

U.S. Department of the Interior

Office of Inspector General



Competitive Sourcing

Department of the Interior's Gross Estimated Savings for FY 2004 Competitive Sourcing

Evaluation Report

E-EV-MOA-0017-2005

June 2006



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20240

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Memorandum

To: R. Thomas Weimer
Assistant Secretary for Policy, Management and Budget

From: Anne L. Richards *Anne L. Richards*
Assistant Inspector General for Audits

Subject: Evaluation Report of the Department of the Interior's Gross Estimated Savings for Fiscal Year 2004 Competitive Sourcing
(Report No. E-EV-MOA-0017-2005)

This report presents our evaluation of the accuracy of the Department of the Interior's (Department) reported gross estimated savings (referred to hereafter as "savings") from competitive sourcing for fiscal year 2004. Overall, we found the Department's reported savings of \$17.9 million from six competitions to be inaccurate. Two competitions resulted in overstated savings, two in understated savings, and two resulted in indeterminable savings. We made four recommendations to assist the Department in accurately reporting its savings from competitive sourcing.

Based on the April 28, 2006 response to the draft report (Appendix 2), we consider all the recommendations resolved but not implemented. Accordingly, we are referring the report and recommendations to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

The legislation, as amended, creating the Office of Inspector General requires that we report to the Congress semiannually on all reports issued, actions taken to implement our recommendations, and recommendations that have not been implemented. Consequently, we will include information from this report in our next semiannual report.

We appreciate the cooperation provided by Department staff during our evaluation. If you have any questions regarding this report, please call me at 202-208-5512.

INTRODUCTION

In its report on fiscal year (FY) 2004 competitive sourcing to the Office of Management and Budget (OMB) and the Congress, the Department of the Interior (Department) reported gross estimated savings (referred to hereafter as “savings”) of \$17.9 million for six competitions. This report discusses the Office of Inspector General’s (OIG) evaluation of the accuracy of the reported savings.

SCOPE AND METHODOLOGY

The Department completed eight competitions during this period: six reported savings and two did not report any savings. We reviewed documentation related to the six competitions that reported savings, interviewed Department personnel, reviewed policies and procedures, and analyzed the computations used to estimate the savings. The Government continued to be the service provider in all of the competitions.

We conducted the evaluation in accordance with the “Quality Standards for Inspections” issued by the President’s Council on Integrity and Efficiency.

BACKGROUND

Competitive sourcing is used by Government agencies to determine whether to retain commercial activities or turn them over to the private sector. Estimated competitive sourcing gross savings must be reported annually to OMB and to the Congress.

This process requires conducting competitions to decide who can provide service at the lowest cost. The Government develops a most efficient organization (MEO) to compete with the private sector. Savings are computed by comparing the cost of the winning bidder, private sector or MEO, to the cost of continuing to provide the service under the pre-competition organization. The pre-competition organization is referred to as the “as-is” organization. The savings are computed for the entire performance period, generally 5 years.

OMB Circular A-76, “Performance of Commercial Activities,” revised as of May 29, 2003, governs competitive sourcing. It defines the MEO, gives specific details on how to calculate the MEO’s costs, and requires agencies to use a particular software package (COMPARE) to calculate those costs. It does not address calculating costs specifically for the “as-is” organization.

OMB Memorandum M-05-01, “Report to Congress on FY2004 Competitive Sourcing Efforts,” contains reporting guidelines.

It states that when calculating savings only personnel, overhead, and contract costs for both the MEO and the “as is” organization should be used. M-05-01 also requires agencies to calculate “as is” organization costs following the requirements of OMB Circular A-76. Those requirements address steps to use to determine the costs of personnel and fringe benefits, the overhead rate to be used, and the amount by which to adjust personnel and other costs for inflation.

The Department’s Center for Competitive Sourcing Excellence consolidates competitive sourcing information from the bureaus. It prepares the annual report to OMB and the Congress and develops and issues Departmental guidance on competitive sourcing.

RESULTS OF EVALUATION

OIG evaluated six competitions and found the Department's reported savings of \$17.9 million to be inaccurate.

