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September 7, 1984

B-215405

The Honorable Jack Brooks
Chairman, Committee on
Government Operations
House of Representatives

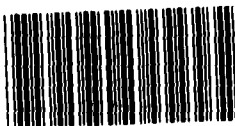
Dear Mr. Chairman:

Subject: OMB Needs To More Fully Consider Government-Wide
Implications In Its Telecommunications Initiatives
(GAO/IMTEC-84-21)

In an April 26, 1984, letter (see encl.), you expressed concern that government telecommunications costs may increase and non-compatible services may proliferate as a result of a recently proposed Office of Management and Budget (OMB) initiative. This initiative would permit agencies to acquire long-distance telecommunications service independently instead of using the centralized Federal Telecommunications System (FTS). In view of these concerns, you asked us to determine whether OMB (1) has developed an overall telecommunications plan and policy and (2) has conducted studies, including cost/benefit analyses, on the impact of the American Telephone and Telegraph (AT&T) divestiture on government telecommunications operations. You also requested that we ascertain the effect that OMB's initiative would have on two legislative proposals (H.R. 2718 and S. 2433) to create an Information Technology (IT) Fund. This fund would be used to finance certain telecommunications and automatic data processing (ADP) expenditures by federal agencies.

Under the Paperwork Reduction Act of 1980 (P.L. 96-511), OMB is responsible for setting the government's telecommunications and ADP policies and for developing overall ADP and telecommunications plans. New technologies and AT&T's divestiture raise cost/benefit, national security, emergency preparedness, and personnel issues for the government, which underscore the need for leadership in the telecommunications area.

We found that, since enactment of the Paperwork Reduction Act, OMB has begun several telecommunications and telecommunications-related initiatives, including the FTS initiative. However, OMB's current agency-by-agency approach to developing telecommunications policies and plans does not ensure that government-wide issues are being examined before such policies and plans are finalized. OMB's proposed FTS initiative, for example, could lead to a policy of decentralized management of long-distance telecommunications without



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adequate consideration of costs and benefits, management efficiencies, and national security and emergency preparedness capabilities. OMB has delayed finalizing the initiative until criteria are fully developed for evaluating agencies' proposals for leaving the FTS and their government-wide implications.

OMB has not conducted any studies that address the government-wide implications of the changing telecommunications environment. We are concerned that OMB is not designing its other telecommunications initiatives to collect uniform information needed for identifying and analyzing government-wide issues and for establishing sound overall policies. In addition, OMB has not assigned responsibility to any one group to address, from a government-wide perspective, the issues arising from the new telecommunications environment.

Further, OMB's 1984 5-year ADP and telecommunications plan--a requirement of the Paperwork Reduction Act--does not establish government-wide goals and priorities, although this is one of the plan's stated objectives. Volume I of the plan provides guidance to individual agencies on developing their own telecommunications plans, and volume II consolidates the agencies' plans. We believe that for the plan to be comprehensive, it should contain overall analyses of government telecommunications activities, as well as agency-specific information.

The proposed IT Fund would consolidate the ADP Fund and the Federal Telecommunications (FT) Fund. The General Services Administration (GSA) currently uses these funds to help finance government-wide programs such as the FTS. One of the purposes of the proposed IT Fund is to give GSA more flexibility in capitalizing procurements. We cannot with certainty identify the FTS initiative's impact on the proposed IT Fund because neither the initiative nor the fund has been finalized. GSA is concerned that, if the IT Fund is adopted and agencies are allowed to leave the FTS, fixed costs to the agencies to use the FTS would rise. This situation may encourage even more agencies to leave the FTS and further reduce any economies of scale realized by the FTS.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to address each of the Chairman's concerns and to report on OMB's progress in carrying out telecommunications responsibilities, as stated in the Paperwork Reduction Act of 1980 and as they relate to the Chairman's request.

We performed our review from April to August 1984 in Washington, D.C. We evaluated OMB's efforts to implement its telecommunications responsibilities, which involved reviewing OMB guidelines and bulletins, and correspondence between OMB and GSA. We also interviewed OMB, GSA, and Commerce Department officials responsible for telecommunications. We did not obtain agency comments on this report.

