide range of products and services.

Over the past several years, FSS and FTS purchases have significantly increased, with IT products and services being the primary source of this growth. In April 2002, we identified overlap in FSS' and FTS' IT procurement programs. A management consultant similarly found overlaps in FTS' and FSS' IT sales and marketing functions and contract offerings. To enhance FSS and FTS operational efficiency and effectiveness—in both its IT and non-IT business lines—GSA has undertaken a performance improvement initiative.

This testimony focuses on GSA's actions to implement its initiative. It also discusses the importance of enhancing GSA's ability to help agencies strategically purchase products and services.

What GAO Recommends

We recommend that as it moves forward with its current performance initiative, GSA develop the capability to provide its customer agencies with information and analyses they need to leverage their buying power to reduce procurement costs.

www.gao.gov/cgi-bin/getrpt?GAO-04-132T.

To view the full product, click on the link above. For more information, contact William T. Woods at (202) 512-4841 or woodsw@gao.gov.

What GAO Found

In response to the management consultant's recommendations, GSA took a number of actions to improve FSS and FTS efficiency.

- First, GSA realigned its marketing, sales, customer account planning, and management functions. FSS now has primary responsibility for market research and marketing of all GSA products and services, including IT, while FTS has primary responsibility for sales and customer account planning and management. In addition, GSA transferred FTS contract development and maintenance responsibilities to FSS. Through this realignment, GSA hopes to eliminate inefficiencies due to overlaps and redundancies, provide best value to more federal customers, and improve customer relations.

- Second, GSA created a Contract Vehicle Review Board to ensure its existing contracts are rationalized and to evaluate the need for new contracts. The Board recently completed its review of IT contracts and found that for several of these contracts, the business case was not adequate to recompete them in the future.

- Finally, GSA created a new FTS Office of Professional Services to offer assisted procurement services beyond IT and telecommunications. By opening its assisted procurement offerings to new areas, GSA aims to expand its business base to new customers and enhance customer service. In its first 4 months, the Office of Professional Services had placed 146 task orders valued at $45 million. GSA expects to achieve $430 million in revenue by 2004.

While these actions should help reduce certain inefficiencies in the federal procurement process, we believe GSA needs to take a more active role in helping federal agencies reduce the overall cost of their FSS and FTS purchases. Because agencies' processes for establishing requirements for FSS and FTS products and services are generally decentralized and uncoordinated, agencies lack knowledge of the extent to which purchases overlap and buying power is diluted. GSA is in a unique position to help agencies analyze their spending agencywide and identify opportunities to coordinate their requirements. By using a more strategic approach to FSS and FTS procurement, agencies can leverage their buying power for volume discounts and thereby reduce overall purchasing costs. A few federal agencies have begun to analyze their spending patterns and successfully use a strategic purchasing approach for selected categories of products, including IT, to leverage their buying power and save money. For example, the Air Force saved an estimated $3 million using a strategic purchasing approach to buy more than 13,000 desktop and notebook computers required for multiple units that previously bought such products separately.

Mr. Chairman, Ranking Member Waxman, and Members of the Committee:

Thank you for inviting me here today to discuss the General Services Administration's (GSA) ongoing efforts to improve the efficiency and effectiveness of its Federal Supply Service (FSS) and Federal Technology Service (FTS). In fiscal year 2002, FSS and FTS helped federal agencies buy more than $34 billion of products and services ranging from everyday supplies, equipment, and motor vehicles to information technology (IT), telecommunications, and travel services. Over the past several years, FSS and FTS purchases have increased significantly, with IT products and services being the primary source of this growth.

In April 2002, we testified on the roles of FSS and FTS in federal purchasing and identified overlap in their IT procurement programs.[1] While FSS and FTS had reoriented their purchasing programs to provide better service to agencies, concerns about overlapping IT acquisition programs remained, prompting GSA to hire a management consultant to study how effectively the two were operating. The study confirmed that while customers and industry partners generally valued GSA, there were inefficiencies in FTS' and FSS' overlapping IT sales and marketing functions and contract offerings. In response to the study's recommendations, GSA announced implementation of a performance improvement initiative to enhance FSS and FTS operational efficiency and effectiveness—in both IT and non-IT business lines.

My statement today will focus on the actions GSA has taken to implement its performance improvement initiative. I will also discuss the importance of enhancing GSA's ability to promote strategic purchasing practices—by analyzing agencies' purchasing patterns to help identify opportunities that could better leverage agency buying power and thereby cut overall purchasing costs. This approach is based on our findings of how leading companies and other federal agencies have followed strategic purchasing practices that clearly paid off in terms of dollar savings.

In summary, GSA has taken a number of actions to implement its performance improvement initiative, but these actions alone will not provide the best value for government purchasing. GSA has consolidated

[1] U.S. General Accounting Office, *Contract Management: Roles and Responsibilities of the Federal Supply Service and Federal Technology Service*, GAO-02-560T (Washington, D.C., April 11, 2002).

and streamlined overlapping operations by restructuring FSS and FTS marketing, sales and contracting functions, and evaluated selected contracts to identify opportunities to eliminate duplication. If successfully implemented, these actions should, over time, help reduce inefficiencies in agency operations, but we believe GSA needs to do more. To achieve greater savings, GSA needs to help agencies take a more strategic approach to coordinating their procurement requirements to better leverage their buying power and obtain the most advantageous terms and conditions for their purchases.

Background

GSA plays an important role in assisting agencies in procuring supplies and services. FSS and FTS, in particular, facilitate a wide variety of purchases. FSS assists federal agencies in acquiring a full range of products—including over 4 million commonly used commercial items, ranging from furniture, computers, tools, equipment, and motor vehicles. FSS also assists agencies in acquiring services, such as professional consulting, travel, transportation, and property management. FTS provides customers with telecommunications products and services—voice, data, and video—and a full range of IT products and services. Over the past several years, FSS and FTS purchases have increased significantly. In fiscal year 2002, FSS' business volume was more than $27 billion, and is projected to grow to almost $32 billion by fiscal year 2004. Between fiscal years 1995 and 2002, total revenues for FTS purchasing programs more than quadrupled from $1.5 billion to $7.1 billion. Sales of IT products and services are the primary source of GSA sales growth.

