U.S. DEPARTMENT OF COMMERCE
Office of Inspector General

Office of the Secretary

Commerce's Office of Acquisition Management Must Continue to Improve Its Ongoing Oversight of Acquisition Savings Initiatives

Final Report No. OIG-12-001-A

October 6, 2011

FOR PUBLIC RELEASE

Office of Audit and Evaluation

UNITED STATES DEPARTMENT OF COMMERCE
Office of Inspector General
Washington, D.C. 20230

October 6, 2011

MEMORANDUM FOR: Barry Berkowitz
Senior Procurement Director and Director,
Office of Acquisition Management (OAM)

FROM: Ann C. Eilers
Principal Assistant Inspector General for Audit and Evaluation

SUBJECT: *Commerce's Office of Acquisition Management Must Continue to Improve Its Ongoing Oversight of Acquisition Savings Initiatives*
Final Report No. OIG-12-001-A

Attached is our final audit report on OAM's initiatives to reduce contract spending and high-risk contracting practices as directed by the Office of Management and Budget (OMB). Our objectives were to determine (1) the validity of the Department's estimated savings from these initiatives, (2) its progress in implementing the initiatives, and (3) the extent that costs have been reduced by implementing the initiatives.

Our review found that while Commerce has achieved some cost savings, several issues have kept it from fully achieving the performance goals OMB established. Specifically, we found that the baselines OAM used to calculate its targets for contract efficiency and reducing high-risk contracts were inaccurate. We also found that a proportion of the savings reported by OAM is unsupported or overestimated, and that total dollars for high-risk contracts actually increased during the period we reviewed. OAM must overcome these and other challenges if it is to provide adequate oversight of the Department's acquisitions and meet the goals set by OMB.

We received a response to the draft report from OAM, and we modified this final report based on this response and on discussions with OAM leadership. The formal OAM response is included as an appendix. The final report will be posted on OIG's website pursuant to section 8L of the Inspector General Act of 1978, as amended.

In accordance with Department Administrative Order 213-5, within 60 days of the date of this memorandum, please provide us with an action plan that responds to all of the report recommendations.

We would like to express our thanks to your staff for the courtesies shown to us during our review. Please direct any inquiries regarding this report to me at (202) 482-2754, and refer to the report title in all correspondence.

Attachment

cc: Scott Quehl, Chief Financial Officer and Assistant Secretary for Administration
Michael L. Palensky, Chief, Acquisition Division, Census Bureau
Cecelia Royster, Chief, Acquisition Management Division, NIST
Mitchell J. Ross, Director, Acquisition and Grants Management Office, NOAA
Kate Kudrewicz, Director, Office of Procurement, USPTO
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Report In Brief

U.S. Department of Commerce Office of Inspector General

October 6, 2011

Commerce's Office of Acquisition Management Must Continue to Improve Its Ongoing Oversight of Acquisition Savings Initiatives *(OIG-12-001-A)*

Why We Did This Review

The Department of Commerce submitted a presidentially mandated acquisition savings improvement plan to the Office of Management and Budget (OMB) in November 2009. The Commerce Office of Acquisition and Management (OAM) assumed oversight of the plan's implementation—which entailed reducing contract spending costs by about $39.5 million per year in FY 2010 and 2011 and decreasing the use of high-risk contracts.

This report presents the results of our audit on the (1) validity of the Department's estimated savings from these initiatives, (2) Department's progress in implementing the savings initiatives, and (3) extent that costs have been reduced by implementing the savings initiatives.

Background

In March 2009, the President directed federal agencies to take immediate steps to achieve real, sustainable improvements in contract processes. Specifically, agency efforts would involve (1) cutting contract costs by using smarter, money-saving practices and improving contractor oversight, as well as (2) reducing the use of high-risk contracts.

To facilitate immediate improvement to federal contracting practices, in July 2009 the Office of Management and Budget (OMB) directed each agency to (1) save 3.5 percent of baseline contract spending in FY 2010 and a further 7 percent in FY 2011 and (2) reduce the share of dollars obligated to new high-risk contracts in 2010 by 10 percent.