Except as noted in the preceding sentence, we performed our review in accordance with generally accepted government audit standards.

OMB NEEDS TO CONSIDER TELECOMMUNICATIONS
ACTIVITIES ON A GOVERNMENT-WIDE BASIS

The Paperwork Reduction Act gives OMB responsibility for setting government-wide telecommunications policy and for overseeing agencies' implementation of established policies. With the emergence of a new telecommunications environment--multiple vendors offering a wide variety of technologically advanced equipment and services--we believe it is critically important that OMB consider telecommunications issues on a government-wide basis.

Since enactment of the Paperwork Reduction Act, OMB has begun several initiatives to carry out its telecommunications responsibilities. These initiatives provide some of the data needed for making policy and giving guidance. However, OMB is focusing most of its attention on individual agencies' activities and has not adequately considered the government-wide perspective. The agency-specific data the initiatives provided is not being collected and coordinated so that the data can be assimilated for use in analyzing government-wide issues or in developing policies to address those issues. Finally, OMB has not assigned responsibility to one organization to address broader policy issues government-wide. As a result, opportunities provided by economies of scale may not be maximized, telecommunications support necessary for national security and emergency preparedness may not be fully addressed, scarce telecommunications personnel may not be effectively and efficiently utilized, and alternative funding methods may not be considered.

OMB responsibilities under the
Paperwork Reduction Act

The Paperwork Reduction Act established, within OMB, the Office of Information and Regulatory Affairs (OIRA) and charged it with

- developing and implementing policies, principles, standards, and guidelines for the federal government's telecommunications;
- providing advice and guidance on the acquisition and use of telecommunications equipment and coordinating, through the review of budget proposals and other methods, agency proposals for acquiring and using such equipment;
- promoting the federal government's effective use of telecommunications equipment;

- initiating and reviewing proposals for changes in legislation, regulations, and agency procedures to improve telecommunications practices; and
- developing, in consultation with the GSA Administrator, a 5-year plan for meeting the ADP and telecommunications needs of the federal government within 2 years of the Paperwork Reduction Act's enactment.

Changing telecommunications environment raises policy issues

Recent significant changes in the telecommunications arena, such as the recent AT&T divestiture and new technology, raise issues that emphasize the necessity for government-wide leadership.

The telecommunications environment has changed. The federal government used to receive quantity discounts by leasing large amounts of consolidated services from AT&T. However, this is no longer the case. For instance, during the 1970s, FTS primarily used TELPAK, a bulk private-line rate offered by AT&T. FTS is a private-line system for federal long-distance service administered by GSA. GSA estimates that, during the 1970s, TELPAK rates brought savings to the government totaling \$1.25 billion. In May 1981, AT&T withdrew the TELPAK rate because the Federal Communications Commission ruled that AT&T must offer the rate to all customers, and not just to a selective few as it had done previously. GSA estimates that this withdrawal has increased FTS costs by more than \$90 million. The resulting high costs have prompted agencies to explore the possibility of directly managing their own telecommunications resources, rather than using a centralized system.

Another change is that increased competition in the telecommunications area has resulted in a proliferation of new systems intended to bypass the local telephone companies and supply the connections needed to sustain individual agency voice and data communications. Major agencies are increasingly interested in bypassing local telephone companies, because they expect local rates to rise rapidly as a result of the AT&T divestiture. New systems can more easily implement new services, such as telephone conferencing and call forwarding. The new technology can connect all the phones within an agency and bypass the local telephone company to avoid tariffs. For internal local calls, the agency telephone system can connect to the local phone company or use its own or a leased microwave or cable bypass system. For long-distance service, agency equipment can connect with the FTS system and/or other long-distance carriers.

Agencies are looking at their options. In the meantime, GSA, which is responsible for managing and procuring telecommunications for civilian federal agencies, is continuing to upgrade and manage both local and long-distance consolidated services.

