



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Improvements Needed in Estimating and Leveraging Cost Savings Across EPA

Report No. 13-P-0028

October 22, 2012



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Abbreviations

ARRA	American Recovery and Reinvestment Act of 2009
CERCLIS	Comprehensive Environmental Response, Compensation, and Liability Information System
CFO	Chief Financial Officer
DOJ	U.S. Department of Justice
EPA	U.S. Environmental Protection Agency
FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal year
IFMS	Integrated Financial Management System
IGCE	Independent Government Cost Estimate
OAM	Office of Acquisition Management
OARM	Office of Administration and Resources Management
OCFO	Office of the Chief Financial Officer
OECA	Office of Enforcement and Compliance Assurance
OIG	Office of Inspector General
OMB	Office of Management and Budget
ORD	Office of Research and Development
OSRTI	Office of Superfund Remediation and Technology Innovation
OSWER	Office of Solid Waste and Emergency Response
PRP	Potentially responsible party

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At a Glance

Why We Did This Review

Since 2009, the President and the Office of Management and Budget (OMB) have issued various memorandums and directives requesting agencies to identify ways to avoid costs and achieve efficiencies and savings. In August 2009, the U.S. Environmental Protection Agency's (EPA's) Office of Administration and Resources Management (OARM) issued an electronic memorandum titled "Management Reform Agenda" to request input from program offices and regions to identify efficiency projects. EPA program offices and regions identified 72 projects.

We conducted an audit to determine whether: (1) EPA's efforts to identify and realize savings have been effective, and (2) EPA savings reported to OARM were accurate and complete.

This report addresses the following EPA Goal or Cross-Cutting Strategy:

- *Strengthening EPA's workforce and capabilities*

For further information, contact our Office of Congressional and Public Affairs at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2013/20121022-13-P-0028.pdf

Improvements Needed in Estimating and Leveraging Cost Savings Across EPA

What We Found

Regions 4 and 7, which were the focus of our review, did not apply reliable methods for estimating savings and cost avoidances. Management is responsible for assuring efficient and effective operations and reliable financial reporting including development of savings or cost avoidance initiatives. No EPA policy and procedures existed for Regions 4 and 7 to follow when estimating savings or cost avoidances. EPA will not be able to accurately report the results of its efficiency initiatives and influence internal and external management decisions.

While OARM took the initiative to lead the identification of potential savings and cost avoidances for all Agency programs and regions, it did not effectively follow up on implementation to ensure EPA achieved the desired results (i.e., efficiencies, savings, and cost avoidances) or to determine whether the Agency could realize greater savings by expanding results. Office of Management and Budget Circular A-123 states that program managers should ensure results are achieved. Sufficient follow-up did not occur because OARM and the Office of the Chief Financial Officer viewed the projects as merely ideas for possible cost savings. Nevertheless, without following up on the progress in achieving desired and expected savings and efficiencies, EPA may have missed opportunities to leverage and expand its cost-cutting efforts, apply best practices for gaining greater efficiencies, and realize significant savings and cost avoidances Agency-wide.

Recommendations and Planned Agency Corrective Actions

We recommend that the Chief Financial Officer develop a policy and procedures for identifying and estimating cost savings, efficiencies, and avoidances. We recommend that the Assistant Administrator for OARM develop a policy on estimating savings and cost avoidances relating to contracts. We recommend that Regions 4 and 7 recalculate identified cost avoidances based on prescribed guidance and report the data as appropriate. We recommend that the Chief Financial Officer determine whether significant projects from the 72 initiatives resulted in significant efficiencies and publicly report the results as appropriate for possible Agency-wide implementation.

The Office of the Chief Financial Officer, OARM, and Regions 4 and 7 did not concur with the recommendations. Our recommendations remain unresolved.

Noteworthy Achievements

OARM took the initiative to involve EPA program offices and regions in identifying potential efficiencies and savings initiatives on 72 projects with potential estimated savings and cost avoidances of over \$33 million—later reduced to \$21 million.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

THE INSPECTOR GENERAL

October 22, 2012

MEMORANDUM

SUBJECT: Improvements Needed in Estimating and Leveraging Cost Savings Across EPA
Report No. 13-P-0028

FROM: Arthur A. Elkins, Jr.

A handwritten signature in cursive script, reading "Arthur A. Elkins, Jr.", is placed to the right of the "FROM:" field.

TO: See Below

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

Action Required

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 60 calendar days. You should include a corrective action plan for agreed-upon actions, including milestone dates. Your response will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public. If your response contains such data, you should identify the data for redaction or removal. We have no objection to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions regarding this report, please contact Melissa Heist, Assistant Inspector General for Audit, at (202) 566-0899 or heist.melissa@epa.gov; or Michael Davis, Product Line Director, at (513) 487-2363 or davis.michaeld@epa.gov.

Addressees:

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Chapter 1

Introduction

Purpose

In 2009, the U.S. Environmental Protection Agency (EPA) identified 72 efficiency projects totaling over \$33 million in savings or cost avoidances. EPA's Office of Inspector General (OIG) conducted this audit to determine whether:

- EPA's efforts to identify and realize savings have been effective
- Savings reported to EPA's Office of Administration and Resources Management (OARM) were accurate and complete.

Background

In an April 2009 Cabinet meeting, President Obama called on Cabinet members to identify at least \$100 million in collective cuts to their budgets, separate from those identified in their fiscal year (FY) 2010 budgets. To prepare for upcoming Presidential and Office of Management and Budget (OMB) initiatives, the Assistant Administrator for OARM, in an August 24, 2009, e-mail titled "Management Reform Agenda-Response Due September 17, 2009," requested all program offices and regions to identify efficiency projects. The e-mail stated:

As part of his Management Reform Agenda, the President continues to challenge agencies to identify cost-saving measures that will result in a more efficient and effective government. On July 27, 2009, the OMB Director issued a memorandum that identifies 77 cost-saving measures amounting to \$243 million in savings through 2010. I encourage each of you to review and share with your senior leadership team the various projects identified by Federal agencies to see if similar projects could be initiated at EPA. In addition, I am once again asking each of you to look at the wide array of environmental programs you administer and identify 3 efficiency projects you and your organization will undertake in support of the President's Reform Agenda over the next year. These projects should be items initiated in 2009 or planned for the upcoming year. Please provide a brief, one paragraph description of each project that can be shared with OMB and the White House. Your submissions should also include the proposed or actual start date and expected timeframe of the initiative, a primary point of contact, as well as an estimate of projected dollar savings or cost avoidance and expected results. Each program and regional office

should submit their three efficiency projects no later than Thursday, September 17, 2009.

By September 2009, EPA program offices and regions had submitted 72 projects, which varied widely in scope and totaled over \$33 million in anticipated savings and cost avoidances (see appendix A). Table 1 below summarizes data submitted in 2009. In January 2011, OARM provided an updated spreadsheet for the same projects that showed savings and cost avoidances over \$21 million.

Table 1: List of 72 cost-cutting projects as of September 2009

No. of Projects	Anticipated Savings/Cost Avoidances
63	\$400,000 and under
3	\$401,000 to under \$1 million
4	\$1 million to under \$2.5 million
1	\$2.5 million to under \$19 million
1	\$19 million and above
72	\$33 million

Source: OIG analysis of EPA data.

According to OMB Circular A-123, *Management's Responsibility for Internal Control*, program managers are responsible for achieving desired results through the efficient and effective use of resources. In addition, numerous internal and external memorandums and initiatives have continued to request agencies to identify efficiencies, savings, and cost avoidances. For the purposes of this audit, efficiencies include savings, cost avoidances, and other projects that operate with a high ratio of output (end product) to input (resources used).

