



U.S. Department of the Interior Office of Inspector General



GovWorks

GovWorks Gainsharing Program and Recovery of Costs Related to the Interior Franchise Fund Minerals Management Service

Report No. 2002-I-0050

September 2002



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20240

September 30, 2002

Memorandum

To: Assistant Secretary for Policy, Management and Budget
Assistant Secretary for Land and Minerals Management

From: Earl E. Devaney
Inspector General

Subject: Final Report, GovWorks Gainsharing Program and Recovery of Costs Related to the Interior Franchise Fund, Minerals Management Service (Report No. 2002-I-0050)

The attached report presents the results of our audit of the Minerals Management Service's (MMS) gainsharing (group incentive award) program and recovery of costs related to the Interior Franchise Fund (IFF) for fiscal years 1997 through 2001. Our objective was to determine whether (1) the gainsharing program of GovWorks (trade name for MMS's fee for service procurement branch) was properly authorized and operated in an appropriate and equitable manner and (2) the expenses of IFF procurement activities were identified and recovered. Our office found multiple deficiencies in GovWorks gainsharing and about \$377,000 in under recovered IFF related expenses.

The Assistant Secretary for Land and Minerals Management agreed with our recommendations to terminate gainsharing and to fully recover costs. The Assistant Secretary for Policy, Management and Budget advised that the Department of the Interior should not allow any incentive award over and above the Department's award program. Based on their responses, we consider the report's three recommendations to be resolved and implemented. Accordingly, no further response to this report is necessary.

The legislation, as amended, creating the Office of Inspector General, (5 U.S.C. App. 3) requires that we report to Congress semiannually on all audit reports issued, actions taken to implement audit recommendations, and recommendations that have not been implemented.

If you have any questions regarding this report, please call me at (202) 208-5745.

Attachment

Executive Summary

Minerals Management Service

GovWorks Gainsharing Program and Recovery of Costs Related to the Interior Franchise Fund

Background and Objective

GovWorks is the registered trade name of the procurement branch within the Minerals Management Service (MMS) that provides procurement services for MMS and other Federal entities, including the Interior Franchise Fund (IFF), a pilot franchise program established within the Department of the Interior (DOI) in 1997. IFF provides goods and services on a competitive fee-for-service basis by subcontracting with other service providers within DOI, one of which is GovWorks. As a service provider, GovWorks is required to charge IFF for all costs associated with IFF activities.

GovWorks developed and implemented a gainsharing (group incentive award) program in fiscal year 1997. The program was premised on the belief that employees should share in any gain resulting from increased productivity. In June 2001, the Acting Assistant Secretary for Policy, Management and Budget (PMB) requested MMS to suspend gainsharing payments pending completion of our audit.

Our audit objective was to determine whether (1) the gainsharing program was properly authorized and operated in an appropriate and equitable manner and (2) the full costs of IFF procurement activities were identified and recovered. To help us evaluate the appropriateness of GovWorks award amounts and the merits of its award program, we also looked at the award programs of seven other Federal agencies and one private company, which are identified in this report as “benchmarking partners.”¹

Results in Brief

MMS should terminate its GovWorks gainsharing program.

- The gainsharing program was not authorized by DOI or MMS, nor did GovWorks develop and implement the

¹ The Federal benchmarking partners were the U.S. Army, U.S. Mint, Bureau of Engraving and Printing, the Tennessee Valley Authority (TVA), and three General Services Administration (GSA) offices: the Federal Systems Integration Management Center (FEDSIM), Federal Supply Service (FSS), and Public Building Service (PBS). We also reviewed one private company.

program in accordance with Office of Personnel Management (OPM), DOI, or MMS guidelines.

- The gainsharing awards were unreasonably high compared to incentive awards paid by our benchmarking partners and throughout the government. In fiscal year 2001, the highest total amount paid to benchmarking partner employees ranged from \$1,000 to \$11,000. Two GovWorks employees received \$20,000 in fiscal year 2000. Government-wide, the average incentive award payment was 1 percent of base salary. The normal payout for gainsharing programs was 4 to 5 percent of employee pay. GovWorks paid awards ranging from 16 to 47 percent of base salary.
- There were weaknesses in the gainsharing award determination process, including an unreasonable performance target, incorrect award pool calculations, subjective performance criteria, and lack of a written payout formula for determining award amounts.

We also found that GovWorks did not recover \$377,252 of costs in providing procurement services to IFF. As a service provider to IFF, GovWorks was required by law to recover all IFF-related costs. It did not and instead used MMS appropriations to subsidize the costs of some of its IFF procurement services.

Recommendations

We recommended that the Assistant Secretary for Land and Minerals Management direct MMS to terminate the gainsharing program and establish procedures to identify and fully recover the costs of IFF activities. We also recommended that the Assistant Secretary for PMB determine whether IFF should allow any extra incentive program over and above the DOI award program.

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 Abbreviations	
ABACIS	Advanced Budget/Accounting Control and Information System
DOI	Department of the Interior
FEDSIM	Federal Systems Integration Management
FSS	Federal Supply Service
GSA	General Services Administration
IFF	Interior Franchise Fund
MMS	Minerals Management Service
NOAC	Notice of Action Code
OPM	Office of Personnel Management
PBS	Public Building Service
PMB	Policy, Management and Budget
PSSD	Procurement and Support Services Division
TVA	Tennessee Valley Authority
U.S.C.	United States Code

Background

The Procurement Operations Branch, which is within the Procurement and Support Services Division (PSSD) of MMS, provides procurement services to MMS and to other Federal agencies. In fiscal year 1997, the Branch took the trade name “GovWorks”² in conducting its procurement services for non-MMS customers. The name GovWorks will be used throughout this report when referring to the Branch. Since fiscal year 1997, GovWorks has provided procurement services to MMS, GSA, and IFF.

The IFF was established under Section 113 of the 1997 Interior and Related Agencies Appropriation Act.³ The franchise fund pilot program was authorized under Section 403 of the Government Management Reform Act of 1994.⁴ The franchise funds would provide products and services to the participating agency, as well as to other Federal agencies, on a competitive fee-for-service basis. The agreed upon fee was required to recover the full cost of the funds’ franchising operations. In addition, the franchise funds were allowed to structure their fees to accumulate a reasonable operating reserve and a capital improvement reserve of up to 4 percent of the total annual income.