In light of this new environment, GSA has raised several issues for the government to explore and resolve. Some questions that have arisen are:

- Can the federal government's needs be most economically and efficiently met by a centralized or a decentralized telecommunications system? To know this, a methodology for evaluating the cost/benefits of a centralized versus a decentralized system needs to be developed.
- Can national security and emergency preparedness needs best be met by a centralized or a decentralized system? The FTS was originally established to achieve economies and to ensure that government communications were maintained during national emergencies. GSA, in commenting on OMB's FTS initiative, questioned whether a decentralized system (i.e., a system in which individual agencies provide their own telecommunications network) could be maintained during natural disasters, such as hurricanes and floods, and reconstituted in the aftermath of a war.
- Are individual agencies managing and procuring their telecommunications systems effectively? Some agencies are now developing their own telecommunications branches. Management information, needed to assess whether resources are being used sensibly, remains to be identified.

Also, we question whether there will be enough telecommunications specialists to meet the federal government's needs. Currently, GSA is responsible for regulating and procuring telecommunications services for several civilian agencies. Agencies, with permission from GSA, can procure their own systems. Many agencies are requesting permission to upgrade their systems to take advantage of the new technologies and to save money. Now that their telecommunications responsibilities have increased, agencies need specialists to design, procure, and operate their telecommunications systems. Because telecommunications staff are required to make more complex decisions about service for their agencies, greater levels of engineering and management expertise are required. The more decentralized the decisionmaking responsibilities among agencies, the more likely the federal government will need additional experts. A few agencies have already said they are having difficulty hiring specialists because they must compete with other agencies and with private organizations for these personnel.

OMB's FTS initiative does not provide needed data for analyzing government-wide issues

In the April 12, 1984, Federal Register, OMB announced its intent to propose new procedures that would allow agencies to choose among competing vendors for long-distance telecommunications service on the basis of actual market prices. Under this proposal, agencies could, with OMB permission, submit proposals to leave FTS

in favor of some other provider beginning in fiscal year 1986. OMB has established an interagency task force to assist it in developing criteria for agencies to use in justifying their proposals to leave FTS and to review the total impact of agencies' proposals. OMB has begun to define the criteria for agencies to use in making their proposals to leave FTS. However, the interagency task force has not fully developed the criteria nor has it begun to develop the methodology for evaluating the government-wide implications of agencies' proposals.

OMB, in its FTS initiative, is currently concentrating on individual agency requirements to the exclusion of the government-wide perspective. In its April 12 announcement, OMB gave notice of its intent to form an interagency task force that would, as part of its responsibilities,

- develop methodologies for agencies to use to forecast their telecommunications needs and to plan their telecommunications procurements,
- assist OMB and GSA in developing methodologies for estimating the total direct and indirect costs to the government when agencies procure their long-distance telecommunications services from GSA or from alternative sources, and
- review the total impact of agencies' proposals to procure long-distance services from providers other than GSA on total federal expenditures and on the quality of telecommunications services.

The announcement implied that OMB intended that the task force measure government-wide implications of allowing agencies to leave the consolidated FTS.

In a May 1984 memorandum, OMB's interagency task force chairman suggested that the task force include the following broad categories and draft criteria to review proposals to leave FTS.

| Category | Draft Criteria |
|---|--|
| Costs | A proposal must show the savings/benefits of an agency's leaving the FTS compared to continuing with the FTS. |
| Network strategy | A proposal must be consistent with an agency's long-range information management strategy. |
| Quality of service | A proposal must justify the quality of service desired by the agency if it differs from the quality of FTS service. |
| National security, emergency preparedness, and continuity of government | A proposal must demonstrate that it meets the agency's needs in all areas of national security and emergency preparedness. |

FTS initiative not finalized

The FTS initiative has not been finalized. Although the draft criteria are the first step toward providing guidance for individual agencies to use in developing their proposals, the criteria have not been completed. One of OIRA's assistant branch chiefs for information policy told us in late July 1984 that the office intended to move very cautiously to implement the FTS initiative for the fiscal year 1986 budget cycle, which begins mid-September 1984, because the task force had not yet developed the final agency proposal criteria. Methodologies have not been developed for analyzing (1) the relative costs and benefits of government-wide as opposed to agency-by-agency procurements, (2) potential management efficiencies of a centralized system, and (3) how an agency's decision to opt out of the FTS will affect the national security and emergency preparedness needs of other agencies or of the federal government in general.

