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TO: Dwight P. Robinson, Deputy Secretary, SD

FROM: Edward F. Momorella, District Inspector General
for Audit, Mid-Atlantic, 3AGA

SUBJECT: HUD Contracting Activity

At the request of the Chairman of the Senate Subcommittee on VA, HUD and Independent Agencies, and the Senate Subcommittee on Financial Institutions and Regulatory Relief, we completed an audit of HUD's contracting activity.

Our objectives were to determine if the HUD contracting environment and process being used provide adequate controls and safeguards to prevent fraud, waste and abuse, and to identify areas in HUD's contract award and management process that, in our opinion, need improvement. Also, we gathered data from HUD's records to respond to specific Congressional questions about HUD's contracting authority, process and activity.

During our audit we reviewed a variety of contracting activity at both Headquarters and Field Offices from 1992 through 1996, including some major contracts that were awarded prior to 1992 but are still in effect today. The Office of Procurement and Contracts provided briefings and explanations of data contained in HUD's information systems and contract award and management files. From this overview of information, we selected 30 contractors providing a variety of services for various program offices. Our selection was judgemental, focused on known areas of concerns and weaknesses, and was made to provide broad coverage of a variety of programs and services. We examined 63 contracts worth \$1.5 Billion, awarded to those 30 contractors. For those contracts we performed a comprehensive evaluation which included a review of: need and justification determination; task and work order development; selection and award process; oversight and monitoring; cost controls and benefit analysis; and, contract close-out.

In addition to reviewing award and contract management files, we formally interviewed over 225 persons including HUD managers, Contract Specialists, Government Technical Representatives and Monitors, contractors and unsuccessful bidders.

The Government National Mortgage Association (GNMA) and Office of Federal Housing Enterprise Oversight (OFHEO) maintain their own contracting authority and offices. We selected three GNMA contracts for review. We did not select any OFHEO contracts for review, due to their limited volume

of expenditures.

Except where specifically stated, references in this report to HUD do not include GNMA or OFHEO.

The report is divided into the following sections:

- I Executive Summary
- II Contracting Authority, Organization & Activity
- III Areas Needing Improvement
- IV Recommendations
- V Specific Contract Reviews

The report identifies seven areas needing improvement: (1) better planning, need determination and periodic assessments; (2) cost consciousness; (3) contractor oversight and monitoring; (4) prohibited personal services and inherently governmental functions; (5) better coordination of data systems; (6) timely contract close-out; and (7) review of interagency agreements.

Audit work was performed between February 1997 and June 1997, and covered the years 1992 through 1996 and was extended to other periods where appropriate. We conducted the audit in accordance with generally accepted government auditing standards.

On May 29, 1997 the Deputy Secretary, Assistant Secretary for Administration, Assistant Secretary for Policy Development and Research, and others were briefed on the preliminary results of our audit.

On August 7, 1997 we issued a draft report and received a response on September 8, 1997. The responses have been carefully evaluated and considered and changes and/or clarifications have been made to this final report where appropriate. As requested, the response to the draft report is included with this final report as a separately bound attachment.

The report contains our recommendations for the areas needing improvement. Since we believe that improving contract management is an essential element to the success of HUD's 2020 Management Reform Plan, we are controlling these recommendations in the Automated Audits Management System (AAMS).

Within 60 days, please provide us for each recommendation made in the report, a status report on: (1) the corrective action taken; (2) any proposed corrective action and the date to be completed; or, (3) why action is not considered necessary. Also, please furnish us with copies of any correspondence or directives issued relating to this report.

If you have any questions, please contact me at (215) 656-3401.

EXECUTIVE SUMMARY

From 1992 through 1996, HUD awarded about 9,600 contracts worth over \$3.2 billion. Considering

staff reductions, reorganizations, and management pressure for timely services, the HUD procurement system processed a remarkable number of transactions over the past four years. Many of HUD's procurement actions resulted in quality, cost efficient products; but, there are also many instances where the time pressures of production and staff inattention to contract management resulted in ineffective and extremely costly contracts.

The lack of adequate planning, needs assessment, good initial estimates, monitoring, and control of costs on several multimillion dollar contracts has made HUD vulnerable to waste and abuse. Also, the absence of integrated financial and data systems to track contractor performance and cost is, in our opinion, a serious weakness. Departmental managers have for all practical purposes abdicated their procurement and contract oversight responsibilities with costly consequences.

We found several contracts where HUD used an indefinite quantity/task order process to expedite procurement, but the combination of vague work orders, inadequate estimates and lack of oversight led to incumbent contractors basically holding the Department hostage to the present contract. Consequently, HUD has found itself in some financially unsound and costly long term arrangements.

The problems related to contracting cited in this report were compounded over the past four years by continuing departmental weaknesses noted in our semiannual reports to Congress; namely, a lack of integrated financial and management data systems, dwindling experienced staff resources, and the proliferation of new programs and initiatives.

Since HUD plans to use contracts even more extensively in the future, it is imperative that improvements be made in the following areas of contract management.

- **Needs Determination, Planning, and Periodic Assessments**

While initial need determinations were documented for most contracts, we found little in the way of periodic reevaluations to assure the contract is *still* beneficial to the Department *and* worth the cost. Many contracts were extended longer than anticipated and more costly than originally estimated. In some instances, products or studies took so long to complete, that the results were no longer useful to HUD because of changing program priorities.

Another example of the need for periodic assessment are the contracts to advertise single family disposition sales. Recognizing that increased advertising might boost lagging sales and decrease holding time and cost on foreclosed properties, HUD awarded nationwide advertising contracts. However, after four years HUD has spent over \$147 million advertising property disposition sales. There is no evidence to support that this extensive campaign has been cost beneficial, or necessary in some markets today.

The Lockheed Martin contract, the Department's largest, was awarded with a provision

for renewing twelve, one year options. We found no evidence to indicate that HUD is evaluating whether the contract should be renewed each year or doing option analysis required by the Federal Acquisition Regulations. Instead, HUD is merely determining how much the contract should be for the next option year.

There are six option years remaining and HUD has already obligated over \$504 million of the original contract life estimate of \$525 million. If the remaining six options are exercised, the total contract could exceed \$1 billion. HUD is extremely dependent on this contract. Lockheed Martin handles HUD's entire computer operations including data storage. Considering the scope and integral importance of this contract to HUD, much more effort should be devoted to periodic assessment, cost control, monitoring, and contingency planning.

Also, inadequate planning and foresight can result in costly contracts. HUD has paid over \$90 million to a contractor for the development of a program tracking system, but does not have proprietary rights to the software, the data entered, or the user manuals.

- **Cost Consciousness**

By paying closer attention to negotiating contract terms, contract types, and overhead rates, HUD could save millions of dollars, especially in the area of information technology and consulting contracts. Management's contracting environment needs to change to seek ways to emphasize cost consciousness and assure the best value for dollars spent. Because HUD managers did not have the staff to complete the product or service in house, the question of "What will it cost?" was often not seen as an issue.

Current contract costs could be significantly reduced by providing better government estimates and allowing more competition. Indefinite Quantity Contracts (IQCs) gave HUD the flexibility of quicker and easier procurement, but often cost more because no competition was required for individual task orders. Without well defined task orders, HUD often had no idea as to what the final cost would be for these services.

In one example, the government estimate was \$247,000, the only technically acceptable proposal was \$469,000, and the contractor ended up being paid \$642,000. In another example, the final contract included 112 different tasks, but only 12 of those were similar to tasks identified in the original request for proposals.

- **Contractor Oversight and Monitoring**

We found contract monitoring very lax throughout the program areas. In some areas, HUD had contractors monitoring contractors. Many Government Technical Representatives (GTRs) and Monitors (GTMs) had a poor understanding of their respective role and responsibility.

Only basic contract training is provided, usually via distance learning broadcasts, and training is not a prerequisite to being assigned as GTR or GTM. In one case, the GTR was assigned to the contract for three years, but had not received any training on position responsibilities. We observed instances where GTRs/GTMs:

- Allowed HUD to be overbilled by not assuring invoices were in accordance with contract terms.
- Improperly authorized contract tasks, work and modifications prior to processing through Office of Procurement.
- Were unaware or failed to enforce contractors performing inherently governmental functions.
- Accepted less than complete contract work without financial credits or adjustments.
- Could not provide any documentation if certain tasks were or were not completed.
- Could not determine what had been paid under the contract, and had to get that informa

• **Contracting for Prohibited Services**

We found several instances where HUD appears to have contracted for types of services and assistance that are prohibited under the Federal Acquisition Regulations and HUD's Policy and Procedures. The Code of Federal Regulations prohibits an agency from awarding a personal services contract unless specifically authorized by statute, which HUD is not. We found contractors performing work which, in our opinion, meets the criteria established to describe the prohibited personal service, certain advisory and assistance services, and inherently governmental functions. In one example, KAJAX Engineering, Inc. a contractor providing assistance for the FHA Single Family program, had employees who work in the HUD building, are partly subject to direct supervision by government employees, use business and communications equipment supplied by the government, collect government fees from program participants, perform clerical functions also performed by HUD employees, and communicate with the public on HUD's behalf, without proper identification as a HUD contractor.

• **Coordinated Data & Financial Systems**

The Office of Procurement and Contracts (OPC) maintained the primary data system used to keep track of contracts awarded at headquarters. While it provided OPC with most of the critical elements of a contract they deemed important, we found the system inaccurate and not reliable for comprehensive contract management. Our review found numerous errors and omissions of data. For example, one contract showed a total award of \$68 million, however, the actual total was \$129 million, because five contract modifications had not been entered into the system.

HUD recently combined several systems into one procurement system for both

Headquarters and Field Offices, namely, the HUD Procurement System (HPS). While this goes a long way in improving OPC coordination and standardization between Headquarters and the field, the system still lacks integration with the financial systems in Office of Finance and Accounting. This is essential so that GTRs can readily determine exactly what has been paid or drawn per contract per task order. One contract we reviewed had 112 task orders, but the system can only show completion or non completion for the overall contract.

- **Timely Close-out Procedures**

The Department awards about 50% of its contracts on a cost plus basis. While this type of contract has both advantages and disadvantages in certain circumstances, one of the critical monitoring avenues for the Department is the final or close-out audit. This assures that the contractor charges only costs directly related to the contract and not unrelated corporate charges or excessive overhead rates and fees. There are currently 129 contracts, with costs of over \$ 900 million, that have been completed but audits have not been performed or requested. Some of these contracts awaiting audit have been completed since 1989.

- **Interagency Agreements**

The Department paid other Federal Agencies over \$263 million for services provided under numerous interagency agreements. In some instances, these agreements go back many years, and current GTRs could not explain certain provisions of the agreements, or what cost methodology was used to determine reimbursable amounts. For example, HUD paid the Department of Commerce, Bureau of the Census, over \$90 million from 1992 to 1996 for the American Housing Survey, survey of new home sales, and market absorption surveys. HUD needs to review these agreements to determine if the services provided are needed, or if the functions should be transferred to the Census Bureau.

Additional information on the above areas is contained in Section III of this report.

Both program managers and procurement officers need to take a more aggressive role in contract management. HUD's 2020 Management Reform Plan will need to allocate sufficient resources to improve existing weaknesses and address the increase in contracting expected by staff reductions.

To be effective, improvements must be coordinated by both contracting officers and program officials. Contracting officers need to recommend ways to streamline and expedite procurements, while providing better guidance and oversight to monitors and representatives, but program officials must provide accurate and specific task orders, avoid unrealistic time constraints, and provide technical representatives who will hold the contractors accountable.

The Department has recently taken some positive steps to address some of these areas, such as commissioning independent reviews of procurement in FHA, resuming requests for close-out audits, and undertaking a reassessment of FHA advertising costs, but much more needs to be done.

Section IV of our report contains some specific suggestions and recommendations to improve the

noted weaknesses in contract management. To sustain improvement, however, Departmental management will need to be creative in finding ways to correct existing contract vulnerabilities and meet the expected increase in demand for contract oversight.

CONTRACTING AUTHORITY, ORGANIZATION & ACTIVITY

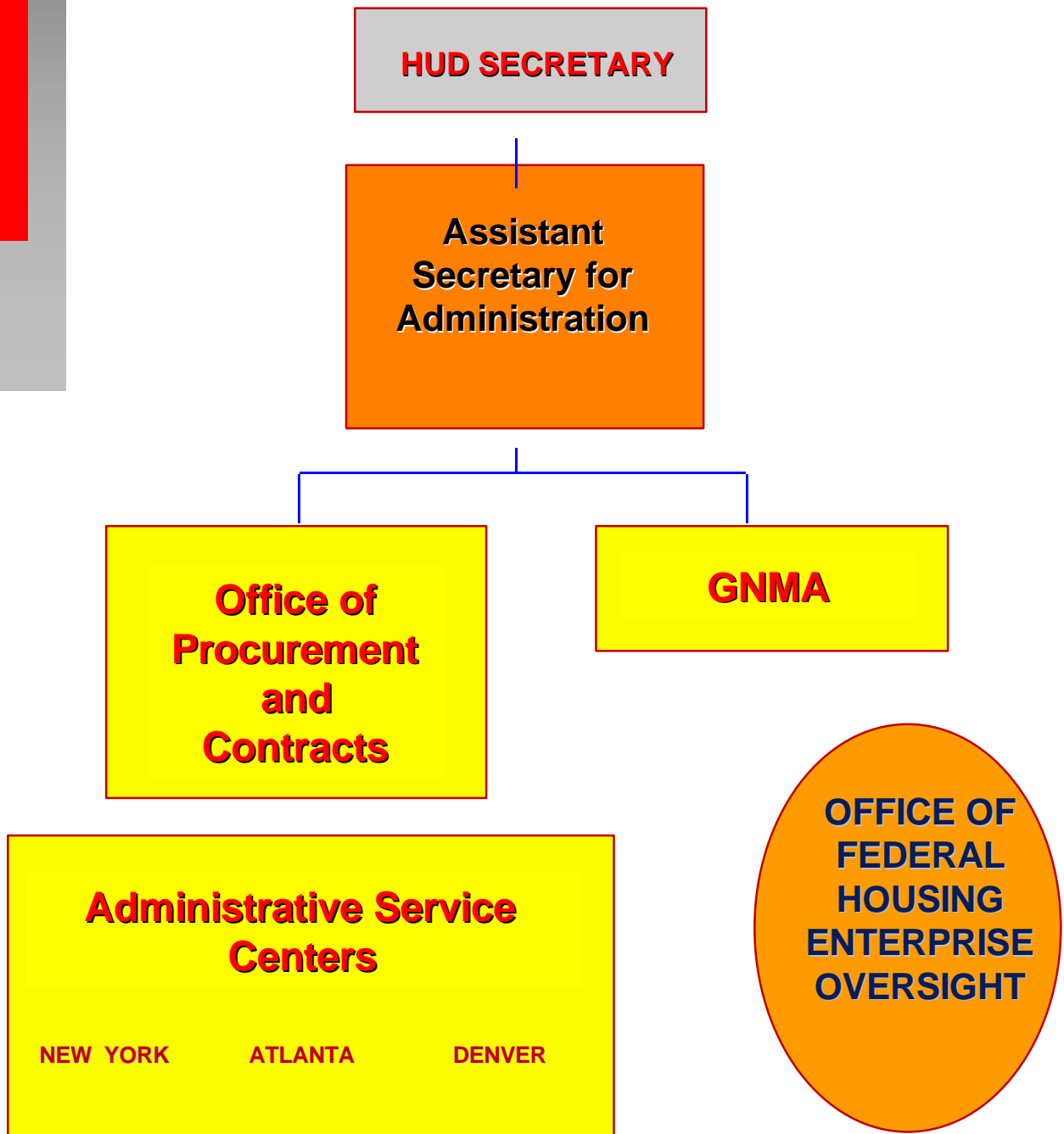
The following charts show HUD's delegation of contracting authority, the organizational responsibilities for contracting, and an overview of the types and amounts of contracting activity from 1992 through 1996.