Historically, FSS and FTS have taken different approaches to filling agency requirements. FSS has followed a self-service business model, using contracts that are designed to be flexible, simple to use, and consistent with commercial buying practices. FSS negotiates master contracts with vendors, seeking discounts off commercial list prices that are at least as favorable as the discounts offered to their most favored customers. FTS has followed a full-service business model, providing assisted procurement services to help agencies define and fill their IT and telecommunications requirements. FTS is a major user of the FSS schedule contracts as well as a range of contract vehicles FTS and other federal agencies have awarded—commonly known as governmentwide acquisition contracts.

While their business models differ, FSS and FTS provide similar IT goods and services and provide customers access to many of the same vendors. Concerns were raised about potential inefficiencies that may result from

this overlap—particularly the additional administrative costs incurred by vendors to prepare separate proposals for FSS and FTS, and by GSA to evaluate and select vendors and administer the contracts. To address these concerns, GSA commissioned a management consulting firm to conduct a study of the structure and efficiency of FSS and FTS and the services they provide to agency customers. The consultant found several areas where GSA could realize efficiencies in its operations and made several recommendations, including:

- Combine and realign certain functions—such as marketing and sales, contract development and maintenance, and customer support—as they relate to IT and telecommunications.
- Rationalize overlapping IT contracts currently offered—that is, review existing IT contracts to identify redundancies and eliminate those that do not clearly have a distinct value to GSA's customers.
- Expand FTS' assisted procurement services to GSA business lines other than IT and telecommunications.

GSA Has Taken Actions to Streamline FSS and FTS Operations

In response to the consultant's study, the GSA Administrator announced in December 2002 that GSA planned to combine and realign some functions of FSS and FTS in order to improve efficiencies and to expand FTS-assisted procurement services for customer agencies.

First, GSA realigned its market research, marketing, customer account planning and management, and sales functions previously carried out separately by FSS and FTS. FSS now has primary responsibility for market research and marketing of all GSA products and services, including IT, while FTS has primary responsibility for sales and customer account planning and management. Through this realignment, GSA hopes to (1) eliminate inefficiencies due to overlaps and redundancies, (2) provide best value to more federal customers by expanding its market share in IT and other product and services areas, and (3) improve customer relations. In addition, GSA transferred FTS contract development and maintenance responsibilities to FSS.

Second, GSA created a Contract Vehicle Review Board—with representatives from FSS, FTS, GSA's Office of Governmentwide Policy, and its regional offices to ensure its existing contracts are rationalized and to evaluate the need for new contracts. The Board recently completed its review of FTS IT contracts. The Board found that for a select number of these contracts the business case was not adequate to recompete them in the future. However, the Board recommended against terminating these

contracts before their scheduled expiration. Therefore, the potential efficiencies to be gained from GSA's efforts to eliminate redundant contracts will not be realized for several years, after these contracts expire.

Finally, GSA created a new FTS Office of Professional Services to offer assisted procurement services beyond IT and telecommunications in three new areas: management organization and business improvement, worldwide logistics, and professional engineering. By opening its assisted procurement offerings to new areas, GSA aims to expand its business base to new customers and enhance customer service by providing consulting and management support in a wider range of categories. In its first 4 months, the Office of Professional Services had placed 146 task orders valued at $45 million. GSA expects to achieve $430 million in revenue by 2004.

Improved Knowledge of FSS and FTS Purchasing Could Reveal Significant Savings for Federal Agencies

While GSA's recent actions should help improve the management of federal procurement, these actions focus on achieving administrative and process efficiencies, not on leveraging the government's buying power to reduce the cost of government purchasing. Because processes for establishing requirements for products and services at many agencies are generally decentralized and uncoordinated, we believe GSA needs to take a more active role in helping federal agencies to coordinate their purchases and improve their ability to leverage their buying power and obtain the most advantageous terms and conditions. A number of leading companies and federal agencies that we have highlighted in our recent work have used a strategic procurement approach to achieve significant savings.

A strategic procurement approach begins with a "spend analysis" to see who is buying what from whom. Through such an analysis, an agency can identify similar goods and services that are being bought from numerous suppliers, often at varying prices. With this knowledge, agencies can coordinate their purchases to leverage their buying power and rationalize their supplier base.

A few federal agencies have begun to successfully use a strategic purchasing approach for selected categories of products to leverage their buying power and save money. For example, in 2001, we reported that the

Department of Veterans Affairs (VA) and the Department of Defense (DOD) saved over $170 million annually by jointly procuring pharmaceuticals.[2] VA and DOD achieved those savings by agreeing on particular high-dollar, high-volume drugs that their facilities would purchase and then contracting with the manufacturers of these drugs for discounts based on their combined larger volume. The discounts VA and DOD obtained were, on average, 33 percent lower than FSS prices.

Strategic purchasing of IT products has been particularly promising in achieving savings. For example, in 2003, following an Air Force-wide spend analysis that revealed many leverage opportunities for IT equipment, an Air Force commodity council—which includes representatives from the major commands, several functional areas, and the Air Staff—solicited competing offers from five IT vendors with blanket purchase agreements[3] in place for desktop and notebook computers for multiple Air Force units that previously bought such products separately. According to an Air Force official involved in this effort, the council awarded a purchase order for about 13,000 computers to two vendors. The new purchasing approach achieved significant savings for the Air Force—an average of about $450 per desktop computer and over $200 for each notebook computer—for an overall estimated savings of about $3 million. This was the first of several anticipated IT buys under the Air Force's new strategic purchasing approach to take advantage of overall buying power to achieve mission needs.