On May 17, 1996, the Office of Management and Budget designated DOI as one of six Federal agencies⁵ authorized to establish franchise fund pilot programs. To preserve existing resources in the event the pilot program expired,⁶ DOI management decided to operate IFF as a “virtual organization,”⁷ using resources from existing organizational structures rather than staffing a new organization. Accordingly, there are no human

²GovWorks® is a registered trademark of DOI. ©2001 The U.S. Department of the Interior Franchise Fund/Minerals Management Service.

³Act of Sept. 30, 1996, Public Law 104-208, Div. A. Title I, Sec. 101(d)[Title I, Sec. 113] (codified at 31 U.S.C. 501, notes)

⁴Public Law 103-356, Sec. 403, 108 Stat. 3413 (codified at 31 U.S.C. 501, notes)

⁵The six Federal agencies authorized to establish franchise funds were DOI, Department of Commerce, Environmental Protection Agency, Department of Treasury, Department of Veterans Affairs, and Department of Health and Human Services.

⁶The Franchise Fund Pilot Programs provision of Public Law 103-356 expired on October 1, 1999; however, the Pilot Programs have been extended through October 1, 2002.

⁷DOI used the term “virtual organization” because although IFF is a separate legal entity with its own appropriation within DOI, IFF has no personnel or equipment attached to it as currently configured.

resource or tangible assets assigned to IFF. IFF obtains goods and services for its customers by “subcontracting” with DOI service providers under reimbursable interagency agreements authorized by Section 1535 (a) of the Economy Act.⁸ IFF subcontracts with two providers: GovWorks and DOI’s National Business Center, which are required to charge IFF for costs associated with IFF activity.

GovWorks Services and Organization

GovWorks provides “cradle-to-grave” procurement services by determining customer requirements and type of contract, preparing and advertising Requests for Proposals, receiving and evaluating vendor bids, negotiating with and selecting contractors, and managing the contract from start to finish. GovWorks charges about 3 percent of direct contractor costs for the services provided. From fiscal years 1997 to 2001, GovWorks increased its workforce almost three-fold, from 11 full-time employees to 30. During that time, GovWorks increased its total dollar amount of procurement awards over 500 percent (\$62 million to \$361 million) and the number of actions awarded by almost 800 percent (550 actions to 4,387 actions).

As of July 2001, GovWorks employed 30 people: a Chief, 15 contract specialists, and 14 procurement support personnel. In addition to the 30 GovWorks employees, six other employees worked with and supported GovWorks: a five-employee Policy Group assigned to PSSD and one employee from the Office of the Associate Director of Administration and Budget.

Gainsharing Program

GovWorks developed and implemented a group incentive program, called “gainsharing⁹,” in fiscal year 1997. According to the GovWorks Chief, who manages the program, quarterly award payments were paid to all procurement personnel assigned to PSSD with a satisfactory performance rating if the total dollar amount of procurement actions projected during a performance year exceeded \$34 million (the total dollar amount of procurement actions issued in fiscal year 1996, the benchmark year). The Chief also determined and paid awards to non-PSSD employees (for example, employees in the Information Resources Management, Budget and Finance, and Personnel Divisions), who were not

⁸ 31 U.S.C. §1535

⁹ OPM defines gainsharing as programs that reward groups of employees whose performance increases productivity or reduces costs. The agency shares its savings with those who produced them by calculating lump-sum “gain shares” using a preset formula. More information on gainsharing can be found on pages 9 and 10 of the report.

officially participants in the gainsharing program because they were not GovWorks employees. The Chief felt they contributed to PSSD accomplishments. All award payments, including payments to non-PSSD employees, were charged to IFF.

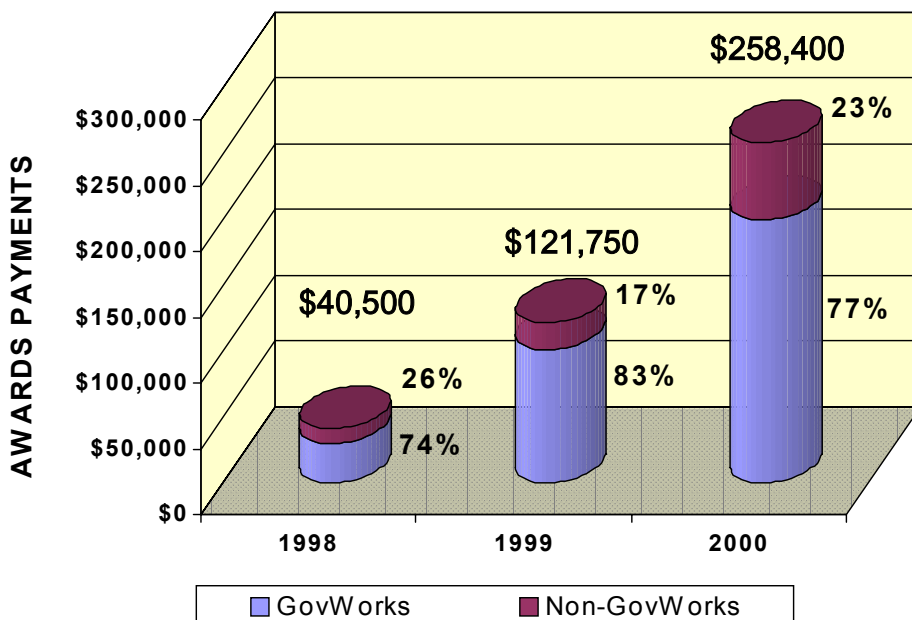
The award pool, which was estimated based on 10 percent of total earned franchising fees each quarter, remained available until distributed. The award pool has two components, an equity portion¹⁰ and a performance portion. Up to 50 percent of the award pool was available for distribution to all gainsharing participants as an equity share. The remainder of the pool was distributed to employees who significantly contributed to the success of the franchise program and the procurement program.

With the exception of the Chief of GovWorks and the Chief of PSSD, who established limits of \$10,000 for themselves, each employee could receive up to \$20,000 in a year.¹¹ Except for himself, the GovWorks Chief determined and recommended how much to distribute to every award recipient, including his supervisor, the PSSD Chief. The PSSD Chief recommended an award amount for the GovWorks Chief and either approved or adjusted the award amounts recommended by the GovWorks Chief. The MMS Associate Director for Administration and Budget approved the award amounts for both the GovWorks and PSSD Chiefs.