Superfund Projects Reported to OARM

The Superfund program addresses contamination from uncontrolled releases at Superfund hazardous waste sites that threaten human health and the environment. The 72 cost-cutting projects included two Superfund initiatives identified by Regions 4 and 7 that totaled over \$14 million in savings and cost avoidances. We chose to review these two projects because one represented the largest estimated savings and cost avoidances out of the 72 initiatives, and the other had a high reported dollar amount of savings and cost avoidances.

Region 7's FY 2011 Superfund budget totaled \$116 million.¹ The Office of Superfund Remediation and Technology Innovation (OSRTI) encourages program staff, procurement offices, and the supporting contractors to use innovative technologies, approaches, and/or site-specific contracts (generally fixed-price type contracts) for remedial activities to minimize costs and streamline schedules. The Office of Acquisition Management (OAM), an office within

¹ OIG extracted enforcement cost data from the Integrated Financial Management System database, February 2011. It includes these accounts: Hazardous Substance Superfund (T), Superfund Carry Over (TC), Superfund Reimbursables (TR & TR1), Superfund Special Account-Nonfederal Unearned (TR2), and Special Account Past Cost and Other (TR2B).

OARM, is responsible for policies, procedures, operations, and support for the Agency's procurement and contracts management program. In September 2010, OAM issued "An Acquisition Guide for Executives" that states one way to fulfill OAM's primary purpose of providing functional direction and control over Agency acquisition is to use contract types that facilitate performance excellence and cost savings and minimize risk. In addition, OAM and the Office of Solid Waste and Emergency Response (OSWER) created a Superfund acquisition strategy with a focus on identifying and improving acquisition practices and processes to maximize cost efficiencies. During FY 2009, Region 7 reported cost avoidances of approximately \$13.4 million based on the difference between the Independent Government Cost Estimates (IGCEs) and contract amounts awarded for construction activities at two sites.

Region 4's FY 2011 Superfund budget totaled \$97 million.² Region 4's Superfund program conducts assessment activities (i.e., preliminary assessments/site inspections, expanded site inspections, or removal site evaluations) on more than 50 sites each year. Region 4 implemented a new enforcement strategy not to pursue cost recovery actions in cases where further federal or state action is determined unnecessary, thus allowing it to use its enforcement resources at sites warranting further action. The region reported that this new strategy resulted in estimated cost avoidances of \$610,000, which included \$380,000 in FY 2010 and a projected \$230,000 in FY 2011.

Noteworthy Achievements

OARM took the initiative to involve EPA offices and regions in identifying potential efficiencies and savings initiatives and collected data in September 2009 on 72 projects with potential estimated savings and cost avoidances of over \$33 million. In January 2011, EPA offices and regions lowered their estimated savings and cost avoidances to \$21 million.

Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our review objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted the audit from January 2011 to September 2012. From the 72 projects submitted by 21 program offices and regions, we selected two Superfund projects identified in the background section above for a detailed review. We

² This total represents the same accounts listed in footnote 1, except the IFMS report did not include any funds for Superfund Reimbursable TR1.

selected the two projects because they had reported high dollar savings and cost avoidances. We contacted representatives from the Office of the Chief Financial Officer (OCFO), OARM, OSWER, Office of Enforcement and Compliance Assurance (OECA), and Regions 4 and 7. For background purposes, we obtained overall Superfund budget information.

We reviewed circulars, regulations, guidance, and other documents to gain an understanding of the requirements and processes used to estimate, manage, and report on savings and cost avoidances. The specific documents reviewed included:

- OMB Circular A-123
- U.S. Government Accountability Office's report GAO/AIMD-00-21.3.1, *Standards for Internal Controls in the Federal Government*
- Federal Accounting Standards Advisory Board (FASAB) *Statements of Federal Financial Accounting Concepts and Standards*
- Federal Acquisition Regulation (FAR), Parts 13, 14, 15, and 36
- Superfund Implementation Manual (OSWER 9200.3-14-1G-V)

For benchmarking purposes, the U.S. Department of Justice (DOJ) provided us a copy of the memoranda to their agency heads titled "Department of Justice Savings and Efficiency," dated June 4, 2009, and "Establishment of Attorney General, Advisory Council for Savings and Efficiencies (SAVE Council)," dated July 22, 2010, on its processes and procedures used to reduce department costs and improve efficiency. These memoranda assisted us in identifying similar best business practices for EPA.

According to OMB Circular A-123, financial reporting includes financial statements, budgetary reports, and other significant internal and external financial reporting. We analyzed OMB and EPA guidance to determine financial reporting requirements. We discussed with OARM and OCFO staff their procedures to track whether EPA achieved the anticipated savings. To understand how the regions estimated the reported savings, we interviewed managers and directors in OSWER, OECA, and Regions 4 and 7. In addition, we obtained supporting documentation maintained at EPA Regions 4 and 7 to determine whether the regions achieved the savings and the amounts reported to OARM were accurate and complete. The supporting information for Region 7 included awarded contracts and IGCEs.

We used the Comprehensive Environmental Response, Compensation, and Liability Information System (CERCLIS) and the Integrated Financial Management System (IFMS) databases³ to determine whether the enforcement cost avoidances reported by Region 4 were accurate and complete. We did not assess the internal controls over CERCLIS and IFMS from which we obtained

³ On October 1, 2011, Compass Financial replaced IFMS.

reports. Rather, we relied on the review of IFMS conducted during the audit of EPA's FYs 2009 and 2010 financial statements for current Superfund cost data and a 2002⁴ audit of CERCLIS for site assessment data. We reviewed recommendations in the Management's Audit Tracking System (last modified in 2004) for the CERCLIS audit and verified that EPA took corrective action based on reviewing the Superfund implementation manual and CERCLIS data quality reports.

Prior EPA OIG Reports

The EPA OIG issued the following reports with findings related to estimating savings and CERCLIS data quality:

- Report No. 2011-P-0333, *Office of Research and Development [ORD] Needs to Improve its Method of Measuring Administrative Savings*, July 14, 2011. The report stated that ORD estimated that the Administrative Efficiencies Project would save up to \$13 million in administrative staffing costs annually when fully implemented in 2012 and that the Information Technology Improvement Process saved \$2 million in 2007. OIG reported that ORD's efforts to reduce its administrative costs are noteworthy, but ORD needs to improve its measurement mechanism for assessing the effectiveness of its initiatives to reduce administrative costs. ORD only completed two surveys on staff whose time was spent on administrative activities. The surveys only reported on a select number of ORD staff, not all ORD staff. OMB Circular A-123 states, "... reliable and timely information is obtained, maintained, reported, and used for decision making." Without such reliable and timely information, ORD lacks an adequate measure of how its resources are actually used.
- Report No. 2002-P-00016, *Comprehensive Environmental Response, Compensation, and Liability Information System (CERCLIS) Data Quality*, September 30, 2002. The report stated that users of CERCLIS data did not have accurate and complete information regarding the status and activities of Superfund sites, which could adversely affect planning and management. These weaknesses were caused by the lack of adequate internal controls over CERCLIS data quality. The report included recommendations to improve controls over CERCLIS data quality. Recommendations included developing and implementing a quality assurance process for CERCLIS data and updating the CERCLIS policies and procedures.

⁴ In response to the OIG Report No. 2002-P-0016, *Comprehensive Environmental Response, Compensation, and Liability Information Systems Data Quality*, dated September 30, 2002, EPA completed CERCLIS corrective actions in 2004. Region 4's cost avoidance calculations included CERCLIS-recorded site assessments completed during the time period after corrective actions took place. The site assessment time periods include FYs 2006, 2007, and 2008.