Similarly, the Office of Management and Budget (OMB) projects saving as much as $100 million annually on computer software licenses through its SmartBUY program, launched in June 2003. According to OMB, more than 4 million desktop, laptop, and networked computers are in use across the federal government, and federal agencies engage in thousands of software licensing agreements annually. By coordinating the approach federal agencies use to acquire common software licenses, OMB expects the government can achieve significant savings from volume discounts. GSA is managing the program for OMB through an interagency team that was established to review the baseline analysis and inventory of software

[2] U.S. General Accounting Office, *DOD and VA Pharmacy: Progress and Remaining Challenges in Jointly Buying and Mailing Out Drugs*, GAO-01-588 (Washington, D.C.: May 25, 2001).

[3] A blanket purchase agreement is a simplified method of filling anticipated repetitive needs for supplies or services by establishing "charge accounts" with qualified sources of supply.

agreements and develop a migration strategy to start replacing those separate agreements with the first round of SmartBUY governmentwide licenses by July 2004.

GSA could help other agencies achieve similar savings. We believe that because most agencies have traditionally used a decentralized approach to acquiring FSS and FTS products and services, their knowledge of the amount spent by their program units on the same or similar FSS and FTS products and services is limited, minimizing their ability to identify buying practices that dilute their purchasing power and result in unnecessary costs. GSA is in a unique position to be able to help agencies conduct spend analyses of their FSS and FTS purchases and provide them with the knowledge needed to identify opportunities to better coordinate their purchases and leverage their buying power and thereby reduce their purchasing costs. With agency purchases of FSS and FTS products and services exceeding $34 billion in 2002, these savings could be significant.

Conclusion

In conclusion, with the federal government's critical budget challenges, it is more important than ever that GSA partner with agencies and help them get the most from every federal dollar spent. The potential for increased procurement efficiencies and effectiveness is significant. By learning more about their spending for products and services on an agencywide rather than individual customer basis, GSA can help agencies leverage their buying power, reduce purchasing costs, and better manage their suppliers.

Recommendation

We recommend that as it moves forward with its current performance initiative, GSA develop the capability to provide its customer agencies with information and analyses they need to leverage their buying power to reduce procurement costs.

Mr. Chairman, this concludes my statement. We performed our work in September 2003 in accordance with generally accepted government auditing standards.[4] I will be happy to answer any questions you or other members of the committee may have.

[4] This work followed on that which we performed from October 2002 through September 2003, as well as published GAO work.

Contact and Acknowledgments

For further information, please contact William T. Woods at (202) 512-4841. Individuals making key contributions to this testimony include Ralph Dawn, Carolyn Kirby, Jose Ramos, and Karen Sloan.

Related GAO Products

Contract Management: High-Level Attention Needed to Transform DOD Services Acquisition. GAO-03-935. Washington, D.C.: September 10, 2003.

Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings. GAO-03-661. Washington, D.C.: June 9, 2003.

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Chairman TOM DAVIS. Thank you very much.

Mr. Allen, thanks for being with us.

Mr. ALLEN. Good morning, Mr. Chairman; I am Larry Allen, executive vice-president of the Coalition. It is a pleasure to be here before the committee today and testify on the progress that GSA has made on integrating the operations of FSS and FTS. As we previously testified before the Subcommittee on Technology and Procurement Policy in the 107th Congress, we believe that the operations of these two services can and should be better integrated to provide state-of-the-art service. We have been honored to work with representatives from both services, as well as officials in the Administrator's office, since that initial hearing, on a number of projects designed to do just that.

The Coalition believes that GSA has taken good initial steps to integrate the operations of FSS and FTS. These steps include the implementation of several recommendations put forth in the Accenture report conducted in 2001. As a result, the two services have begun to work closer together to bring about the "Team GSA" result we earlier envisioned. Our testimony today will highlight several of these changes and make recommendations on future steps.

One of the key recommendations the Coalition made in its earlier testimony was the need to eliminate duplicative contracts that resulted in higher overhead burdens for contractors and customer confusion. A Contract Review Board was established by GSA to review current GWAC contracts and the MAS IT Schedule. The Board reviewed each of these programs and concluded that there were, in fact, too many contracts providing the same services. A number of recommendations were made to allow under-used contracts to expire and merge existing contracts. Significantly, the Coalition understands that each of the Review Board's recommendations were unanimous. We are extremely pleased to see that the recommendations of the Review Board were released last week and that GSA will implement its recommendations. We understand that this committee has been fully briefed on the specific actions to be taken, and we will not repeat them here. It is important to note, however, that the Coalition and its members support the Board's recommended course of action. We also support the continued operation of the Contract Review Board. We believe that this Board can be an effective check against future unneeded contract duplication, and will serve to ensure that customer needs are met by the most appropriate contracting mechanism. Coalition member companies believe that the streamlining process, however, should not stop with the initial round of recommendations. While it is important to provide the agency, its contractors and customers time to adjust to the initial recommendations, we believe that additional action may be possible to further combine GWACs into unified offerings. The Contract Review Board should be charged with identifying these opportunities.

Another recommendation that GSA has implemented is the consolidation of all contract vehicles in FSS. The Coalition believes that this is a good initial step. In our previous testimony, we stated that the proliferation of FTS contracts and the growth of FSS Schedules led many Government customers to ask, "will the real

GSA please stand up." We recommended that FSS take ownership of all contracts, and they have done this. Bringing these contracts into FSS, however, is just one step of what must be a multi-phased process in order to have the desired effect. In the meantime, FTS has also moved to enhance the acquisition management services it provides Federal customers. Perhaps the most significant step in this process is the creation of the FTS Services Management Office that now provides acquisition management assistance to agencies buying professional services. The Coalition's initial interactions with this office have been very positive. We feel that it is a good step. The FTS officials in charge of the function have briefed our members thoroughly on their capabilities, have sought to participate in upcoming conferences and have been very responsive to our general questions. We also want to point out that the two services are even beginning to market themselves together. Recent GSA advertisements cite both FSS contracts and the assisted acquisition services offered by FTS. We believe that these ads are an important symbol of the "Team GSA" concept we have called for, and look forward to this continued collaboration.