At the close of our review, the task force chairman told us that OMB had not finalized the Federal Register announcement because it realized there were other issues to be considered, such as how to analyze the agencies' proposals from an individual agency and government-wide technological and economical standpoint. He could not provide us a schedule of when this would be done because the methodologies had not been developed.

OMB organization and strategy
do not facilitate focusing on
government-wide telecommunications issues

A theme of the Paperwork Reduction Act is that OMB play a central role in developing uniform and consistent federal information policies on ADP and telecommunications and oversee implementation of these policies. In March 1982, however, OMB reported¹ that, unless there was an overwhelming need, it intended to tailor policy guidance and assistance to individual departments and agencies rather than issue a single set of policies and regulations for all government agencies. OMB has not announced any changes to this approach.

Four groups within OMB are involved with telecommunications issues. These include OIRA, the Management Improvement Division, and two groups under the Associate Director for Economics and Government. These two groups are the Treasury and General Services Branch of the Justice, Treasury, and Personnel Division and the Special Studies Division.

Under the Paperwork Reduction Act, OIRA has been charged with most of OMB's telecommunications responsibilities. Staff in the Management Improvement Division review agency strategies for addressing the new telecommunications environment, including identifying the need for centralized management policies. Staff in the Treasury and General Services Branch review GSA's budget, including telecommunications costs. Staff in the Special Studies Division initiate studies identified by the budget examiners.

All collect data and interact with the executive branch on an agency-by-agency basis. None of these groups, however, provides leadership in analyzing telecommunications questions and proposing solutions from a government-wide perspective. The groups work together, but different groups are responsible for different initiatives, and all pursue them on an agency-by-agency basis.

This approach holds true for both acquiring information and giving guidance. For example, in the planning area, OIRA officials said that their basic philosophy is that government-wide planning is not a useful process because the government is too diverse an organization for this to be done. They believe that government planning should follow the example of some private businesses and be based on product lines, or, in the government's case, on individual programs or agencies. They also perceive telecommunications as a tool for other programs rather than as a program that needs attention in and of itself. Their efforts to date have been to develop some basic principles by which each individual agency can most successfully implement its mission and programs.

¹Improving Government Information Resources Management.

Although the Management Improvement Division also believes in an agency-by-agency approach, division staff said that their management and budget reviews may lead to the evolution of a systematic, overall government-wide approach. Staff from the Treasury and General Services Branch and the Special Studies Division are also taking an agency-by-agency approach. They told us that individual agencies must demonstrate cost/benefits to OMB or they would not approve leaving the FTS to use another carrier.

Other OMB initiatives offer opportunities for developing uniform information necessary for government-wide telecommunications policies and planning

Besides the FTS initiative, OMB has begun several telecommunications-related initiatives that offer an opportunity for acquiring uniform information needed for developing government-wide telecommunications policies and plans. However, consistent with its expressed management philosophy, OMB is not designing these initiatives so that uniform information needed to identify government-wide issues is collected and analyzed.

Management review initiative

OIRA is participating with OMB's management and budget staffs in performing reviews to identify areas in which agencies may be able to make management improvements, including some related to the agencies' information activities. As part of these management review responsibilities, OMB issued Bulletin No. 84-14, dated June 18, 1984, which asked agencies for information on their strategy for dealing with the changing telecommunications environment.

OMB wanted to know whether (1) agencies had taken steps to develop an inventory of customer premise (that is, already installed) equipment; (2) agencies had set up offices to monitor external changes in the telecommunications environment; (3) agencies were encountering any major problems and, if so, were developing short- and long-term strategies for dealing with the problems; and (4) agencies anticipated resource and benefit implications of the changing telecommunications environment. OMB also asked agencies to describe the steps they had taken to ensure interconnectivity and optimal sizing of networks, compatibility between networks, and equipment and system redundancy.

If OMB gave explicit instructions on how agencies should respond to data calls, it could collect consistent and uniform information, which could serve as a basis for developing government-wide policy guidance. However, OMB has not provided clear instructions to the agencies. A branch chief of OMB's Management Improvement Division told us that the information the division is receiving from agencies is mixed because agencies are interpreting

the guidance differently. For example, some agencies are developing an inventory of customer premise equipment, and some agencies are not. Although agencies are giving inconsistent responses, OMB has no plans for standardizing the information requested by these data calls. Rather, during the followup management reviews, OMB will seek to guide individual agencies on how to respond to the data calls.