Chapter 2

Enhanced Methods Needed to Determine Savings and Cost Avoidances

While Regions 4 and 7 took the initiative to identify potential savings and cost avoidances, they did not use reliable methods to determine potential savings and cost avoidances. Management is responsible for assuring efficient and effective operations and reliable financial reporting including development of savings or cost avoidance initiatives. EPA does not have a policy describing what constitutes savings/cost avoidances and the methodology for calculating them. Without effective policies and procedures for estimating savings and cost avoidances, EPA will not be able to accurately report the results of its efficiency initiatives and influence internal and external management decisions.

Improvements Needed in Determining Savings and Cost Avoidances

OMB Circular A-123 states that management establishes and maintains internal control to achieve effective and efficient operations, reliable financial reporting, and compliance with laws and regulations. Financial reporting includes the annual financial statements and other significant internal or external financial reports. Other significant financial reports are any financial reports that could have a material effect on spending, budgetary, or other financial decisions or could be used to determine compliance with laws and regulations. The circular also states that information should be relevant, reliable, and timely.

FASAB's *Statements of Federal Financial Accounting Concepts and Standards* defines avoidable cost as a cost associated with an activity that would not be incurred if the activity were not performed. OMB memorandum M-09-25, dated July 2009, and additional clarifying guidance explained how the agency should establish savings. The additional guidance emphasized that for each identified initiative, the agency should establish savings by explaining the difference between what would have been spent in the absence of the savings initiative and what the agency expects to spend in pursuing the initiative.

FAR requires preparation of an independent government estimate of construction costs. The estimate shall be prepared in as much detail as though the government were competing for the award. OAM guidance states that if there are significant differences between the IGCE and a proposal, responsible individuals should closely analyze the differences to understand why they occurred and how they may affect future estimates.

Unreliable Method Used for Calculating Region 4 Savings

In December 2008, Region 4's Superfund Division issued a memorandum implementing its new strategy not to expend resources on enforcement activities for sites that did not warrant further state or federal action. Enforcement activities include searching for potentially responsible parties (PRPs), issuing demand letters, negotiating settlements, and preparing enforcement decision documents to write off costs associated with assessment activities. In September 2009, Region 4 estimated the potential annual average cost avoidance of approximately \$200,000 for FY 2009, 2010, and 2011. In January 2011, Region 4 updated the estimated cost avoidance amount to \$610,000 (\$380,000 cost avoidance in FY 2010 with a projected additional cost avoidance of \$230,000 in FY 2011). Figure 1 depicts how Region 4 estimated the cost avoidances:

Figure 1: Region 4 formula for calculating cost avoidance

<i>Sites (Identified in CERLIS)</i>	<i>X</i>	<i>Enforcement Cost (Identified in a report)</i>	<i>X</i>	<i>Discount Rate (Region 4 judgment)</i>	<i>= Cost avoidance</i>
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Source: OIG analysis of EPA data.

Region 4 based the potential cost avoidance estimates for site assessment and enforcement on outdated and incomplete information.

Outdated Information

The region used the PRP determination estimated cost identified in the September 2010 report titled *PRP Search Benchmarking and Regional Practices Evaluation*. The report identified \$10,000 as the median cost for PRP determination based on FYs 1999 to 2005 IFMS data.

Incomplete Information

The report titled *PRP Search Benchmarking and Regional Practices Evaluation*, dated September 2010, used by Region 4 includes only the cost associated with PRP searches. However, Region 4's memorandum "Recovery of Superfund Site Assessments Costs Strategy" describes other enforcement activities such as "issue demand letters, negotiate settlements, or prepare enforcement decision documents to write off the costs associated with assessment activities." The cost associated with these other activities is missing from Region 4's calculation, so the calculation of the cost is incomplete.

Unreliable Method Used for Calculating Region 7 Savings on Site-Specific Contracts

During FY 2009, Region 7 reported that it awarded several site-specific contracts for construction activities at Superfund sites. Region 7 stated that these contracts have allowed it to realize cost avoidances of approximately \$13.4 million. Region 7 based the estimate on the difference between the IGCE and contract amounts awarded for construction activities at two sites.

The method Region 7 used to determine its potential savings and cost avoidances on construction contracts at specific Superfund sites was not reliable. Comparison of an IGCE to a contract award amount for a construction contract at a specific site does not assist in determining savings and cost avoidances as defined by FASAB and OMB. FASAB states that savings key elements include an activity that was not performed. OMB states that savings key elements include the difference between what would have been spent in the absence of the savings initiative and what was actually spent. Neither the IGCE nor the awarded contract identifies those key elements. The methodology for determining savings or cost avoidance should have compared the site-specific approach for Superfund construction to the method previously used.

Although Region 7 stated it used historical data from prior contract(s) to create an IGCE, Region 7's IGCE did not show the connection to the prior contract's cost, improved initiative, or excluded requirements. In addition, according to the FAR, the IGCE shall be prepared on the basis of a detailed analysis of the required work as though the government were submitting a proposal. It would not include actions or requirements and their associated costs no longer needed. Therefore, EPA cannot determine cost avoidance and savings by merely comparing an IGCE to a contract award. Neither regulation nor guidance states that the differences between an IGCE and the contract price are savings or cost avoidances.

No EPA Policy Describes the Procedure for Determining Monetary Efficiencies

The Agency does not have policies defining savings, efficiencies, and cost avoidances. Given the quick turnaround for developing the efficiency projects, Region 4 relied on the benchmarking study and did not get current and complete enforcement costs from financial experts within the region. Policy should include a process for consulting with financial experts to assist in determining savings amounts.

OAM officials stated that the ability to monetize the savings and cost avoidances from acquisition efficiencies is a challenge because no credible methodology exists to date. EPA needs to implement policy describing a more reliable approach that would include comparing the price for the prior contract with the contract award to identify savings. Comparing contracts would show the different

actions taken and their associated costs. The OMB M-09-25 additional guidance also identifies this methodology.

Reported Savings Methodology Used Could be Misleading

Region 4 reported its savings to OARM. Claims of reported efficiencies may lead to others applying the same methods on other initiatives, and reporting such data may result in misstated amounts and inaccurate reporting. The misstated amounts and inaccurate reporting could affect the management decisions for site assessment in determining more cost effective and time efficient methods to assess sites.

Region 7 also reported its savings to OARM. Claims of reported efficiencies may lead to others applying the same methods on other initiatives and reporting such methodology internally and externally (i.e., to OMB). Region 7 reported savings achieved in the IFMS database, EPA's official accounting system used for financial reporting. Region 7 reported the following in the IFMS database, to explain returning \$2.1 million in American Recovery and Reinvestment Act of 2009 (ARRA) funds:

Reprogramming ARRA funds back to headquarters. These funds are the result of site-specific contracts being awarded for less than EPA's IGCE; thus realizing a cost savings.

Even though Region 7 developed a site-specific contracting initiative for savings/cost avoidance, it was not reported to OMB. However, in November 2010, OAM responded to the OMB memo dated July 2009 titled "Improving Government Acquisition" and reported to OMB savings and cost avoidances developed by other regions. An OAM report, "*Achieving Contract Savings*" stated that EPA competitively awarded a firm-fixed-price contract for remedial construction at two Superfund sites in other regions, saving close to \$6 million. The amount saved was the difference between the IGCEs originally developed for acquiring these services and the final price of the resultant award. OAM reported that savings were determined by awarding contracts for less than EPA's IGCE. This practice is contrary to FASAB and OMB guidance. In addition, OMB then highlighted OAM reported savings developed by the other regions in a congressional testimony dated July 15, 2010. In this instance, they should have used the prior contract instead of the IGCE to determine the savings amount.

