



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

We sought to determine whether the U.S. Environmental Protection Agency (EPA):

- Used award fee plans for Cost-Plus-Award-Fee (CPAF) contracts that clearly identified the specific award fee criteria and properly established performance indicators;
- Achieved a higher level of performance by using this contract type; and
- Sufficiently reviewed, approved, and awarded fees.

Background

CPAF contracts are used to motivate contractors to provide a high level of performance. CPAF contracts provide base fees and award amounts based on a judgmental evaluation by EPA. In recent years, EPA has begun to move away from using CPAF contracts. As of October 2006, EPA had 14 active CPAF contracts valued at \$4.2 billion.

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/2008/20080226-08-P-0093.pdf

EPA Should Further Limit Use of Cost-Plus-Award-Fee Contracts

What We Found

While EPA has paid contractors nearly \$16 million in award fees over the past 10 years on the nine contracts reviewed, it has no assurance that the use of CPAF contracts facilitates a higher level of performance than other types of contracts. EPA CPAF contracts generally contain performance indicators tied to the Agency's mission. EPA consistently provided contractors with high ratings and award fees. However, we could not determine if EPA properly awarded fees because it did not sufficiently document the basis for the ratings. Because EPA consistently provided high ratings, we believe award fees are more of an expectation for contractors rather than a factor that motivates excellence.

In some instances, EPA paid a higher base fee than allowed by the EPA Acquisition Regulation. We found five contracts that contained a base fee percentage higher than the 3 percent allowed. Two of those contracts have significant time remaining. For those two, we estimated that EPA overpaid about \$100,000 of base fee through July 2007, and will overpay another \$760,000 over the remaining life of the contracts. The high base fees were provided because of a lack of knowledge by EPA employees regarding the regulation and an oversight by Headquarters.

Developing and administering CPAF contracts is a labor intensive process, and many EPA employees involved with contract management believe that competition is a more effective way to motivate contractors. Also, the CPAF process could be made less burdensome. The calculation used to compute base fees on these contracts is overly complex, and eliminating the requirement for contractors to submit self evaluations could save up to \$50,000 over the course of a contract.

What We Recommend

We recommend that EPA further limit the use of CPAF contracts by revising the Contracts Management Manual to require that a cost-benefit analysis be conducted prior to awarding a CPAF contract. In instances when CPAF contracts are used, we recommend that EPA better document the basis for decisions to substantiate the performance ratings given. EPA should also modify its contracts to bring them into compliance with the EPA Acquisition Regulation to avoid the future overpayment of base fees. Further, EPA should simplify its CPAF process. EPA agreed with a majority of our recommendations or provided a valid alternative. EPA did not agree with some of our recommendations related to simplifying the CPAF process, and those recommendations have been revised for the final report.