HUD's contracting authority originates from the Department of Housing and Urban Development Act, Public Law 89-174 (1965). The Secretary delegates procurement authority to the Assistant Secretary for Administration, the senior procurement official for the Department. The Assistant Secretary further delegates procurement authority to the Director, Office of Procurement and Contracts (OPC), and to the President, Government National Mortgage Association (GNMA). OPC further delegates field office procurement to Administrative Service Centers' Contracting Divisions and Officers. GNMA contracting is performed by a GNMA Contracting Officer.

The Office of Federal Housing Enterprise Oversight (OFHEO), is an independent office of HUD established by the Housing and Community Development Act of 1992, Public Law 102-550. OFHEO's contracting authority comes directly from the law and is not delegated from the Secretary. We did not review OFHEO contracting, except for reporting the total dollars obligated during the audit period.

The Contracting Activity charts show examples of the types of services contracted by the Department for information technology, support for program administration, technical assistance to HUD program participants, and general administrative services. The dollar amounts, and contract types shown on the charts show information as recorded in the various HUD data systems and the information is generally unaudited except where our review found discrepancies, which are so noted throughout the report.

Contracting Authority & Organization



Contract Authority & Organization

■ *Responsibilities*

- *Office of Procurement & Contracting*
 - *Solicitation and award process.*
 - *Contract modifications.*
 - *Contract administration & close out.*
 - *Compliance with Federal Acquisition Regulations (FARs) and HUD regulations (HUDAR).*
 - *Policy , Technical Assistance and training to HUD program staff.*

■ *Responsibilities*

- *Program Offices*
 - *Prepare “Request for Contract Services”*
 - *Provide Government Technical Representative*
 - *Provide Government Technical Monitor*
 - *Provide Technical Evaluation Panel*

Information Systems

■ **(MIS) - Management Information System**

- *Headquarters OPC internal contract information data base maintained on a pc. Contains 80 elements of a contracting transaction, including type, office, fund, GTR, etc.*
- *Historical HQ Data from 1977 to Present.*
- *Not verified, has omissions and errors; not interactive with financial systems.*

FIELD OFFICE DATA SYSTEMS

- *1992 - 1995*
 - *10 Regional Contract Divisions*
 - *Variety of logs and systems and elements*
- *1996 - Present*
 - *3 Administrative Service Centers*
 - *NCAPS National Contract Administrative Procurement System - Partial Data*
- *1997 - HUD Procurement System (HPS)*
(Under construction) - Combines Headquarters and Field Office Under One System

Contract Activity

Information Technology Services

- ✓ *Systems Analysis*
- ✓ *Design Tracking & Data Systems*
- ✓ *Systems Design Training*
- ✓ *Systems Development*
- ✓ *System Engineering Services*
- ✓ *Systems Maintenance*
- ✓ *Systems Support*
- ✓ *Systems Modification*
- ✓ *Software Survey & Statistical Services*
- ✓ *Software Development*
- ✓ *PC Software Training*
- ✓ *Data Collection*
- ✓ *Data Preparation & Verification*
- ✓ *Data Entry & Editing*
- ✓ *Data Management & Analysis*
- ✓ *Creation & Application of Integrated Database*
- ✓ *Purchase Microcomputer Equipment*
- ✓ *Purchase PC Peripherals*
- ✓ *Audio Visual Equipment & Services*
- ✓ *Telecommunication Services*
- ✓ *Video Training Tapes*
- ✓ *Distance Learning Broadcasts*
- ✓ *Satellite Time Up Link Services*

Examples of Services Contracted

Contract Activity

Program Administration Services

OUTSOURCED SERVICES:

- ✓ *Mortgage Rating Services*
- ✓ *Appraisal Services*
- ✓ *Foreclosure Services*
- ✓ *Auction Services*
- ✓ *Claims Reviews*
- ✓ *MIP Reviews*
- ✓ *Mobile Home Inspections*
- ✓ *Mortgage Lenders Testing*
- ✓ *Market/Pricing Analysis*
- ✓ *Note Sales: Financial Advisory, Due Diligence, & Legal Services*
- ✓ *Multifamily Portfolio Restructuring: Legal Services*
- ✓ *Write, Update, Review & Revise Handbooks, Guides & Procedures*
- ✓ *Community Development Study*

Examples of Services Contracted

SURVEYS / STUDIES

- ✓ *Survey of Market Absorption New Multifamily Units*
- ✓ *American Housing Survey*
- ✓ *Survey New Homes/Housing Completions*
- ✓ *Section 8 Fair Market Rent Survey*
- ✓ *Victimization Survey*
- ✓ *HUD Staffing & Management Studies*
- ✓ *Study of HUD'S Ethics Procedures*
- ✓ *Multifamily Stock Study*
- ✓ *Public Housing Residents Anti-Crime Survey*
- ✓ *Training & Technical Assistance Materials , Videotapes*

Contract Activity

Technical Assistance to Participants

- ✓ *Empowerment Zone Evaluations*
- ✓ *Operation Weed & Seed*
- ✓ *Assist Communities in Minority Business Enterprises*
- ✓ *Lead Based Paint Abatement*
- ✓ *Portfolio Reengineering Demonstration*
- ✓ *Neighborhood Development Demonstration Program*
- ✓ *Child Care Demonstration Program*
- ✓ *Assessment of 25 Large Public Housing Developments*
- ✓ *National Neighborhood Networks*
- ✓ *Special Workout Assistance Team (SWAT)*
- ✓ *Independent PHMAP Assessments*
- ✓ *Evaluate Drug Elimination Program*
- ✓ *Evaluation of CDBG Entitlement Program*
- ✓ *Evaluation of Emergency Shelter Grant Program*
- ✓ *CHSP Frail & Elderly*
- ✓ *HBCU Program*
- ✓ *Fair Housing Initiatives Program Education & Outreach; Private Enforcement*

Examples of Services Contracted

Contract Activity

Administrative Services

- ✓ *Personnel Payroll System*
- ✓ *Employee Assistance Program*
- ✓ *Temporary Personnel Services*
- ✓ *Career Counseling Services*
- ✓ *Personnel Security Investigations*
- ✓ *Mail Handling & Micrographic Service*
- ✓ *Teleprocessing Support Services*
- ✓ *Library Services*
- ✓ *Advertising & Marketing Services*
- ✓ *FHEO/EEO Investigations*
- ✓ *Messenger/Courier Services*
- ✓ *Automated Mail Processing*
- ✓ *Custodial Services*
- ✓ *Electrical & Cabling Work*
- ✓ *Furniture Installation & Repairs*
- ✓ *Carpet Installation & Maintenance*
- ✓ *Landscaping Services*
- ✓ *Painting Services*
- ✓ *Pager Services*
- ✓ *Storage Facilities*
- ✓ *Retrieval Services*
- ✓ *Sign Language*
- ✓ *Interpreting Services*
- ✓ *Pick Up & Deliver*
- ✓ *Security Guards*
- ✓ *Lock & Key Services*
- ✓ *Elevator Maintenance*
- ✓ *Mail Research/Phone Inquiries*

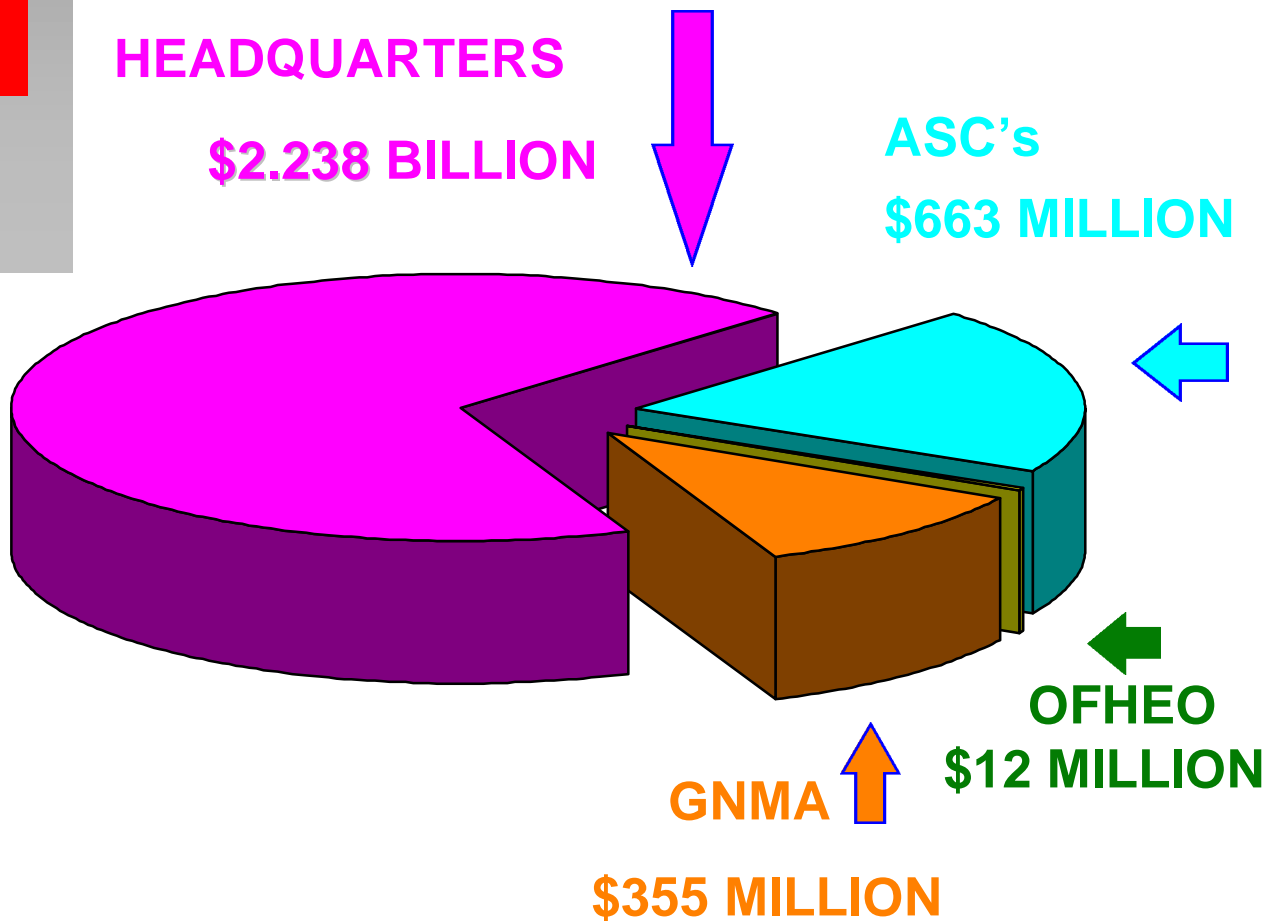
Examples of Services Contracted

Contract Activity

Section II

Amounts Recorded in Procurement Databases

1992 - 1996 Total: \$ 3.25 Billion



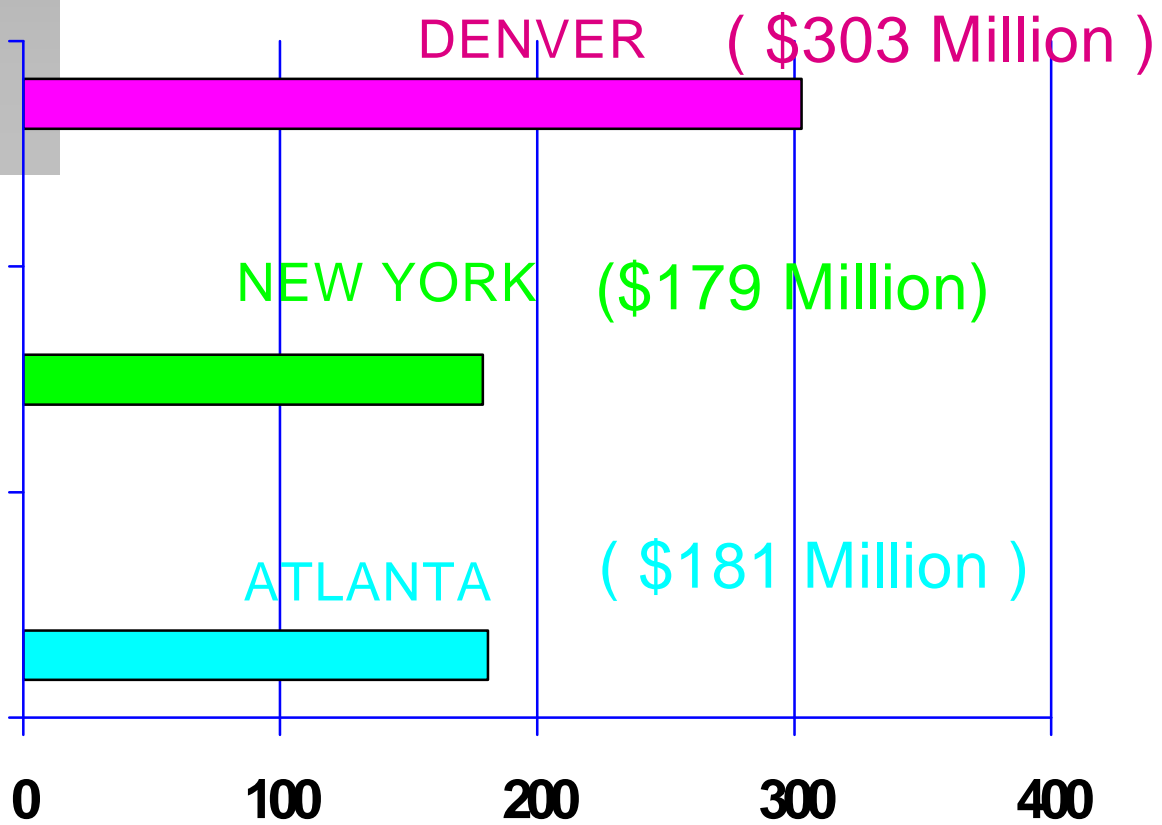
Contract Activity Section II

Headquarters Procurement By Office

IT - Information Technology	\$ 812.8 Million
H - Housing	697.4 Million
R - Policy Development	201.2 Million
D - Community Development	186.2 Million
A - Administration	134.1 Million
PIH - Public & Indian Housing	88.1 Million
L - Lead Based Paint	62.5 Million
E - Fair Housing / EO	26.8 Million
Other Offices	34.0 Million