TWO OVERSTATED SAVINGS

Bureau of Land Management's (BLM) Cartographic Operations reported \$4.2 million in savings over 10 years. The savings was overstated by \$1.9 million, because BLM failed to use comparable workload factors for the "as-is" organization and MEO according to OMB guidance.

Minerals Management Service's (MMS) Visual Information reported \$567,000 in savings over 5 years. The savings was overstated by \$32,000 because MMS included materials and supplies contrary to OMB guidance.

TWO UNDERSTATED SAVINGS

National Park Service's (NPS) Natchez Trace reported \$1.1 million in savings over 5 years. NPS both overstated and understated savings, which resulted in net savings understated by \$648,000. NPS understated savings by failing to address legitimate workload changes during the contract performance period when it determined personnel costs for the "as-is" organization and MEO. NPS also overstated savings by including costs, such as insurance, rent, and travel, that should have been excluded per OMB guidance.

MMS's Technical Functions reported \$705,000 in savings over 5 years. The savings was understated by \$85,000 because MMS excluded overhead in its "as is" organization costs contrary to OMB guidance.

TWO INDETERMINABLE SAVINGS

BLM and Bureau of Reclamation (BOR) reported a combined total of \$11.3 million in savings from the remaining two competitions. BLM reported \$9 million in savings over 5 years for roads and other maintenance in Washington and Oregon. BOR reported \$2.3 million in savings for the Centennial Job Corps Conservation Center over 5 years. BLM failed to use correct labor rates and fringe benefit factors, and BOR failed to calculate "as is" organization costs according to OMB guidance. As a result, OIG could not determine what savings resulted from these two competitions.

We detail in Appendix 1 the problems we identified with each bureau's calculations of reported savings.

Summary of Competitions Evaluated

Bureau	Performance Period	Reported Gross Estimated Savings (thousands)	Over <Under> Stated Savings (thousands)
National Park Service (NPS): Natchez Trace	5 years	\$1,103	\$<648> Net
Minerals Management Service (MMS): Technical Functions Visual Information	5 years 5 years	705 567	<85> 32
Bureau of Land Management (BLM): Cartographic Operations Roads and Other Maintenance	10 years 5 years	4,200 9,000	1,900 Indeterminable
Bureau of Reclamation (BOR): Centennial Job Corps Conservation Center	5 years	2,300	Indeterminable
Total Reported		\$17,875	

CONCLUSIONS

Our evaluation showed that BLM, BOR, MMS, and NPS put significant effort into conducting the competitions. In order, however, to improve the competitive sourcing process, bureaus must better comply with established OMB guidance.

To increase compliance, the Department should improve its oversight process. It should also implement procedures in the areas not covered by established OMB guidance. One such area concerns how to consistently determine the costs of the “as is” organization. If the Department does not take these actions, bureaus will continue to report inaccurate competitive sourcing savings.

RECOMMENDATIONS

OIG recommends that the Assistant Secretary for Policy, Management and Budget:

- ONE** Recalculate gross estimated savings to correct the deficiencies identified in this report for all six competitions and make certain that the revised gross estimated savings are reported to OMB and the Congress.
- TWO** Accurately apply guidance established in OMB Circular A-76 and OMB reporting guidelines in all future competitions.
- THREE** Issue guidance on how to determine and document all “as is” organizational costs, including, but not limited to:
- using COMPARE and
 - adjusting the “as is” organization’s costs for known changes in workload.
- FOUR** Ensure that the Center for Competitive Sourcing Excellence provides oversight of future competitions to promote consistency and adherence to appropriate guidance.

ASSISTANT SECRETARY FOR POLICY, MANAGEMENT AND BUDGET RESPONSE AND OIG REPLY

In his April 28, 2006 response (Appendix 2) to the draft report, the Assistant Secretary for Policy, Management and Budget concurred in part with recommendation 1 and concurred with recommendations 2, 3, and 4. The response states that the Department is:

- recalculating gross estimated savings,
- continuing to work very closely with OMB to apply all guidance adequately,
- participating in a task force on “as-is” costs and reviewing Department of Defense guidance on “as-is” costs for potential adoption, and
- reviewing the staffing needs of the Center for Competitive Sourcing Excellence.