What We Found

While the Department has achieved some savings in its plan to improve contracts and acquisition practices, implementation problems and oversight challenges limited the Department's ability to produce desired results. Specifically, we found the following:

- *Baseline costs were unsupportable and inaccurate.* The Department later revised both baselines, but the baseline for overall contract spending still appears to be inaccurate due to OAM's interpretation of OMB's direction regarding adjustments for spending anomalies.
- *The magnitude of cost savings is uncertain and high-risk contracts increased.* The Department claimed cost savings of several million dollars. However, the magnitude of cost savings achieved to date is uncertain because a large amount of the savings are unsupported or overestimated, and controls used to develop the methods for estimating savings are inadequate and not well-defined. In addition, while the percentage of high-risk contracts decreased in FY 2010, the dollar value of these contracts actually increased from 2008 to 2010.

OAM will need to continue managing the acquisition savings plan implementation. In its oversight, however, OAM has relied heavily on voluntary information and coordination with the operating units' procurement offices, without adequate controls. We found that OAM

- routinely accepted procurement office information without verification or asking for supporting data,
- did not maintain adequate documentation to support facts and figures in its November 2009 report to OMB, and
- did not capture information to track the savings attributable to its initiatives and ensure the Department realized high-risk-contract reductions.

Since June 2010, the Department has improved its acquisition savings oversight, documentation requirements, and validation processes—in part by reviewing how the Department plans and reports its acquisition savings. A new Director of Acquisition Management—hired in February 2011—has further overhauled the review, validation, and reporting processes to ensure that savings are properly measured, verified, and documented.

What We Recommended

We recommend that the Director of Acquisition Management

- implement adequate controls to ensure future acquisition savings baselines and targets are established as required by OMB,
- prescribe minimum documentation standards required from the operating units' procurement offices to support claimed savings resulting from implementing initiatives for reducing contract spending and high-risk contracts, and
- establish a process to verify the accuracy and reliability of data collected by the procurement offices and track ongoing and future initiatives with a primary objective of determining whether savings are actually realized.

Contents

Introduction

In March 2009, the President issued a memorandum directing agencies to become more fiscally responsible in their contract actions and take immediate steps to achieve real and sustainable improvements in contract processes. The President charged agencies with saving $40 billion a year in contract spending through better acquisitions and practices and reducing the use of high-risk contracts. This discipline was to be accomplished through two related efforts. First, agencies were to focus on cutting contract costs by using smarter buying practices to save money—such as strategic sourcing—and improving contractor oversight. Second, agencies were to reduce the use of high-risk contracts that can lead to excessive costs. For example, agencies were encouraged to reduce the risk of overspending by competing contracts that, in the past, had been awarded on a sole-source basis, as well as rely more heavily on fixed-price contracts that create a greater incentive for contractor efficiency.

To facilitate immediate improvement to federal contracting practices, in July 2009 the Office of Management and Budget (OMB) directed each agency to develop an acquisition savings plan to review its existing contracts and acquisition practices and reduce contract spending by 7 percent by the end of FY 2011.[1] OMB also directed each agency to reduce the risk of overspending associated with noncompetitive contract actions and cost-reimbursement contracts. To meet this direction, agencies were required to reduce by 10 percent the share of dollars obligated through (1) new contracts in FY 2010 awarded with inadequate competition, such as those awarded without any competition or through a competition that attracted only one bidder, or (2) contracts with insufficient cost control, including time-and-materials or labor-hour and cost-reimbursement contracts.

OMB Acquisition Savings Initiatives

1. Save 3.5 percent of baseline contract spending in FY 2010 and a further 7 percent in FY 2011.

2. Reduce the share of dollars obligated to new high-risk contracts* in 2010 by 10 percent.

* OMB defined "high-risk" contracts as those awarded noncompetitively or where only one bid was received in response to a solicitation; cost-reimbursement contracts; and time-and-materials and labor-hour contracts.

The Department of Commerce submitted its acquisition savings improvement plan to OMB in November 2009, and the Office of Acquisition and Management (OAM) was made responsible for overseeing the Department's implementation of the initiatives. OAM is a component of the Office of the Chief Financial Officer and Assistant Secretary for Administration; the OAM Director is also the Department's Senior Procurement Executive.