Contract Activity

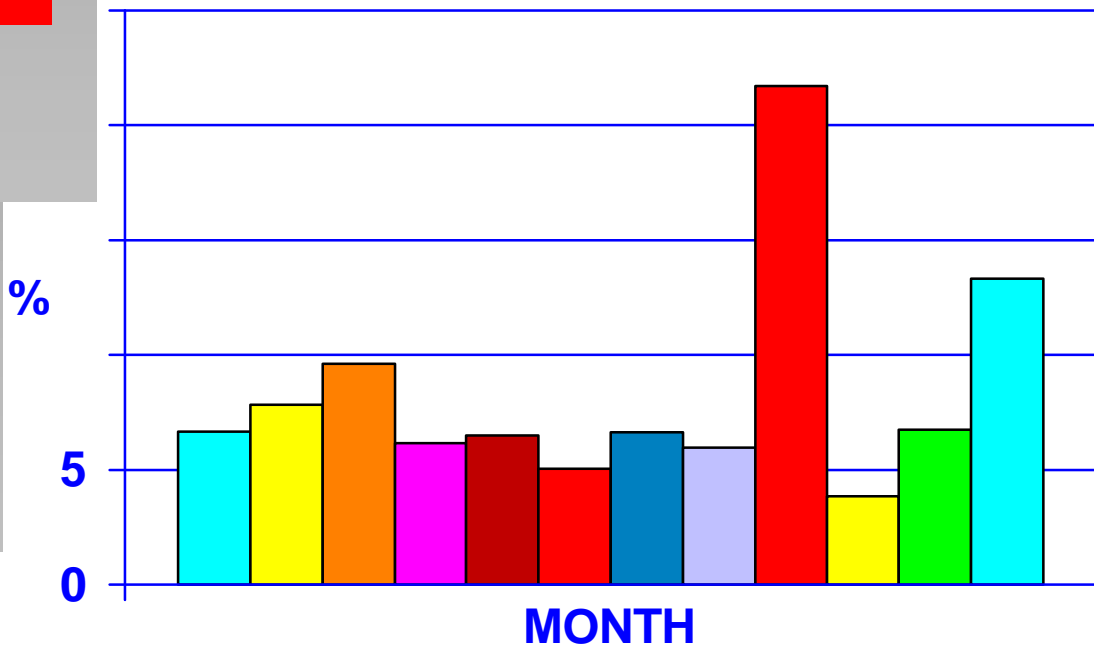
Administrative Service Centers



\$ MILLIONS

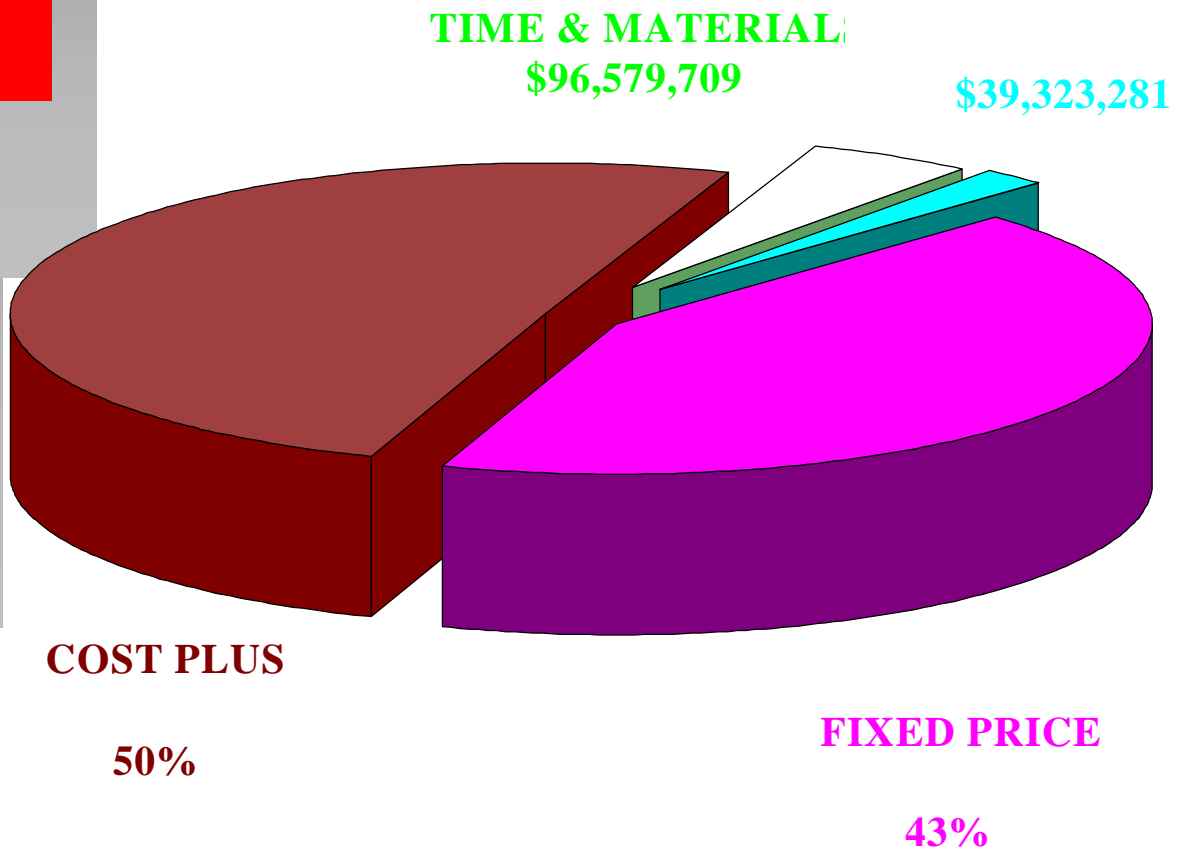
As Recorded in NCAPS System

Contract Activity Procurement By Month



Contract Activity

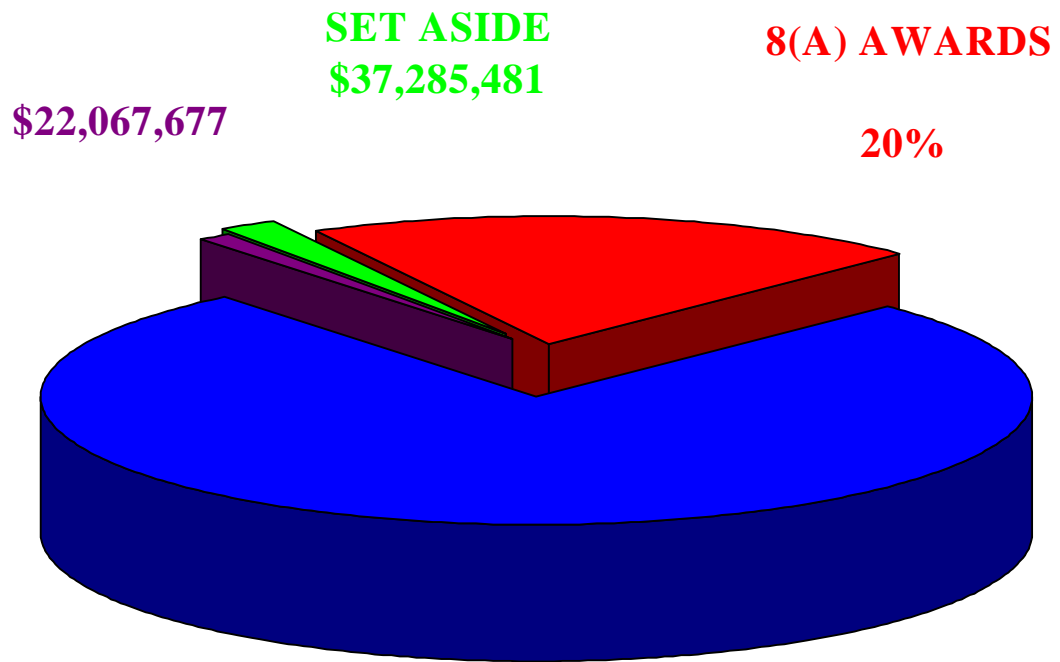
Types of Agreements - Headquarters



As Identified in OPC Database

Contract Activity

Solicitation Type - Headquarters



Set Aside - acquisition exclusively for participation by small business concerns .

8(a) Awards - procurement awards for socially and economically disadvantaged small business concerns as defined by SBA.

Interagency Agreements

❖ HUD Funds Paid to Other Federal Agencies for Services

Commerce / Census	\$ 112.6 Million
Health Human Services	24.4 Million
EPA	8.9 Million
Justice	12.9 Million
Energy	5.0 Million
& Others	99.8 Million
TOTAL	\$ 263.9 Million

AREAS NEEDING IMPROVEMENT

Many of HUD's procurement actions resulted in quality, cost efficient products, but there are also many instances where the time pressures of production and staff inattention to contract management resulted in ineffective and extremely costly contracts. The specific problem areas noted below were compounded over the past four years by continuous staff changes, reorganizations, changes in priorities, and depletion of experienced staff through attrition and buyouts.

Since HUD plans to use contracts even more extensively in the future, it is imperative that improvements be made in the following areas of contract management. Management must establish the philosophy and environment that every HUD employee should be assuring that the Department receives value for contract dollars spent.

The following issues were cross-cutting in programs and types of contracts reviewed, and, in our opinion, are the areas that need to be improved to provide assurance that HUD is obtaining the best value for contract dollars.

For brevity, the areas below contain only some examples of the results of the contracts reviewed. Section V of this report contains the results of the specific contracts and contractors reviewed.

1. Need Determination, Planning, and Periodic Assessments

The lack of adequate planning, needs assessment, good initial estimates, monitoring, and control of performance and cost expenditures on several multimillion dollar contracts has made HUD vulnerable to waste and abuse. The following are some examples in these categories:

Need Determination

- HUD paid \$180,878 to Aspen for CPD clearinghouse activities without receiving any benefit. The payments were for videos that were never completed (\$40,004) and for two conferences that were canceled (\$140,874).
- We noted that as of March, 1997, Frank DeStefano and Associates had not submitted the required performance report due in October, 1996. The primary objective of the contract was to provide a quick response to community development matters.
- It appears HUD did not use training materials it contracted Ralph G. Moore & Associates to develop. The GTR did not know if HUD, or how many communities used the training materials.

Planning

- HUD signed a \$13 million contract to go with a nationwide appraisal service, despite the fact that none of the three stated objectives appear to be met. HUD awarded a \$13,000,000 contract to SMS to provide nationwide appraisal services for its Single Family Real Estate Owned properties. During 1992, HUD ended its contract with TRW to enter into a national appraisal contract that would provide for wider pricing variations based on geographical areas. It was assumed that the new contract would result in more competitive pricing, lower overall costs, and greater use of the contract by Field Offices (FOs). Our review found that the contract did not provide for wider price variations based upon geographical area, lower costs to the Department, or result in a decrease in the use of local appraisers.
- HUD contracted with the Nickerson Group with one of the major initiatives of the first year tasks being the National Homeownership Summit scheduled for May, 1997. HUD paid the contractor \$285,000 to organize the Summit, then HUD canceled the Summit.

Periodic Assessments

- HUD entered a contract and continued to renew option years with Data Prompt Inc. (DPI) without properly considering the importance of the negotiated terms. HUD entered into three contracts to develop three computer systems and run them. In all three contracts HUD did not retain rights to the software or data. HUD has paid Data Prompt \$95 million and does not own the software, data, or users manual. As a result, HUD has been constrained by its contract with DPI since they own the system and the data.
- The Lockheed Martin contract was awarded with a provision for renewing twelve, one year options. We found no evidence to indicate that HUD is evaluating whether the contract should be renewed each year or evaluating possible alternatives to this contract. Federal Acquisition Regulations, Section 17.207, require the contracting officer meet certain criteria and document certain analysis before an option is exercised. Instead, HUD is merely determining how much the contract should be for the next option year.

There are six remaining option years on this contract and HUD has already obligated over \$504 million of the original contract life estimate of \$525 million. If the remaining six options are exercised, the total contract could exceed \$1 billion. HUD is extremely dependent on this contract. Lockheed Martin handles HUD's entire computer operations including data storage. Although Lockheed Martin maintains HUD's computer nerve center and main frame at a site in Lanham, MD, no HUD employees are assigned to or work at this facility. Considering the scope and integral importance of this contract to HUD, much more effort should be devoted to periodic assessment, cost control, monitoring, and contingency planning.

- Another example of the need for periodic assessment are the contracts to advertise single

family disposition sales. Recognizing that increased advertising might boost lagging sales and decrease holding time and cost on foreclosed properties, HUD awarded nationwide advertising contracts. However, after four years HUD has spent over \$147 million advertising property disposition sales. There is no evidence to support that this extensive campaign has been cost beneficial, or necessary in some markets today.

- HUD paid approximately \$360,000 of the contracted amount of \$402,797 to ICF to develop four guidebooks for the HOPE programs before canceling the order in March 1994 because the HOPE program was terminated. The original completion date for the guide was August 1992. Due to untimely reviews of ICF's work by HUD, the completion date was extended to January 1994. In March 1994, the Department terminated the program.
- HUD paid approximately \$74,959 of the contracted amount of \$118,300 to ICF for a user guide for a computer system. The order was canceled when HUD canceled the order for the installation of the computer system.