While the Coalition is pleased that GSA has made several changes to enhance its overall value, we believe that steps still remain that must be taken. As we mentioned earlier, the transition of GWAC contracts to FSS was a positive step. In order to make the transition as effective as possible, however, the FSS central office must be able to manage those contracts within the overall context of creating the most effective contracting offering possible. We believe that the dual reporting structure inside GSA is sometimes incompatible with the overall goal of ensuring accountability and minimal program duplication. We want to emphasize that these concerns are about the inherent structure itself, not the people who fill the positions. The Commissioners of each service and all Regional Administrators whom we have met each carry out their duties well. Each manager, however, can carry out their duties, while the agency, as a whole, may still not function at maximum efficiency. The current dual management structure of GSA is such that the regional offices report to regional management and central offices report to central management. It is currently at the GSA Administrator's office where the two structures come together.

We recommend that GSA create an additional office to ease the burden on the Administrator. To do this, we again call for the creation of an Associate Administrator for Operation, who will be responsible for integrating the regional and central operations of each service. The Associate Administrator can also be a catalyst for identifying remaining duplication within the Agency formulating plans for eliminating, where it makes sense, this duplication and taking the "Team GSA" concept to its next logical step. We believe that even a very fine GSA Administrator, such as Mr. Perry, cannot possibly be everywhere at once. He and other Administrators are responsible for a wide variety of agency functions, and additional support in the agency, we feel, is required in order to integrate its central and regional operations. In addition to what we believe are important operational enhancements, the creation of an Associate Administrator for Operation may also be a necessity brought about by personnel realities. We have already seen the re-

tirement of several senior leaders in GSA in just the past 3 years, and more are likely on the way.

Eliminating disparate agency organizational structures and better integrating overall agency operations may not, therefore, be merely a recommended management change. It may become an operational imperative in order for GSA to continue to meet the many challenges it is given. In conclusion, the Coalition believes that GSA has begun making significant improvements to the operations of FSS and FTS. We are pleased to have been part of this process, and look forward to continuing our working relationship with the agency and with this committee.

[The prepared statement of Mr. Allen follows:]

COALITION FOR GOVERNMENT PROCUREMENT

Testimony Before the

House Government Reform Committee

October 2, 2003

Larry Allen
Executive Vice President

The Coalition for Government Procurement appreciates this opportunity to testify on the progress the General Services Administration (GSA) has made on integrating the operations of the Federal Supply Service (FSS) and Federal Technology Service (FTS). As we previously testified before the Subcommittee on Technology and Procurement Policy in the 107th Congress, we believe that the operations of these two services can and should be better integrated to provide state of the art service to federal agencies. We have been honored to work with representatives from both services as well as officials in the Administrator's office since that initial hearing on a number of projects designed to do just that.

The Coalition is a non-profit association representing over 330 companies selling commercial services and products to the federal government. Our members are comprised of large and small firms that sell through FSS Multiple Award Schedule (MAS) contracts as well as Government Wide Acquisition Contracts (GWAC's) that have now been transferred from FTS to FSS. Coalition members account for over 70% of schedule sales and a significant amount of GSA GWAC transactions. We have worked *with* decision makers in GSA, the executive branch generally, and Congress to bring about common sense acquisition policies since our founding in 1979. Today, the Coalition enjoys an unsurpassed reputation as *the* voice for schedule contractors.

The Coalition believes that GSA has taken good initial steps to integrate the operations of FSS and FTS since the time of our previous subcommittee testimony. These steps include the implementation of several recommendations put forth in the report conducted by Accenture in 2001. As a result, the two services have begun to work closer to bring about the "Team GSA" result we earlier envisioned. Our testimony today will highlight several of these changes and make recommendations on what we feel are the essential next steps in order to ensure that GSA continues to meet the evolving needs of its customers.

DUPLICATIVE CONTRACTS

One of the key recommendations the Coalition made in its earlier testimony was the need to eliminate duplicative contracts that resulted in higher overhead burdens for contractors and confusion among GSA customers. The need for such action was also noted in the Accenture report. GSA has taken positive initial steps to reduce duplication.

A Contract Review Board was established to examine current GSA GWAC contracts and the MAS Information Technology schedule. This Board was comprised of representatives from FSS, FTS, and the GSA Office of Acquisition Policy. The Board reviewed each of these programs and concluded that there were, in fact, too many contracts providing the same services through the same contractors. A number of recommendations were made to allow underused contracts to expire, merge existing contracts where it made good business sense to do so, and create an on-going mechanism to guard against proliferation of future duplicative programs. Significantly, the Coalition understands that each of the review board's recommendations were unanimous, indicating that all stakeholders clearly agreed that certain contracts could be eliminated without harming customer service.

The Coalition is extremely pleased to see that the recommendations of the review board were released last week and that GSA will implement its recommendations. We understand that this Committee has been fully briefed on the specific actions to be taken and we will not repeat them here. It is important to note, however, that the Coalition and its members support the Board's recommended course of action. We believe that some of the duplication that confused customer agencies and created unnecessary burdens on contractors will be reduced.

We also support the continued operation of the Contract Review Board. We believe that this Board can be an effective check against future unneeded contract duplication and will serve to ensure that customer needs are met by the most appropriate contracting mechanism. We recommend that the Board continue to be comprised of representatives from FSS, FTS, and the Office of Acquisition Policy.

Coalition member companies believe that the streamlining process, however, should not stop with the initial round of recommendations. While it is important to provide the agency, its contractors, and customers time to adjust to the initial recommendations, we believe that additional action may be possible to further combine some GWAC programs into unified offerings. Some of our members, for example, believe that the review board's findings identified the "low hanging fruit" and that further streamlining is essential. The Contract Review Board should be charged with identifying these opportunities through the input of GSA officials, customer agencies, and contractors. Such actions will enable the agency to continue to adapt to changing customer needs and provide one-stop solutions through a variety of programs. The Coalition would be pleased to participate in this process.