As shown in Figure 1, the total dollar amount of awards increased from \$40,500 in fiscal year 1998 to \$258,400 in fiscal year 2000. During this time, the number of employees who received awards increased from 23 (12 GovWorks and 11 non-GovWorks) to 55 (24 GovWorks and 31 non-GovWorks). Total payments to individuals in fiscal year 2000 ranged from \$750 to \$20,000 for GovWorks employees and from \$500 to \$9,000 for non-GovWorks employees. Figure 1 also shows the percentages of total dollars paid to GovWorks (blue) and non-GovWorks (red) employees. In fiscal year 2001, which began October 1, 2000, GovWorks made award payments in October and November totaling \$104,000.

¹⁰The equity share is the portion given out to all program participants, although the actual amount distributed was not the same for each employee.

¹¹ Employees also received performance awards in addition to GovWorks award payments.



**GovWorks Awards Paid
Fiscal Years 1998 Through 2000
Figure 1**

Payments were stopped after November when MMS began an internal evaluation of the award program. In June 2001 the Acting Assistant Secretary for PMB asked MMS to suspend gainsharing payments until our audit was completed and DOI had an opportunity to examine our findings.

Objective and Scope

We audited the GovWorks gainsharing program and IFF procurement activities for fiscal years 1997 through 2001 to determine whether (1) the gainsharing program was properly authorized and operated in an appropriate and equitable manner and (2) the full costs of IFF procurement activities were identified and recovered. As part of our audit, we also obtained information about the award programs of seven other Federal agencies and one private company, which we identified as benchmarking partners (see Appendix 1). We compared specific program features and the amounts of awards paid for fiscal years 1999 through 2001 for these benchmarking partners with GovWorks' program features to determine the appropriateness of GovWorks awards and the merits of the program's operation.

Except for the benchmarking comparison, we conducted our audit in accordance with the "Government Auditing Standards," issued

by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

Results of Audit

MMS should terminate its GovWorks gainsharing program and recover the full costs for procurement services provided to IFF. The gainsharing program, which was developed and implemented in 1997 to reward employees for continuous high performance, instead became a de facto entitlement program that paid unreasonably high awards without proof of commensurate gains in productivity. In addition, GovWorks did not recover the full costs of providing procurement services to IFF, as required by law, and as a result used MMS appropriations to subsidize IFF procurement activities.

GovWorks' Gainsharing Program Should be Terminated

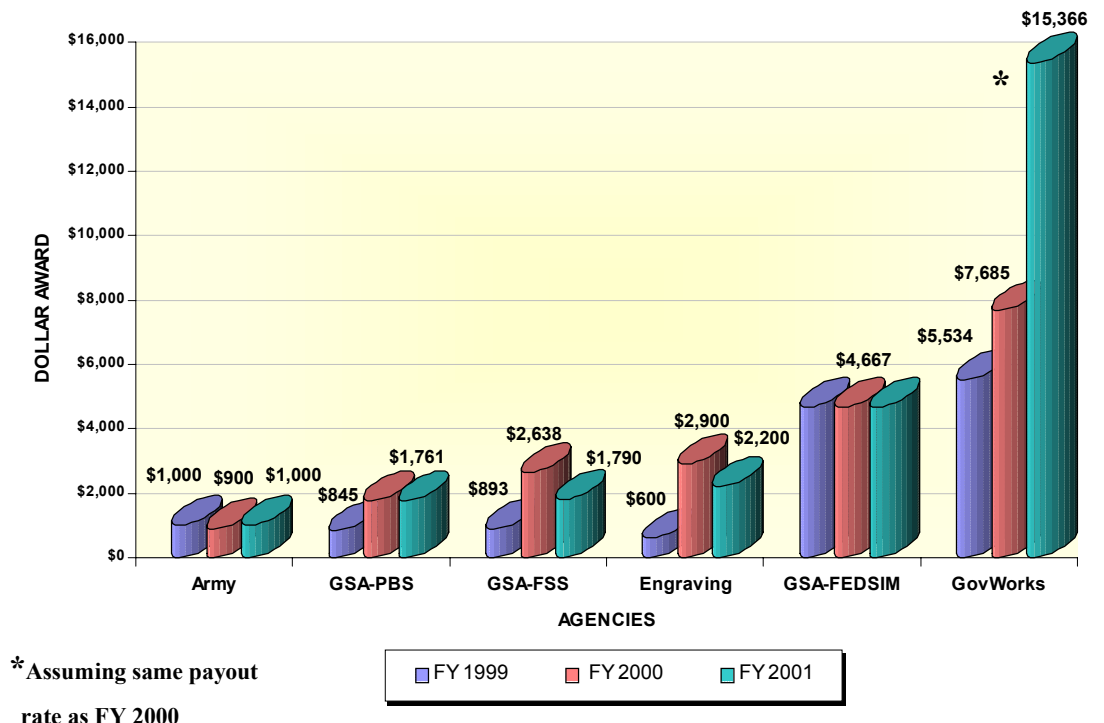
The GovWorks gainsharing program resulted in awards being paid even during times when GovWorks IFF activity resulted in a loss. The GovWorks gainsharing program was not authorized by DOI or MMS, and GovWorks did not adhere to OPM, DOI, or MMS guidelines in developing and implementing the award program. GovWorks' program lacked both quantifiable criteria for measuring productivity gains and an established payout formula for determining award amounts. GovWorks' award payment per employee for fiscal year 2000 averaged \$7,685, over 65 percent greater than the highest average award payment of \$4,667 made by a benchmarking partner.

Comparison of Awards Paid by Partners and by GovWorks

Based on a comparison of award payments made by our benchmarking partners and GovWorks, the GovWorks payments appear unreasonably high. In fiscal year 2000, two of the Federal agencies in our benchmarking analysis established annual award limits of \$1,000 and \$3,200, and two other Federal agencies limited awards to 6.25 and 7.5 percent of employee salaries. To illustrate the difference between awards paid by the agency with a limit of 7.5 percent of base salary and awards paid by GovWorks, an employee with an annual award limit of 7.5 percent of base pay would need a salary of about \$267,000 to receive the GovWorks annual limit of \$20,000. The other three Federal agencies and the private benchmarking partner did not have annual limits, but their award pools were limited because they were based either on gainsharing¹² or on salary.