While initial need determinations were documented for most contracts, we found little in the way of periodic reevaluations to assure the contract is *still* beneficial to the Department *and* worth the cost. Many contracts were extended longer than anticipated and more costly than originally estimated. In some instances, products or studies took so long to complete, that the results were no longer useful to HUD because of changing program priorities.

2. Cost Consciousness

In some cases, HUD management knew it did not have the staff to accomplish a task, and needed contracting help. It also appears that HUD often contracted for a desired *outcome* without *specifically* knowing what tasks to request to achieve the outcome. While this may be a time saving process to award the contract, it often is the most costly, as HUD was unable to prepare good cost estimates on the tasks needed to accomplish the end product. As a result, the contractors were in an advantageous position as HUD was not in a position of rejecting costly modifications or time extensions, at the risk of having to start all over again. As we have found in our review, electing fixed pricing in a declining market and reducing periodic opportunities for competition result in some extremely expensive and lengthy contracts for HUD.

Examples:

- HUD is paying a higher price than needed for the \$71.6 million of computer hardware and peripheral equipment purchased by Lockheed Martin for HUD. Under the contract, HUD pays a set agreed upon price for the products. These prices are subject to periodic

adjustments. Computer prices have declined over the past few years, yet HUD has not required Lockheed to decrease the prices charged to HUD to reflect current market prices. Consequently, it has cost HUD more for these products since the price they were charged did not reflect the lower price that Lockheed paid for the products.

- HUD is paying over \$500,000 each month to Lockheed for a PC/LAN Maintenance Plan based on an inventory list maintained by the contractor. Our review disclosed that the cost of maintenance for obsolete equipment, as well as, new purchases (already covered under warranty) are being paid for under this Maintenance Plan. HUD has not monitored the inventory of the products charged under the maintenance plan to ensure that they should be on the plan.
- HUD could have saved over \$790,000 for the use of J.W. Thompson, an advertising and marketing consultant, if they had performed a better upfront cost analysis or negotiated a different type of contract. HUD entered into a contract with J.W. Thompson that actually cost the contractor \$791,368 less than HUD’s negotiated price for the job.

Need for Better Upfront Cost Determinations

- As shown in the examples below, the original contract costs for many contracts are significantly lower than the ending contract amounts. Escalating contract costs indicate a need for better initial cost determinations.

Contractor	Beginning Contract Amount	Ending Contract Amount
Strategic Mortgage Systems	\$13 million	\$42 million
NLS	\$38 million	\$129 million
Lockheed/Martin	\$500 million	\$1 billion +
Price Waterhouse	\$1.9 million	\$9.5 million

Adequate Competition & Better Government Estimates

Indefinite Quantity Contracts (IQCs) gave HUD the flexibility of quicker and easier procurement, but often cost more because no competition was required for individual task orders. Without well defined task orders, HUD often had no idea as to what the final cost would be for these services.

- The contract award for the National Conference of States on Building Codes and Standards (NCSBCS) has a history of lacking competition. NCSBCS has been HUD’s only contractor in charge of the monitoring of manufactured homes since the program’s inception in 1976. Further, the Association for Regulatory Reform has criticized HUD indicating that the RFP lacks competition and requires monitoring that exceeds Federal Guidelines. In particular, for the last two contract awards, in 1988 and 1993, there was no competition in 1988, and only one other bidder in 1993.
- Our review found that the Nickerson Group was not on the original solicitation mailing list but submitted a proposal that identified three contractors, one being ICF (the incumbent contractor), as possible subcontractors. All three firms expressed a willingness to be a

subcontractor for the Nickerson Group, yet not one of the three firms sent in their own proposal to be considered, even though all three firms were on the solicitation listing. The Source Evaluation Board recommended the Nickerson Group as the only technically acceptable proposal of the five received, thereby limiting competition. In addition, the Nickerson Group proposal came in at \$469,000 for year one, significantly more than the \$247,000 Government estimate and more than double the \$223,000 proposal received from KPMG. First year tasks were subsequently awarded at \$642,237.

- Although one unexercised option year remained in the contract, HUD added two option years to its contract with KAJAX two weeks prior to KAJAX graduating from the SBA's Section 8(A) program. When a contractor graduates from the program, the Government agency cannot add to the period of the contract's performance. HUD's justification for the early extension was the need for time to determine the course of action for future services. However, as of January 1997, one and a half years later, HUD had just started to pursue a course of action for future services.
- Six months after the contract award, Golden Feather requested and was granted an additional \$2 million in contract funds. This amount is a 119 percent increase over the original contract of \$1.7 million. The contractor stated that the funding increase was to continue timely performance of the contract through September 1997. No supporting documentation nor any analysis was provided as evidence for the increase in funds. If the modification was due to HUD's underestimating the amount of work required, the cost of this demonstration now increased by 119 percent. In addition, the Government cost estimate for the contract did not provide specific detail and analysis on how each cost element was determined.

IQCs are not the only contract types that could have benefited from better Government cost estimates. We noted the following examples for other contract types.

- Under one contract with HUD, Aspen was to operate HUD's library. To check the Government's adjusted cost estimate, the GTR used another agency's cost for operating a library. But, the agency's library was also operated by Aspen.
- For a portion of another contract with Aspen, the Government cost estimate was \$940,000 for four years of service. The contract award price was \$2,355,270.

While recognizing that HUD needs to accomplish tasks timely, by not having good cost estimates, or using every opportunity to obtain value through open competition, costs can quickly escalate beyond control, reducing the effectiveness of available contract dollars.

3. Contractor Oversight and Monitoring

Because some of these contracts have been ongoing for years, we found several instances where the current GTRs were not involved in the original award or even knowledgeable about the purpose or

usefulness of the contract. Where top level managers were assigned as GTRs, often they were too busy addressing other organizational and program crises to pay much attention to contract management. Where mid and lower level staff were assigned as GTRs, and GTMs, most regarded their role as ancillary to their current position, and only something else to do if they had the time. In fact, contract management was not one of the Departmental goals upon which they were evaluated.

The Office of Procurement and Contracts (OPC), at the headquarters level where most major contracts were awarded, is organized to provide guidance and evaluation for GTRs/GTMs, and at one time did Field Office and contract reviews to assure good management. Over the past few years, however, this role faded as the workload to solicit and award took priority over evaluation, contract management and close-out. The following are examples of poor oversight:

Oversight and Monitoring Needs Improvement

- HUD has spent \$21 million without evaluating the effectiveness of its national appraisal contractor, SMS's, services. HUD has no assurance of the competitiveness of the price they are paying for appraisals or whether SMS's work was satisfactory. The GTR has done no monitoring of the timeliness of appraisals, the reasonableness of appraisal price to actual selling price; or whether it is more beneficial to go with regional appraisers vs. a national appraisal service, since only 45% of the Districts are using this service.
- In many cases, GTRs are not maintaining working files that provide a history of the technical aspects of the contract. As such, there is no assurance that reviews and adequate monitoring are performed.
- GTR for Nickerson Group and for NYMA has had no GTR training and does not appear to be familiar with GTR responsibilities.
- HUD issued eight out of 10 task orders for KAJAX after the contractor began performing the work on the task orders. In addition, two out of five contract modifications were after the contractor began performing the work.
- The GTR was unable to perform adequate reviews of ICF's billing invoices because the invoices did not contain the information needed for an adequate review. Invoice statements did not include: hourly salary rates, names of the ICF personnel, or names of the subcontractors.
- HUD did not maintain documentation to show it had required work plans from Youthbuild USA for 32 of 48 (67 percent) grant recipients. Also, neither the GTR nor Youthbuild USA monitor the activities of the Youthbuild grantees.

Poor Controls Over Costs

- HUD was overbilled \$124,357 by J.W. Thompson because: 1) the GTR did not ensure that disbursements were in accordance with contract requirements; and 2) the payment

- system maintained by HUD (DPSAMS) does not track payments by individual delivery orders.
- The National Conference of States on Building Codes and Standards (NCSBCS) draw down history circumvents HUD system controls. NCSBCS draws down contract funds from OFA via a voice response system. The only specific control built into NCSBCS's draw down authority is that draws exceeding \$150,000 will not be paid without an upfront program review. Eighty of the 101 contract draws were between \$149,000 and \$149,900, or just below the threshold. No draw downs exceeded \$150,000. NCSBCS draws down about \$4 million per year and HUD has paid out about \$14.5 million over the past four years.
 - National Loan Service Center, Inc. (NLS) drew down nearly \$49.9 million from 1990 through 1993 via a voice response system without proper controls. HUD built no controls into the draw down procedures for NLS to ensure the propriety of withdrawals.
 - HUD paid Andersen Consulting \$2,576,007 for work completed through December 1996 but has yet to negotiate labor, general and administrative, overhead, or profit rates. Andersen Consulting has performed contracted work since December 1995 with an expected completion date of July 1997. Two additional contract modifications for additional monies have been expended.

4. Contracting for Prohibited Services

We found several instances where HUD appears to have contracted for services that, in our opinion, are prohibited under the Federal Acquisition Regulations and HUD's Procurement Policies and Procedures. These prohibited services included personal services contracts, advisory and assistance services contracts to aid legislative initiatives, and contracts to perform inherently governmental functions.

1. Personal Services

Government agencies are prohibited from awarding personal services contracts unless they are specifically authorized by statute to do so [48 CFR § 37.104(b) (1996)]. A personal services contract is characterized by the employee-employer relationship it creates between the Government and the contractor's personnel. An employee-employer relationship under a service contract occurs when, as a result of the contract's terms or the manner of the contract's administration, contractor personnel are subject to the relatively continuous supervision and control of a Government officer or employee.

Factors that indicate whether an employee-employer relationship exists include: (1) contractor

personnel perform work at a Government site; (2) principal tools and equipment are furnished to contractor personnel by the Government; (3) contractor's services are applied directly to assigned functions or missions of the Government agency; (4) comparable services, meeting comparable needs, are performed in the same or similar Government agencies using civil service personnel; (5) the need for the type of services provided by the contractor can reasonably be expected to last beyond one year; and (6) the nature of the services, or the manner in which they are provided reasonably requires, directly or indirectly, Government direction or supervision of contractor employees in order to: (a) adequately protect the Government's interest; (b) retain full control of the function involved; or (c) retain personal responsibility for function in a duly authorized Federal officer or employee.

We found the following contracts where the above conditions were evident:

- KAJAX Engineering, Inc. The contractor appears to have personnel who are providing personal services to HUD. Such personnel work in the HUD Headquarters building and are at least partly subject to direct supervision by Government employees; use business and communications equipment supplied by HUD; collect fees arising from HUD's programs and communicate with the public on HUD's behalf; and perform clerical functions that are also performed by HUD employees. Further, HUD will need to supervise the contractor's collection of fees and communication with the public in order to protect HUD's interest and retain responsibility.
- NYMA, Inc. The contractor appears to have personnel who are providing personal services to HUD. Such personnel work in the HUD Headquarters building and are at least partly subject to direct supervision by Government employees; use business and communications equipment supplied by HUD; administer a communications equipment contract that supports HUD's mission; and perform contract administration functions alongside HUD employees. Further, HUD will need to supervise the contractor's administration of HUD's communications equipment contract to protect HUD's financial interests.

2. Certain Advisory and Assistance Services

Government agencies are also prohibited from awarding advisory and assistance services contracts where the contractor will aid in influencing or enacting legislation [48 CFR § 37.203(c) (4) (1996)]. Advisory and assistance services are services provided under contract by nongovernmental sources to support or improve organizational policy development, decision-making, management and administration, program/project management and administration, or R&D activities.

- Frank DeStefano and Associates. The contractor appears to have aided in influencing or enacting legislation under an advisory and assistance services contract. Invoices submitted by Frank DeStefano and Associates referenced numerous instances of communications by the contractor, concerning HUD's legislative initiatives, with advocacy groups and Congressional staff. Such invoices also describe legislation and legislative justifications drafted for HUD by the contractor.

3. Inherently Governmental Functions

Government agencies are also prohibited from awarding contracts for the performance of inherently governmental functions [48 CFR § 37.102(b) (1996)]. Inherently governmental functions, as a matter of policy, are functions that are so intimately related to the public interest as to mandate performance by Government employees. Inherently governmental functions include activities that require either the exercise of discretion in applying Government authority, or the making of value judgments in making decisions for the Government.

Examples of functions considered to be inherently governmental functions or which shall be treated as such, include: (1) administering contracts (including ordering changes in contract performance or contract quantities, taking action based on evaluations of contractor performance, and accepting or rejecting contractor products or services); (2) determining whether contract costs are reasonable, allocable, and allowable; (3) collecting, controlling, and disbursing fees, royalties, duties, fines, taxes, and other public funds, unless authorized by statute; and (4) drafting of Congressional testimony, responses to Congressional correspondence, or responses to audit reports from the Inspector General, the General Accounting Office, or other Federal audit entity.

- KAJAX Engineering, Inc. The contractor appears to have performed inherently governmental functions for HUD. KAJAX Engineering, Inc. personnel collected certain fees payable to HUD.
- Frank DeStefano and Associates. The contractor appears to have performed inherently governmental functions for HUD. Invoices submitted by the contractor included numerous references to the contractor drafting responses to Congressional correspondence/requests for HUD.
- GNMA contracts: Mitchell & Titus, Arthur Andersen, Price Waterhouse, and Williams Adley & Company. The contractors appear to have performed inherently governmental functions for GNMA. These GNMA contractors determined whether invoices submitted to GNMA by other contractors were reasonable, allocable, and allowable (e.g., whether services were rendered and required by underlying contracts).
- NYMA, Inc. The contractor appears to have performed inherently governmental functions for HUD. Invoices submitted by NYMA, Inc., described numerous instances of the contractor's personnel accepting and rejecting communications equipment supplied to HUD by another contractor.