PLACING ALL CONTRACTS IN FSS/ESTABLISHING FTS AS A SERVICE PROVIDER

Another recommendation that GSA has implemented is the consolidation of all contract vehicles in FSS. The Coalition believes that this is a good initial step. In our previous testimony we stated that the proliferation of FTS GWAC's and the growth of FSS schedules led many government customers to ask, "Will the real GSA please stand up?". We recommended that FSS take ownership of all contracts to help eliminate this confusion and the occurrence of having one part of the agency sell against another. GSA has now done this and, coupled with the overall reduction in the number of GWAC's, customer confusion is abating. Bringing these contracts into FSS, however, is just one step of what must be a multi-phased process in order for the transfer to have the desired effect. We will discuss what the Coalition believes to be an essential follow up later in our testimony.

In the meantime, FTS has also moved to enhance the acquisition management services it provides federal customers. The Coalition stated that FTS provides important acquisition management solutions to agencies unsure of their precise needs or that lacked sufficient experienced personnel to conduct a complex IT procurement internally. We

recommended that they promote and expand their services in this area and they have done so.

Perhaps the most significant step in this process is the creation of the FTS Services Management Office that now provides acquisition management assistance to agencies buying professional services. As the government buys more services and the services they acquire become more complex, the Coalition believes that having experienced contracting personnel available to provide proper acquisition assistance will become more and more important. It will be the role of the Service Management Office to fill this need.

The Coalition's initial interactions with this office have been positive. The FTS officials in charge of this function provided a thorough briefing on their capabilities to our Services Committee, have sought to participate in upcoming conferences and have been responsive to general questions. We anticipate that they will grow and our members hope to work with them to provide timely and appropriate service acquisition assistance.

The Coalition also wishes to point out that the two services are even beginning to market themselves together. Recent GSA advertisements site both FSS schedule contracts and the assisted acquisition services offered by FTS. We believe that these ads are an important symbol of the "Team GSA" concept we have called for. They offer customer agencies a choice of programs, depending on the needs of each and make it clear that GSA can provide what they need, regardless of the type of help needed. The Coalition believes these ads reflect a changed approach to reaching federal customers and will significantly reduce confusion as to which service is the "real" GSA. We are optimistic that this type of collaboration will continue and become a salient agency feature.

ON-GOING CHALLENGES

While the Coalition is pleased that GSA has made several changes to enhance its overall value to federal agencies, we believe that significant steps still remain that must be taken

to enhance agency services and accountability. As we mentioned earlier, the transition of GWAC contracts to FSS was a positive first step. In order to make the transition as effective as possible, however, the FSS central office must be able to manage those contracts within the overall context of creating the most effective overall contracting alternative FSS can offer. In addition, recent press accounts of problematic actions taken in certain FTS regional offices underscore the need for increased central management within that service.

The Coalition reiterates its belief that the dual reporting structure inside GSA is incompatible with the overall goal of ensuring accountability and minimal program duplication. We want to emphasize that these concerns are about the inherent structure, itself, not the people who fill the positions. The Commissioners of each service and all Regional Administrators whom we have met each carry out their duties well. They are generally fine representatives of the highest echelons of government service. The structure of the agency, however, is such that each manager can carry out his or her duties well and have the agency as a whole still not function at maximum efficiency.

The Coalition believes that this dual management structure has led to lapses in the past when regional and central offices worked toward differing goals. While the system, ideally, provides important checks and balances to ensure that all key agency programs do not emanate from one place, the decentralized infrastructure can also give rise to program duplication and the creation of several miniature "Team GSA's" that operate independently of the rest of the agency. We understand that Administrator Perry and his senior management team are taking steps to address these concerns and the Coalition supports his efforts.

The current dual management structure of GSA is such that regional offices report to regional management and central offices report to central management. It is currently at the GSA Administrator's office where the two structures come together. We recommend that GSA create an additional office to ease the burden on the Administrator, who already has wide reaching responsibilities. The Coalition feels that the addition of a new position

will increase GSA's tools to ensure that inappropriate operations do not crop up and that the agency as a whole works toward the common goal of outstanding customer service.

To do this, the Coalition again calls for the creation of an Associate Administrator for Operation who will be responsible for integrating the regional and central operations of each service. This position will be charged with bringing together the disparate reporting structures within the agency to ensure, among other things, that the commissioners of each service are strengthened and have both the responsibility and the authority to effectively manage the central and regional operations in their service. The Associate Administrator can also be a catalyst for identifying remaining duplication within the agency, formulating plans for eliminating it where it makes sense, and taking the "Team GSA" concept to its next logical step.

We believe that this position will further enhance GSA's reputation as an outstanding acquisition services provider and a valuable executive agency partner. It will enhance agency accountability and reduce overhead.

The Coalition believes that even a very fine Administrator, such as Stephen Perry who currently holds this position, cannot possibly be everywhere at once. Mr. Perry is an effective leader and the Coalition and its members hold him in high regard. He, and other Administrators, however, are responsible for a wide variety of agency functions. Additional support in the agency is required in order to integrate its central and regional operations, even if such a position is not made permanent and exists exclusively during a period of agency reorganization.

In addition to what we believe are important operational enhancements, the creation of an Associate Administrator for Operations may also be a necessity brought about by personnel realities. GSA is not immune from the personnel challenges that confront other agencies. A high number of agency personnel are, or will become, eligible for retirement by 2006. It will be increasingly difficult to find experienced and talented individuals to fill each position in existence today. We have already seen the retirement of several

senior leaders in GSA in just the past three years and more are likely on the way. Eliminating disparate agency organizational structures and better integrating overall agency operations may not, therefore, be merely a recommended management change. It may become an operational imperative in order for GSA to continue to meet the many challenges given it by a federal workforce that is, itself, undergoing many of the same changes. Creating an Associate Administrator position now allows GSA to stay ahead of the personnel curve and manage transitions without diminishing the high level of service federal customers have come to expect.

CONCLUSION

The Coalition for Government Procurement believes that GSA has begun making significant improvements to the operations of the Federal Supply Service and Federal Technology Service. We are pleased to have been a part of this process and look forward to continuing our positive working relationship with the agency. We also look forward to the execution of what we believe to be important next steps to build on existing momentum and in keeping GSA at the forefront of the provision of goods and services federal agencies rely upon to fulfill their varied missions.

