

# *Sustainable Cost Reduction*

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## *Overview*

A government that “works” is one that operates as a good steward of taxpayer funds, invests in programs and organizations that have public impact, and discontinues programs and organizations that do not provide value. With increasing pressure to reduce costs due to the ballooning Federal deficit, and to invest in programs that stimulate an apprehensive economy, policymakers require unprecedented accountability for Federal performance. Disciplined cost management is critical in achieving this transparency and accountability.

Traditional cost reduction approaches typically fail to achieve the targeted reductions, take longer than anticipated, and allow costs to creep back to historic levels.

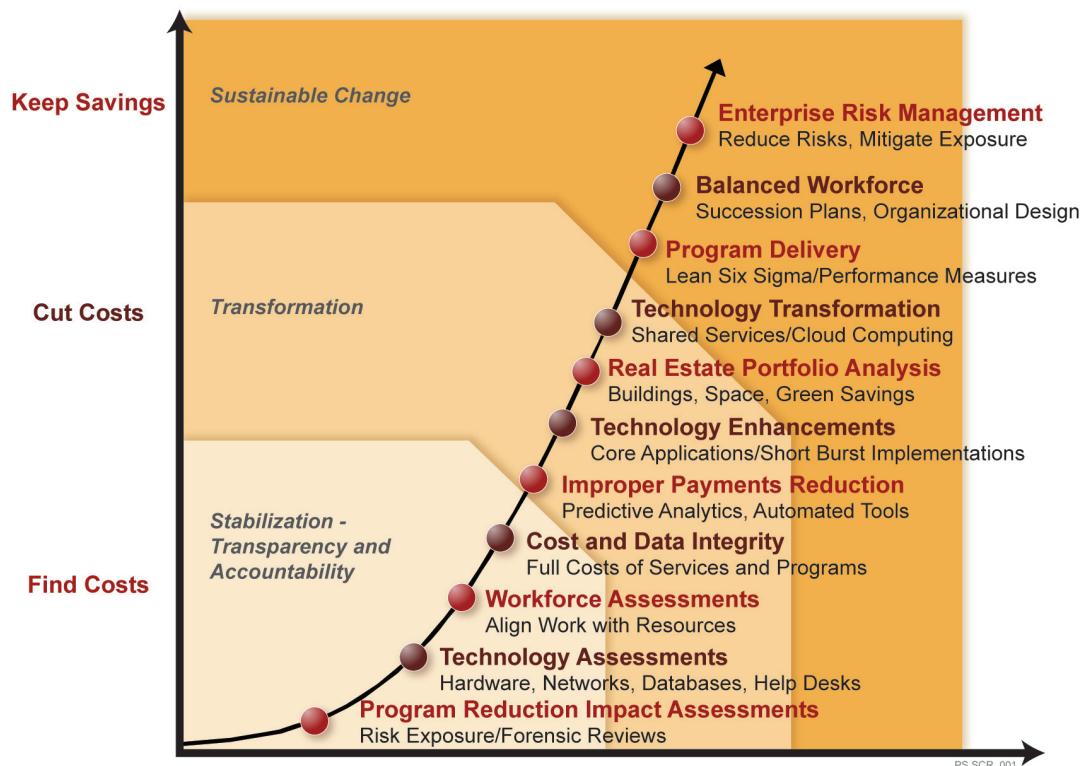
PwC helps organizations reduce costs in a sustainable way to carry efficiencies far into the future.

*“Rigorous, independent program evaluations can be a key resource in determining whether government programs are achieving their intended outcomes as well as possible and at the **lowest possible cost**.... [E]valuations can help the Administration determine how to **spend** taxpayer dollars effectively and efficiently — **investing more in what works and less in what does not.**”*

- Office of Management & Budget (OMB)

## Sustainable Cost Reduction (SCR)

Sustainable Cost Reduction (SCR) is a progression of activities rather than “one-off” cost reduction programs and interventions. It is a series of steps in a journey that an organization can take to more effectively identify cost reduction opportunities and sustain those cost reductions over the long term. SCR is divided into 3 primary phases to allow Federal organizations flexibility to build efficiencies. Each phase includes proprietary diagnostic tools and templates to innovate processes and eliminate waste. The solution is also modular and can be applied to specific needs without following the methodology end-to-end. SCR goes beyond one-off programs and interventions. This solution provides Federal agencies with a proven way to create transparency, accountability, and transformation – an end state which may result in continued funding, the expansion of value-added programs, and significant savings.