The plan Commerce submitted to OMB identified specific actions to reduce contract spending costs by about $39.5 million per year in FY 2010 and 2011 and decrease the use of high-risk contracts. This report presents the results of our audit on the (1) validity of the Department's

[1] OMB Memorandum M-09-25, *Improving Government Acquisition*, dated July 29, 2009, and supplemental frequently asked questions (FAQ) posted by OMB October 6, 2009. OMB later clarified, during the review of agencies' FY 2012 budget proposals, that the savings targets were to be 3.5 percent in FY 2010 and 7 percent in FY 2011.

estimated savings from these initiatives, (2) Department's progress in implementing the initiatives, and (3) extent that costs have been reduced by implementing the initiatives. Appendix A outlines the scope and methodology we used in this audit.

While the Department has achieved some savings, implementation problems and oversight challenges limited the Department's ability to produce the desired results. Specifically, we found that

- The Department's initial targets for reducing both contract spending and high-risk contracts were unsupportable and inaccurate. The Department later revised both baselines, but the baseline for overall contract spending still appears to be inaccurate due to OAM's misunderstanding of OMB's direction regarding adjustments for spending anomalies.

- The Department made limited progress in implementing OMB's acquisition savings initiatives.

- Savings reported to OMB for reductions in contract spending in FY 2010 were inaccurate or unsupported, and methods for estimating savings were faulty.

- While the ratio of new high-risk contracts to total new contract awards did decrease, the Department did not reduce dollars obligated to new high-risk contracts in FY 2010.

- OAM did not effectively monitor the progress and expected benefits of its savings initiatives.

Findings and Recommendations

I. Baseline Costs Were Unsupportable and Inaccurate

Baseline cost is an integral factor in the calculation of estimated savings targets. Because OAM does not have adequate controls over processes used to collect data from Commerce operating units' procurement offices, the baselines established for contract spending and high-risk contracting in the November 2009 acquisition savings plan were unsupportable and inaccurate. As a result, the savings targets for reducing both contract spending and high-risk contracts were significantly misstated. The lack of verifiable and accurate and baseline data makes it difficult to project and measure cost savings and reductions in high-risk contracts. This leaves the Department at risk of not achieving the goals and objectives required by OMB and the administration.

A. The Baseline for Measuring Contract Efficiency Savings Is Not Supported

OMB guidance[2] states that agencies were to use FY 2008 dollars obligated, as reported in the Federal Procurement Data System (FPDS), to establish an initial baseline value for contract spending. The guidance permitted agencies to adjust this baseline for anomalies, such as significant one-time spikes in spending that occurred or are expected to occur in the years for which savings are estimated. To identify the savings target for FY 2010 agencies were to multiply the adjusted baseline by 3.5 percent, and by 7 percent for the FY 2011 target.

We found the initial baseline for contract spending included in the Department's November 2009 plan was understated by about 30 percent, or approximately $700 million, thus misstating the savings targets for both 2010 and 2011. OAM determined that the initial baseline for contract spending was approximately $1.6 billion and, after identifying anomalies of approximately $470.9 million,[3] the adjusted baseline was valued at about $1.13 billion. OAM calculated its annual savings targets of $39.5 million for FY 2010 and 2011 by multiplying the adjusted baseline value by 3.5 percent, even though OMB's direction was to use 7 percent for the FY 2011 target. In response to our request, OAM could not re-create or support how it had determined the initial baseline.

In a January 13, 2011, memorandum, OAM advised operating unit procurement officials and chief financial officers that it had revised the baseline for computing savings targets. The memorandum indicated that OMB had changed its guidance and wanted agencies to use unadjusted contract spending—that is, without adjustment for spending anomalies—as reported in FPDS as the basis for computing savings targets.[4] The new baseline—approximately $2.3 billion[5]—represented an increase of almost $1.2 billion from the figure included in the November 2009 acquisition savings plan. As a result of the revision, the Department's annual

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[2] OMB Memorandum M-09-25, supplemental FAQ, and subsequent clarification.