The Coalition is honored to be given this opportunity to testify before the House Government Operations Committee today. We look forward to working with Chairman Davis, the other members of the Committee on this and other important government procurement issues. I would be pleased to answer any questions you may have at the appropriate time.

Chairman TOM DAVIS. Thank you very much.

Mr. Scott.

Mr. SCOTT. Mr. Chairman, I am Don Scott, senior vice-president of government solutions at EDS. I thank you for inviting me here today to testify on behalf of ITAA. As you may know, the majority of ITAA's 400 member firms provide computer software and information technology services to the Federal Government, and it is with great pleasure that I represent them.

For nearly three decades, ITAA has been very active in legislation and regulations pertaining to Government procurement. Through ITAA's Procurement Policy Committee, and especially its Federal Supply Service Subcommittee, we have worked closely with officials at GSA, its Federal Supply Service and Federal Technology Service. ITAA monitors both the FSS and FTS programs and meets frequently with its senior officials. The GSA Schedules and other Governmentwide Acquisition Contracts are vitally important to ITAA since their member firms provide billions of dollars annually of software and computer services to Government customers.

In ITAA's view, GSA's Federal Supply Service Schedules and other GWACs supported and reformed by FASA, the Clinger-Cohen Act, the E-Government Act, and hopefully SARA, have permitted efficiencies in Government contracting that were unheard of only a few years ago. The GSA Networx service offerings have resulted in the most cost-effective telecommunications services to be found anyplace; they set the bar. Further management initiatives such as the ones being discussed here today will likely result in even more effective Government services.

ITAA was very supportive of Administrator Perry's initiative to study the possible overlap and duplication of services between FSS and FTS. We shared the views of this committee and its chairman that GSA's focus should be on efficiency and effectiveness, and that redundancies between the two groups should be eliminated. The GWACs support a variety of service offerings and products. While ITAA believes that Government customers should have a variety of acquisition vehicles to choose from, we are also concerned that a proliferation of GWACs could lead to duplication and overlaps. This also resulted in increased costs to us in industry. We are expected to bid on various GWACs, since we did not know which contract vehicle agencies would decide to use.

While ITAA did not have a position on the relocating of the GWACs to FSS, we did suggest that the expertise on the GWACs also be transferred to FSS. We were pleased when this was agreed to. In preparation for the testimony today, ITAA polled its member companies for their views on how the restructuring between FSS and FTS was proceeding. Here are some of our observations and concerns.

On the Federal Supply Service side, we believe that to date, the restructuring at FSS has proceeded smoothly, but it has taken longer than expected. ITAA has had long term concerns about sufficient resources at FSS for its massive work load. This relates, of course, to the issue that Congresswoman Norton raised a while ago. We are still disappointed in the delay achieving some of the reforms under consideration, including electronic modification of contracts.

Another long-time concern is the lack of sufficient skilled contracting officers to handle the negotiation backlog. With the addition of the cooperative purchasing option for State and local governments, which ITAA supported, we believe this workload will continue to grow. We understand that additional resources are being provided, but additional contracting efficiency could also help to alleviate the problem.

ITAA has also expressed concern that some State governments are now requiring vendors to apply for a GSA Schedule contract, even if they never intend to sell to the Federal Government. This is currently the situation in California, and we expect to see this in other States, as well. Due to the climate in the commercial IT business, many firms that had not sold to the Federal Government previously have now decided to apply for Schedule contracts. We continue to hear about the excessive delays in getting their paperwork processed and approved, and hope that needed resources and training can soon be provided.

On the FTS side, the ITAA is pleased that FTS' procurement support services have now been extended to other non-IT contract vehicles. ITAA is not commenting on the telecommunications responsibility of FTS, since we do not have specific positions there. However, we believe we should say that the convergence of IT in telecommunications should cause FTS to seriously consider consolidating its IT business with its network services business. This would also be supportive to agencies' desires to use total solutions-based contracts. The ITAA and its members look forward to commenting on the RFI that was mentioned earlier for the next generation of telecommunications offerings. This action would also further the direction toward enterprise solutions in which IT solutions are aligned with primary business objectives.

ITAA also recommends more attention to reforming its procurement services, since they are overdue for modernization. As a retired GSA employee, I would be glad to answer specific questions during the question period. On the GSA Contract Review Board, one of the areas of the most intense interest within ITAA has been the creation and activities of this board. Many ITAA members have invested and been awarded the GWACs that were being reviewed by the Board. Again, while ITAA was very supportive of the goal to avoid duplication of the contracts, we are also concerned that those contracts where companies had invested significant resources be continued through advertised term. ITAA was provided a summary of the recent board decisions on Monday. Since this is just before the close of the Government fiscal year, we were not able to get sufficient responses from our affected members, but believe they are generally in line with industry expectations.

ITAA members range from the smallest one person firm to the largest system integrators numbering hundreds of thousands of employees. We suggest that future GWACs consider the capabilities also of mid-range companies. We know that you, Mr. Chairman, and others have been studying the needs of these mid-sized firms and recognize their importance to healthy competition in the Federal sector.

In conclusion, Mr. Chairman, we are fortunate to live in a very interesting time. The American public and taxpayers have in-

creased expectations for Government performance. As both the Nation and agencies of the Federal Government adapt to this new focus, it is particularly important that the Federal Government have fast, efficient access to IT solutions that best meet agency requirements. ITAA believes that the GSA has made serious strides in reforming its FTS and FSS to improve and enhance their service to agencies. We commend Administrator Perry for his initiatives, since internal restructuring is never easy. GSA's governmentwide scope gives it a unique opportunity to provide significant support to the agendas of Congress and the administration to eliminate duplication, promote inter-operability and enhance efficiency and effectiveness for the taxpayers. IT acquisition and management are critical to those efforts. ITAA thanks you for this opportunity to comment, and I would be glad to respond to your questions.

