



Issue Date July 15, 2003
Audit Case Number 2003-AO-0002

MEMORANDUM FOR: Vickers Meadows, Assistant Secretary for Administration/
Chief Information Officer, A

[Signed]
FROM: Sandra G. Elion, Director, Headquarters Audits Division, GAH

SUBJECT: HUD Training Academy
Washington, DC

INTRODUCTION

In response to an anonymous hotline complaint, we completed an audit of the HUD Training Academy's (HTA) acquisition practices. The complaint included numerous allegations.¹ However, based on the results of our survey work we determined that only the allegations related to HTA's acquisition practices had merit.

Our audit objective was to determine whether HTA complied with applicable acquisition regulations when obtaining services from outside sources. To achieve our objective, we: reviewed applicable laws, regulations, and HUD policies and procedures; obtained an understanding of HTA's Interagency Agreement with the Office of Personnel Management (OPM) and OPM's Training and Management Assistance Program (TMA); reviewed HTA contract files; and interviewed responsible Office of Administration, OPM, and contractor personnel.

We reviewed HTA's activities for the period July 2001 through December 2002. Our fieldwork was conducted between December 2002 and March 2003. Our audit was performed in accordance with Generally Accepted Government Auditing Standards.

In accordance with HUD Handbook 2000.06 REV 3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective

¹ We categorized the allegations into the following areas: acquisition practices, use of training funds, staffing practices, management of training awareness week, HUD's Virtual University and Career Resource Center, and HTA's management of property.

action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued as a result of the audit.

We appreciate the courtesies extended to us during the audit. Should you or your staff have any questions, please contact me at 708-1342.

SUMMARY

HTA did not comply with applicable acquisition regulations when obtaining services from outside sources. Specifically, with assistance from HTA, Watson Wyatt Worldwide (WWW), a subcontractor of Marasco Newton Group (Marasco), prepared a Statement of Work (SOW) and an unsolicited proposal to perform the work outlined in the SOW. Based on the unsolicited proposal, OPM awarded a \$500,000 contract to Marasco noncompetitively. In addition, HTA inappropriately used Standard Form 182, "Request, Authorization, and Certification of Training" (SF-182), and awarded nearly \$150,000 to WWW without competing the services.

BACKGROUND

HTA was established in the Office of Administration during 1994 to consolidate training initiatives and to provide a centralized approach to meeting HUD's personnel training requirements. The Office of Administration's Deputy Assistant Secretary for Human Resource Management is responsible for establishing policy, guidance, and strategic planning for HTA.

HTA's mission is to deliver cost-effective, efficient, and coordinated strategies for continuous learning so that HUD personnel can maintain a high level of performance and be full partners in achieving the Department's goals. HTA provides mission and occupational training in support of Departmental priorities; individual training needs through in-house training programs and partnerships with colleges; and needs assessments and evaluations for HUD programs and activities. HTA also delivers training to field locations using computer, web, satellite, and video conferencing. For FY 2002, HTA had a \$10.9 million budget to support HUD's training initiatives.

To deliver training and employee development programs, HTA collaborates with other agencies such as OPM to obtain the needed training services. OPM's TMA assists government agencies in developing e-learning applications, knowledge management systems, and workforce planning and succession management strategies. TMA's services are available through Interagency Agreements with OPM. HUD has a 5-year Interagency Agreement with OPM to acquire training services.

To obtain services through the TMA, the agency must submit an SOW describing the requirements, and TMA will solicit proposals from its pre-qualified contractors. Working with agency representatives, a TMA project manager invites (a minimum of three) pre-qualified contractors to compete for the project. Each contractor makes a presentation to a panel (comprised of the TMA project manager and one or more agency representatives) on their capabilities and technical approach to meet the requirements of the SOW. The panel evaluates the presentations and selects the most qualified contractor.

Contracts may also be awarded without competition. Any of OPM's pool of pre-qualified contractors may submit an unsolicited proposal for consideration. However, the proposal can only be funded without competition if it is prepared without government involvement and if there is not an SOW to competitively award the services.

FINDING 1

HTA AWARDED \$650,000 NONCOMPETITIVELY

HTA did not comply with applicable acquisition regulations when obtaining services from outside sources. Specifically, with assistance from HTA, Watson Wyatt Worldwide (WWW), a subcontractor of Marasco Newton Group (Marasco), prepared the SOW and an unsolicited proposal to perform the work outlined in the SOW. Based on the unsolicited proposal, OPM awarded a \$500,000 contract to Marasco noncompetitively. In addition, HTA inappropriately used the SF-182 to acquire government-specific training. Furthermore, HTA had no documents supporting its decision to noncompetitively select WWW. These deficiencies occurred because the Administrator and staff circumvented the Federal Acquisition Regulation (FAR) and HUD procurement policy when awarding services to WWW. As a result, Marasco was awarded a \$500,000 contract noncompetitively, and WWW received nearly \$150,000 without competing for the services.