¹²Gainsharing programs are based on cost reduction and are thereby limited by how much costs can be reduced, while still maintaining increased productivity (output level).

Figure 2 compares the average annual award per employee¹³ paid by the benchmarking partners for fiscal years 1999 through 2001 to the awards paid by GovWorks.¹⁴ In fiscal years 1999 and 2000, the average payout per employee for the benchmarking partners ranged from \$600 to \$4,667, while GovWorks paid an average of \$5,534 in fiscal year 1999 and \$7,685 in fiscal year 2000. In fiscal year 2001, GovWorks paid out awards in October and November 2000 totaling \$104,000 before the program was suspended. If GovWorks had continued to pay awards at the same rate as fiscal year 2000 (12 percent of total IFF franchising fees collected), the payout would have been \$553,176, or about \$15,366 per award program participant.

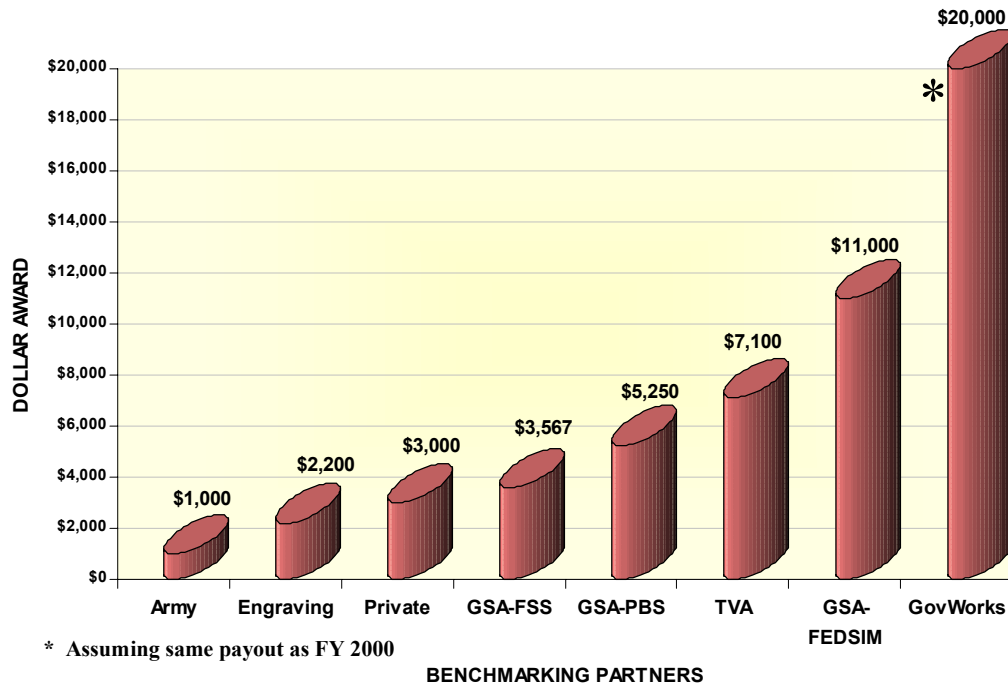


**Average Annual Award Payout Per Employee
Fiscal Years 1999 Through 2001
Figure 2**

¹³ Calculated by dividing the total paid out during the year by the number of program participants

¹⁴ TVA, the U.S. Mint, and the private company were not included in Figure 2 because they did not pay awards all 3 years from fiscal years 1999 to 2001.

Figure 3 shows that the highest total awards paid to an individual in fiscal year 2001 by benchmarking partners ranged from \$1,000 to \$11,000.¹⁵ Two GovWorks employees received \$20,000 in fiscal year 2000.



**Highest Total Award Payments to an Employee
Fiscal Year 2001
Figure 3**

We met with OPM officials, who told us that government-wide the average incentive award pay was 1 percent of base salary. In addition, we obtained a gainsharing analysis and benchmarking study acquired by GSA's Federal Supply Service, which cited award payments of 2.5 to 3 percent of employee pay for new gainsharing programs and 4 to 5 percent for established programs. GovWorks paid awards ranging from 15 to 47 percent of base

¹⁵The U.S. Mint was not included in Figure 3 because it did not pay awards in fiscal year 2001.

salary to employees who worked the entire year in calendar year 2000.

GovWorks Program Weaknesses

We reviewed the GovWorks program to determine whether the high award amounts could be justified. We also evaluated the award features of our benchmarking partners and compared them with GovWorks to help us determine whether the GovWorks program was operated in a reasonable, equitable, and efficient manner. The comparison of award program features (Figure 4) and our analysis revealed critical weaknesses in the GovWorks program.

AGENCIES	Individual Payment Determination Documented	Individual Payout Limits	Participants Know How Payments Determined	Payout Methodology Documented	Payments Limited to Participants	Considers Past Performance
U.S. MINT	Y	N	Y	Y	Y	Y
BUREAU OF ENGRAVING	Y	Y	Y	Y	Y	Y
GSA-FEDSIM	Y	N	Y	Y	Y	N
GSA-PBS	Y	Y	Y	Y	Y	Y
GSA-FSS	Y	N	Y	Y	Y	Y
TVA	Y	Y	Y	Y	Y	Y
ARMY	Y	Y	Y	Y	Y	Y
PRIVATE	N	N	N	N	Y	N
GOVWORKS	N	Y	N	N	N	N

**Comparison of Benchmarking Partner
and GovWorks Award Programs
Figure 4**

The programs for the seven Federal partners evaluated during our benchmarking analyses were characterized by quantifiable and documented criteria for measuring performance. These programs used either cost reduction (gainsharing) or goal achievement (goalsharing¹⁶) as the basis for paying awards. In addition, the

¹⁶Goalsharing is another incentive award program closely related to gainsharing, except that goalsharing is more suitable for work that is not readily measurable in financial terms.

seven Federal agencies had established payout formulas to determine and document the award amount. These formulas were understood and accepted by the program participants. They knew what was required of them and how the award amounts were calculated. Six Federal agencies had incorporated past performance into their performance evaluation process, and all eight partners limited award payments to program participants.