[3] This amount is composed of $267.6 million for the significant spike caused by obligations in large decennial census contracts and about $203.3 million for a variety of National Oceanic and Atmospheric Administration (NOAA) transactions.

[4] We confirmed with OMB that it had not changed its guidance and that anomalies were to be excluded from the baseline.

[5] OIG did not assess the validity of the revised baseline.

savings targets for FY 2010 and 2011 increased significantly. Table 1 illustrates OAM's initial and revised baselines and savings targets.

Table 1. Contract Efficiency Saving Baseline and Target
(Dollar values in millions)

	November 2009 Baseline	January 2011 Baseline	Difference
Unadjusted Contract Spending	$1,598.4	$2,318.4	$720.0
Anomalies	$470.9	$0.0	$470.9
Savings Baseline	$1,127.5	$2,318.4[a]	$1,190.9
FY 2010 Savings Target (3.5% of baseline)	$39.5	$81.1	$41.6
FY 2011 Savings Target (7% of baseline)	$78.9	$162.3	$83.4

Source: Department of Commerce acquisition savings plan, November 2009, and OAM memorandum dated January 13, 2011
[a] Unlike the November 2009 baseline, the January 2011 baseline was not adjusted for anomalies because OAM misunderstood OMB's guidance.

As the table illustrates, unadjusted contract spending differed by more than $700 million from the November 2009 acquisition savings plan to the January 2011 baseline revision. In a March 25, 2011, memorandum to OIG, OAM acknowledged that the November 2009 baseline was incorrect; OAM developed the baseline, with input from Commerce operating unit chief financial officers, using adjusted FY 2008 spending data from the Department's Office of Budget, rather than using FPDS data as OMB guidance required. OAM chose to use this data due to the difficulty in "identifying accurate funding information for each operating unit given a lack of granularity in FPDS data." OAM acknowledged that it did not reconcile the Office of Budget data with FPDS before submitting the acquisition savings plan. As shown in table 1, after accounting for the anomaly adjustments in the November 2009 plan that were not made in the January 2011 revision because OAM incorrectly believed that OMB had changed its guidance, the difference in baseline spending for computing savings targets was almost $1.2 billion.

B. The Baseline for Reducing High Risk Contracts Was Inaccurate

OMB defined high-risk contracts as (1) those awarded noncompetitively, including situations in which only one bid was received; (2) cost-reimbursable contracts; and (3) time-and-materials and labor-hour contracts. OMB guidance[6] directed agencies to use dollars obligated under these contract types in FY 2008 as the baseline to determine high-risk-contract reduction targets. In the November 2009 plan, OAM reported that the FY 2008 total value of high-risk contracts was approximately $1.039 billion. This baseline formed the basis for the Department's target to reduce high-risk contracts by $103.9 million, or 10 percent, in FY 2010.

We found that the baseline included in the November 2009 plan was more than three times the actual dollars obligated by the Department for high-risk contracts awarded in FY 2008. OAM

[6] OMB Memorandum M-09-25 and supplemental FAQ.

could not explain how it determined this number. After receiving additional guidance from OMB on identifying high-risk contracts, OAM ultimately revised its FY 2008 baseline for high-risk contracts to $330.2 million. This resulted in a decrease of almost $71 million in the high-risk-contract reduction target—from $103.9 million to $33.02 million. These events reveal that acquisition savings initiatives are still being refined even within OMB, and suggest that additional guidance may follow as these initiatives mature.

II. Magnitude of Cost Savings Is Uncertain and High-Risk Contracts Increased

The Department has claimed cost savings of several million dollars resulting from the implementation of several initiatives. However, the magnitude of cost savings achieved to date is uncertain because much of the savings is unsupported or overestimated, and controls used to develop the methods for estimating savings are inadequate and not well-defined. These factors led to inconsistencies in the savings initiative results reported to OMB. Despite understating the savings targets in the November 2009 plan, Commerce still fell short of meeting its savings target in FY 2010. Also, even though changes to the baseline reduced Commerce's target for high-risk-contract reduction from $103.9 million to $33.02 million, the Department did not identify a high-risk contract reduction or elimination in FY 2010. The dollar value of high-risk contracts actually increased significantly from 2008 to 2010.