Contractors are prohibited from supplying services based on work statements they develop

FAR, subpart 9.505-2(b)(1), states that if a contractor prepares or assists in preparing an SOW to be used in competitively acquiring a service, that contractor may not provide the service. Furthermore, FAR, subpart 15.603, states that a valid unsolicited proposal must be prepared without government supervision, endorsement, direction, or direct involvement; and must not be an advance proposal for a known agency requirement that can be acquired by competitive methods. In addition, HUD Handbook 2210.3, "Procurement Policies and Procedures," chapter 5, paragraph 3(d), states that the program office is responsible for preparing the SOW, but when assistance is required, a contracting officer should provide technical assistance in drafting and revising the SOW as requested.

WWW prepared SOW

WWW, a consulting firm that was under contract with HTA, contacted Marasco regarding opportunities to provide future services to HTA. Subsequently, WWW became a Marasco subcontractor. WWW and Marasco prepared the SOW for HTA's Core Competencies Project, an initiative to identify the knowledge and skills HUD personnel need to accomplish their jobs. Although it is not clear whether HTA requested WWW to prepare the SOW or the source of funding used to pay for this task, on August 12, 2002, WWW electronically submitted two SOWs to HTA's Administrator and the Government Technical Monitor (GTM) for their review. The SOWs were identical except one identified Marasco as the contractor (potential provider of the services) and the other did not specify a contractor. The accompanying e-mail message stated:

“Attached are two updated statements of work for your review. I understand that the Statement can be submitted with the identification of a vendor and that this is a standard practice. The second statement v.5-mng, includes the identification of the vendor. Identification reportedly streamlines the process and gets the work underway faster. Look forward to your feedback.”

Two days after receiving the SOWs from WWW, the GTM sent the SOW² that did not designate a contractor to OPM for solicitation under the Interagency Agreement. The GTM also provided OPM a suggested source list for the SOW that included three companies. Marasco was one of the three companies.

Marasco submitted an “unsolicited” proposal

Before OPM could solicit its pool of contractors to compete for the Core Competencies Project, Marasco submitted an unsolicited proposal entitled “Technical Proposal to Support HUD Training Academy’s Revitalization and HUD Succession Planning Initiatives through the Delivery of Strategic Human Capital Management and Development Consulting Services” to OPM. This proposal was submitted 8 business days after OPM received the Core Competencies SOW from HTA. Marasco’s proposal included the same or similar language as the SOW. Since the following sections were the same and Marasco identified WWW as a partner, Marasco’s proposal should not have been considered as an “unsolicited” proposal: background; objectives; scope of work, tasks 1, 2, and 3; and place and period of performance.

OPM provided a copy of Marasco’s proposal to HTA for consideration. HTA’s Administrator requested the same HTA Director who had previously been requested to provide comments on the SOW (sent to OPM on August 14) to review and comment on Marasco’s proposal for the Core Competencies Project. Both HTA and OPM concurred that Marasco’s “unsolicited” proposal met HTA’s needs.

Because Marasco and HTA officials were aware that the same WWW employee developed the SOW and the proposal, HTA should have rejected Marasco’s proposal.

Contract awarded without competition

OPM did not solicit any contractors for the Core Competencies Project because both the TMA project manager and HTA agreed that Marasco’s proposal satisfied the requirements specified in the SOW. As a result, on October 21, 2002, Marasco was awarded a \$500,000 contract for the Core Competencies Project based on the unsolicited proposal and the Management Work Plan submitted to the project manager. Services under the contract were to be provided through individual work orders issued over a 2-year period. As of November 2002, WWW as a subcontractor, received 84 percent or

² The electronic file sent to OPM was clearly marked “Marasco Newton SOW.doc.”

\$144,380 of the \$171,351 paid under this contract. At this rate, WWW could receive \$420,445 of the \$500,000 available to Marasco.

To overcome the risk of bias in awarding contracts, Federal regulations prohibit contractors from supplying services based on work statements they developed. Marasco was awarded the contract for the Core Competencies Project based on the SOW and the proposal developed primarily by its subcontractor. The HTA Administrator and staff circumvented FAR and HUD procurement policy by awarding the contract to Marasco.