5. Better Coordinated Data & Financial Systems

Contracts awarded at Headquarters are tracked by a data system maintained by the Office of Procurement and Contracts (OPC). Although the data system may have provided OPC with critical elements of a contract OPC considers important, we found the system inaccurate and not reliable for

comprehensive contract management. Our review noted numerous errors and omissions of data. The following illustrates some of those errors and omissions:

Contractor	HUD's Data System	Actual	Other Comments
Data Prompt	\$68 million	\$100 million	
NLS	\$68.2 million	\$129 million	5 modifications missing
Aspen	\$51.7 (21 contracts)	\$73 million on a review of only 7 contracts	

Recently, HUD combined the Headquarters and Field Office systems into one system, the HUD Procurement System (HPS). Although this step is an improvement by combining both Headquarters and Field Office data, the system still is not integrated with the financial systems in the Office of the Chief Financial Officer. This is a necessary step to enable GTRs to readily determine the status of the contracts and the status of individual task orders. Currently, this information is not readily available.

6. Timely Closeout Procedures

Approximately 50 percent of the contracts awarded by HUD are cost plus contracts. Under this type of contract, one of the critical steps for the Department is the final or close-out audit. This is the Department's assurance that the contractor charges only costs directly related to the contract and that applicable overhead rates and other fees are appropriate. Currently, 129 contracts with costs of over \$900 million have been completed but close-out audits have not been performed or requested. Some of these contracts have been completed since 1989.

- HUD has yet to perform the necessary reviews to definitize a delivery order under the J.W. Thompson contract which ended in April 1995. The final close-out audit was not scheduled until May 1997.
- A contract with American Management Systems, Inc. expired in June, 1996. As of June, 1997, HUD had not requested the final audit of the contract. Without the audit, HUD has no assurance that \$16 million spent for software and technical assistance was proper.
- HUD has not had a close-out audit of a contract with National Loan Servicer, Inc. even though the contract was completed in August, 1993. As a result, HUD does not know whether contract funds were properly spent for property and foreclosure related expenses.

7. Interagency Agreements

The Department paid other Federal Agencies over \$263 million for services provided under numerous interagency agreements. In some instances, these agreements go back many years, and current GTRs could not explain certain provisions of the agreements, or what cost methodology was used to determine reimbursable amounts.

- For example, HUD paid the Department of Commerce, Bureau of the Census, over \$90 million from 1992 to 1996 for the American Housing Survey, survey of new home sales, and market absorption surveys. HUD needs to review these agreements to determine if the services provided are needed, or if the functions should be transferred to the Census Bureau.
- Lead-Based Paint (LBP) initiatives are the focus of the majority of the interagency agreements with Department of Energy (DOE), Health and Human Services (HHS) and Environmental Protection Agency (EPA). Interagency Agreements for LBP activities from March 1992 through November 1996 totaled \$11,968,910. In addition, during the audit period, the Office of Lead-Based Paint Abatement and Poisoning Prevention (OLBP), contracted for an additional \$62.5 million in support of that office's mission.

HUD continues to rely on other agencies, particularly EPA, to provide technical analysis, produce reports, develop programs and guidelines for the evaluation and control of lead-based paint hazards. HUD is also dependent on cost information provided by other agencies and their contractors, since cost is tasked as part of other larger contracts. OIG's report Opportunities for Terminating, Consolidating and Restructuring HUD Programs issued December 1994 stated that lead poisoning is a public health problem that transcends HUD's ability and financial commitment to solve. The report concluded that Lead Poisoning issues are broad and extend far beyond housing. The lead poisoning issue is a public health problem and as such, is better handled outside the Department. We recommended that all research, technical assistance, and risk assessment activities should be turned over to EPA. Actual identification and abatement enforcement should be delegated to State and Local Health Agencies.

EPA's stated goal is to reduce lead exposures to the fullest extent practicable and to avoid high blood lead levels. The agency is particularly interested in reducing the risk of exposure to children.

According to EPA officials, the Chemical Management Division (CMD) within the Office of Pollution Prevention and Toxins would absorb HUD's Office of Lead-Based Paint Abatement and Poisoning Prevention programs. CMD currently has a staff of 58, the majority of whom work on lead and asbestos issues. EPA does not believe it has the expertise to involve itself in the management of lead-based paint in public housing, or absorb HUD's LBP program/regulatory staff. EPA does believe it could assimilate other activities, such as administering LBP grants, and absorb HUD's technical staff.

HUD 2020 Management Reform Plan requires HUD to streamline, consolidate programs and refocus staff. Since EPA administers lead programs that parallel or overlap HUD's research and regulatory responsibility, for efficiency purposes, we believe that lead poisoning would be more

effectively administered from EPA.

RECOMMENDATIONS

Below are several suggestions and ideas on how HUD can improve contract management to prevent fraud, waste and abuse. The OIG is willing to continue working with top management to design and construct any additional ideas or concepts that will improve operational efficiency.

1. Needs Determination, Planning & Periodic Assessments

(a) Efforts to improve economy and accountability in contracting must come from top management. Senior staff need to establish necessary reviews and assessments that ensure only essential services and products are procured.

(b) Since about 85% of the Headquarters' contracts ended up in amounts in excess of \$5 million, HUD should establish a threshold whereby contracts in excess of that amount need to be concurred by the CFO, Deputy Secretary or similar officials outside the program cylinders to assure the contract is a "critical need" and not just a "nice to have" service or study.

(c) Many of the multimillion dollar contracts extend beyond three years, so there should be a similar review periodically, and possibly using PD&R staff to do cost benefit analysis on major contracts. HUD has made some poor judgements in awarding long term contracts because of the changing mode of the Department's programs, organization and staff resources.

(d) Specifically in the area of information technology, HUD needs to perform more frequent planning and assessment to assure what was contracted for yesterday will meet the needs of tomorrow. In the ever changing field of computer technology, it is essential for HUD to have adequate, qualified staff to see that all of the Department's contract efforts in this area remain feasible, coordinated and cost efficient.

(e) Some degree of legal review and input is necessary on major contracts to assure that termination, negotiation and proprietary rights clauses are adequate to protect the Department's investment.

2. Cost Consciousness

(a) Efforts must be made to provide contract negotiators and Government cost estimators with the tools and resources needed to protect HUD's investment in major contracts. Too often HUD staff have no idea what these services should cost; what rates or clauses are common to the industry; or are not provided enough time to do adequate preliminary work. This often places the time-pressured procurer at a disadvantage with the contractor. Too much reliance is placed on the contractor's cost proposals. HUD program and OPC staff need to work together to do more to assure the

reasonableness of the awarded amount.

3. Contract Oversight and Monitoring

(a) Complete and current training should be a prerequisite to assignment as a Government Technical Representative or Monitor (GTR/GTM). Refresher courses and recertification should be required every 2 years. Performance standards need to be amended to provide for an evaluation of those assigned GTR/GTM duties.

(b) Full time GTR/GTM advisors should be available in OPC to counsel program staff on problem areas or issues. This full time staff should also serve as supervisors and rating officials for GTR/GTM responsibilities.

(c) Minimum filekeeping requirements and standards should be followed by GTR/GTMs. OPC evaluations and reviews should assure that the minimum requirements are followed.

(d) Data systems integrated to financial payments need to be made available to GTR/GTMs so contractor performance and payments can be monitored. Currently, unless a GTR keeps a handwritten record of payments to a contractor, the only way this information can be obtained timely is from the contractor.

(e) Program managers and senior staff need awareness training as to the responsible functions the GTR/GTMs perform. Managers should amend the GTR/GTM workload accordingly to allow sufficient time to manage the contracts.

4. Prohibited Services

(a) Contracts identified as prohibited under the Federal Acquisition Regulations should be terminated in accordance with termination clauses provided in the specific contracts.

(b) Procedures should be implemented to prevent future contract awards for prohibited services.

5. Coordinated Systems

(a) Continue to improve and integrate HUD's procurement and financial systems as stated in HUD's 2020 Management Reform Plan. System integration is essential so that GTR's can readily determine exactly what has been paid or drawn per contracts and task orders. The integration of HUD's financial systems should provide for comprehensive financial reports that can cross-cut all of HUD's disbursement centers to produce contract disbursement reports that include all contract disbursements regardless of funding source.

6. Timely Close-out of Contracts

(a) Because there are more than one hundred completed contracts over \$500,000 that need to be audited, it is unlikely that either the Office of Inspector General or the Defense Contract Audit Agency will be able to complete any significant number of these audits soon. OPC needs to work closely with the OIG to prioritize the list to reduce HUD’s risk. Where DCAA has resident auditors and work in process, turn around time may be minimal. However, OPC should consider contracting out some of this work under the government wide auditing contracts available through the President’s Council on Integrity and Efficiency and Department of Labor.

7. Interagency Agreements

(a) HUD needs to establish an evaluation panel to look at the current interagency agreements to determine if : 1) they are still needed in the scope and format provided, 2) the most cost efficient method is being used, 3) an understanding of the cost methodology being used for reimbursable amounts, and the controls applied to those controls by the providing agency.

8. Contracts Reviewed In This Audit

(a) Section V of this report provides the results of our review of 30 specific contractors and various contracts. OPC should follow up on these items to determine what steps are necessary to protect the Department’s interest and where necessary, either amend or terminate those contracts that are not providing a necessary service, or cost efficient results.

(b) OPC should also provide specific instructions to those GTRs/GTMs who need to increase or improve their monitoring and oversight of these contracts. In addition, OPC should review these cases with OGC to determine if the Department can recoup any funds from the contractors.

CONTRACTOR

ABT Associates
 55 Wheeler Street
 Cambridge, MA 02138

CONTRACTS REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Original Contract Amount	Contract Amount
5889	Office of Policy Development and Research	6/14/91	Indefinite Quantity/Cost Plus Fixed Fee	\$100,000 - \$2,500,000 awarded as three separate	\$3,049,741

18374	Public and Indian Housing - Office of Management and Policy	8/01/91	Indefinite Quantity/Cost Plus Fixed Fee	contracts \$50,000-\$4,000,000 awarded as five separate contracts	\$2,551,536
5953	Office of Policy Development and Research	2/28/95	Indefinite Quantity/Cost Plus Fixed Fee	\$400,000-\$3,000,000	\$3,119,642

AMOUNT OF MODIFICATIONS

Contract Number	Modifications
5889	Three modifications, one funding change increased contract maximum to \$3,000,000
18374	Three modifications, no change in funding
5953	One modification, increased contract maximum to \$3,900,000

AGREEMENT TYPE

#5889 and #18374-Indefinite Quantity Contract (IQC)-Cost Plus Fixed Fee
#5953- Cost Plus Fixed Fee

Background

ABT Associates is a for-profit government and business consulting and research firm. Approximately 90% of ABT's business relates to the government sector, of which nearly all contracts are cost reimbursable contracts. ABT's contract revenues from HUD exceed \$15 million since 1991. HUD contracted ABT for the following:

- #18374-Management support services to HUD's Office of Public and Indian Housing for technical writing, management analysis, research evaluations, and technical assistance, training, seminars/conferences;
- #5889-Studies relating to public or assisted housing, homeownership and affordable housing, fair housing and equal opportunities, or community development;
- #5953-Longitudinal tracking and monitoring project for Moving to Opportunity program.

Review Results

Tasks

While regulations do not require HUD give consideration to each awardee for tasks ordered under multiple award IQC's, it would have been in HUD's best interest to do so. Under contracts #18374 and #5953, HUD competitively procured large IQC's with broad statements of work, and then awarded non-competitive cost plus fixed fee tasks to previously selected contractors. Specifically, these two procurements resulted in 8 IQC's not to exceed \$27.5 million. The GTR's and GTM's believe the reluctance to competitively award tasks within IQC's was because of the time required for procurement. No determinations were made as to whether procurement decisions were the most advantageous course of action available to HUD.

Competition

It may have cost HUD more or HUD may not have obtained the product they really needed, due to non-competitively awarded task orders. For example, under contract #18374, task order #2, HUD accepted ABT's proposal of \$912,516 even though it was significantly higher than the Government's estimate of \$560,000. Had HUD bid this work competitively, the work may have been contracted at a lesser amount.

In another example, HUD reduced the scope of the work in order to lower costs, but as a result, may have compromised the value of the product to keep costs within the estimate. In this case, HUD determined that it would need a survey to assess management needs and resident satisfaction for Chicago Housing Authority projects by specific development. HUD estimated the job to cost \$500,000. HUD obtained only one proposal, from ABT, at over \$900,000. Instead of soliciting other proposals, HUD had ABT submit a modified survey which was in line with their cost estimate for the job. However, the scope of work was changed to a survey of residents by project type instead of by development. We believe that the modified survey compromised the value of the results. Specifically, the first wave of results disclosed problems/trends that should have already been evident in a troubled housing authority. For example, survey results reported very general problems/trends such as: residents of senior housing were the most satisfied with their buildings, and residents of senior housing were the most satisfied with building and apartment maintenance. Consequently, it appears the general nature of the survey limits the effectiveness of the results.

Scope and Cost

The Contractor, not HUD, developed the scope and the cost of services to be performed under contract #18374. Task order #2 of the contract required the contractor to perform up to five specific tasks at five separate housing authorities. Our review found that it was ABT who informed HUD as to what specific tasks they intended on performing and the cost of these tasks at the different housing authorities. There was no documentation file to indicate that HUD had any input as to the tasks performed or the cost. For example, at the Atlanta Housing Authority, ABT indicated that they would perform two of the five tasks for \$85,604 and then later added another task for an additional \$63,306. We found no evidence to suggest that HUD reviewed the scope or the cost to determine if these tasks were needed or whether the cost was reasonable.

HUD's management response states the files do not support the audit conclusions that the contractor developed the scope of services, and they provided a chronology of the HUD involvement in Task Order #2 culminating with the award on February 27, 1995. However, as stated above, as awarded, the scope of services for Task Order #2 does not detail the scope of services at each troubled housing authority. File documentation indicated the actual scope of services to be performed at the housing authorities was developed subsequently by the contractor.

Oversight and Monitoring

Our review disclosed that the GTM files for contract #18374, task order #2, did not contain adequate documentation to determine the scope of services provided by the contractor at the five troubled PHAs or to support contractor's performance. As such, we were unable to determine exactly what tasks the contractor performed at each of the five housing authorities or whether HUD adequately monitored and provided oversight to the contractor. For example, the GTM did not provide any report or assessments as to the technical assistance work performed by ABT at the Springfield Housing Authority. HUD has paid \$180,323 to ABT, but could not readily provide any reports or assessments that detailed the scope of services and the results provided at the PHA.

HUD's management response states the specific work performed at each housing authority was thoroughly discussed by the GTM with the housing authority and with the contractor prior to any of the tasks being performed. Also, the management response stated the contractor regularly provided progress reports which could be matched back to invoices.