Conclusion

EPA needs sound procedures for identifying savings resulting from its initiatives. An OMB memorandum for the Chief Financial Officers of Executive Departments and Agencies, dated June 28, 2011, stated that the federal government should take common sense, pragmatic steps to cut costs where possible and eliminate practices that are antiquated or unnecessary. According to

the memo, government agencies should not hide these inefficiencies, but should rather examine them publicly and apply logical fixes that others can learn from and leverage. By using current and complete enforcement costs to determine estimated savings and communicating with regional budget and financial personnel to identify total costs saved, Region 4 could better estimate the cost avoidances. Comparing the prior contract with the resultant contract price is a more reliable approach for determining cost savings or avoidance because comparing the two would show the improved efficiencies, which include not only costs but actions not taken.

Recommendations

We recommend that the EPA Chief Financial Officer:

1. Develop an Agency-wide policy that defines what the Agency considers cost savings, efficiencies, and avoidances.
2. Develop an Agency-wide procedure for estimating savings, efficiencies, and cost avoidances to include requiring program offices and regions to consult with internal financial managers to obtain complete and up-to-date cost data.

We recommend that the Assistant Administrator for Administration and Resources Management:

3. Develop a policy on estimating savings and cost avoidances relating to contracts based on similar prior contract data that will show the actions not taken or improved operations as opposed to using the IGCEs.

We recommend that the Regional Administrator, Region 4:

4. Recalculate the cost avoidance based on current and complete enforcement cost data.
5. Report the cost avoidance to OCFO and OARM.

We recommend that the Regional Administrator, Region 7:

6. For Region 7's audited initiative, identify the improved activities or activities not taken in the awarded contract(s) associated with the original calculation to determine whether cost avoidance exists.
7. Recalculate the cost avoidance estimate based on the difference between the awarded contract and similar prior contract prices.
8. Report the cost avoidance to OCFO and OARM.

Agency Response and OIG Evaluation

We received draft report comments from OCFO, OARM, and Regions 4 and 7 on July 20, 2012.

OCFO disagreed with our recommendations 1 and 2 and stated the Agency maintains that introducing formality into the early stages of idea generation would severely hinder innovation and creativity. We do not agree with the Agency response. The actual verbiage of the OARM e-mail, dated August 2009, did not describe projects as ideas. OMB Circular A-123 also states that internal controls, which include policies and procedures, help organizations achieve results and should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing. Regardless of whether the projects are developed at the early stage of the idea generation, a clear definition of each estimating method and consistent estimating methods Agency-wide would help ensure accurate, proactive measurement and reporting of the desired results of achieving cost savings, avoidances, and/or efficiencies by program offices and regions.

OARM disagreed with our recommendation 3. However, OARM believes that there is a government-wide need to establish and institutionalize standards and methodologies for determining cost savings and avoidances resulting from contracting initiatives and approaches that fall under formal processes. We found OMB already established guidance that identified a government wide standard and methodology on what is needed for determining cost savings and avoidances. OMB memorandum M-09-25, dated September 2009, and OMB additional guidance explain how the agency should establish savings. To implement the OMB additional guidance, EPA should have an Agency policy describing its prescribed method for estimating contract savings/cost avoidances to ensure consistency in measuring/estimating savings by program offices and regions.

Region 4 disagreed with our recommendations 4 and 5. Region 4 stated that since this project was an idea and has not been fully examined, evaluated, or accepted by the Agency, the effort to recalculate the cost avoidance is not warranted. We do not agree with the Region 4 response. The Regional Director for Region 4 already took action by issuing a memorandum that documented the new strategy implemented for this initiative, so the project is no longer an idea.

Region 7 disagreed with our recommendations 6, 7, and 8. Region 7 does not believe that the OIG's definition of cost avoidance applies to the submitted activities. The OIG definition only considers "activities not taken." Cost savings, however, may arise as a result of contracting activities. Furthermore, based upon the OIG's definition of cost avoidance or cost savings, the awarded contracts did not meet this definition. Therefore, there is no basis to recalculate the cost avoidance and report the corrected cost avoidance. We do not agree with the Agency response. The OIG does not disagree with the fact that the IGCE may have included historical costs. However, the IGCE had to have included other costs based on the new requirements. We used OMB additional guidance that

included a methodology to determine savings. According to OMB M-09-25 additional guidance, there are two important parts to developing the savings and cost avoidances: (1) cost reductions and (2) a description of the actions not taken. Comparing the IGCE with the awarded contract does not provide a description of actions not taken or identify where cost was reduced. A clear justification for why the awarded contract price is significantly lower was not provided, nor did it identify cost reductions or action not taken. Furthermore such cost discrepancies call into question the accuracy of the IGCE. OAM guidance states that if there are significant differences between the IGCE and a proposal, responsible individuals should closely analyze the differences to understand why they occurred and how they may affect future estimates. Had this been done, Region 7 may have been able to identify cost reductions and a description of the actions not taken to achieve cost savings.

OCFO responded to recommendation 7. OCFO explained that the Agency allows local offices flexibility and does not mandate the use of Superfund site-specific contracts. In response to the "OCFO Note," the issue is not with using the site-specific contracting approach, it is with the methodology of comparing the IGCE to the newly awarded contract. We have not been given the explanation or support as to why site-specific contracting is the best contract approach to achieve cost savings.

Chapter 3

EPA Follow-Up Efforts Needed to Optimize Savings and Cost Avoidances

While OARM took the initiative to lead the identification of potential savings and cost avoidances for all Agency programs and regions, it did not follow up on implementation of the 72 efficiency projects reported to OARM during the period November 2010 through January 2011 to ensure that the projects actually resulted in savings, cost avoidances, and other efficiencies. OMB Circular A-123 requires program and financial managers to achieve desired outcomes (savings and cost avoidances). OARM did not follow up on these efficiency efforts because EPA viewed the projects as merely ideas for possible cost savings that did not require reporting, including to OMB. Nevertheless, without following up on the progress in achieving desired and expected savings and efficiencies, EPA may have missed opportunities to leverage and expand its cost-cutting efforts, apply best practices for gaining greater efficiencies, and realize significant savings and cost avoidances Agency-wide.

Improvements Needed in Ensuring Results Are Achieved

An OMB memorandum, titled “Campaign to Cut Waste,” dated June 28, 2011, stated:

...[T]he federal government should take common sense, pragmatic steps to cut costs where possible and eliminate practices that are antiquated or unnecessary. Government agencies should not hide these inefficiencies, but should rather examine them publicly and apply logical fixes that others can learn from and leverage.... agencies should also leverage ideas from the federal workforce by reviewing and incorporating ideas....

This memorandum outlines a path forward for agency Chief Financial Officers (CFO’s) [sic] to promote such steps internally and work together to cut costs and drive efficiencies government-wide. Execution of the steps outlined in this memorandum is an essential component of the recent executive order, in which the President called for a government that cuts waste and is fully accountable to the American public. As part of this executive order, the President charged federal CFO’s [sic] with ramping up efforts to identify, execute, and report on administrative cost savings within the agencies.

OMB Circular A-123 states that internal controls—organization, policies, and procedures—are tools to help program and financial managers achieve results. Management should have a clear, organized strategy with well-defined documentation processes that contain an audit trail and verifiable results. The GAO report GAO/AIMD-00-21.3.1, *Standards for Internal Controls in the Federal Government*, November 1999, states that internal control helps government program managers achieve desired results through effective stewardship of public resources.

For benchmarking purposes, we examined the DOJ follow-up policies and procedures implemented to ensure savings and efficiencies were achieved. In June 2009, DOJ implemented a pilot savings program calling for ideas to reduce department costs and improve efficiency. In his memorandum, the Attorney General required that lead officials participate in the department's working group to implement the ideas. The memo also stated that the department's performance improvement officer would track implemented initiatives through a quarterly status review process. In July 2010, DOJ established the Advisory Council for Savings and Efficiencies (the SAVE Council) to develop and review department-wide savings and efficiency initiatives, and report on them.