[The prepared statement of Mr. Scott follows:]

TESTIMONY

OF

DONALD E. SCOTT
Senior Vice-President, Government Solutions
EDS

BEFORE THE

HOUSE COMMITTEE ON GOVERNMENT REFORM
2154 RAYBURN HOUSE OFFICE BUILDING

ON

GENERAL SERVICES ADMINISTRATION RESTRUCTURING OF FSS AND FTS

ON BEHALF OF THE

INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA

October 2, 2003

Mr. Chairman and Members of this Committee:

I am Donald E. Scott, Senior Vice-President of Government Solutions, EDS, Corp. Thank you for inviting me here today to testify on behalf of the Information Technology Association of America (ITAA). As you may know, the majority of ITAA's 400 member firms provide computer software and information technology services to the Federal government, and it is with great pleasure that I represent ITAA today.

For nearly three decades, ITAA has been very active on legislation and regulations pertaining to government procurement of IT. Through ITAA's Procurement Policy Committee and especially its Federal Supply Service Subcommittee, we have worked closely with officials at the General Services Administration and its Federal Supply Service and Federal Technology Service. ITAA monitors both the FSS and FTS programs and meets frequently with its senior officials. The GSA Schedules and other Government-Wide Acquisition Contracts (GWACs) are vitally important to ITAA since their member firms provide billions of dollars annually of software and computer services to government customers.

In ITAA's view, GSA's Federal Supply Service Schedules and other GWACs supported and reformed by FASA, the Clinger-Cohen Act, the E-Government Act, and hopefully SARA, have permitted efficiencies in government contracting that was unheard of only a few years ago. The GSA Network Services offerings have resulted in the most cost effective telecommunications services to be found anywhere. Further management initiatives such as the ones being discussed here today will likely result in even more effective government services.

ITAA was very supportive of Administrator Stephen Perry's initiative to study the possible overlap and duplication of services between FSS and FTS. We shared the views of this Committee and its Chairman that GSA's focus should be on efficiency and effectiveness and that redundancies within these two groups should be eliminated. While ITAA believes that government customers should have a variety of acquisition vehicles to choose from, we were also concerned that a proliferation of GWACs could lead to duplication and overlaps. This also resulted in increased costs to industry. We were expected to bid on the various GWACs since we did not know which contract vehicle agencies would decide to use. While ITAA did not have a position on the relocating of the GWACs to FSS, we did suggest that the expertise on the GWACs also be transferred to FSS. We were pleased when this was agreed to.

Reorganization Status Update:

In preparation for the testimony today, ITAA polled its member companies for their views on how the restructuring between FSS and FTS is proceeding. Here are some of our observations and concerns:

Federal Supply Service: We believe that to date, the restructuring at FSS is proceeding smoothly, but is taking longer than expected. ITAA has had long-term concerns about sufficient resources at FSS for its massive workload. We are still disappointed in the delay in achieving some of the reforms under consideration including electronic modifications of contracts. Another long time concern is the lack of sufficient skilled contracting officers to handle the negotiations backlog. With the addition of the Cooperative Purchasing option for state and local

governments (which ITAA supported), we believe that this workload will continue to grow. We understand that additional resources are being provided, but additional contracting efficiency could help to alleviate the problem. ITAA has also expressed concern that some state governments are now requiring vendors to apply for a GSA schedule contract even if they never intend to sell to the Federal Government. This is currently the situation in California and we expect to see this in other states as well. Due to the decline in the commercial IT business, many firms that had not sold to the Federal Government previously, have now decided to apply for GSA Schedule contracts. We continue to hear about the excessive delays in getting their paperwork processed and approved and hope that needed resources and training can be provided soon.

Federal Technology Service: ITAA is pleased that FTS' procurement support services have now been extended to other non-IT contract vehicles. ITAA is not commenting on the telecommunications responsibilities of FTS since we do not have specific positions in this area. We believe, however, that the convergence of IT and telecommunications should cause FTS to consider seriously consolidating its IT business with its network services business. This would also be supportive to agencies' desires to use total solutions-based contracts and payment based on outcomes using service level agreements. This action would also further enterprise solutions in which IT solutions are aligned with primary business objectives. ITAA also recommends more attention to reforming its procurement services since they are overdue for modernization. As a retired GSA employee, I will be glad to answer specific questions on FTS during the question period.

GSA Contract Vehicle Review Board (CVRB):

One of the areas of most intense interest within ITAA has been the creation and activities of the GSA Contract Vehicle Review Board. Many ITAA member firms had invested and been awarded the GWACs that were being reviewed by the CVRB members. Again, while ITAA was very supportive of the goal to avoid duplication of contracts, we were also concerned that those contracts where companies had invested significant resources in bidding be continued through their advertised term where possible. ITAA was provided with a summary of the recent CVRB decisions on the GWACs on Monday. Since this was just before the close of the government fiscal year, we were not able to get sufficient responses from our affected members to comment in detail, but believe they are generally in line with industry expectations.

ITAA members range from the smallest one-person firm to the largest systems integrators numbering hundreds of thousands of employees. We suggest that future GWACs consider the capabilities of mid-range companies. I know that Chairman Davis and others have been studying the needs of these mid-sized firms and recognize the importance of maintaining healthy competition in the federal sector for companies of all sizes.

Conclusion:

Mr. Chairman and Members, we are fortunate to live in interesting times. The American public and taxpayers have increased expectations for government performance. As both the nation and agencies of the Federal government adapt to this new focus, it is particularly important that the federal government have fast, efficient access to the IT solutions that best meet agency requirements. ITAA believes that GSA has made serious strides in reforming FTS and FSS to

improve and enhance their service to the other government agencies. We commend Administrator Perry for his initiative since internal restructuring is never easy. GSA's government wide scope gives it unique opportunities to provide significant support to the agendas of Congress and the Administration to eliminate duplication, promote interoperability, and enhance efficiency and effectiveness for the taxpayers. IT acquisition and management are critical to these efforts.