A. Reported Contract Efficiency Savings Were Uncertain

We reviewed approximately $23.8 million (72 percent) of the $33.1 million in savings actions reported to OMB for FY 2010 and found all of the claims to be questionable, unsupported, or overestimated. In one case, the Census Bureau reported that it had saved approximately $17.9 million[7] by consolidating its requirement for 1,017 fingerprint scanners needed to screen applicants for decennial census positions into a large, nationwide acquisition action. Through market research, Census found that quantity discounts were routinely offered for this type of equipment. Based on this research, Census believed it would achieve a greater price discount by consolidating the acquisition into a single large buy, rather than a series of smaller purchases at regional levels.

To compute the $17.9 million of savings, Census calculated the difference between the unit price of $20,610 listed on the GSA Advantage schedule for acquiring one scanner and the discounted price of $2,997 offered by the vendor for acquiring a total of 1,017 scanners. Census then multiplied the difference ($17,613) by 1,017 scanners to achieve a claimed savings of $17.9 million.

We disagree with the methodology used by Census to compute the savings. A more realistic value for the savings would be the difference between what Census would have spent for the scanners in the absence of the savings initiative—based on prices it would have received for smaller-quantity, regional purchases—and what Census ultimately paid as a result of pursuing the initiative to consolidate the acquisitions into a single nationwide action. Since Census's own

[7] This claim accounted for more than half of the $33.1 million in total savings reported to OMB for FY 2010.

market research found that quantity discounts were routinely available, it is unreasonable to compute savings based on an undiscounted, single-unit list price.

In addition to the Census savings claim, we also examined $1.7 million in FY 2010 savings actions reported by the National Oceanic and Atmospheric Administration (NOAA) and $4.2 million claimed by the U.S. Patent and Trademark Office (USPTO). NOAA's claimed savings were for anticipated conversions of contractors to government employees; however, NOAA officials told us that only $484,000 of the $1.7 million initially claimed represented verifiable savings that occurred in FY 2010. The $4.2 million USPTO savings claim was based on actions to reduce contract spending for support of USPTO's technology centers and other support services contracts. A USPTO procurement official informed us that the $4.2 million in savings was calculated as dollars that were not obligated for contract support. However, USPTO did not have controls in place to monitor its claimed savings and could not provide documentation to support this assertion.

Finally, even though the initial savings target in the November 2009 acquisition savings plan was significantly understated, the Department still fell short of the target. The savings reported to OMB for FY 2010 were approximately $33.1 million—about $6.4 million less than the $39.5 million target established in the November 2009 plan. Furthermore, as noted in the earlier examples, questions about the accuracy and reasonableness of the $33.1 million figure raise serious concerns about the Department's progress toward achieving the cost reductions directed by the President and OMB.

These events highlight the challenges OAM must overcome as it continues to accumulate and validate acquisition savings information from decentralized departmental sources.

B. Total Dollars for High-Risk Contracts Increased While Percentage of New High-Risk Contracts Decreased

We did not identify any reductions in the dollar value of high-risk contracts in FY 2010. Dollars obligated for new high-risk contracts in FY 2010 actually increased by more than 43 percent from FY 2008 levels. However, Commerce did realize a reduction in the ratio of new high-risk contracts to total new awards in FY 2010, as reported in the FPDS.

As part of the guidance for preparing acquisition savings plans, OMB permitted agencies to describe both specific high-risk-contract reductions and strengthened practices to limit the use of high-risk contracts. The Department's November 2009 plan targeted four areas in which to reduce the dollars obligated for new high-risk contracts by approximately $23.5 million in FY 2010—about $80 million less than the Department's initial target of $103.9 million**.**

OAM initially reported one high-risk-contract reduction action in FY 2010: $328,000 from converting a time-and-materials contract to a fixed-price contract. However, in April 2011, OAM notified OMB's Office of Federal Procurement Policy that the reduction should not have been claimed because the associated contract was awarded in FY 2011. Also, OAM did not adequately monitor the progress of the operating units' procurement offices in the targeted areas mentioned in the November 2009 acquisition savings plan to determine whether reductions in high-risk contracts were realized. Ultimately, OAM did not report any specific actions to reduce high-risk contracts for FY 2010.