Although OMB's approach permits maximum flexibility on the part of the agencies, we believe that OMB is not taking full advantage of all of the opportunities offered by these data calls. The changing environment necessitates that agencies become more sophisticated in managing their telecommunications networks to achieve good service and cost economies. OMB could help raise the general level of agency awareness by defining issues that agencies must consider and by collecting and issuing common information and guidance on these issues. For example, some agencies, such as the State Department and the Department of Transportation, have completed or will shortly complete procurements of new sophisticated telecommunications systems. The knowledge gained by these agencies is shared at interagency meetings. However, OMB is not yet collecting, analyzing, and publishing agency experiences, which would be useful in assisting other agencies about to start the same process.

Five-year ADP and telecommunications plan

Uniform and consistent information collection is also necessary for government-wide planning. In April 1984 OMB issued its second annual 5-year ADP and telecommunications plan, which was produced as a joint effort with GSA's Office of Information Resources Management, and the Commerce Department's Institute for Computer Sciences and Technology. Entitled A Five-Year Plan for Meeting the Automatic Data Processing and Telecommunications Needs of the Federal Government, the plan consists of two volumes. Volume I focuses on the planning process itself, and volume II lists major information technology systems acquisitions plans of federal executive agencies from 1984 to 1989. Additional planning guidance will be required if OMB is to obtain information from the agencies necessary to develop a plan that provides the Congress, agencies, industry, and the public a clear summary of planned expenditures, probable events, and patterns of technological applications in the federal government as envisioned by the Paperwork Reduction Act.

In the plan's executive summary, OMB stated that a planning strategy included several key factors:

- The planning must be program-based and must be driven by and subordinate to mission objectives.

- The process must provide a mechanism for identifying multi-agency and government-wide systems to take advantage of opportunities for consolidation and sharing.

OMB also stated that the objectives for a government-wide planning process are to

- develop and institutionalize program-based planning tied to the fiscal budget under agency control; and
- make sure enough information is available to central policy and oversight agencies to identify major issues, monitor compliance with federal policies, and surface cross-cutting systems where more active, centralized planning and management may be appropriate.

In reviewing OMB actions to date, we believe that OMB is focusing on the first planning objective, i.e., developing program-based planning under agency control. We have not, however, been able to identify any tasks that OMB is pursuing to meet the plan's second objective.

Budget review initiative

On March 27, 1984, OMB issued Bulletin No. 84-9, requesting data on agencies' information technology planning efforts and issues to be addressed in OMB's review of fiscal year 1986 budget proposals. Although the initiative is part of the agency budget review process, it does offer an opportunity to identify issues that affect many agencies. Each agency was required to provide by April 30, 1984, copies of current plans for using information technology and to show how these plans related to the agency's 1985 budget. Agencies also were required to submit a list of major information systems in their inventory. There is no request in the document for agencies to submit ideas for shared systems with other agencies, or other information on cross-cutting systems.

Policy circular initiative

OMB is also developing a policy circular on federal information management. On July 27, 1983, the OIRA Administrator sent a notice soliciting agency views on consolidating four OMB circulars addressing ADP activity management; compatibility of federal, state, and local information and information systems; agency responsibilities for individual privacy protection; and data processing cost accounting. In the September 12, 1983, Federal Register, OMB solicited additional public comments on whether the proposed circular should be broadened so that the consolidated product would fully represent federal information management policy. Comments were requested on 16 issues that went beyond the scope of the four circulars. We reviewed these issues and found that they directly related to such areas as government competition

with the private sector, sharing of data processing facilities, cost accounting, software management, and microcomputer technology. None of the 16 issues directly addressed current problems in telecommunications management, such as centralized versus decentralized telecommunications management and telecommunications staffing. The four policy circulars being combined also do not touch directly on telecommunications issues. We cannot say, therefore, whether this effort will result in clarification of telecommunications policy. From the available evidence, however, we are concerned that it may not.