The GovWorks program did not meet OPM, DOI, or MMS guidelines and did not use cost reduction or goal achievement as the basis for its awards. Instead, GovWorks used increases in the dollar amount of procurement activity regardless of cost, which, in turn, resulted in awards being paid even when the operation resulted in a loss. In addition, the program used an unreasonably low benchmark or performance target from 1996 for initiating awards and an erroneous awards pool for determining awards. The evaluation of employee performance and the payout methodology were subjective and undocumented and did not consider past performance. The administration of the award program also created inequities in how and where the program was implemented. These critical weaknesses are discussed in detail in the following paragraphs.

GovWorks did not Meet OPM, DOI, or MMS Guidelines

As developed and implemented, the program was neither gainsharing as defined by OPM guidance nor a productivity improvement program as defined by the DOI Awards Handbook. Rather, the GovWorks program was developed based on a misapplied definition of gainsharing, which assumed that increased total procurement dollars awarded equaled increased productivity without regard to costs or the net results of operations.

OPM Gainsharing. OPM defines gainsharing¹⁷ as programs that reward groups of employees whose performance increases productivity¹⁸ or reduces costs. The agency shares its productivity gains with those who produced them by calculating lump-sum payments or “gain shares” using a preset formula, with a fixed performance period and an established measurement baseline. Basic features of gainsharing programs include:

¹⁷OPM publication “Gainsharing: An Overview,” published 1996.

¹⁸Federal Personnel Manual Letter 451-6, Subchapter 9 – “Productivity Gainsharing Programs,” defines productivity as using resources (inputs such as labor, capital, materials, or energy) to produce a measurable output. Improving productivity can mean improving resource use and/or improving outputs.

- **Productivity measurable in financial terms.** The agency must be able to quantify the time and resources used in completing a product or unit of service and convert them into dollars spent or saved.
- **Baseline measurements.** In the purest meaning of gainsharing, the average cost of a unit of production during the previous performance period is the baseline for the next performance period. The emphasis is on gain, or continuous improvement.
- **Payout formulas.** Gainsharing awards are typically based on splitting gains between the agency and the employees. The employee share may be divided equally among all involved employees or based on each employee's contribution during the performance period. When the formula permits contribution-based variations, criteria must be clearly communicated and accepted as fair by all employees.

GovWorks did not incorporate these basic features into its award program. GovWorks did not quantify the time and resources used in completing a product or unit of service and convert them into dollars spent or saved. It did not consider past performance in evaluating individual employee performance and therefore did not consider continuous improvement. GovWorks also did not have a payout formula or written procedures to determine the award amount each employee would receive each quarter.

DOI Productivity Improvement Award. A productivity improvement award as defined by DOI¹⁹ provides for cash awards for increasing productivity through improving processes, suggesting cost savings, streamlining, or eliminating non-value added processes. The Handbook states that the “employee(s) shares some portion of actual savings resulting from cost reduction or productivity gains.” The GovWorks’ award program is not based on generating cost savings or increasing productivity, but simply on increasing revenue and then distributing a portion of the increased revenue to the employees.

MMS Approval Requirements. At the time of our review, the GovWorks award program policy had not been approved or issued in the MMS Manual. In addition, GovWorks did not comply with

¹⁹“Department of the Interior Human Resources Management Handbook, Awards and Recognition Program,” issued February 1996.

Section VF1e of the MMS Manual “Handbook, Administrative Delegations of Authority” (Release No. 237, dated February 23, 1996), which requires the Assistant Secretary for Land and Minerals Management to approve group awards with an aggregate amount over \$10,000²⁰ or individual awards over \$5,000. The first group award payment, totaling \$40,500, was distributed to participants on September 28, 1998. The last group award payment, totaling \$48,000, was made on November 5, 2000.

GovWorks did not obtain approval for its group awards because the MMS Personnel Office did not consider gainsharing to be a group award program. As implemented, however, the program was based on a group incentive program, and participants received awards based on group achievement. Also, in identifying the award payments in its personnel records, MMS used a code²¹ that designated the payments as group cash payments.²²

**GovWorks
Lacked
Reasonable
Performance
Target**

GovWorks’ performance target for the award program was unreasonably low. Specifically, the triggering event for award payments occurred when the projected total annual dollar amount of all procurement actions (MMS, IFF, and GSA) exceeded \$34 million, which was the total dollar amount of procurement actions issued in fiscal year 1996. GovWorks began franchising out its procurement services in fiscal year 1997. By establishing a fixed benchmark using a measure that existed before its franchising activity, GovWorks essentially guaranteed award payments each year and failed to follow the OPM requirement to demonstrate continuous improvement. Without this emphasis on continuous improvement, the awards became entitlements.

**GovWorks
Calculated
Award Pool
Incorrectly**

The award pool was calculated using the wrong base. Since all award payments were charged to IFF, only IFF procurement activity should have been considered in determining the amount of awards. GovWorks, however, considered its award pool to be

²⁰The MMS Manual cites that the approval level for all group awards is driven by the aggregate amount of the award.

²¹Nature of Action Codes (NOAC) are unique numerical codes that identify particular personnel actions (appointments, promotions, or awards) that agencies report to the Central Personnel Data File for statistical and data processing purposes.

²²Effective October 1, 2000, OPM changed the NOAC designations for awards by eliminating some categories, such as gainsharing, performance, and special act, and combining all cash awards into either individual (#840) or group (#841) cash awards. Prior to October 1, 2000, MMS designated payments under the Program as gainsharing payments under NOAC #874. Since October 1, 2000, GovWorks award payments have been coded #841 for group cash awards.

10 percent of its fees from all of its franchising activities, thereby overstating the pool and the award payments charged to IFF. For example, by including fees for all franchising activity in the award pool, GovWorks actually paid out gainsharing payments representing 16 percent, 17 percent, and 12 percent of total fees collected from IFF activity in fiscal years 1998, 1999, and 2000, respectively. Furthermore, as part of determining individual award amounts, GovWorks considered all procurement activities, including those conducted for GSA and MMS.