In May 2010, OMB provided agencies with revised guidance on how to consistently identify high-risk contracts from FPDS data. After applying the new guidance, OAM revised its FY 2008 baseline total of dollars obligated on new high-risk contracts to approximately $330.2 million.[8] Using the revised baseline, the Department's new target for reducing the dollars obligated through new high-risk contracts in FY 2010 would be $33.02 million.

But Commerce's new high-risk contracts actually increased from FY 2008 to 2010, as discussed below. In spite of the increase, Commerce complied with OMB's guidance and met the reduction targets based on a calculated 15.4 percent decrease in the value of high-risk contracts as a percentage of total new contracts. Documentation provided by OAM showed that new high-risk contracts awarded in FY 2008 represented 54.9 percent of the total dollar value of new contracts that year while, in FY 2010, high-risk contracts were 39.5 percent of new awards. Table 2 compares new high-risk contracts with total new awards in FY 2008 and 2010.

Table 2. New High-Risk Contracts as a Percentage of New Contract Awards
(Dollar values in millions)

	Total New Contract Awards	New High-Risk Contracts	High-Risk Contracts as a Percentage of New Contracts
FY 2008	$601.4	$330.2	54.9
FY 2010	$1,198.4	$473.2	39.5
Increase/(Decrease) from 2008 to 2010	$597.0	$143.0	(15.4)

Source: OIG, compiled from OAM data

As shown in table 2, total dollars obligated for new high-risk contracts in FY 2010 **increased** by $143 million, or more than 43 percent, from FY 2008, while the ratio of new high-risk contracts to all new contracts decreased. Although not stated directly in OMB Memorandum M-9-25, OMB has since indicated that an agency could be seen as having met the required 10 percent reduction requirement based on demonstrating a reduction in the ratio of new high-risk contracts to all new contract awards.

Although OMB's clarification indicates that Commerce achieved the required reduction in high-risk contracts—a 15.4 percent decrease in the ratio of new high-risk contracts to total new contract awards—Commerce has still awarded $143 million more in new high-risk contracts in FY 2010 than it did in FY 2008. The percentage reduction highlighted by OAM is the result of a

[8] The revised baseline of $330.2 million represents a decrease of more than $700 million from the high-risk baseline of $1.039 billion included in the Department's November 2009 acquisition savings plan.

near doubling in the value of new contracts—from $601.4 million in FY 2008 to $1,198.4 million in FY 2010. Since Commerce did not report a single action in which a high-risk contract was reduced, it is unclear whether the Department achieved the required reduction as a result of direct efforts to reduce high-risk contracts or simply because the dollar value of new contracts nearly doubled from 2008 to 2010.

III. Acquisition Savings Initiatives Require Continuous OAM Management and Oversight

OAM will need to continue to manage the implementation of the acquisition savings plan initiatives. Two of OAM's responsibilities are to

- Provide appropriate oversight in procurement management to help ensure that the Department's program offices are effectively and efficiently managing the procurement process; and

- Ensure that procurement organizations focus on measurable results.

In its oversight, however, OAM has relied heavily on voluntary information and coordination with the operating units' procurement offices, without adequate controls. We found that OAM

- *Routinely accepted information from the operating units' procurement offices without verification or asking for supporting data.* OAM also did not follow up with the procurement offices to verify the reliability and accuracy of reported information. For example, OAM reported savings of $328,000 in FY 2010 from converting a high-risk contract to a firm-fixed-price contract; OAM later had to withdraw the claim when it realized the reported action actually took place in FY 2011. Savings should be claimed in the period that the contract was awarded.

- *Did not maintain adequate documentation to support facts and figures in the November 2009 acquisition savings plan or for claimed savings reported to OMB.* For example, OAM did not maintain sufficient documentation showing how the initial baselines for reducing contract spending and high-risk contracts were established.