ITAA thanks you for this opportunity to comment and I would be glad to respond to any questions.

Chairman TOM DAVIS. Thank you. I am going to try to finish the questions, and go over to vote and not hold you. I could hold you afterwards and we could spend the afternoon, but I will try to let you go and just ask a couple of questions. Your entire statements are in the record; we appreciate it. Mr. Scott, if after you survey your members you want to add something further, get it to the committee and we will get it in the record.

Mr. SCOTT. Yes, sir.

Chairman TOM DAVIS. I was intrigued by a comment that you made about studying the needs of the mid-sized firms. Because my observation has been that, particularly on these GWACs, the mid-size firms are where you get a lot of innovation, and then they rise to a certain level and get acquired or die. It is a very difficult area, and yet some of the best innovations in the IT area take place at some of these mid-sized companies. Your company is a giant. You have bought up some of these companies. You are a great company. But also, just to keep the process fresh, to keep new innovations going, we want to keep those firms alive, and not feel that when they get to a certain level that they have to sell out and cash in. We would like to keep them going. I do not know the answer to that. I am not sure if you know the answer to that. But it is something that, as you say, when we put these Schedules and the GWACs and other vehicles together, we should be mindful of. Do you agree with that?

Mr. SCOTT. I absolutely agree.

Chairman TOM DAVIS. That is your ITAA hat that is talking, obviously.

Mr. SCOTT. Yes, sir; and they get kind of lost, so we have mentor protege programs and many programs to help these small businesses. When they graduate from that and move up, then we do not have anybody particularly focusing on their needs. So I think that is a very good point. We will love to work with you all as we go forward as to how we can nurture that.

Chairman TOM DAVIS. Yes, right now, you are either a small business or you are EDS.

Mr. SCOTT. Yes.

Chairman TOM DAVIS. There is nothing in between. That is the way the code treats it and the regulations. I am not sure it should change, but I think we want to just be mindful of that as we move up. So I appreciate that comment. I know that you have a lot of balls to balance, representing a large organization doing that.

Mr. Allen, let me ask you a quick question. I understand that GSA will soon issue a request for information seeking input for the next generation of Governmentwide telecom programs. That is of interest to a lot of your members. Do you think there ought to be another Governmentwide telecom program along the FTS 2002 model to be run by FTS, or do you have any thoughts about a different concept maybe that does not rely on a centrally managed Multiple Award Contract?

Mr. ALLEN. I appreciate that question, Mr. Chairman. In fact, sitting in the hearing room, we were very pleased to hear the comments of Administrator Perry and Commissioner Bates along the lines that they are seriously considering Multiple Award Schedule contracts as a solution set for next generation telecom. That is a

concept that the Coalition and its members would strongly support. We believe that the time is ripe for allowing FSS Schedules to have telecom services on them. Currently, there are products available on the Schedules, but not so much the services that make the products work. We feel that adding those services to the Schedules would be good, and that is why I think we would be generally supportive of the comments Mr. Perry made earlier, along the lines of giving agencies the option of the assisted procurement services available from FTS in the telecom environment; or allowing the agencies to buy from Schedules themselves, if they have that capability.

Chairman TOM DAVIS. Thank you; and Mr. Woods, let me just ask you a question. Do you think the current structure, based on two services with separate Commissioners, lends itself to efficient contract management oversight?

Mr. WOODS. Well, I think certainly when you take a look at their regional structure, I think the point that has been made earlier about people reporting through two separate chains definitely causes one to question that structure.

Chairman TOM DAVIS. Again, I think Commissioner Perry is trying to address this, and we are going to have ongoing discussions on that issue.

You have a smorgasbord of things that I would love to talk to you about; but we have a vote going on, and this one I cannot miss. I do not want to hold you and keep you so I am going to adjourn the meeting. Thank you very much for being here. As I said, your entire statements are in the record. If you have any subsequent thoughts that you want to react to, please get them in the record. We will stay in touch with you and get you back here again.

Thank you all very much.

The hearing is adjourned.

[Whereupon, at 12:48 p.m., the committee was adjourned.]

[The prepared statement of Hon. Henry A. Waxman follows:]

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Statement of Rep. Henry A. Waxman, Ranking Minority Member
Hearing on
"Entrepreneurial Government Run Amok? A Review of FTS/FSS Organizational and Management Challenges"

October 2, 2003

Thank you Mr. Chairman. Today's hearing focuses on a number of issues concerning the General Services Administration (GSA), specifically its Federal Telecommunications Service, or FTS. Perhaps the most troubling are recent reports of significant inappropriate contracting activity and the misuse of federal funds at some FTS field offices.

The Inspector General at GSA has reported that "FTS officials in Bremerton, Washington engaged in inappropriate contracting practices on behalf of the United States Army clients during the period September 2000 through October 2002."

The Inspector General found that over $37 million in funds dedicated for use on information technology projects were instead used to pay for major construction contracts; that small business set-aside contracts for professional information technology services were used to buy construction and architectural services; that small business set-asides were used to obtain sole-source orders from large businesses; and that single procurements were split up in order to place sole-source orders and make them seem to be in compliance with the law.

These serious violations of law were apparently made intentionally by GSA officials more concerned with enhancing the revenue of their office than with complying with federal procurement laws and regulations. They are all the more troubling because I understand they have also occurred in at least one other GSA field office, and may be a systemic problem. I look forward to hearing from the Administrator on how he plans to address these specific cases and also on how he plans to prevent future abuses.

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This hearing will also examine the reorganization of the FTS and the FSS, which is another office in GSA, with the goals to provide an economic and efficient system for the purchase and supply of goods and services to federal agencies. I am interested in how GSA has restructured these two offices to minimize their overlapping and sometimes duplicative functions.

Finally, we will examine the early steps in recompeting the large federal telecommunications contracts known as FTS 2001, due to expire at the end of 2005. This program has provided federal agencies with probably the lowest long-distance and local telephone rates available, and I look forward to hearing how we can build on its success.

Thank you Mr. Chairman.

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