No Follow-Up on Projects' Progress

OARM requested efficiency projects from each program office and region that EPA could share with OMB and the White House. OARM's request also stated that projects should include the proposed or actual start date and expected timeframe of the initiative, as well as an estimate of projected dollar savings or cost avoidances and expected results. In September 2009, EPA program offices and regions submitted 72 projects, which varied widely in scope and totaled over \$33 million in estimated savings and cost avoidances (see appendix A). OARM did not follow up on these cost-cutting efforts to determine whether (1) the program offices and regions actually achieved the expected efficiencies, savings, and cost avoidances from these projects; and (2) the results could be expanded to achieve Agency-wide savings.

We interviewed OARM before the audit began and again in January 2011 to understand what was done regarding the requested information. Because of our interest, OARM obtained an updated status of the 2009 reported results in January 2011, but performed no other follow-up. The OARM e-mail request did not emphasize follow-up to ensure implemented initiatives resulted in savings and cost avoidances, and no other guidance was given to the program offices and regions to do so.

OCFO staff serves a fiduciary role by monitoring and analyzing the Agency's resource use, providing guidance to the Agency to ensure the proper use of resources, and responding to OMB initiatives on behalf of the Agency. During the audit, we interviewed OCFO staff to determine whether it had implemented

follow-up efforts on the reported savings and cost avoidances. OCFO staff have processes and procedures to obtain efficiency initiatives from EPA program offices and regions. However, OCFO did not take the lead in this case, and there was a lack of coordination between OARM and OCFO on the 72 initiatives.

EPA Treated the 72 Projects as Ideas for Potential Savings and Cost Avoidances

OARM staff viewed the 72 projects as merely ideas to use for upcoming Presidential reform initiatives, but EPA did not send any of the projects to OMB and OMB did not request them. The OARM official we interviewed stated that had OMB required the submission of these efficiencies, OARM would have gathered more data and relied on program and regional managers to verify or validate savings and efficiencies. OARM stated that it does not have the official responsibility for oversight of these 72 projects. Consequently, no one was held accountable to determine whether program offices and regions realized expected savings and efficiencies from the implementation of the projects.

The Deputy Director of the Office of Budget, an office within OCFO, categorized the 72 projects as merely ideas for cutting or avoiding costs. According to the Deputy Director, the projects are efficiencies that allow program offices and regions to reprioritize their funding resources to carry out their operations. The Office of Budget is not involved unless the savings reduce the budget or require a budget increase to obtain further savings in future years. The Deputy Director stated that OCFO identified other higher priority initiatives as part of each budget process, but not the 72 projects. During conferences and meetings with program offices and regions on the budget, the Office of Budget staff stated that they discussed efficiencies and savings initiatives for inclusion in the budget submission. Office of Budget staff also stated that monitoring and providing additional requirements for every initiative to ensure achieving savings and efficiencies would stifle innovation and creativity. Although the Office of Budget has budget oversight, the Deputy Director told us that the regions or program offices are responsible for achieving savings and efficiencies from their projects. OIG agrees that program offices and regions are responsible for achieving savings and efficiencies from their projects. However, OCFO needs to ensure that the program offices and regions achieve each significant savings and cost avoidance through periodic tracking and reporting of the results.

Potential Agency-Wide Implementation

EPA did not determine whether program offices and regions achieved the estimated \$33 million in savings and/or cost avoidances (later reduced to \$21 million) and whether the Agency could have achieved greater savings by implementing the projects in other offices and regions. Assessment of these or other cost-saving projects can further help EPA identify lessons learned, best practices, or successes for possible implementation Agency-wide for greater cost

savings and efficiencies. This assessment would also demonstrate EPA's commitment to being a good steward of taxpayer dollars. The June 28, 2011, OMB memorandum titled "Campaign to Cut Waste" provided specific criteria to use past actions that have resulted in broad and significant cost savings. Specifically, the memo stated:

To begin the process of collecting and synthesizing Government practices that cut costs and improve efficiencies, I am requesting the following steps be taken by each CFO:

1. Initiate within your agency the collection and inventory of existing examples, practices, and success stories of efforts to improve efficiency, avoid unnecessary expenditures, and cut costs. This should include cost-cutting initiatives completed in the past, those that are currently underway, and those that your agency is planning to launch. Examples should include efforts that are broad and have resulted in significant cost savings....

Conclusion

Since 2009, OMB and the White House have required agencies to identify savings and cost avoidances in the form of efficiencies. In addition, the President charged federal CFOs with ramping up efforts to identify, execute, and report on administrative cost savings within the agencies. This process involves promoting steps to cut cost and drive efficiencies agency-wide. By assessing its implementation progress on projects identified, the Agency would be able to determine whether it is on track to achieve the anticipated savings and avoided costs and identify the challenges or greatest successes and best practices for potential Agency-wide implementation to further increase efficiencies. Additionally, the identified savings and efficiencies could serve as examples of successful Agency efficiency efforts for reporting to the CFO Council for potential implementation government-wide.

Recommendation

We recommend that the EPA Chief Financial Officer:

9. Select significant projects from the 72 initiatives in light of the recent OMB memorandum "Campaign to Cut Waste" to determine if these efforts have resulted in significant savings and cost avoidances and publicly examine and apply logical fixes so that others can learn from and leverage cost savings for Agency-wide implementation.

Agency Response and OIG Evaluation

OCFO does not agree with recommendation 9 as originally presented. OCFO stated that the Presidential SAVE initiative evaluates ideas collected directly from

federal employees and is not an appropriate reporting mechanism. The Agency is actively involved in pursuing efforts that contribute to the “Campaign to Cut Waste” and the Presidential SAVE Initiative and has already reported on ideas from the list of 72 ideas. We agree with the OCFO response to not report significant efficiencies through the Presidential SAVE initiative. OCFO identified ideas similar to the 72 initiatives developed as part of the Agency-wide effort to avoid costs and achieve savings and efficiencies. Even though the SAVE program may not be used, the concept addressed in the “Campaign to Cut Waste” memo states that agencies should publicly examine and apply logical fixes so that others can learn from and leverage cost savings for Agency-wide implementation. We revised recommendation 9 to include the modified OIG position.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed-To Amount
1	10	Develop an Agency-wide policy that defines what the Agency considers cost savings, efficiencies, and avoidances.	U	Chief Financial Officer			
2	10	Develop an Agency-wide procedure for estimating savings, efficiencies, and cost avoidances to include requiring program offices and regions to consult with internal financial managers to obtain complete and up-to-date cost data.	U	Chief Financial Officer			
3	10	Develop a policy on estimating savings and cost avoidances relating to contracts based on similar prior contract data that will show the actions not taken or improved operations as opposed to using the IGCEs.	U	Assistant Administrator for Administration and Resources Management			
4	10	Recalculate the cost avoidance based on current and complete enforcement cost data.	U	Regional Administrator, Region 4			
5	10	Report the cost avoidance to OCFO and OARM.	U	Regional Administrator, Region 4			
6	10	For Region 7's audited initiative, identify the improved activities or activities not taken in the awarded contract(s) associated with the original calculation to determine whether cost avoidance exists.	U	Regional Administrator, Region 7			
7	10	Recalculate the cost avoidance estimate based on the difference between the awarded contract and similar prior contract prices.	U	Regional Administrator, Region 7			
8	10	Report the cost avoidance to OCFO and OARM.	U	Regional Administrator, Region 7			
9	16	Select significant projects from the 72 projects in light of the recent OMB memorandum "Campaign to Cut Waste" to determine if these efforts have resulted in significant savings and cost avoidances, and publicly examine and apply logical fixes so that others can learn from and leverage cost savings for Agency wide implementation..	U	Chief Financial Officer			

O = recommendation is open with agreed-to corrective actions pending
C = recommendation is closed with all agreed-to actions completed
U = recommendation is unresolved with resolution efforts in progress

Program Offices and Regions Submitting Results

In September 2009, 10 regions and 11 program offices submitted projects with one-time and multiple-year savings, cost avoidances, and other efficiencies. The projects varied widely in scope of work and the anticipated savings and cost avoidances, as shown below.