FTS INITIATIVE COULD REDUCE FUNDING FOR THE
PROPOSED IT FUND, BUT THE EXTENT IS UNKNOWN

OMB's proposed FTS initiative, which would allow some agencies to opt out of the FTS system, will affect the broader issue of telecommunications funding. Under proposed legislation (H.R. 2718 and S. 2433), the method of funding the FTS system would change from the FT Fund to the IT Fund. This change would make additional funds available to cover the cost of equipment and services for the FTS system by increasing GSA's flexibility in raising capital. While exact effects are uncertain at this time, it appears that the FTS initiative could result in reduced funding for the proposed IT Fund.

Currently, the FT Fund finances a telecommunications system for the government. The major program financed by the FT Fund is the FTS. Under the FT Fund, GSA bills agencies in advance for telecommunications services based on sampling historical usage. Historically, the FT Fund has experienced funding problems because it did not contain sufficient up-front capital to invest in the needed new telecommunications equipment. Unlike the proposed IT Fund, the FT Fund cannot precharge for anticipated procurements or retain amounts over current operating needs.

The proposed IT Fund would combine the assets of the present FT and ADP funds, thus increasing GSA's ability to raise capital to invest in telecommunications and ADP equipment and services by permitting GSA to pre-charge agencies for future procurements. Currently, GSA must return excess amounts in the FT and ADP funds to the Treasury at the end of the fiscal year.

We discussed the possible impact of the FTS initiatives on the proposed IT Fund with GSA's Executive Director of the Office of Information Resources Management, OMB officials from OIRA, and the chairman of the interagency task force. According to the Executive Director, the immediate effect of agencies' leaving the FTS would be a decrease in the capital in the proposed IT Fund because fewer agencies would be paying for services. There would not, however, be an immediate commensurate drop in related expenses, because it takes some time to reconfigure the network and change lines. The reconfiguration and line change work could actually be an

additional cost to the FTS system because it would require extra work on the part of the telephone company and GSA. These, as well as other common distributable costs, such as administration and overhead, would be borne by agencies remaining in the FTS. If agencies are charged higher rates for the services, then more agencies might leave the FTS.

At the time of our review, OMB officials said that they were not looking at funding and that such an examination was not one of their "initial tasks." They did say, however, that, on the basis of agencies' proposals to opt out of FTS, they would consider the possible government-wide effects.

CONCLUSIONS

Although OMB has made progress in carrying out its telecommunications responsibilities under the Paperwork Reduction Act, it is not placing enough emphasis on the government-wide implications of its actions and the government-wide issues arising from the new telecommunications environment. OMB's initiatives offer an opportunity to identify government-wide telecommunications issues and obtain the necessary information to examine strategies for dealing with them. OIRA, which has the responsibility under the Paperwork Reduction Act, is focusing largely on individual agencies rather than on government-wide issues. OMB's lack of attention to government-wide issues could lead to decisions that are not cost beneficial and that weaken the government's ability to respond to national emergencies.

Regarding OMB's proposed FTS initiative, although OMB is still developing criteria to determine when an agency can leave the FTS, we are concerned that OMB may not be sufficiently considering (1) the costs and benefits of the current FTS system compared to a decentralized system, (2) the initiative's effect on the proposed IT Fund, and (3) the national security and staffing implications of a decentralized system.

RECOMMENDATIONS

We recommend that the Director, OMB, direct OIRA to

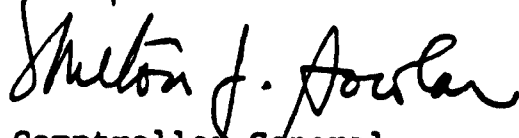
- delay implementation of the FTS initiative until guidance and methodologies are developed to examine such issues as the cost benefits of a centralized versus a decentralized system, various strategies for maximizing federal response to national emergencies, and staffing implications of agency-by-agency telecommunications management versus a consolidated management system; and
- design OMB's telecommunications initiatives so that uniform information needed for identifying government-wide

telecommunications issues is collected and analyzed and used as the basis for government-wide policies.

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Unless you release its contents earlier, we plan no further distribution of the report until 30 days from its date. At that time, we will send copies to the Director of OMB and the Administrator of General Services, and will make copies available to other interested parties.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Milton J. Fowler". The signature is written in a cursive style with a large initial "M".

Acting Comptroller General
of the United States

Enclosure