During the review the GTM was repeatedly asked for reports and documentation supporting the contractor's performance. Specifically, the GTM was asked if he could provide any definitive product/assessment of the contractor's results to include:

- follow up or feedback from the PHAs who received the technical assistance to determine if it was useful;
- reports that detailed the scope of services provided at the PHAs and the results;
- type of quantitative measures to determine if the PHA's PHMAP scores increased in the areas the technical assistance was provided; or
- any other performance measures to gauge the technical assistance results.

Except for very superficial progress reports, the GTM could not provide any reports or assessments as a result of the technical assistance.

CONTRACTOR

Advanced Technology Systems (ATS)
 7915 Jones Branch Drive, 3rd Floor
 McLean, VA 22102

CONTRACT REVIEWED

Advanced Technology Systems was awarded eight contracts from 1992-1996. We reviewed one.

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
16326	Office of Information	11/23/92	Cost-plus-fixed-	\$29,790,334

Policies & Systems

fee

The contract runs for one year with four option years. Contract Authority as of June 25, 1997, \$51,763,505.

AMOUNT OF MODIFICATIONS

As of June 12, 1997, there were 40 modifications resulting in total obligations of \$46,740,213.

Background

HUD entered into eight contracts with Advanced Technology Systems (ATS) from 1992-1996. We reviewed one of these contracts. In November 1992, HUD awarded a cost-plus-fixed-fee contract to ATS to provide system development and system maintenance support. The original contract was for \$29,790,334 and allowed for four option years. As of June 25, 1997, the contract amount is \$51,763,505. The contract is still in process and will expire on August 31, 1997.

REVIEW RESULTS

Planning

HUD did not properly design for its contracting needs upfront prior to setting the parameters of the contract. The contract amount has had 40 modifications. Contract Authority awarded originally at \$29.8 million has increased to \$51.8 million, a 74 percent increase.

Contract Type

HUD negotiated a Cost-Plus-Fixed-Fee contract. Under this contract type, overhead costs are not fixed but are based on a percentage of the contractor's costs incurred. Hence, the higher the contractor's expenses are, the higher the overhead costs will be. We believe that a cost structure more advantageous to the Government could have been negotiated for this contract.

Data

The Office of Procurement and Contracts' (OPC) database did not accurately reflect contract amounts. There were 36 funding modifications (obligations/deobligations) listed in the database; our review disclosed that nine (or 25 percent) were incorrectly stated. Eight of the errors were a result of inaccurate recording of funding decreases (deobligations) as funding increases (obligations). Based on these errors, the contract amount was overstated by \$981,639. In the ninth error found, the database understated a contract obligation by \$673,468. In total, the OPC database overstated the total contract amount by \$308,171.

Modifications

HUD has not amended the contract's task specifications timely to ensure that invoiced amounts do not exceed the task specifications. As of June 25, 1997, the Monthly Contract Financial Planning Report showed that an excess of \$3,321,480 (76,760 hours) was billed over the task specifications.

CONTRACTOR

American Management Systems, Inc.
12601 Fair Lakes Circle
Fairfax, VA 22033

CONTRACTS REVIEWED

Contract Requesting/ Contract Contract Contract

Number	Funding Office	Date	Type	Amount
16350	Chief Financial Officer's Office	July 1996	-Indefinite Quantity/ Labor Hours -Firm-Fixed Price (Maintenance Contract)	-\$600,000 min to \$30 million max* -\$5500/mth*
16330	Chief Financial Officer's Office	January 1993	Firm-Fixed Time and Materials	\$16,073,098**

* Total payments as of 6/30/97: \$3,687,197

**Original contract amount for contract #16330 \$243,604. Subsequently, nine Delivery Orders issued for technical support. Figure represents final contract amount.

AMOUNT OF MODIFICATIONS

-Contract #16350 contained no funding modifications.

-Contract #16330 contained 31 modifications, funding was increased by a total of \$15,101,227.

Background

We reviewed HUD's contracts with American Management Systems, Inc. (AMS); contract #16330 and #16350. In January 1993, HUD awarded a firm-fixed price time and materials contract (#16330) to AMS to provide the software and technical support services needed for the conversion of AMS's Federal Financial System (FFS) to HUDCAPS (HUD's Centralized Accounting Program System). The original contract for software was set at \$243,604. Delivery orders were issued for technical support. The final contract amount was \$16,073,098. In July 1996, HUD's contract with AMS was continued with a new contract, #16350, to perform the same services as required under contract #16330. Contract #16350 was slightly different in that it set a 12 month firm fixed contract price of \$5,500 per month for maintenance and a four year indefinite quantity/labor hour contract at a \$600,000 minimum to a \$30 million maximum.

Review Results

No problems were found with contract #16350. However, our review disclosed some problems with contract #16330.

Delivery Orders and Modifications

HUD OPC approved five out of nine (55%) Delivery Orders and nine out of 14 (64%) contract modifications after AMS began performing the work. The Delivery Orders funded AMS technical support services needed to operate the systems. The contract modifications added funding to the contract. HUD OPC said the orders and modifications were approved after AMS began performing

the work because they received the requests and documents late.

Selection Process

HUD staff circumvented its own procedures in awarding the contract to AMS, and as such, may have inhibited competition. HUD staff's strategic plan stated that HUD must allow prospective bidders at least 30 days to respond to HUD's Letter of Interest. However, for the contract in question, HUD only allowed 11 working days for bidders to respond. HUD received only one bid, from AMS.

In its response to the draft report, HUD replied:

"HUD staff did not circumvent procedures in awarding a contract to AMS. The contract was procure issuance of the RFP) as defined in the Federal Acquisition Regulations (FAR) did not have to be followed..."

As stated in the draft report, HUD included in its own strategic plan that HUD will allow bidders at least a 30 day response time. HUD's files did not contain any evidence to indicate the strategic plan would not be followed. By allowing bidders only 11 working days to respond, HUD circumvented its own procedures and limited the competition.

HUD Restricted

HUD is bound to AMS to provide technical support for HUDCAPS. AMS, the creator of FFS, retains copyrights to the system. Therefore, as long as HUD uses AMS's FFS systems, AMS will be the only provider of the technical support.

Data

HUD does not maintain accurate or reliable data on AMS's contract. A review of the Office of Procurement and Contracts' computer database for the AMS contract #16330 disclosed the database failed to contain 45 entries from the contract, including one entire contract modification. The missing modification deobligated \$54,382 in contract funds.

Close-Out

Contract #16330 expired in June 1996. As of June 1997, HUD had not requested the final audit and did not know when the final audit would be requested. Thus, HUD has no assurance that \$16 million spent for software and technical assistance was proper.

HUD stated the contractor has not submitted its final invoice under the contract, therefore, a final audit has not been requested. According to HUD, the contractor is awaiting completion of an indirect cost audit for 1996 in order to prepare its final invoice to HUD.

CONTRACTOR

Andersen Consulting LLP
 1666 K Street N.W.
 Washington, DC 2006-2873

CONTRACTS REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
16984	Chief Financial Officer	May 1991	Indefinite Quantity	\$4,000,000
18494	Public and Indian Housing	October 1995	Indefinite Quantity	\$5,000,000*
18539	Office of Information Technology	May 1996	Level of Effort Term Contract	\$8,858,993**

AGREEMENT TYPE/AMOUNT AWARDED

*Contract #18494 - \$50,000 minimum not to exceed \$5,000,000. Individual task orders used to obligate funds. Three individual task orders have been issued under this contract.

**Contract #18539 - Base contract \$694,320 plus options \$8,164,673.

TASK ORDER AMOUNT

Contract #18494

Task Order 1	Phase I	30 days	\$250,000
	Phase II	6 months	\$250,000
	Phase II	12 months	cost to be determined
Task Order 2			\$45,000

\$2,871,566 expended to date under task order 1 and \$10,274 under task order 2.

AMOUNT OF MODIFICATIONS

Contract #18494 - Task Order 1 had four modifications; three were funding increases totaling \$2,350,000. Task Order 2's one modification decreased funding by \$34,726.

Background

In October 1996, HUD awarded an indefinite quantity contract (#18494) to Andersen Consulting to furnish personnel, facilities, and services in order to provide technical support for a number of studies relating to the review of troubled housing authorities and housing authorities with distressed properties, as well as other housing authorities needing assistance, and provide appropriate technical assistance, alternatives, and solution after an in-depth analysis of the situation. The contract set a \$50,000 minimum not to exceed \$5,000,000. Three individual task orders have been issued under this contract. Task Order 1 had four modifications; three were funding increases totaling \$2,350,000. Task Order 2 had one modification which decreased funding by \$34,726. To date, \$2,871,566 has been spent under task order 1 and \$10,274 under task order 2.

In May 1991, HUD awarded contract #16984 for \$4,000,000 to Andersen Consulting to perform general management studies and analytical services. In May 1996, HUD awarded contract #18539 for \$8,858,993 to Andersen Consulting to perform research studies and analyses.

Review Results

No problems were found with contracts #16984 and #18539. However, our review disclosed some problems with contract #18494.

Controls

HUD has not provided adequate controls over costs. As of May 12, 1997, HUD has paid Arthur Andersen \$2,576,007 without benefit of predetermined labor, general and administrative, over-head, or profit rates. Further, HUD modified the contract for additional monies. The contract specialist stated that HUD did not have the chance to set the contract before the contractor began work because the Housing Authority of New Orleans (HANO) was going into receivership and they needed a contractor on-site as soon as possible. The contractor has been on-site since December 1995, yet, HUD has still not set the contract rates.

HUD's response to the draft report included this statement "While it (sic) always preferable to have agreement on the estimated cost and fixed fee in advance, the reader should not be left with the impression that large elements of costs could have been 'predetermined'".

Services under this contract are obtained by the issuance of written task orders and the contract states the task orders shall be issued on a negotiated basis. Further, a contract clause states:

“(a) Although it is anticipated that the Government and the Contractor will reach agreement on the total cost and fee or profit (if applicable) for the effort to be undertaken, prior to the issuance of a Task Order, there may be occasions when the Government wishes to authorize commencement of work prior to agreement on price. If this is the case, a Task Order may be issued which provides that the Contractor shall immediately commence performance of the services specified in the order, and shall submit a pricing proposal within fifteen days of receipt of the Task Order. Upon negotiations of the cost, a supplemental agreement shall be executed to make specific all terms and conditions of the Task Order. Failure to agree for costs ordered under this procedure shall be considered a dispute within the meaning of the clause of this contract entitled Disputes.”

The contractor had been on site for well over a year. Our position remains the same that HUD had ample opportunity to set the contract rates.

Statement of Work

We found the solicitation statement of work to be very broad and vague and, as such, it allows HUD to issue task orders for various Public Housing Authority functions without benefit of competition. HUD has issued the following three task orders for very diverse work without benefit of competition: 1) perform technical assistance for HANO in accounting and business process re-engineering; 2) provide the OIG with sufficient support and reasonable assurance regarding the amount of overpayments under HUD’s assisted housing programs for FY 95; and 3) provide training for HUD’s programs such as Tenant Opportunity Program, the Economic Development and Social Services Program, and the Public Housing Drug Elimination Grant Program.

HUD’s justification for this contract was that PIH would need contractors with: the required qualifications, commitment, expertise, and experience; the capacity to respond promptly to requests for services with the requisite personnel and resources; and the ability to meet deadlines established by the ordering office for tasks. While the issuance of broad statements of work could be a quicker way to process contracting needs, it also effectively limits competition, since no further competition is required to issue individual task orders. Furthermore, HUD is at a disadvantage since the cost of the contract is likely to escalate with modifications and time extensions, and HUD really has no control other than to stop the contract and start over.

CONTRACTOR

Aspen Systems Corporation
 1600 Research Blvd.
 Rockville, MD 20850

CONTRACTS REVIEWED

13 contracts were awarded to Aspen from Fiscal Years 1992-1996. Firm Fixed Contracts totaled \$14,803,893 and Indefinite Quantity Contracts (IQCs) ranged from a minimum of \$1,610,000 to a maximum of \$65,000,000. We reviewed seven contracts. Five were awarded between Fiscal Years 1992-1996, two were outside of this period. The following are the seven contracts we reviewed:

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
18417	CPD	9/95	IQC	\$750,000 - \$20 million
5980	PD&R/Housing	6/95	Cost+/IQC	\$2,355,270/\$500K-20 million
16724	ADMIN	11/91	Cost +	\$3,266,859
5924	PD&R	12/94	Cost+	\$3,199,984
18378	PIH	3/95	IQC	\$250,000 - \$15 million
5874	PIH	7/91	Cost+	\$11,551,178
18528	ADMIN	11/96	Cost+	\$3,515,673

+Cost plus fixed fee contract

AMOUNT OF MODIFICATIONS

Modifications were used primarily to obligate funds on IQCs and to increase contract amounts on cost plus fixed fee contracts.

Background

During Fiscal Years 1992-1996, HUD awarded 13 contracts to Aspen. Firm Fixed Contracts totaled \$14,803,893 and Indefinite Quantity Contracts (IQCs) ranged from a minimum of \$1,610,000 to a maximum of \$65,000,000. We reviewed the following seven contracts:

Contract Number	Description of Services
18417	Clearinghouse Service and Special Activities Projects for Community Planning and Development (CPD)
5874	Public and Indian Housing (PIH) Clearinghouse Services
5980	Clearinghouse Service for Policy Development and Research (PD&R)/Housing
16724	Operate HUD Library
18528	Operate HUD Library
5924	Support Services for PD&R
18378	Clearinghouse Activities for PIH

Review Results

Method

Using Indefinite Quantity Contracts may not have been the most cost-effective method of procurement for the contracts. Aspen was awarded three IQC contracts valued at between \$1.5 million and \$55 million. Contracts were awarded based on competitive proposals, however, on two of the three IQC contracts, (18417 and 5980), Aspen was deemed to be the only technically qualified contractor. As such, there was no price competition for these contracts. Furthermore, there were no independent cost estimates for any of the 59 task orders issued.

Benefit

HUD made payments on contract #18417 for CPD clearinghouse activities without receiving any benefit. Specifically, HUD paid Aspen \$40,004 for videos that were never completed and \$140,874 for two conferences that were canceled.

Data

The Office of Procurement and Contracts' (OPC) database did not accurately reflect total contract amounts. The database showed Aspen had 21 contracts valued at \$51 million. Our review of contracts awarded, during our audit period, found contracts valued at about \$80 million. The discrepancy was caused by HUD recording obligated amounts as contract amounts.