**GovWorks
Overcharged
IFF**

Since IFF funded the full cost of the GovWorks award payments, we determined that the IFF was overcharged. We estimated that IFF was charged about \$260,000 in program award payments for non-IFF activity, which represented about 54 percent of total program awards of \$484,150 paid in fiscal years 1999 through 2001.

According to the GovWorks Chief, he charged all award payments to IFF because when GovWorks started providing service to IFF customers in fiscal year 1997, the procurement personnel servicing MMS and GSA were required to perform additional work, including working uncompensated overtime. When the award program was implemented, procurement personnel servicing MMS and GSA were given award payments, even though the GovWorks gainsharing program was fully funded by IFF.

This action was not appropriate or valid for a number of reasons. First, as Federal employees, if they were entitled to overtime pay, the remedy available to them would be to seek compensation through an administrative or adjudicative process,²³ not for management to later “make up” pay through an awards program. Second, in later years, staffing was increased to meet IFF needs, therefore the workload was evenly distributed among all staff, eliminating the need for substantial overtime. Third, we evaluated the time sheets of GovWorks staff from fiscal year 1999 through May 2001 and concluded that, except for the team leaders, the remainder of the GovWorks staff did not work significant uncompensated overtime. In general, employees who did work overtime received either overtime pay or compensatory time.

²³ The administrative process would be to file an employee grievance or to request a Comptroller General’s decision and the adjudicative process would be to file a lawsuit.

**GovWorks
Lacked
Performance
Evaluation
Criteria**

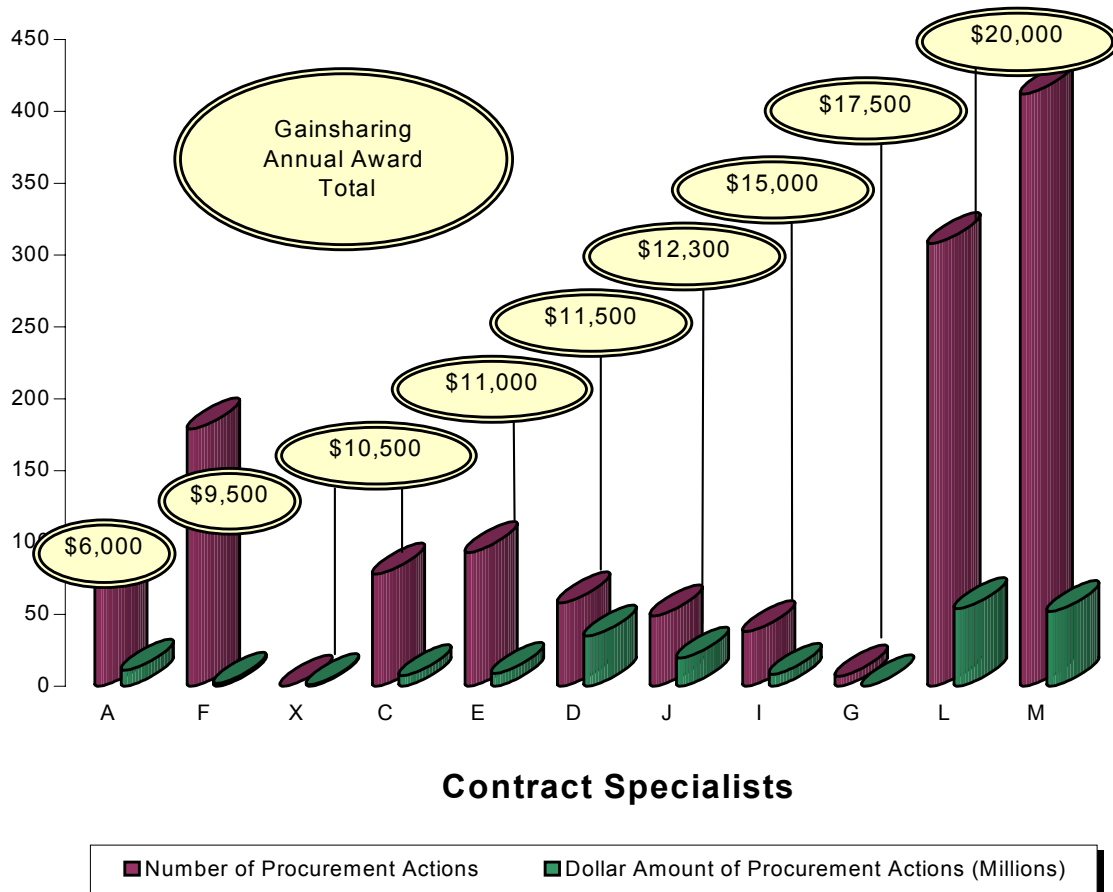
As implemented, the GovWorks program lacked written policies and procedures establishing criteria to evaluate and measure individual achievement and to determine the amount of individual cash awards. Individual employee performance was evaluated subjectively rather than by measurable criteria. Only the GovWorks Chief knew of the undocumented factors and criteria used to evaluate each employee's performance and to determine the award amount recommended for that employee. Therefore, the evaluation factors were not quantified or documented and could not be objectively correlated to the awards received. For example, some of the factors purportedly considered by the Chief were his personal knowledge of each employee's accomplishments, including the complexity of the procurement actions, the new business generated, the types of assignments, and the marketing and promotion of GovWorks.

There were also no quantifiable or documented performance indicators for non-contract specialists in GovWorks (which represented about half of the staff), Policy Group employees, or non-PSSD employees who received awards. The Chief stated that when evaluating support personnel, he considered the procurement activity of the contract specialists with whom the support personnel worked. In evaluating Policy Group or non-PSSD employees, the Chief determined how much he wanted to give each employee based on his judgment of the value of the work performed for GovWorks.

The Chief did not consider past performance in evaluating individual employees. In evaluating contract specialists, the Chief looked only at the current period's procurement activities. OPM gainsharing guidance cites that "in the purest meaning of gainsharing, the average cost of a unit of production during the previous performance period is the baseline for the next performance period. The emphasis is on gain, or continuous improvement." Even using the misapplied productivity improvement criteria of increasing procurement award dollars, the Chief did not compare the current period's performance to that of previous periods to determine whether employees increased their award numbers from one period to the next.