- *Did not capture information to track the savings attributable to its initiatives and ensure the Department realized high-risk-contract reductions.*

Additionally, in some cases, OAM made mathematical errors when manually calculating the savings reported to OMB. The lack of quality control for these calculations significantly limits the Department's ability to determine the overall effectiveness of the acquisition savings initiatives.

IV. Commerce Actions to Improve Ongoing and Future Savings Initiatives

In June 2010, the Secretary, in an effort to improve the quality of Commerce's acquisitions, initiated a comprehensive review of the Department's acquisition processes. Since then, Commerce has made important improvements to its acquisition savings oversight, documentation requirements, and validation processes.

OAM officials told us that in response to the findings identified in the review, Commerce began to reform its acquisition processes, including a review of how the Department plans and reports its acquisition savings. This effort is being led by a newly appointed Director of Acquisition Management—hired in February 2011—who is overhauling the review, validation, and reporting processes to ensure that savings are properly measured, verified, and documented. In addition, in April 2011, OAM launched a more substantial process for identifying, reviewing, and validating acquisition savings. The process was established collaboratively with senior-level Department managers and operating unit procurement officials. OAM officials stated that the savings are carefully measured and tracked and include four levels of review and control, with emphasis on appropriate visibility at all organizational levels. In addition, the reported results are subject to audit before being claimed as acquisition savings. These results do not suggest that OIG considers all required controls, documentation standards and processes over the reliability of acquisition savings data to be complete. As a result, we are making three recommendations in the following section.

Recommendations

We recommend that the Director of Acquisition Management

1. Implement adequate controls to ensure future acquisition savings baselines and targets are established as required by OMB.

2. Prescribe minimum documentation standards required from the operating units' procurement offices to support claimed savings resulting from implementing initiatives for reducing contract spending and high-risk contracts.

3. Establish a process to verify the accuracy and reliability of data collected by the procurement offices and track ongoing and future initiatives with a primary objective of determining whether savings are actually realized.

V. Summary of Agency Comments and OIG Response

Rather than addressing individual recommendations, OAM provided general comments on the report overall. We have incorporated various comments provided by OAM both formally and informally in preparing this final report.

In its response, OAM states that the OIG acknowledges that all recommendations have been implemented. We did not make this assertion in the original draft and have updated Section IV of this report to clarify our position. As mentioned in Section IV, OAM has taken actions to improve its acquisition savings initiatives. Before considering implementation to be complete, however, we require that OAM deliver a formal audit action plan within 60 days of receipt of this report, with target dates for the resolution of each recommendation that is verified as complete by our office. OAM's response to our draft report is included as appendix B.

Appendix A: Objectives, Scope, and Methodology

We performed this review under authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, August 31, 2006. We conducted our 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 audit objectives.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our objectives were to determine the (1) validity of the Department's estimated savings from these initiatives, (2) Department's progress in implementing the savings initiatives, and (3) extent that costs have been reduced by implementing the savings initiatives. To accomplish our objectives, we

- Reviewed the Department's practices used to implement and report its savings initiatives and high-risk contract reductions to the Office of Management and Budget (OMB). We assessed those practices against criteria contained in OMB and Department guidance.

- Interviewed a range of acquisition and contracting officials involved in the acquisition savings plan initiative, including OMB officials, the Senior Procurement Executive, chiefs of contracting and staff from the operating units' procurement offices, and staff from the Office of Acquisition Management (OAM) to determine their processes for identifying savings initiatives and collecting and reporting that information to OMB. We also followed up with agency officials to clarify our initial findings.

- Reviewed the accuracy of the savings reported to OMB by judgmentally selecting higher-valued savings initiatives and analyzed documentation used to support savings claims and reductions in high-risk contracts.

As discussed throughout this report, the Department did not maintain an adequate system of management controls over the accumulation and reporting of acquisition savings data. Therefore, we did not conduct tests of these controls for the purpose of placing reliance on them. While computer-processed data were considered in developing audit conclusions—federal procurement data system information to compute baselines for establishing savings targets—we did not rely on the absolute accuracy of this data and therefore did not assess the validity of computer-processed data. Instead, computer-processed data were cited only to the extent they supported our conclusion that the Department did not effectively implement OMB's savings initiatives.