Use of SF-182s for training

SF-182s are used to obligate funds, contract for training, and certify payment of approved training expenses. HUD's policy for using SF-182s to acquire training services is contained in chapter 6, part 9(f) of HUD Handbook 2210.3. The handbook specifies that only off-the-shelf or routine training can be acquired by using SF-182s. The handbook specifies that the originator's first line supervisor and training officer must approve SF-182s. Also, off-the-shelf training does not have to be competed. Conversely, when training is needed to meet or achieve a specific government need such as developing a curriculum specifically to address the needs of HUD employees, the "government-specific" training must be competed and secured by a contracting official.

HTA used SF-182s to acquire government-specific training

The HTA Administrator used SF-182s to acquire government-specific training sessions from WWW. From August 2001 through December 2002, HTA used SF-182s to acquire consulting and training services related to strategic planning, core competencies, communications, staff development, and teambuilding from WWW (see Appendix A). WWW provided three 3-day training sessions between August 15 and September 19, 2001, at a cost of \$57,500. This was government-specific training because WWW developed the training materials for these sessions specifically for HTA; the materials addressed HUD/HTA specific needs; and the sessions were not offered at an established fixed price (per-student, per-credit-hour). Also, WWW prepared an SOW specifically to develop these three training sessions for HTA.

A Director in the Office of the Chief Procurement Officer advised us that if training materials are altered in any way to suit a specific government need, the training is considered government-specific and should be acquired through the procurement office. Therefore, HTA did not follow HUD policy in contracting services with WWW.

Purchasing documents should be maintained

FAR, subpart 13.106-3(b)(3) requires the retention of data supporting purchases to the extent necessary for management review. Records of oral price quotations shall be maintained to clearly show propriety of placing the order at the price paid with the supplier concerned. In most cases, this will consist merely of showing the names of the

suppliers contacted and the prices and other terms and conditions quoted by each. Further, HUD Handbook 2210.3, chapter 6, paragraph 9, states that individuals having delegated contracting authority shall acquire government-specific training, and such training is to be acquired competitively unless there is appropriate justification for not obtaining full and open competition.

No supporting documentation maintained

Three additional SF-182s were used to acquire training sessions from WWW at a cost of \$75,000. These three training sessions lasted from 2 to 3 hours. Therefore, the average hourly rate for these three training sessions cost HUD approximately \$8,333 per hour ($\$75,000 \div 9$ hours). These sessions were facilitated primarily by two WWW employees.

The HTA Administrator also used two SF-182s to acquire communications and teambuilding training for HUD managers. The training rendered for these two sessions totaled \$17,000. One of the training sessions was 1½ hours at a cost of \$4,000. Our review of HTA files and interviews with HTA personnel did not produce any supporting documentation showing how the need was established, how the costs for the training sessions were determined, or why WWW was selected.

A Director in Administration's Office of Budget and Administrative Support advised us that HTA has not been delegated authorization to approve SF-182s. Furthermore, all acquisitions over \$2,500 require solicitations from three sources. The training officer is responsible for ensuring that the appropriate method is used to acquire contract services. The HTA Administrator, however, did not request guidance from the training officer. The Administrator's signature was the sole signature on SF-182s used to acquire these services.

The HTA Administrator informed us that she did not solicit any bids for the services acquired from WWW. She procured these services from WWW because WWW had previously provided services to HTA. She also stated that she had not completed any procurement training; therefore, she was not aware of the appropriate contracting method for procuring government-specific training.

Changes within HTA

During our review, the Assistant Secretary for Administration approved several changes that should prevent the recurrence of deficiencies described in this report. Among those changes were the reassignment of the HTA Administrator and Deputy Administrator to positions outside the HTA, and the requirement that all purchases exceeding \$2,500 must be approved by the Assistant Secretary or Deputy Assistant Secretary.

Conclusion

Because HTA's Administrator and management personnel lacked knowledge regarding the appropriate methods for acquiring contract services, approximately \$650,000 was noncompetitively awarded. HTA personnel should have known that contractors who prepare the SOW are prohibited from providing the services for that SOW. In addition, HTA should not award contracts based solely on the contractor's successful performance in the past because this precludes full and open competition. The Deputy Assistant Secretary should ensure that HTA officials understand that working directly or indirectly with contractors to prepare SOWs for HTA services is prohibited if that contractor will be allowed to compete for the SOW. We believe action needs to be taken against the HTA Administrator, Director, and contractors who violated Federal procurement regulations, policies, and procedures.

AUDITEE COMMENTS

We discussed the finding with the Deputy Assistant Secretary for Human Resource Management on April 4, 2003, and held an exit conference on April 15, 2003. The Assistant Secretary for Administration/Chief Information Officer provided comments on May 13, 2003. Those comments are included in their entirety as Appendix B to this report.