The only quantifiable performance indicator used by the GovWorks Chief was the number and total dollars of procurement actions completed by each contract specialist for all activities (MMS, IFF, and GSA). Figure 5 shows this indicator and the amount of gainsharing awards for calendar year 2000. As shown

in the figure, there is no direct correlation between the number and total dollars of procurement actions and the amounts awarded to each employee



Procurement Actions, Dollars, and Gainsharing Awards, Calendar Year 2000
Figure 5

GovWorks Lacked Procedures to Determine and Inform Employees About Individual Cash Awards

GovWorks did not have a payout formula or written procedures to determine the award amount each employee would receive each quarter. Program policy guidance stated that half the award pool would be distributed to all the participants and half the pool would be distributed based on individual contributions to the success of IFF and GovWorks. There were no written procedures, however, establishing how this process would be accomplished. In our review of past payments, the Chief did not identify or document which part of an employee's award was for the equity share and which part was based on performance.

The documentation justifying individual awards was also inadequate. The GovWorks Chief determined each employee's award amount, but did not document what individual performance factors he considered or how he used the performance factors to determine the award amounts. In addition, GovWorks employees told us that they did not know how their award amounts were determined or what they had to accomplish to receive award amounts. The GovWorks Chief generally did not meet with employees before or after they received their awards to discuss how their performance was evaluated or how the award amounts were determined. In most cases, employees found out about their awards after receiving the money or the Notification of Personnel Action (SF50). The justifications attached to the SF50s provided a generic description of why the employee received the award, for example, recognizing the contributions the employee made while working in GovWorks and adding to the success of the IFF. Specific individual employee contributions, however, were not documented.

**GovWorks
Lacked Parity**

As developed and implemented, the award program did not provide other MMS employees performing similar work with the opportunity available to GovWorks employees. We found MMS non-GovWorks procurement employees who performed MMS procurement work at other locations but did not receive award payments because they were not participants in GovWorks' award program. For example, in calendar year 2000, two GovWorks employees who worked on MMS procurement activities for 96 percent and 100 percent of their time received GovWorks awards of \$15,000 and \$11,000, respectively. In addition, these two employees received performance awards of \$5,000 and \$2,000, respectively. The employees in the other locations who worked on MMS procurement activities for 100 percent of their time received performance awards ranging from \$500 to \$3,075. They did not have the opportunity, however, to receive additional award payments that were available to the GovWorks employees.

**GovWorks did
not Consider
IFF Handbook
Policies**

The IFF Handbook, which establishes policies and procedures for IFF operation, allows for the use of any surplus revenues for establishing an operating reserve to pay for "the ordinary and necessary operating costs (direct and indirect), which must be incurred to meet the service provider's obligations to its customers prior to receiving reimbursement." However, when we applied the "ordinary and necessary" qualifier to the reimbursement of costs incurred by service providers performing work for IFF—specifically the payment of awards—we concluded that such

payments were not “ordinary or necessary” for GovWorks to meet its customer obligations.

Group award programs such as gainsharing and goalsharing are uncommon in the Federal government. The GovWorks’ award program is unique, not only within DOI, but also within the realm of gainsharing and goalsharing programs currently existing within the Federal government. We found no other Federal agency program that based its awards on increased revenue, where such revenue was driven by the purchasing activity of outside agencies. We acknowledge that participation in the gainsharing program improved morale among GovWorks employees. Considering the fact that all GovWorks employees received performance awards in addition to the gainsharing awards, however, it is questionable whether the payment of awards under the program was, in fact, necessary to meet customer needs.

Since the gainsharing award payments are charged to IFF operations, IFF should decide whether GovWorks should be reimbursed for such payments. If GovWorks had not paid gainsharing, MMS would not have incurred losses in its IFF operations in fiscal years 1998, 2000, and 2001. IFF’s Executive Board²⁴ and DOI management should decide if GovWorks will have an award program in addition to the incentive awards program already available to all MMS employees. They should also decide whether IFF funds should be used for awards or for operational reserves and capital improvements allowed under franchise fund legislation. In implementing an awards program, the Board and DOI management should also consider equity among employees throughout DOI and prevent the lack of parity we found within MMS.

Full Costs of IFF Procurement Activities Should be Recovered

MMS used its appropriations to subsidize procurement activities for IFF because it did not establish procedures to ensure that all IFF-related costs were identified and recovered. Section 113 of the 1997 Interior and Related Agencies Appropriation Act requires IFF to recover all costs of operation, including accrued annual leave. Because of the nature of IFF’s organization, all costs associated with IFF are first incurred by the service providers and then recovered from IFF. Service providers are therefore responsible for establishing procedures to ensure full recovery of all IFF-related costs.

²⁴The Executive Board is responsible for recommending operating policies and procedures to the Assistant Secretary for PMB and ensuring compliance with required statutes, regulations, and policies.

Based on our analysis of GovWorks' revenues and expenses and of IFF's audited financial statements, we estimated that MMS did not recover costs totaling about \$377,252, as follows:

- Net losses from GovWorks reported in the IFF's financial statements from fiscal years 1997 (\$33,747), 1998 (\$3,227), 2000 (\$190,373), and 2001 (\$48,710) totaling \$276,057.
- Unrecovered gainsharing payments from fiscal year 1998 totaling \$9,195.
- Accrued unused annual leave as of September 30, 2001, estimated to be about \$92,000.

We determined that GovWorks tracked the revenue and expenses of its franchising activity on a monthly basis to recover its IFF-related costs. Instead of tracking actual invoiced costs and billed revenue, however, GovWorks, for multi-year contracts, based its calculation on recognizing 60 percent of the contract cost and revenue in the first year of the contract and the other 40 percent in subsequent years. Therefore, GovWorks financial information did not reconcile to MMS's accounting system, the Advanced Budget/Accounting Control and Information System (ABACIS), or IFF's audited financial statements. For the fiscal year ending September 30, 2001, for example, GovWorks was tracking revenue of \$170.2 million, which should match IFF revenue reported in ABACIS and IFF's GovWorks expenses reported in IFF's financial statements. ABACIS, however, reported \$195.5 million in revenue, and IFF reported \$198.0 million in GovWorks related expenses. Since GovWorks did not track the actual revenue and expenses of its IFF activity, it was not able to ensure that it recovered the full cost of that activity.