Management did not agree with our conclusion that gross estimated savings were overstated due to the inclusion of supplies, materials, insurance, rent, and travel. Management indicated that it discussed this issue with OMB, and OMB has informally agreed that costs other than personnel, overhead, and contract costs may be relevant to the calculation. OMB staff is considering a change to its reporting guidance to clarify these issues. We are not opposed, in principle, to the inclusion of these costs given concurrence by OMB. However, these costs should only be included if supportable.

Based on the response, we consider all four recommendations resolved but not implemented. Appendix 3 shows the status of all the recommendations.

SPECIFICS BY BUREAU OF COMPETITIONS REVIEWED

National Park Service (NPS)

Natchez Trace Parkway Maintenance Function

The Natchez Trace Parkway stretches 444 miles from southern Mississippi to central Tennessee. We identified the following problems with the reported savings.

- The workload increased during the first year of MEO performance due to the opening of new sections of parkway (road) on this National Scenic Highway. The “as-is” organization did not include costs for this opening. Therefore, the cost comparison between the MEO and “as-is” organization is flawed.
- NPS included costs that should not have been included in the MEO and “as-is” organization savings calculations. These included insurance, rent, and travel.

Minerals Management Service (MMS)

Technical Functions

This competition involved provision of technical functions performed by personnel located in New Orleans, Louisiana, and Herndon, Virginia, in support of the Offshore Minerals Management Program. We identified the following problem with the reported savings.

- MMS did not include overhead in the “as-is” organization cost savings calculations.

Visual Information Specialist Function

A visual information specialist located in Herndon, Virginia, performs this support function of delivering visual information services for the Offshore Minerals Management Program. We identified the following problem with the reported savings.

- MMS included materials and supplies in both the “as-is” organization and the MEO cost savings calculations.

Bureau of Land Management (BLM)

Cartographic Operations and Aerial Photography Archive Support

This competition involved cartographic and photographic operations in support of mapping functions, which BLM's National Science Technology Center performs. We identified the following problems with the reported savings.

- The comparison of the MEO and "as-is" organization workload is flawed, because a function was shifted out of the MEO but was not removed from the "as-is" organization.
- The cost of a 0.5 full-time equivalent (FTE) position for a contracting officer to oversee one contract employee in the "as-is" organization seems excessive.

Road, Facilities, Recreation Sites, and Trails Maintenance in Oregon and Washington Study

This study involved highly dispersed maintenance activities across two states and ten districts. It included both BLM and U.S. Forest Service personnel. We identified the following problems with the reported savings. BLM:

- Failed to use the correct labor rates and fringe benefit factors when calculating costs and savings.
- Included equipment costs in the calculation of savings.

Bureau of Reclamation (BOR)

Centennial Job Corps Conservation Center (CJCCC)

CJCCC provides vocational training, in fields such as culinary arts and carpentry, to approximately 300 students. We identified the following problems with the reported savings.

- Rather than using the OMB formula, BOR used actual personnel costs.
- Materials and supplies were included in the costs calculated for both the MEO and the "as-is" organization.
- Overhead was excluded in the calculation of costs and savings.
- Future-year operating costs were increased based upon Department of Labor rather than OMB Circular A-76 inflation rates.
- BOR did not use the FTE positions it identified for the "as-is" organization to calculate "as-is" organization costs.

RESPONSE TO DRAFT REPORT



United States Department of the Interior
OFFICE OF THE ASSISTANT SECRETARY
POLICY, MANAGEMENT AND BUDGET
Washington, DC 20240



APR 28 2006

Memorandum

To: Anne L. Richards
Assistant Inspector General for Audits

From: R. Thomas Weimer *R. Thomas Weimer*
Assistant Secretary

Subject: Response to Draft Evaluation Report on the Accuracy of Department
Of the Interior – Reported Gross Estimated Savings from Competitive
Sourcing for Fiscal Year 2004 (Assignment No. E-EV-MOA-0017-2005)

In accordance with the Departmental Manual (361 DM 1), following are responses to the four recommendations included in your March 30, 2006 draft report.