## Strategies for Success

### How to create a cost-conscious culture

- *Set an environment for cost reduction* – Confirm the cost reduction programs and processes, agree on the in-scope cost base, and complete a preliminary cost reduction analysis.
- *Agree on cost ownership* – Agree up front on who is responsible for costs. Working from a pre-allocated cost basis will prevent expenses from falling through the cracks.
- *Challenge the budget operating plan* – Have program managers clarify cost drivers, challenge operating cost assumptions, and reduce discretionary spending.
- *Rigorously control and leverage spending* – Immediately establish a tighter span of control for spend approval and leverage investments across programs.
- *Stabilize cost controls* – Identify gaps in critical cost management and controls to trigger immediate actions to stabilize the spend environment and create a culture of cost awareness.
- *Gauge performance by measuring results* – Monitor activities, capture related spend results, and produce robust reports for senior management.
- *Perform rapid assessments* – Identify improvement and cost saving opportunities within functions (e.g., Finance, HR, Procurement, IT, and specific mission functions).

## Common Opportunity Areas

### Where to start

Sustainable cost reduction can be achieved through transparent management of information and accountability. By focusing on identifying, as well as, cutting costs, organizations can set the stage for transformational and sustainable cost reduction activities.

#### Rapid Program Assessments

- ✓ Targeting reviews of programs for risks and exposures to budget reductions. Identify quick win opportunities for reduced spending within targeted program administration.

#### IT Technology Spend

- ✓ Identifying areas for reductions and overlaps in IT hardware and infrastructure. Share technology, as well as, understand utilization metrics to reveal cost reduction opportunities.

#### Real Estate Portfolio Analysis

- ✓ Leveraging improved real estate usage, and conducting forensic space reviews to reduce space and improve green initiatives for space. Evaluate space requirements and options for reduced real estate costs.

#### Enterprise Risk Management (ERM)

- ✓ Enables informed decision making regarding risk/reward tradeoffs related to your agency's existing programs and operations. Targeted spending based on risks and reduced spending on low-risk areas.

**Sustainable Costs Reduction in Operations and Programs to Support your Mission**

# Case Study:

PwC has helped DFAS prevent over \$1.5 billion in improper payments

## The Challenge

The Department of Defense (DoD) Defense Finance and Accounting Service (DFAS), the largest finance and accounting organization in the world, needed a solution to reduce the amount of improper payments being made to vendors and reduce the resource costs associated with the Fund Balance with Treasury (FBwT) reconciliation process.

## PwC Results

PwC was tasked with the implementation and support of a Business Activity Monitoring (BAM) system for improper payments and the FBwT to address enterprise risks inherent in these business processes. The BAM tool is used on multiple, complex legacy accounting and vendor pay systems that perform the reconciliation between Treasury/Field Level reporting systems and detect and ultimately help prevent improper payments. PwC played an integral role in the project management of this effort, as well as, in each phase of BAM implementation, including planning and scoping, requirements gathering, implementation, and validation as well as monitoring and analyzing workbench performance. To date, the BAM program has helped DFAS prevent over \$1.5 billion in improper payments. The success of this project has been featured on [www.PaymentAccuracy.gov](http://www.PaymentAccuracy.gov) as an agency "Success Story".

## Cost Reduction Support Across the Federal Government

Federal Aviation Administration (FAA)	PwC developed a tool to automate FAA's Federal Real Property Profile (FRPP) submission, consisting of required data elements for approximately 69,500 assets. PwC utilized its Real Property Data Modeling methodology, which leveraged the Office of Management and Budget (OMB) approved industry standards, to capture and modify FAA's calculation logic for numerous performance metrics. Between FY2007 and FY2011, PwC helped Department of Transportation (DOT) identify and dispose of approximately 9,000 assets, achieving cumulative net savings of approximately \$18 million.
Federal Emergency Management Agency (FEMA)	PwC has provided support to conduct Improper Payments Information Act (IPIA) testing for FEMA's Office of Chief Financial Officer (OCFO) since 2006, when several reports from external entities such as the Government Accountability Office (GAO) required that FEMA evaluate its payment processes through IPIA. PwC used a variety of project management tools to transfer knowledge to Federal employees and to develop a process in which a Federal Program Manager operated the IPIA Assessment Program with reduced contractor support, ultimately saving taxpayer dollars.
Environmental Protection Agency (EPA)	By working with the EPA to reduce the cost and service footprint of administrative systems support, the EPA was able to shift its savings to both offset budget decreases and invest more in mission-oriented technologies.
Department of the Interior (DOI)	PwC developed an assessment framework to determine if the DOI could gain value from one of four approaches to its current decentralized data center management state. Through PwC's experience and industry best practices, the framework identified potential cost savings of approximately \$100 million associated with supporting a hybrid private cloud infrastructure. The estimate was based on industry standard costs because the DOI did not track IT costs at a detailed level.

*To have a deeper conversation about how this subject may affect your business, please contact:*

### Donald McCrory

Principal

(703) 918-1351

[donald.g.mccrory@us.pwc.com](mailto:donald.g.mccrory@us.pwc.com)