



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Review

We sought to determine whether the acquisition planning process for the Environmental Protection Agency's (EPA's) Office of Air and Radiation (OAR) and Office of Water (OW) used knowledge gained from prior acquisitions to limit the use of cost reimbursable Level-of-Effort (LOE) contracts. EPA could reduce its risk and potentially save money by using other contract types.

## Background

LOE contracts are cost-plus-fixed-fee contracts that span multiple years. Generally, they are not performance based – where the contractor is compensated for results rather than effort or process. LOE contracts require the contractor to provide only required hours over a specified time, with no final product or deliverable required.

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

To view the full report, click on the following link:

[www.epa.gov/oig/reports/2006/20060314-2006-P-00015.pdf](http://www.epa.gov/oig/reports/2006/20060314-2006-P-00015.pdf)

## **EPA Office of Air and Radiation and Office of Water Can Further Limit Use of Level-of-Effort Contracts**

### What We Found

OAR and OW need to improve efforts to limit the use of LOE contracts. By maximizing available opportunities to use other than LOE contracts, OAR and OW can reduce EPA's financial risk, increase the possibility for greater competition and cost savings, and improve the Agency's ability to increase the use of performance-based contracts. Federal regulations indicate such cost-type contracts are the least preferred method for acquiring services.

Based on the active list of OAR and OW contracts as of June 15, 2004, we determined that 83 of those 169 contracts were LOE contracts. Significantly, \$288 million of the \$383 in cumulative obligations for those 169 contracts, or 75 percent, were for LOE contracts:

Office	Cumulative Obligations (millions)	
	All Contracts	LOE Contracts
OAR	\$ 235	\$ 174
OW	148	114
<b>Totals</b>	<b>\$ 383</b>	<b>\$ 288</b>

In a judgmental sample of 14 cost-plus-fixed-fee contracts awarded for OAR and OW, totaling approximately \$105 million, we found that 61 of the 217 work assignments, or 28 percent, could have been contracted out as other than LOE procurements. These involve such projects as planning meetings and conferences and maintaining computer systems.

### What We Recommend

We recommend that OAR and OW require their program offices to reduce reliance on cost reimbursable LOE contracts by improving acquisition planning and increasing efforts to identify opportunities for performance-based acquisitions. We also recommend that the Office of Administration and Resources Management, which is responsible for contracts, work with OAR and OW to better define contract requirements to make greater use of performance-based contracts, and better enable contract officers to share best practices. The Agency generally agreed with the findings and recommendations in the draft report and has identified steps taken and planned to further reduce EPA's reliance on LOE contracts and increase performance-based service acquisitions.