We also coordinated our work with the Government Accountability Office (GAO). In a December 17, 2010, memorandum to Commerce's Chief Financial Officer and Assistant Secretary for Administration, GAO announced it was beginning a government-wide review of agency acquisition savings strategies. GAO's objectives were to determine (1) the status of agencies' efforts to save $40 billion per year and to reduce use of high-risk contracts, (2) what acquisition and contracting strategies agencies used to identify opportunities for the savings and what strategies have been shown to be most effective, and (3) how these strategies might be spread across government to increase savings.

Throughout this review, the OIG has communicated areas for improvement in Commerce's acquisition savings initiatives. We also discussed our preliminary conclusions and recommendations with OAM officials in May 2011 and again prior to issuing our initial draft report. As a result of these collective efforts, OAM is taking action to improve its monitoring of the acquisition savings plan initiative.

Appendix B: Response to OIG Draft Report

UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer
Assistant Secretary for Administration
Washington, D.C. 20230

SEP 2 8 2011

MEMORANDUM FOR: Ann C. Eilers
Principal Inspector General for Audit and Evaluation

FROM: Barry Berkowitz
Senior Procurement Executive and
Director for Acquisition Management

SUBJECT: Response to *Commerce's Office of Acquisition Management Must Continue to Improve Its Ongoing Oversight of Acquisition Savings Initiatives* Draft Report dated August 5, 2011

Thank you for the opportunity to formally respond to the subject draft report entitled *Commerce's Office of Acquisition Management Must Continue to Improve Its Ongoing Oversight of Acquisition Savings Initiatives.*

Based on our review of the draft report, we offer the following comments for your consideration:

- Two references are made to dollars *committed;* the accurate description is of dollars *obligated.* [Page 1 OMB Acquisition Savings Initiatives table *and* Page 2 fourth bullet]

- Reference *Section II Magnitude of Cost Savings Is Uncertain and High-Risk Contracts Increased* under the Findings and Recommendations (Page 5). OMB did not require that the Department report any single action in which a high-risk contract was reduced or eliminated in FY 2010. Rather, we were measured on our reduction of high-risk contracts as reported in FPDS as a percentage of new awards.

- Reference *Section II.B. Total Dollars for High-Risk Contracts Increased While Percentage of New High-Risk Contracts Decreased, first paragraph* - Similarly to the above, OMB measured on percentage of new awards.

- Reference *Section II.B. Total Dollars for High-Risk Contracts Increased While Percentage of New High-Risk Contracts Decreased, second and third paragraphs* – The assertion that "OAM did not subsequently track progress in any of these areas" does not reflect the change in OMB's guidance; the tracking was no longer required. We agree that we did not update our acquisition savings plan at the time that the OMB guidance was changed but we did comply with the OMB scripts and monitored the results for accuracy.

- Reference *Section II.B. Total Dollars for High-Risk Contracts Increased While Percentage of New High-Risk Contracts Decreased, last full paragraph* – The caveat "Although not stated directly in OMB Memorandum M-9-25" implies that OMB measured in some way other than the memorandum when, in fact, that was the basis for measurement and the basis for OAM's compliance.

- Reference *Appendix A: Objectives, Scope and Methodology, last sentence* – The implication of including the phrase "As a result" implies that OAM's action is reactive to the OIG preliminary results and recommendations when, in fact, OAM has been taking steps since 2010 to address the weaknesses of the historic process for determining acquisition savings. The phrase should be omitted.

- Finally, Reference *Section IV Commerce Actions to Improve Ongoing and Future Savings Initiatives, Recommendations*, while you acknowledge that all the recommendations have been implemented by OAM in the narrative in Section IV, including the list of recommendations as future actions obscures our efforts. We request that the recommendations state that the Director, Office of Acquisition Management, *continue these efforts.*

Please direct any inquiries regarding this response to me at (202) 482-4248.