Recommendation No. 1. Recalculate gross estimated savings to correct the deficiencies identified in this report for all six competitions and make certain that the revised gross estimated savings are reported to OMB and the Congress.

Response:

We concur with the overall recommendation and are in the process of reviewing the calculations of the gross estimated savings for all six competitions. The four bureaus included in the evaluation have been contacted and will take part in the review. We will consult with OMB on the proper procedure to revise the 2005 Report to Congress as needed. The recalculations will be completed by May 31, 2006

We do not concur with the OIG's conclusion that the gross estimated savings were overstated due to the inclusion of supplies, materials, insurance, rent and travel in the calculations. The OIG report indicates that these costs "should have been excluded per OMB guidance."

The OIG refers to OMB Memorandum M-05-01, "Report to Congress on FY 2004 Competitive Sourcing Efforts," as the guidance which precludes including the above costs in calculating savings. We discussed this issue with OMB staff on April 18. They informally advised that the guidance was designed to capture the costs that are most commonly incurred and easiest to identify in light of existing accounting system capabilities. They recognized that other costs can be relevant to these calculations and acknowledged that some agencies appear to be tracking additional costs. They indicated

that a more broadly defined baseline is reasonable provided the agency tracks the same costs to determine actual savings. OMB staff is considering a change to its reporting guidance to clarify that other costs may be included in calculating savings depending on the specifics of each competition.

Recommendation No. 2. Accurately apply guidance established in Circular A-76 and OMB reporting guidelines in all future competitions.

Response:

We concur with this recommendation. Conducting competitive sourcing competitions under OMB Circular A-76 is a complex process which requires the utmost adherence to prescribed guidance. We will continue to work very closely with OMB to apply all guidance properly. As mentioned under Recommendation No. 1 above, the OIG's evaluation has resulted in OMB evaluating their guidance to clarify the calculation of "as-is" or baseline costs.

Recommendation No. 3. Issue guidance on how to determine and document all "as is" organizational costs, including, but not limited to:

- Using COMPARE and
- Adjusting the "as is" organization's costs for known changes in workload.

Response:

We concur with this recommendation. The DOI Center for Competitive Sourcing Excellence is a member of a small group of Federal Agencies working on a task force sponsored by OMB to develop Government-wide guidance on calculating "as is" organizational costs for civilian agencies. In addition, we are reviewing how the Department of Defense (DoD) calculates "as is" costs. You may access the DoD guidance at: <http://www.dla.mil/J-3/A-76/A-76Guidebook29May04AppendO.html>. You will note that DoD does include supplies and materials and other such costs in their calculation of the "as-is" organization.

The use of COMPARE software requires formal training and periodic use in order to maintain an adequate level of expertise. Currently, all Bureaus involved in formal competitions have at least one trained employee and have hired consultants experienced in using COMPARE software.

DoD is responsible to OMB for maintaining the COMPARE system and providing Government-wide guidance. DOI follows that guidance.

Recommendation No. 4. Ensure that the Center for Competitive Sourcing Excellence provides oversight of future competitions to promote consistency and adherence to appropriate guidance.

Response:

We concur with this recommendation. The Center for Competitive Sourcing Excellence is comprised of the Director who is supported by two contractors – one full-time and one part-time. In order to comply with this recommendation, we may need to look at supplementing the staff with additional government or contractor staff. Over the next 60 days, we will look at the staffing needs of this office along with the budget to determine next steps.

Summary

We want to make sure that any savings reported to Congress under the competitive sourcing initiative of the President's Management Agenda are accurate and defensible. We appreciate your evaluation of the six competitions and will work with your office and OMB to correct any deficiencies upon completion of the recalculations on May 31, 2006.

STATUS OF REPORT RECOMMENDATIONS

Recommendation	Status	Action Required
1, 2, 3, and 4	Resolved: not implemented	No further response to the OIG is required. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

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