Control

HUD has been remiss in ensuring proper controls over costs. As of April 26, 1997, under contract #18378, Task Order 7, HUD has paid Aspen \$823,823 for PIH clearinghouse services without benefit of a predetermined price and agreement as to the scope of work. Aspen has been working since February 1996 without a definitized task order. OPC attributes the delay in definitization to PIH changes in scope of work time for completion. PIH attributes the problem to OPC not doing its work in a timely manner.

Cost Estimates

The following are examples:

- **Contract 16724** - Under this contract, Aspen was to operate HUD's Library. A one year study of the operations/costs for the library was done before the service was privatized in 1983. This original cost estimate was adjusted for inflation and used for all subsequent procurements. On this contract the GTR contacted another library to see how much running a library should cost and whether the inflation adjusted cost estimate was accurate. However, the library happened also to be run by Aspen.
- **Contract 18417** - This contract had about 110 task specifications. While the request for contract services supporting these task specifications contained an estimated cost field, the GTR's files did not show any details on how this estimate was established. Also, we noted that of the approximately 110 task specifications, only the first 12 were for services specifically identified on the Request for Proposals.
- **Contract 5980** - Task Order 6, under this contract, was to provide services for a national conference and follow-on conferences. The Government's cost estimate for the work was based on Aspen charges for previous conferences. In addition, no cost estimate was found for the follow-on conferences. The government estimate for the PD&R portion of this contract was \$940,000 for four years of service, a significant disparity from the contract awarded price of \$2,355,270.

In its response to the draft report, HUD stated a review of the contract file shows that Task Order 6, under contract #5980, is supported by an independent Government estimate for the follow-on conferences. Further, HUD stated Government cost estimates are not the only means of determining cost/price reasonableness prior to award. On this award other steps were taken (GTR's lack of exceptions to methodology for performing work and level of effort required along with a preaward audit of the proposal) which supported the reasonableness of proposed costs.

When we reviewed the contract file, we could not find the cost estimate. The GTR was asked for a copy of the cost estimate and the GTR did not have a copy of the estimate in his contract files. We agree a Government cost estimate is not the only means of determining price reasonableness, but we also believe it is one of the most important. When costs proposed by a contractor are significantly higher than estimated, we do not believe the actions cited by HUD adequately address the difference.

CONTRACTOR

BBDO South, Inc.
 Monarch Plaza
 Peachtree Road
 Atlanta, GA 30326

CONTRACT REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
018363	Single Family Insurance Funds	5/12/95	Indefinite Quantity fixed-price/time and materials/ and/or labor hours contract	Maximum \$250 million (includes option years)*

* The contract provides for the base year and 4 one year options. Base Period: \$2 million- \$62.5 million. Option Years (1-4): \$1 million - \$62.5 Million

AMOUNT OF MODIFICATIONS

No funding modifications.

Background

In May 1995, HUD awarded an indefinite quantity contract to BBDO South, Inc. (BBDO) to provide

marketing, advertising and various other promotional and public relations services to be used primarily in support of the Department of Housing and Urban Development's (HUD) Single Family Property Disposition Division Sales Program. The contract provides for a base year and 4 one year options. The Base Period contract amount was set for a minimum of \$2 million to a maximum of \$62.5 million. Option Years (1-4) contract amounts were set for a minimum of \$1 million to a maximum of \$62.5 million.

Review Results

Oversight

Our review found that HUD staff does not provide adequate oversight over the BBDO contract. Specifically, our review disclosed that the :

- GTR does not maintain adequate files and documentation for administration of the contract.
- GTR does not track expenditures under the contract.
- Field GTM has not been designated for review of contract performance in Field offices.
- The GTR pays contractor's invoices without requiring the submission of supporting documentation.

In addition, HUD staff could not provide us with a total of the amounts spent under the contract. According to Single Family Housing Division staff, figures could not be provided since the computer system (SAMS) used to pay vendor invoices is not accurate.

HUD stated in its response to the draft report that the Headquarters GTR maintains records and weekly reports that reflect the status of current contract activities. Also, HUD stated local offices are charged with maintaining records and monitoring the contractor on local projects.

Based on OIG's discussions with the GTR, he does not maintain adequate files and documentation. The GTR did not delegate duties and responsibilities to Field GTMs as required by HUD Handbook 2210.3 REV8. Therefore, our statements remain unchanged.

Modifications

Contract modifications and actions from OPC in Headquarters take a long time to get processed and approved. For example, the modification to exercise the first option year of the contract was not approved and signed until over 4 months after the initial base year of the contract expired.

Review

Due to lack of adequate documentation submitted to HUD with monthly invoices it is impossible to

determine the validity and accuracy of the invoices and payments.

CONTRACTOR

Computer Science Corporation
 Systems Engineering Division
 3160 Fairview Park Drive
 Falls Church, VA 22042

CONTRACT REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
16335	Information Technology	10/93	Term Cost-Plus-Fixed-Fee	\$30,605,312

AMOUNT OF MODIFICATIONS

Most of the modifications were used to obligate funds under the options. Modifications were also used to extend the completion dates, change key personnel, and record a contractor name change.

Background

In October 1993, HUD awarded Computer Science Corporation (CSC) a \$30.6 million term cost-plus-fixed-fee contract to provide technical services for the development and maintenance of application systems software for the Systems Engineering Group in HUD's Office of Information Technology (IT).

Review Results

Competition

Our review of contract #16335 noted that competition may have been limited in awarding a contract to a CSC subcontractor. HUD executed a task order to CSC, who then subcontracted to Andersen Consulting. Andersen Consulting was already under a soon to be expiring contract with HUD to perform ADP consulting services. HUD determined that until the new contract could be awarded, the Department would execute a task order under the CSC contract to continue these services. In June and August 1994, CSC requested HUD approval of a sole source subcontract with Andersen Consulting. The sole source justification was clearly written by Andersen Consulting. The Office of Procurement and Contracts (OPC) denied the request and required CSC to competitively award the contract. Less than a month later, CSC requested OPC's

permission to issue a subcontract to Andersen Consulting based on technical and price considerations. CSC had requested proposals from three contractors. Two contractors responded, Andersen Consulting and Ultra Technology Inc. Ultra Technology was not considered technically qualified.

Costs

Costs were higher than necessary because of the profit CSC earned on work performed by Andersen and because of the high labor rates paid Andersen .

-)CSC was paid a fee of about \$200,000 for the work performed by Andersen. The \$200,000 was based upon 5% of the amounts paid to Andersen. If the Department had contracted directly with Andersen about \$200,000 would have been saved.
-)Andersen's hourly labor rates were about three times as those paid to CSC employees. Other technically qualified firms may have had lower labor rates.

HUD's management response stated the comment concerning the Department saving \$200,000 ignores the time and costs involved in conducting a separate procurement. Additionally, management stated Andersen's rates are not three times those paid to CSC, as a comparison showed CSC's hourly rates were \$46.71 compared with Andersen's \$79.26.

We agree our savings figure does not include the cost of a separate procurement. However, cost savings in procurement were not why this action was handled as a subcontract. It was done to provide continuity in services until a new procurement could be processed. If this procurement had been processed more timely, the Department would have saved the \$200,000. At the time of our review, the Department was in the process of awarding a new contract to continue the work being done by Andersen Consulting. Andersen Consulting and CSC had only two labor categories that were exactly the same on the billings and proposals. These two categories were Project Manager and Task Leader. The Andersen costs were three times as high for these positions.

Task Order And Modifications

Most of the work performed under the Andersen subcontract was performed before the task order or amendment authorizing the work was formally executed. The following table shows when work was authorized and when it was completed:

Document	Task Order Signed By HUD Or Effective Date	Completion Date
Task order	6/25/95	6/30/93
Modification 1	7/1/95	9/30/95
Modification 2	NA	NA
Modification 3	11/30/96	11/30/96
Modification 4	3/25/96	3/31/96
Modification 5	4/18/96	4/24/96
Modification 6	5/31/96	5/31/95

CONTRACTOR

D.M. Saunders & Associates, Inc.
 6303 Ivy Lane, Suite 416
 Greenbelt, MD 20770

CONTRACT REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount (Including Options)
18362	PIH Office of Management and Planning	7/28/94	fixed price-cost reimbursable	not to exceed \$848,490

Contract #18362 initial year contract amount \$28,490 plus 2 option years. Two modifications increased contract amount to a maximum of \$848,490. Total actual contract costs \$770,224.

AMOUNT OF MODIFICATIONS

Option 1 - 630,000
 Option 2 - 190,000

Background

In July 1994, HUD awarded a fixed price-cost reimbursable contract to D.M. Saunders & Associates (Saunders), under a SBA Section 8(a) contract. The purpose of the contract was to design, develop, and evaluate a training course to train Field Office Personnel in skills and knowledge needed for diagnosing and resolving technical assistance issues in dealing with Housing Authorities. The Contract contained a base period (7/28/94 - 9/30/94) and 2 option periods where the training programs were delivered to various sites. Actual contract costs totaled \$770,224.28.

Review Results

Contract Negotiations

The contract file did not adequately document the reasonableness of negotiated cost for the contract. We feel the negotiated cost resulted in HUD paying too much for the services received.

For example, one of the cost items was preparation time for training. HUD allowed 3 hours preparation time for each classroom hour. While the ratio of 3 hours to 1 hour may be reasonable, the same amount of time would not be required for repeating the training in numerous other sessions. Further, the contractor was being paid for designing and developing the course as part of Tasks 1 and 2 of the contract.

Subcontracting

The contractor's cost proposal indicated contractor personnel would perform over 50 percent of training and receive over 50 percent paid for services. Clause 52.219-14 of the contract contains the limitations on subcontracting which states, in part, that at least 50 percent of the cost of contract performance incurred for personnel shall be for contractor employees. Actual performance showed subcontractors conducted the same number of training sessions as contractor personnel and subcontractors received more for services than the contractor personnel.

CONTRACTOR

Data Prompt, Inc.
 11911 Tech Road
 Silver Spring, MD 20904

CONTRACTS REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Original Contract Amount	Modified Contract Amount
12644	Office of Finance & Accounting	12/21/84	Indefinite Quantity/Fixed Unit	\$292,000 - \$3,761,731	\$38,539,294
14877	Office of Finance & Accounting	4/11/88	Indefinite Quantity/Fixed Unit	\$350,000 - \$2,907,578	\$43,083,678
14488	Office of Finance & Accounting	9/20/88	Indefinite Quantity/Fixed Unit	\$29,117 - \$2,271,235	\$30,929,554

AMOUNT OF MODIFICATIONS

12644 - \$38,247,294
 14877 - \$40,176,100
 14488 - \$30,900,437

Background

We reviewed the following three contracts awarded to Data Prompt, Inc. (DPI):

HC-12644, hereafter to be known as the Multifamily Accounting Reporting and Servicing (MARS) contract, was awarded to DPI in December 1984. HUD contracted Data Prompt to develop and maintain the MARS system. MARS is an accounting reporting and servicing system

for assigned multifamily notes. The contract is on-going. To date, HUD has paid the contractor \$23,499,880 on this contract.

HC-14877, hereafter to be known as the Single Family Accounting & Management System (SAMS) contract, was awarded to DPI in April 1988. SAMS provides HUD with real time, on-line support for single family property disposition activities nationwide. It has on-line data entry and retrieval capability at each field office, regional office and headquarters office. During 1995 a system developed by EDS replaced the DPI SAMS system. HUD paid \$41,988,028 on this contract.

HC-14488, hereafter to be known as the Property Management System (PMS) contract, was awarded to DPI in September 1988. PMS is an accounting reporting and servicing system for multifamily projects which have been foreclosed and are HUD-owned or HUD is the Mortgagee-In-Possession. The contract is on-going. To date, HUD has paid the contractor \$29,064,243 on this contract.

Review Results

Contracts

The negotiated contracts were not effective in obtaining the best possible agreement for the Department. Critical clauses related to ownership of the MARS, SAMS, and PMS systems and documentation were vague and unenforceable. As a result, the contractor claimed ownership of the system. DPI copyrighted the system user manual and refused to provide HUD the software HUD had paid to have developed. Since the contractor owned everything, HUD did not have the option to contract out the on-going servicing, or do it in-house, once the system had been developed. This has likely resulted in excessive costs since HUD is bound to the contractor and has been unable to seek competitive bids. In addition, HUD had little choice but to pay the price the contractor requested.

Modifications

Due to extensive modifications, the work performed under these contracts is much expanded from what the original contract anticipated. HUD used the contract to transfer servicing work, previously performed by HUD employees, to the contractor. For example, HUD modified the SAMS contract to transfer data-entry input work from HUD employees to the contractor. As discussed in the next section, HUD paid too high of a price for these services. In another example, HUD modified the MARS contract to transfer servicing functions previously performed by HUD employees to the contractor. We believe that these functions were out of the scope for this contract and should have been separately procured. Such out-of-scope changes basically transformed the contractor from a systems developer into a mortgage servicer.

Negotiations

HUD staff appears to have negotiated excessively high prices for this contract. This was due in

part to HUD's reluctance to seek competitive bids for the work and in part due to poor negotiating skills by HUD staff. In one case, HUD decided to modify the SAMS contract instead of competitively procuring services for data entry or doing the work in-house. DPI demanded and ultimately received \$30 per hour for data-entry; a price which is about 3 times the rate of a Federal employee. During the negotiation process, the contractor threatened HUD with increasing the system modification rate it charged HUD from \$30 to \$40 per hour, if HUD would not pay the \$30 data-entry rate. Further, the contractor threatened that it would stop work on the task if it did not receive either \$1 per document or \$30 per hour. HUD paid the \$30 per hour. In part, this was due to HUD's inferior negotiating position to DPI (who owned the systems and documentation) that resulted in HUD paying excessively high prices.

In another example, HUD modified the contract for DPI to photocopy up to 1009 mortgage note files at \$22.58 each. DPI was not satisfied with this and offered to do it for \$37.12 per hour.

OPC determined (correctly) that this rate was excessive. DPI stated that this was the only rate available and that HUD could get someone else to do the work. However, after much discussion,

OPC was able to get DPI to submit a proposal based on clerical rates. HUD accepted this proposal which stated DPI would photocopy the files for \$22.58 each. Since DPI estimated 1/2 hour for each file, it would thus receive \$45.16 per hour which was \$8.04 more than their initial rejected proposal of \$37.12 per hour. This was an inappropriate modification to this contract anyway, since it has nothing to do with designing or operating MARS. HUD apparently wanted DPI to do the work because it had given them custody of the files in connection with another out-of-scope modification.