Initial spreadsheet dated September 2009

- 72 initiatives totaling over \$33 million for savings and cost avoidances
- 10 of 72 projects with individual estimated annual and one-time cost avoidances or savings of \$500,000 and greater
- 16 of 72 projects with estimated cost avoidances or savings each in the range of \$100,000 to \$500,000
- 28 of 72 projects with estimated annual/one-time cost avoidances or savings under \$100,000
- Remaining 18 projects reported cost avoidances, savings, or other efficiencies as “to-be-determined” or “unknown”

Revised spreadsheet dated January 2011

- 72 projects but estimated savings and cost avoidance changed to over \$21 million
- 15 of 72 not implemented (postponed to 2011, insufficient funding, etc.)
- 57 of 72 implemented:
 - 26 had cost avoidances or savings quantified at \$21 million
 - 31 could not quantify amounts or the cost avoidances or savings were not realized

Top 10 projects (by highest reported amount of savings and cost avoidance)⁵

	Original	Revised	Office
1. SF Construction Contracts	\$19 million	\$13.4 million	Region 7
2. Phone Service Cost	\$5 million	same	Region 3
3. Contract Air City Pair	\$2.5 million	\$0	OCSPP
4. Building Re-Commissioning	\$1.5 million	same	OARM
5. Regional Recycle Program	\$1 million	\$628,000	Region 4
6. Web Management System	\$1 million	same	OW
7. Electric Power Reductions	\$705,000	same	Region 2
8. Direct Power Supply	\$626,000	same	Region 9
9. SF Site Assessment/Enf.	\$600,000 ⁶	\$610,000	Region 4
10. Strategic Sourcing Initiative	\$600,000	\$800,000	Region 2

⁵ Abbreviated terminology used for this table includes Superfund (SF), Enforcements (Enf.), Office of Chemical Safety and Pollution Prevention (OCSPP), Office of Administration and Resources Management (OARM), and Office of Water (OW).

⁶ This savings is estimated \$200,000 annually for the 3-year period 2009–2011.

Agency Response to Draft Report and OIG Evaluation

MEMORANDUM

SUBJECT: Agency's Response to OIG Draft Report, Improvements Needed in Estimating and Leveraging Cost Savings Across EPA, Project No. 2011-124

FROM: Maryann Froehlich
Deputy Chief Financial Officer

TO: Melissa Heist
Assistant Inspector General for Audit

The Office of the Chief Financial Officer (OCFO), the Office of Administration and Resources Management (OARM), Region 4, and Region 7 appreciate the opportunity to review and comment on the June 13, 2012, Office of Inspector General (OIG) draft report titled, "Improvements Needed in Estimating and Leveraging Cost Savings Across EPA."

The Agency has been committed to seeking efficiencies and cost savings for many years. The EPA actively participates in the Campaign to Cut Waste, SAVE Awards, and other efforts. The EPA adheres to all applicable requirements of Executive Orders calling for reduced spending, reform and efficiencies. The EPA's past and ongoing efforts to identify, monitor and track cost-saving measures have resulted and will continue to result in savings and cost avoidances to create a more efficient and effective government.

The draft report reviews a list of ideas identified by program offices and regions for potential savings and cost avoidances. It recommends that a formal structure be implemented for calculating savings estimates, and that the existing estimates be recalculated. In addition, the report recommends leveraging items from among the list of ideas that was reviewed. The recommendations do not reflect the purpose for the exercise – essentially a brainstorming – and do not recognize the degree to which these and similar ideas were incorporated into more formal savings efforts as appropriate. Baselines and solid estimates are needed and developed at that point, rather than at the 'idea generation' stage. Innovative and creative ideas are the goal of the initial effort and a burdensome set of estimation procedures will inhibit the flow of ideas.

There are a number of areas where the Agency has put structured procedures in place to continue to find savings and cost avoidances and follow through on results. For example, beginning with the FY 2010 President's Budget continuing through FY 2013, the Agency has demonstrated our commitment by selecting, monitoring and reporting on a total of six Presidential SAVE projects. The projects include: (1) IT Infrastructure Streamlining, (2) Space Consolidation for Rent Savings, (3) Bundling Maintenance Agreements for Capital Equipment, (4) Electronic Emissions Reporting, (5) Reduce Travel Costs through Video-conferencing, and (6) Administrative

Proceedings Paper Reduction. Also, in August 2011, the Agency submitted three ideas to OMB for the Campaign to Cut Waste: (1) IT Service Contract Restructuring, (2) Space Consolidation and (3) Strategic-Sourcing for Agency-wide supplies. Frequently these efforts build off of one another and are developed and sustained by ideas from across the Agency. While the ideas are offered under an informal process, a formal structure is developed when it is needed and appropriate.

Contract spending has been another focus. Under the President's Memorandum on Government Contracting (March 4, 2009) and OMB's Memorandum on Improving Government Acquisition (July 29, 2009), the Agency reviewed our existing contracts and acquisition practices and saved over \$96 million by the end of FY 2011 relative to baseline. This was followed by the November 7, 2011 OMB guidance to reduce contract spending for management support services by 15 percent by the end of FY 2012 and an additional 5 percent reduction to this type of spending was included in the recent Campaign to Cut Waste guidance.

Another example would be energy savings. The EPA has considered and continues to look at a variety of ways to reduce energy and resource consumption and as a result, has received employee-generated ideas from the Agency; many of which are along the same lines as some of the 72 suggestions OARM obtained. These efforts vary in size and complexity and include: formal policies on mandatory commissioning on all projects that include laboratory mechanical systems; energy assessments at high-energy-intensity and large laboratories; the Agency's advanced metering strategy to enable the Agency to measure, verify, and optimize performance; and equipment upgrades and replacements.

Given the fiscal reality faced by the EPA, the Agency will continue to identify savings and cost avoidances to preserve funding for critical priority work. Success in this requires the freedom to think of how we may do our work differently- focusing on what is possible and not on how to fit ideas into existing structures and guidelines.

Specific responses from OCFO, OARM, Region 4, and Region 7 to the OIG recommendations can be found in Attachment A. We also identified a number of technical inaccuracies in the draft report and included them in Attachment B.

If you have any questions regarding this response, please contact Barbara Freggens of my staff at (202) 564-4906.

Attachments

cc: Craig Hooks
Barbara J. Bennett
Gwendolyn Keyes Fleming
Karl Brooks
Joshua Baylson

Response to Recommendations for OIG Report: *Improvements Needed in Estimating and Leveraging Cost Savings Across EPA*

Recommendation No. 1: “Develop an Agency-wide policy that defines what the Agency considers cost savings, efficiencies, and avoidances.”

OCFO Response: OCFO does not agree with this recommendation. The Management Reform Agenda exercise that the IG reviewed was designed to identify potential cost-saving ideas that could result in a more efficient and effective government. During the audit meetings, the IG was informed that we develop guidance and templates for projects when the Agency formally accepts the cost savings idea. The measures reviewed by the IG were in response to a call for ideas and thus, were offered as options for further exploration. The Agency maintains that introducing formality into the early stages of idea generation would severely hinder innovation and creativity.

Recommendation No. 2: “Develop an Agency-wide procedure for estimating savings, efficiencies and cost avoidances to include requiring program offices and regions to consult with internal financial managers to obtain complete and up-to-date cost data.”

OCFO Response: Please see the response for recommendation number one.

