

Training Video: Cost Savings and Avoidance

Slide 1: Intro

Welcome to CMS IT Governance training, Cost Savings and Avoidance.

In this short video, we will explain the difference between cost savings and cost avoidance and the importance of calculating and reporting it.

Slide 2: Background / FITARA

The Government Accountability Office (GAO) found from prior audits that federal agencies faced challenges in developing, implementing, and maintaining IT investments, frequently incurring cost overruns and schedule slippages while contributing little to mission-related outcomes. In 2014 congress passed the Federal Information Technology Acquisition Reform Act (FITARA), to improve agencies' acquisitions of IT and enable Congress to monitor agencies' progress and hold them accountable for reducing duplication and achieving cost savings through seven areas:

- federal data center consolidation,
- enhanced transparency and improved risk management,
- agency CIO authority enhancements,
- portfolio review,
- expansion of training and use of IT acquisition cadres,
- government-wide software purchasing program, and
- maximizing the benefit of the Federal Strategic Sourcing Initiative.

Cost Savings and Avoidance is also sighted in OMB Circular A-131

Slide 3: Difference between cost savings and avoidance

Let's first discuss the definition and difference between cost savings and cost avoidance.

Cost savings are a reduction in *actual* expenditures below the current level of costs to achieve a specific objective. For example: You re-competed a contract. You are now receiving identical products and services as the previous contract, but the new contract costs less than the previous contract. The amount of the difference represents your amount of cost savings.

Cost avoidance is a reduction in likely potential *future* costs; the costs that would incur if the solution that you are proposing is not implemented. An example of this would be: Congress has passed new legislation that will require you to double your current reporting efforts. In order

to meet this business need manually, you will need to hire three new FTEs. However, by automating reporting with an IT solution, you can avoid those costs. Your cost avoidance would be equivalent to the 3 FTEs.

Another example would be: You conducted a procurement, and the TEP selected one of the vendors that did not represent the highest bid. Proposal A was \$1.5M, proposal B was \$2M, proposal C was \$2.5M. The TEP selected proposal B for \$2 M. The result is \$500k in cost avoidance, the difference between the chosen option B and the more expensive alternative C.

Slide 4: Initiate Phase / Business Case

It is important to estimate cost savings and avoidance in the initiation phase of your IT project. You should include it in your business case which is a required document when requesting approval from the IT Governance Review Board. When presenting your business case for approval, Cost savings and avoidance is a key point in considering whether or not to approve your project. This will show that your project or system will result in reduced costs and efficiencies to the agency in the long run, therefor making it a worthwhile investment and addition to CMS' IT portfolio.

When estimating cost savings on your business case, you should calculate the difference between your *current actual cost* needed to complete a task or meet a need and the cost of the proposed solution to do the same.

Slide 5: Examples of cost savings and avoidance

There are many ways in which to produce cost savings and/or avoidance. Some common examples are:

- Choosing a contract at a lower than current cost or rate
- Consolidating contracts or licenses
- Renegotiating contracts
- Data Center consolidation or cloud migration
- Reuse of existing infrastructure
- Technical enhancements and efficiencies
- Reducing FTE or contractor hours by automating a manual process

If you are automating a manual process, a good example of cost savings to include in your business case is the reduction in time from manually completing a task. You can calculate this by multiplying the hours saved by the contractor's hourly rate or by multiplying the hours saved by an average FTE hourly rate.

Slide 6:

We understand that there are concerns about future funding reductions if you report cost savings. But this is *not* true. Cost savings and avoidance create the opportunity to more effectively and efficiently run your program. You may re-invest your cost savings back into your program or use it for other program priorities in the same area. This is acceptable and you should make note of your plans when reporting.

Cost savings and avoidance are evidence of due diligence and sound IT decision making.

Slide 7: Reporting

So how do I report?

Part of our federal responsibilities in maintaining our IT investment portfolio in accordance with FITARA, is reporting. Cost Savings and avoidance are reported to OMB through a quarterly data call and impact CMS' FITARA Score Card rating.

CMS captures this in several ways. CMS holds an internal Data Call Entrance Conference with identified Points of contact prior to each quarter's collection efforts. During each session, there is an opportunity to convey any new cost savings or avoidance. There is also a written request for cost savings/avoidance input sent to all CMS Executive Officers twice a year.

But If you have Cost Savings and/or avoidance to report (either planned or realized), please email us at CIO@cms.hhs.gov **at any time**. We will be happy to answer questions and capture the information for you.

Slide 8: Contact us

For questions about IT Governance, or for more information, you may Contact Us at [IT underscore Governance at CMS dot HHS dot gov](#) or visit our website at [www dot CMS dot gov slash TLC](http://www.dot CMS dot gov slash TLC).

Thank you!