The Assistant Secretary agreed with the finding and concurred with our recommendations. The Assistant Secretary also provided us with management decisions and has taken action to implement most of the recommendations.

OIG EVALUATION OF AUDITEE COMMENTS

We concur with the Assistant Secretary's management decisions and proposed corrective actions.

RECOMMENDATIONS

We recommend that the Deputy Assistant Secretary for Administration, Office of Human Resource Management:

- 1A. Cancel the Marasco Newton Group contract for the HTA Core Competencies Project under HUD's Interagency Agreement with OPM.
- 1B. Recompete the HTA Core Competencies Project contract but exclude Marasco Newton Group and WWW from the competition.
- 1C. Take appropriate action against the HTA Administrator and remove her authority to execute service contracts.

- 1D. Take appropriate action against the HTA Director for allowing the contractor to receive an award for a statement of work it had prepared.
- 1E. Train the HTA Administrator, Directors, and GTMs regarding contract solicitation requirements and the appropriate methods for acquiring contract services.
- 1F. Ensure that all staff having responsibility to acquire training services and products adhere to the “Fund Control: HUD Training Academy Enrollments and Contract” procedures established on April 3, 2003.

MANAGEMENT CONTROLS

In planning and performing our audit, we considered the management controls relevant to HTA's acquisition practices to determine our survey and audit procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined that the following management controls were relevant to our audit objective:

- Compliance with the Federal Acquisition Regulation.
- Compliance with HUD Handbook 2210.3 REV 8, "Procurement Policies and Procedures."

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Based on our review, we believe significant weaknesses exist in the areas of compliance with the Federal Acquisition Regulation and HUD policies and procedures pertaining to the acquisition of training services. These weaknesses are discussed in the finding.

**Schedule of SF-182s Used to Acquire Services From Watson Wyatt Worldwide
During the Period August 2001 – December 2002**

Course Title	Training Period	Actual Training Hours	Cost
Implementation of Strategic Plans for Training and Development Organizations	8/15/01 8/31/01	3-day workshop	\$22,500
Best Practices in Internal, Multi-Media Communications Strategy for Training and Development Organizations	8/20/01 9/06/01	3-day workshop	\$17,500
Effective Measurement of Multi-Year Strategic Training Plans	9/05/01 9/19/01	3-day workshop	\$17,500
Maximizing the Web as an Integral Communication Medium	3/11/02 4/26/02	3 hours	\$25,000
Implementing New Core Competencies and Curriculum for Staff	3/11/02 5/24/02	3 hours	\$25,000
Implementing an Internal Professional Training and Development Faculty	3/11/02 4/26/02	3 hours	\$25,000
Communications Effectiveness for Managers and Personal Communications on the Job	6/05/02	**	\$13,373
Strategic Human Capital and Communications Training for Managers: Teambuilding	12/17/02	1-1/2 hours	\$4,000
Total:			\$149,873

**No information available on the training hours.

AUDITEE COMMENTS



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-3000

ASSISTANT SECRETARY FOR
ADMINISTRATION/CHIEF INFORMATION OFFICER

MAY - 6 2003

MEMORANDUM FOR: Sandra G. Elion, Director, Headquarters Audits Division, GAH

FROM: *Vickers B. Meadows*
Vickers B. Meadows, Assistant Secretary for Administration/Chief Information Officer, A

SUBJECT: Response to Draft Report – HUD Training Academy, Washington, DC

This responds to your draft audit report of April 9, 2003, HUD Training Academy (HTA), Washington, DC. I concur with the findings on HTA's acquisition practices.

The following addresses the Office of Inspector General's six recommended actions to be taken by the Deputy Assistant Secretary for Human Resource Management:

- The requirements of the HTA Core Competencies Project have changed. Therefore, the contract with the Marasco Newton Group under HUD's Interagency Agreement with the Office of Personnel Management (OPM) has been cancelled.
- HTA will recompet the Core Competencies Project through OPM.
- The HTA Administrator left the position in March 2003.
- The appropriate action to take against the officials cited in your recommendation for allowing the contractor to receive an award for a statement of work it had prepared is under review.
- Appropriate HTA staff will be trained regarding contract solicitation requirements and the appropriate methods for acquiring contract services.
- HTA staff members who have responsibility for acquiring training services and products have been advised in writing by the Deputy Assistant Secretary for Human Resource Management (DAS for HRM) that all financial matters for \$2,500 or above must be approved by the DAS for HRM and the Assistant Secretary for Administration/Chief Information Officer. Further, they have been advised that they must adhere to the "Fund Control: HUD Training Academy Enrollments and Contract" procedures established on April 3, 2003. Copies of this document were also provided to all of the responsible staff members.

Thank you for the opportunity to comment.