OIG Evaluation for Recommendations 1 and 2:

We do not agree with the Agency response. The actual verbiage of an OARM e-mail in August 2009 did not describe projects as ideas. The e-mail requested that each program office and region look at the wide array of environmental programs administered and identify three efficiency projects, to include dates and projected dollar savings or cost avoidance, that the program office and regions will undertake in support of the President’s Reform Agenda over the next year that can be shared with OMB and the White House. In addition, OMB Circular A-123 states that agencies and individual federal managers must take systematic and proactive measures to develop and implement appropriate cost-effective internal controls for results-oriented management. The desired result of the Management Reform Agenda exercise was to obtain examples of projects that would achieve savings and cost avoidance. OMB Circular A-123 also states that internal controls, which include policies and procedures, help organizations achieve results and should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing. Regardless of whether the projects are developed at the early stage of the idea generation, a clear definition of each estimating method, and consistent estimating methods Agency-wide, would help ensure accurate, proactive measurement and reporting of the desired results of achieving cost savings, avoidances, and/or efficiencies by program offices and regions.

Recommendation No. 3: “Develop a policy on estimating savings and cost avoidances relating to contracts based on similar prior contract data that will show the actions not taken or improved operations as opposed to using the IGCEs.”

OARM Response: OARM does not agree with this recommendation. However, OARM does agree that there is a Government-wide need to establish and institutionalize standards and methodologies for determining cost savings and avoidances resulting from various contracting initiatives and approaches that fall under formal processes. To that end, OARM is currently participating on OMB's Federal Strategic Sourcing initiative workgroup to establish such standards and methodologies.

OIG Evaluation for Recommendation 3

We do not agree with the Agency response. OMB already established guidance on what is needed. OMB memorandum M-09-25 additional guidance explained how the Agency should establish savings. The additional guidance emphasized that for each identified initiative, the Agency should establish savings by explaining the difference between what would have been spent in the absence of the savings initiative and what the Agency expects to spend because of pursuing the initiative. The memorandum also identified the methodology to identify savings by comparing the price on the prior/existing contract with the newly awarded contract after implementing the new initiative. Comparing contracts would show the different actions taken and their associated costs. EPA should have an Agency policy describing the OMB memorandum M-09-25's prescribed method on estimating contract savings/cost avoidances to ensure consistency in measuring/estimating savings by program offices and regions.

Recommendation No. 4: Recalculate the cost avoidance based on current and complete enforcement cost data.

Region 4 Response: Region 4 does not agree with this recommendation. The purpose of the request was to identify projects that had the potential to reduce or avoid cost leading to a more efficient and effective government. Furthermore, as this idea has not been fully examined, evaluated or accepted by the Agency, the effort to recalculate the cost avoidance is not warranted.

Recommendation No. 5: Report the cost avoidance to OCFO and OARM.

Region 4 Response: Please see the response for recommendation number four.

OIG Evaluation for Recommendations 4 and 5:

We do not agree with the Region 4 response. The Regional Director of Superfund Division within Region 4 already took action by issuing a memorandum that documented the new strategy implemented for this initiative, so the project is no longer an idea. OMB Circular A-123 states that agencies and individual federal managers must take systematic and proactive measures to develop and implement appropriate cost-effective internal controls, identify needed improvements, and take corresponding corrective action. The effective internal controls include reporting reliable information that is accurate, complete, and timely. Region 4 managers still have a responsibility to take corrective corresponding actions to report reliable information based on the already implemented strategy.

Recommendation No. 6: For Region 7’s audited initiative, identify the improved activities or activities not taken in the awarded contract(s) associated with the original calculation to determine whether cost avoidance exists.

Region 7 Response: Region 7 does not agree with this recommendation. The purpose of the request was to identify projects that had the potential to reduce or avoid cost leading to a more efficient and effective government. In addition, Region 7 does not believe that OIG’s accepted definition of cost avoidance applies to the submitted activities. The OIG definition only considers “activities not taken.” Cost savings, however, may arise as a result of contracting activities. Savings submitted were calculated based on the difference of the contract award price and the Independent Government Cost Estimate (IGCE). Prior contract costs were factored into the formulation of the IGCEs. Past contracting costs along with experience in site cleanups ensures that IGCEs are well developed and accurate.

OIG Evaluation for Recommendation 6:

We do not agree with the Agency response. The OIG does not disagree with the fact that the IGCE may have included historical costs. However, the IGCE had to have included other costs based on the new requirements. For example, the one prior contract cost (provided by Region 7) totaled approximately \$8 million and the related IGCE final cost totaled \$16 million—the amount increased by 50 percent. The newly awarded contract valued at \$11 million is closer to the prior contract cost than the IGCE. Based on the concepts described in FAR 13.106-3, 14.404-1, and 36.214, comparing the IGCE to proposals and prior contracts indicates how good the cost amount on the IGCE is. According to OMB memorandum M-09-25 additional guidance, there are two important parts to developing the savings and cost avoidances: (1) cost reductions and (2) a description of the actions taken. The OMB additional guidance provided the following example: “Bureau ABC spent \$100,000 for express overnight delivery service in FY 09 and was planning to spend \$105,000 to meet its FY 10 needs. Instead of exercising an option under the existing agency contract in FY 10 for \$105,000, the agency now plans to use a strategic sourcing vehicle and will pay \$90,000 for the same services. Savings = \$15,000.” Note: the example used an existing prior contract. Even though comparing the IGCE to the newly awarded contract showed that a cost reduction occurred, it does not describe any actions taken for efficient and effective government. Actions taken are important to provide the acquisition community processes used to develop savings to be further applied agency-wide. A clear justification on why the awarded contract price is significantly lower than the IGCE would further explain whether the estimate may have been inaccurate.

Recommendation No. 7: Recalculate the cost avoidance estimate based on the difference between the awarded contract and similar prior contract prices.

Region 7 Response: Region 7 does not agree with this recommendation. The purpose of the request was to identify projects that had the potential to reduce or avoid cost leading to a more efficient and effective government. Furthermore, based upon OIG’s definition

of a cost avoidance or cost savings, the awarded contracts did not meet this definition. Therefore, there is no basis to recalculate the cost avoidance.

OCFO Note: It should be noted that the idea of site-specific contracts for construction at Superfund sites was vetted under an Agency initiated workgroup, at the direction of the Administrator. Programmatically, there are a number of considerations that impact the selection of the best contract approach. As a result, the Agency allows flexibility for local offices and this idea is included as an option, but not mandated.

OIG Evaluation for Recommendation 7:

OIG does not agree with the Agency response. Region 7's response shows differences about what methodology should be used to determine savings and cost avoidance. Improvements are needed with the methodology identified by Region 7 because the methodology is not backed by any guidance and the estimate itself may be inaccurate. There were no OIG definitions quoted in the report. We used OMB additional guidance that identified a methodology needed to determine savings.

In response to the "OCFO Note," the issue is not with using a site-specific contracting approach, it is about the methodology of comparing the IGCE to the newly awarded contract. We have not been given the explanation or support as to why site-specific contracting is the best contract approach.

Recommendation No. 8: Recalculate the cost avoidance to OCFO and OARM.

Region 7 Response: Please see responses to recommendations numbers six and seven.

OIG Evaluation for Recommendation 8:

OMB Circular A-123 states that agencies and individual federal managers must take systematic and proactive measures to develop and implement appropriate, cost-effective internal controls, identify needed improvements, and take corresponding corrective action.

Recommendation No. 9: "Select significant projects from the 72 projects in light of the recent OMB memorandum "Campaign to Cut Waste" to determine if these efforts have resulted in significant savings and cost avoidances, and report significant efficiencies through the Presidential SAVE initiative.