In fiscal year 1998, gainsharing payments totaling \$40,500 was paid to GovWorks and non-GovWorks employees; however, all the payments were charged to the GSA activity. We estimated that \$9,195 was applicable to IFF activity and should have been charged and recovered from the IFF.

In the case of accrued unused annual leave, GovWorks employees did not know they were required to recover this expense for IFF activity. Since it has never been recovered, the unrecovered expense is the accrued unused annual leave as of September 30, 2001. In the future, only the amount over \$92,000 will need to be recorded and recovered.

Recommendations

Our recommendations concerning MMS policies and procedures are addressed to the Assistant Secretary for Land and Minerals Management. The recommendation regarding IFF policies and procedures is addressed to the Assistant Secretary for PMB because as DOI's Chief Financial Officer, the Assistant Secretary for PMB oversees DOI's Franchise Fund Pilot Program. We therefore recommend that:

1. The Assistant Secretary for Land and Minerals Management direct MMS to terminate the GovWorks gainsharing program.
2. The Assistant Secretary for Land and Minerals Management direct MMS to establish procedures to identify and fully recover the full cost of IFF activities, reconcile financial information used in the cost-recovery process with MMS's accounting system, and include MMS Financial Management Branch employees in the cost-recovery process.
3. The Assistant Secretary for PMB determine if IFF should allow any extra incentive program over and above the DOI award program.

Agency Response and Office of Inspector General Reply

In the September 4, 2002 response to the draft report (Appendix 2), the Assistant Secretary for Land and Minerals Management concurred with recommendations 1 and 2. The Assistant Secretary recognized that MMS had stopped the gainsharing program in December 2000 and required MMS to obtain approval from the Assistant Secretary's Office if MMS wished to reinstate the gainsharing program. The Assistant Secretary also directed MMS to fully implement recommendation 2.

The Assistant Secretary for PMB, during discussions with our office, advised that there should not be any extra incentive programs over and above the DOI award program.

Based on the response and discussions with the Assistant Secretary for PMB, we consider the three recommendations resolved and implemented.

Appendix 1

Benchmarking Award Programs Features

<i>AGENCIES</i>	<i>Type of Program</i>	<i>Program Started</i>	<i>Quantifiable Performance Measures</i>	<i># of Program Participants</i>	<i>Determination of Award Pool</i>	<i>FY '00 Pool</i>	<i>Indiv. Payment Determination</i>	<i>FY '00 Individual Limit</i>
U.S. MINT	Gainsharing	FY '01	Cost Savings	2,800	45% of Cost Savings	N/A	Formula	N/A
BUREAU OF ENGRAVING	Gainsharing	FY '99	Cost Savings/ Goal Achievement	2,600	Cost Savings & Formula	\$7,540,000	Formula	\$3,200
GSA-FEDSIM	Goalsharing	FY '99	Goal Achievement & Customer Satisfaction	150	7.5% of Direct Salaries	\$700,000	80% formula, 20% 1 person	No Set Limit
GSA-PBS	Goalsharing	FY '98	Goal Achievement	7,100	Budgeted	\$12,500,000	Formula	7.5% of salary
GSA-FSS	Gainsharing	FY '92	Cost Savings	545	Cost Savings & Formula	\$1,437,000	Formula	No Set Limit
TVA	Goalsharing	FY '01	Goal Achievement	13,000	Budgeted	N/A	Formula	6.25% of salary
ARMY	Goalsharing	FY '95	Net Income	2,500	Net Income	\$2,250,000	Formula	\$1,000
INDUSTRY	Gainsharing	FY '01	Cost Savings	60	Client Cost Savings	N/A	1 person	N/A
GOVWORKS	"Gainsharing"	FY '97	\$'s & #'s Awarded	30	10% of Fees Collected	\$371,000	1 person	\$20,000



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

SEP - 4 2002

Memorandum

To: Robert Romanyshyn
Regional Audit Manager, Eastern Region

From: Assistant Secretary for Land and Minerals Management *Rebecca W. Watson*

Subject: Draft Audit Report on Gov. Works Gainsharing Program and Recovery of Costs
Related to the Interior Franchise Fund, Minerals Management Service (Assignment
No. H-IN-MMS-014-01-D)

Thank you for the opportunity to review and comment on the subject draft report. The draft audit report contains three recommendations concerning the Minerals Management Services (MMS) Gov. Works gainsharing program, the first two of which are directed to this office. As discussed below, I concur with the audit recommendations.

Recommendation: The Assistant Secretary for Land and Minerals Management direct MMS to terminate the Gov. Works gainsharing program.

Response: Concur. The MMS stopped its gainsharing program in December 2000 at the direction of the MMS Associate Director for Administration and Budget. To ensure that the program is not reinitiated in the future without proper oversight and controls in place, I have instructed MMS that a decision to implement such a program in the future must be approved by this office.

Recommendation: The Assistant Secretary for Land and Minerals Management direct the MMS to establish procedures to identify and fully recover the full cost of IFF activities, reconcile financial information used in the cost-recovery process with MMS's accounting system, and include MMS Financial Management Branch employees in the cost-recovery process.

Response: Concur. I have instructed MMS to implement the recommended procedures.

Again, I appreciate the opportunity to review the draft report.

Appendix 3
Status of Recommendations

Recommendation	Status	Action Required
1, 2, and 3	Resolved and Implemented	No further response to the Office of Inspector General is required.

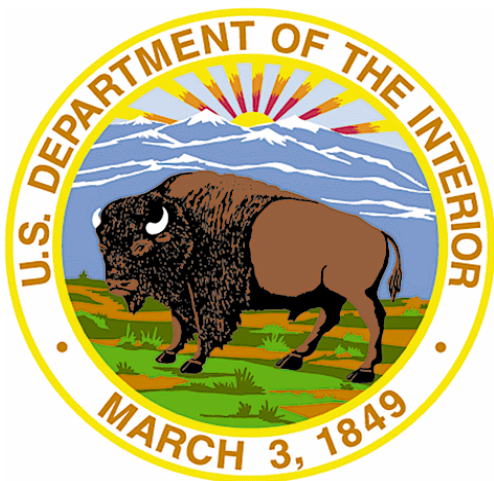
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