OCFO Response: OCFO does not agree with this recommendation. The Presidential SAVE initiative evaluates ideas collected directly from Federal employees. It is not an appropriate reporting mechanism. The Agency is actively involved in pursuing efforts that contribute to the Campaign to Cut Waste and the Presidential SAVE Initiative. The reporting of these efforts is conducted as specified by OMB. However, it should be noted that under the Management Reform Agenda, the EPA developed ideas similar to the areas in the list that are part of other cost avoidance programs such as:

1. Design and implementation of an Agency-wide solution for voice communications using an integrated hybrid solution of Voice-over Internet Protocol (VoIP) and local PBX technologies.
2. Using off-the-shelf software to enhance the design of the Great Lakes Initiative (GLI) Clearinghouse. Region 5 is re-configuring the GLI Clearinghouse into a more affordable solution.

Some other examples, from the list of 72 ideas, that contribute to managing reduced travel resources include less frequent meetings, use of webinars and changing the format and attendance at state oversight meetings. Many ideas also contribute to reductions in printing and supplies costs, such as reducing paper copies, maximizing use of electronic media and improving sourcing for supplies. Energy efficiencies also are featured, such as upgrading lab equipment and installation and modifying and upgrading building infrastructure.

OIG Evaluation for Recommendation 9:

We agree with the OCFO response to not report significant efficiencies through the Presidential SAVE initiative. The EPA's 72 initiatives included past, current, and future projects identified by regions and program offices for potential efficiencies. OCFO identified ideas above similar to the 72 initiatives that were developed as part of the Agency-wide cost avoidance programs and attributed savings and efficiencies. At the time the 72 initiatives were developed, a few initiatives had been implemented by some regions and program offices which then did not have actual cost data associated with their projects and others did not fully go as planned. Thus, the regions and program offices implementing projects with significant funding and expenditures should evaluate them to determine whether their own projects actually saved significant money, achieved efficiency as anticipated, and can be expanded Agency-wide to optimize savings/efficiencies. Even though the SAVE program may not be used, the concept addressed in the "Campaign to Cut Waste" memo is that agencies should publicly examine and apply logical fixes so that others can learn from and leverage cost savings for Agency-wide implementation. We revised recommendation 9 to include the modified OIG position.

Technical Inaccuracies from the OIG Report: Improvements Needed in Estimating and Leveraging Cost Savings Across EPA

Page 2

“Region 7’s FY 2011 Superfund budget totaled \$116 million¹”: This budget total could not be verified by the local office or by OCFO.

OIG note: We obtained these figures from Compass as of February 2011 (see Footnote 1 for details). They may have changed given that Compass is constantly changing.

Page 3

“Region 4’s FY 2011 Superfund budget totaled \$97 million²”: This budget total could not be verified by the local office or by OCFO.

OIG note: We obtained these figures from Compass as of February 2011 (see Footnote 1 for details).

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“Chapter 2, Enhanced Methods Needed to Determine Savings and Cost Avoidances”: The draft report suggests that EPA will not be able to accurately report the results of its efficiency initiatives and influence internal and external management decisions. In managing our resources, the Agency has identified and implemented a number of savings and cost avoidance projects over many years.

For example, as a result of the President’s Memorandum on Government Contracting issued on March 4, 2009, and OMB’s Memorandum on Improving Government Acquisition issued on July 29, 2009, the Agency reviewed our existing contracts and acquisition practices, submitted a plan to OMB on November 9, 2009, and were able to: (a) save 7 percent of baseline contract spending, over \$96 million, by the end of FY 2011, (b) reduce by 10 percent the share of dollars obligated in FY 2010 under new contract actions that are awarded with high-risk contracting authorities.

OIG note: We cannot comment on the validity and accuracy of the already reported savings. However, based on the two savings projects we audited, we believe improvements are needed in the methodologies and approach used to ensure that savings and cost avoidances are accurate and reflect prescribed guidance.

Page 7

“Unreliable Method Used for Calculating Region 4 Savings”: The draft report indicates that Region 4 based its potential cost avoidance estimates for site assessment and enforcement on outdated, incomplete and unsupported information. In identifying a potential savings idea, Region 4 used the most readily available information to respond to OARM’s request. *PRP Search Benchmarking and Regional Practices Evaluation* (referenced in the report), is a valid source for producing cost estimates.

OIG note: Region 4 could have obtained and used more current cost data from its financial staff, systems, and documents than the FYs 1999–2005 data it used to provide better estimates of costs savings. Timing is important to facilitate the reliability of all financial-reported data. Region 4 used FYs 1999–2005 data from the above benchmarking study for estimating savings for the period of 2009–2011.

Page 8,

“Unreliable Method Used for Calculating Region 7 Savings on Site Specific Contracts”: The draft report indicates that the method Region 7 used to determine its potential savings and cost avoidances on construction contracts at specific Superfund sites was not reliable. The Independent Government Cost Estimate (IGCE) is the Government's reasonable estimate of the resources and the projected costs that a contractor would incur in the performance of a contract. As Region 7 was identifying a potential savings idea, Region 7 used the most readily available information to respond to OARM's request. Accordingly, the IGCE is considered a valid and reliable estimate to identify cost savings and cost avoidances.

OIG note: An IGCE is an estimate to determine the price reasonableness of a contract proposal.

Pages 9-10

“Reported Savings Methodology Used Could be Misleading”: The draft report suggests use of the IGCE is contrary to FASAB and OMB guidance. The IGCE methodology is an accepted government practice which is widely used to determine price reasonableness. In fact, OMB highlighted the Agency's reported savings in a congressional testimony of July 15, 2010, as mentioned in the draft report.

OIG note: An IGCE methodology is an accepted government practice to determine price reasonableness of a contract proposal.

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“Develop a policy on estimating savings and cost avoidances relating to contracts based on similar prior contract data that will show the actions not taken or improved operations as opposed to using the IGCEs.” The draft report suggests, through recommendation number three, that using the IGCE as an estimation tool for assessing contracts is not valid. Using direct historical price comparisons between like goods and services is optimal for developing meaningful and supportable savings/avoidance determinations. However, given that IGCEs are based on prior historical cost/price information, IGCEs are a viable baseline for determining cost savings and avoidances particularly when the agency is acquiring similar, but not the same goods or services. The FAR cites that comparison between the Government estimate (IGCE) and offered price as a methodology for determining price reasonableness in Parts 13.106-3, 14.408-2, 15.404-1(b), and 36.214. In these cites, the FAR recognizes that pricing is not an absolute undertaking and involves a significant amount of judgment.

OIG Note: See OIG evaluation comments for recommendations 6, 7, and 8.

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Recommendation No. 6, “For Region 7’s audited initiative, identify the improved activities or activities not taken in the awarded contract(s) associated with the original calculation to determine whether cost avoidance exists.” Region 7 does not believe that OIG’s accepted definition of cost avoidance applies to the submitted activities. Your definition only considers “activities not taken.” Cost savings, however, may arise as a result of contracting activities. Savings submitted were calculated based on the difference of the contract award price and the IGCE. Prior contract costs were factored into the formulation of the IGCEs. Past contracting costs along with experience in site cleanups ensures that IGCEs are well developed and accurate.

OIG Note: See OIG evaluation comments for recommendations 6, 7, and 8.

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Recommendation No. 9, “Select significant projects from the 72 projects in light of the recent OMB memorandum “Campaign to Cut Waste” to determine if these efforts have resulted in significant savings and cost avoidances, and report significant efficiencies through the Presidential SAVE initiative.” The Presidential Secure Americans’ Value and Efficiency (SAVE) Award initiative seeks ideas from federal employees to make government more effective and efficient and ensure taxpayer dollars are spent wisely. The ideas are then reviewed, ranked and recommended by the respective agencies for further consideration by OMB. The selected ideas are incorporated in the President’s Budget. The SAVE process is not designed for this type of reporting.

OIG Note: See OIG evaluation comments for recommendation 9.

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