HUD's management response stated the \$22.58 cost per file, negotiated for duplicating mortgage files was in the Government's best interest, since the contractor would have to assume the risk if the files took longer than the contractor's estimated time of 1/2 hour per file. Further, the response stated the contractor must contend with copying difficulties to include: varying sizes/lengths of paper; stapled pages; and missing documents.

We believe HUD management overstated the difficulties of photocopying files. Whether the cost is per hour or per file the final cost is almost the same and would support an annual salary of \$60,000, which is excessive for photocopying.

Data

A review of the Office of Procurement and Contracts' database disclosed that HUD does not maintain accurate data on DPI's contract. Modifications representing nearly \$18 million for MARS and \$3 million for SAMS were either not included in the database or contained errors. For the PMS contract, 11 modifications totaling over \$4 million were not included in the database.

Cost Estimates

HUD's cost estimates for the MARS, SAMS, and PMS contracts were radically underestimated.

For example, for the MARS contract, HUD estimated the contract at \$750,000 per year (the source of the estimate is unclear). The MARS cost estimate for the current option period ending April 1998 is about \$4 million. For the SAMS contract, HUD estimated the contract at \$9.6

million for five years (the source of this estimate is unclear). SAMS cost over \$22 million for the first five years. Similarly, for PMS HUD's cost estimate was \$1.4 million per year. By 1996, annual costs had ballooned to over \$3.5 million.

CONTRACTOR

Frank DeStefano and Associates
 420 Whittier Street, NW
 Washington, DC 20012

CONTRACTS REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount/ Modifications	Modified Contract Amount
18355	Community Planning and Development	1/03/94	Labor	\$50,000/	\$128,374
			Hour	\$78,374	
18415		6/23/95	Labor	\$54,060/	\$151,655
			Hour	\$86,866 (#1)	
				\$10,729(#2)	

FUNDING/REQUESTING OFFICE

Community Planning and Development

AGREEMENT TYPE

Labor Hour Contract with three option years.

Background

HUD entered into two contracts with Frank DeStefano and Associates from 1992-1996, contract #18355 and #18415. The purpose of the contracts was to provide quick response research, analysis, and assistance to the Office of Community Planning and Development (CPD) on legislative and community development policy issues of major importance to the Department. The contractor received a total of \$280,029 for services rendered between January 1994 and September 1996.

Review Results

Competition

Our review of contract #18415 found that Frank DeStefano, a former HUD employee, was the only contractor who submitted a proposal.

Inherently Governmental Function

In our opinion, the contractor is performing inherently governmental functions that should not be performed by a contractor. Appendix 5 of Office of Management and Budget (OMB) Circular A-76, Performance of Commercial Activities, addresses inherently governmental functions and paragraph 6.(c) states that contractors are not to be used for the drafting of congressional testimony; responses to congressional correspondence; or agency responses to audit reports from an Inspector General, the General Accounting Office, or other Federal audit entity.

The contractor's scope of work for contract #18415 includes: reports on the status of pending legislation; analyses of legislative proposals developed by CPD offices, key interest groups and Congressional committees; study and analyses of the legislative history of CPD's programs and proposed and pending legislation; and assistance in developing key CPD legislative proposals and in explaining them to Congress and key constituencies. In particular, the contractor drafted a legislative provision and report language for the Senate Appropriations Committee and assisted in the effort to offset in the Senate the Molinari Amendment adopted by the House nullifying the role of HUD and the priority for the homeless that had been provided by Congress and clarified by the 1994 Act. Also, the contractor drafted the Secretary's letter to the appropriate Committee Chairperson. Some of the work performed by the contractor is work that should be performed by HUD staff.

In its response to the draft report, HUD disagreed that the contractor performed an inherently governmental function. HUD's response contains the following:

"...The draft audit report, however, unfairly and inaccurately cites a single instance of the drafting of a letter to a Committee Chairperson as the basis for a blanket conclusion that the contract as a whole was for inherently governmental services. This conclusion is unwarranted by the facts."

Frank DeStefano and Associates performed inherently governmental functions for HUD. Invoices submitted by the contractor included numerous references to responses to congressional correspondence/requests that the contractor prepared for HUD. Drafting responses to congressional correspondence is inherently governmental, and should be performed by HUD employees. Criteria for this matter is listed in 48 CFR § 7.503(c)(20) and Office of Federal Procurement Policy, Policy Letter 92-1, ¶ 6.(c). 48 CFR § 37.102(b) states agencies shall not award a contract for the performance of an inherently governmental function.

Employee/Employer Relationship

We believe that the contract creates an employee/employer relationship because the contract: (1) is expected to last beyond one year; (2) requires Government direction and supervision; and (3) provides services that are applied directly to integral efforts of agencies or an organizational subpart in furtherance of an assigned function or mission. These are three of the six elements listed in paragraph 6-2 B.6.a. of Handbook 2210.3 REV 8, Procurement Policies and Procedures, which will be considered in determining whether a contract establishes an employee/employer relationship.

Consequently, the contractor appears to be performing services for which HUD does not have statutory authority to procure. Title 48, Code of Federal Regulations, § 37.203(c)(4) prohibits contracts to perform advisory and assistance services to aid in influencing or enacting legislation.

HUD, in its response to the draft report, also disagreed that the contract created an employee/employer relationship.

Frank DeStefano and Associates appears to have aided in influencing or enacting legislation under an advisory and assistance services contract in violation of 48 CFR § 37.203(c)(4). Invoices submitted by Frank DeStefano and Associates referenced numerous instances of communications by the contractor, concerning HUD's legislative initiatives, with advocacy groups and Congressional staff. Such invoices also describe legislation and legislative justifications that the contractor drafted for HUD.

Contract Need

As of March 1997, the contractor had not submitted the required performance report due in October 1996. As such, the GTM would not authorize any work under option year 3 of the contract scheduled to run from October 1, 1996 to May 11, 1997. The primary objective of the contract is to provide a quick response to community development matters. The GTM commented that it becomes increasingly difficult to justify the urgent need for the contractor's work when there is a gap in the performance period of at least eight months.

CONTRACTOR

Mitchell & Titus, 1825 K Street NW, Washington, DC 20006
Arthur Andersen, 1666 K Street NW, Washington, DC 20006
Price Waterhouse, 1616 N. Fort Meyer Dr., Arlington, VA 22209-3100
Williams, Adley & Company, 1300 I St. NW, Suite 122, Washington, DC 20005

CONTRACT REVIEWED**GNMA - Compliance Audit and Review Service (CARS) Contract**

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
96-F-01	GNMA	10/1/96	Indefinite Quantity Contract	\$5,000,000

*Contract did not set a fixed amount or maximum amount for contract. However, GNMA anticipates to spend \$5 million on this contract.

GNMA expended \$4,518,927 for the period 1992 through 1996, under the prior contract. Under the current contract, GNMA awarded task orders amounting to \$318,446.

AMOUNT OF MODIFICATIONS/TASK ORDERS

Nine task orders awarded and two contract modifications.

Background

In October 1996, GNMA awarded four contractors (Mitchell Titus, Arthur Andersen, Price Waterhouse, and Williams, Adley & Co.) contract #96-F-01 to:

- Determine compliance by GNMA contractors and specific program participants with the terms and conditions of their contracts or program requirements; and

- Examine the contractor billing procedures and accounting for Government funds advanced to them or funds handled by them on GNMA's behalf in the course of their contract activities.

The four contractors are required to bid competitively for each task order. Nine task orders worth \$318,446 have been awarded to date. Prior to this contract award, Mitchell Titus was the sole contractor. Between 1992-1996, GNMA spent \$4,518,927 for the prior contract. Under the current contract, GNMA expects to spend \$5,000,000 over the life of the contract.

Review Results

Inherently Governmental Function

GNMA's contract 96-F-01 includes work that, in our opinion, is an inherently governmental function. Appendix 5 of Office of Management and Budget (OMB) Circular A-76, Performance of Commercial Activities, addresses inherently governmental functions and cites that contractors are performing an inherently governmental function if they are making the determination as to whether contract costs are reasonable, allocable, and allowable. Contract 96-F-01's Statement Of Work specifies that the contractor is responsible for:

1. Reviewing the contractor's accounting records to determine whether GNMA's fees were appropriately accounted for;
2. Determining whether billings submitted to GNMA were for services actually rendered by the contractor, or subcontractor;
3. Determining whether billings submitted to GNMA were in accordance with the terms of the relevant contract.

These are items that only HUD staff should be performing.

GNMA indicated in its response to the draft report that a previous OIG audit report contradicted our position regarding this matter.

However, the audit report cited by HUD states "GNMA contracted out functions that would be best performed by government employees." This supports our position as stated above. In addition to the criteria stated above (Office of Federal Procurement Policy, Policy Letter 92-1 [Appendix 5, OMB Circular A-76], 48 CFR § 7.503(c)(12)(vii) lists determining whether contract costs are reasonable, allocable, and allowable as functions which are considered to be inherently governmental functions. Further, 48 CFR § 37.102(b) states agencies shall not award a contract for the performance of an inherently governmental function.

Procedures

It appears that contracting procedures may have been circumvented in awarding the contract to Williams, Adley & Company. GNMA originally planned to award the contract to only three firms. However, Williams, Adley & Co. was selected as the fourth contractor.

Initially, the Contracting Officer was advised by GNMA officials to proceed with making awards under this RFP to three contractors: Mitchell & Titus; Arthur Andersen; and Williams, Adley & Company. However, the Contracting Officer questioned the exclusion of Price Waterhouse as a contractor, and advised GNMA officials that refusal to award to Price Waterhouse would violate provisions of the RFP. GNMA officials then advised the Contracting Officer to proceed this time with making awards under this RFP to four contractors: Mitchell & Titus; Price Waterhouse; Arthur Andersen; and Williams, Adley & Company.

GNMA officials justified the inclusion of Williams, Adley & Co., the sixth highest technical scorer, due to the cost differential between the sixth and fifth highest technical scores. The source selection official used best value as rationale to award the contract to Williams, Adley & Company. However, under this rationale, it appears that the award should have gone to the seventh highest offeror. The Government could have saved \$22,665 by selecting the other contractor.

GNMA's response to the draft report stated that the Source Selection Official (SSO) has the ability to select a firm not recommended by the Technical Evaluation Panel (TEP) if he provides a written justification. An excerpt from HUD Handbook 2210.3 REV 8 which addresses this issue was included with GNMA's response. Further, GNMA stated the written justification was provided.

The Handbook states "...The SSO shall justify in writing the selection of another source, clearly indicating how and where he/she disagrees with the findings of the TEP..." The SSO wrote "...the cost differential between the offeror with the sixth and fifth highest technical scores justifies selection of the sixth highest technical offeror." This statement does not clearly explain why the cost differential justified the selection of the sixth highest offeror, only that it did.

CONTRACTOR

Chase Manhattan Bank
 Water Street Suite 506
 New York, NY 10041

CONTRACTS REVIEWED

Contract Numbers	Requesting/ Funding Office	Contract Date	Contract Type	Contract Award
96-PA-02	GNMA	1/1/1997	Fixed Price	\$71,301,990
96-PA-03	GNMA	1/1/1997	Fixed Price	\$24,059,159

Previous contract awarded in 1988, spanning 1988 through 1996, totaled \$90,335,707.

AGREEMENT TYPE

Fixed-Price Contract. Modifications Cost Reimbursable.

Background

Chase Manhattan Bank (Chase) has been GNMA's agent for administering and accounting for GNMA's mortgage-backed securities (MBS) for over twenty years. The just recently completed contract ran from 1988-1996 and totaled over \$90 million. The current contract was divided into two

separate contracts to encourage competition. On January 1, 1997, Chase was awarded both contracts (#96-PA-02 (02) was awarded for \$71,301,990 and #96-PA-03 (03) was awarded for \$24,059,159). Contract #02 requires Chase to administer the pooling together of the loans to be sold on the open-market. This includes: maintaining a real time database; processing requests of GNMA commitment authority; processing mortgage pool documents; maintaining GNMA's proprietary automated systems; and providing other necessary support services. Contract #03 requires Chase to act as the Central Paying and Transfer Agent for GNMA's mortgage-based securities. This includes: issuing and administering the GNMA mortgage-backed securities (MBS); acting as GNMA's collection and payment agent; and acting as the trustee for Platinum MBS.

Review Results

Competition

Our review found that the Statement of Work under the current contract hindered competition by requiring that the winning bidder have past experience with GNMA and that they already have, in-place, its own automated systems to assure accurate and timely processing and reporting for each activity of contracted work. As such, a competing company would need to endure high up-front costs, and, consequently, would probably submit a higher bid. Conversely, the incumbent would not have to cover these costs, and their bid would reflect the lower expenses. It would be very difficult for another bidder to profitably beat the incumbents bid or to gain experience equal to Chase.

Under contract #96-PA-02, one other contractor bid on the contract. The Technical Evaluation Panel determined that the bidding contractor was not technically qualified because they did not have the systems in-place or have prior experience performing this work. Under contract #96-PA-03, Chase was the only bidder. Chase has been the only contractor for this job over the past twenty years.

In addition to the contract requirements, GNMA hindered competition by allowing Chase to maintain ownership of the automated systems. This gives Chase an unfair advantage over competitors. Had GNMA owned the systems, then the cost of the system would not be a consideration to potential contractors, and as such, competition would not have been hampered as much. GNMA is in the process of making the systems proprietary, so this may not be an issue upon contract renewal in the year 2002.

GNMA's response stated "...The systems referred to here were Chase Manhattan Bank proprietary systems; therefore it is incorrect to state that competition was hindered because Ginnie Mae allowed Chase to maintain ownership. We could not provide systems that did not belong to Ginnie Mae but were proprietary to Chase Manhattan Bank. In fact, there are a number of large financial institutions who have capabilities and systems to perform the tasks required under these contracts."

For years, GNMA allowed any enhancements or developments performed by Chase, and paid for by GNMA, to become proprietary to Chase. The lack of bidders for the contracts indicates a problem. In

addition, OIG spoke with an institution that wanted to bid on the contract but was unable due to excessive up-front costs to prepare systems. Further, in its response to the draft report, GNMA points out its progress in developing proprietary systems. Therefore, our comments remain unchanged.

CONTRACTOR

Ernst and Young
 2049 Century Park East
 Suite 1700
 Los Angeles, CA 90067

CONTRACTS REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
93-8-1	GNMA	1/27/94	time and materials*	\$85,000 per deal**
96-C-12	GNMA	12/19/95	time and materials	\$2,452,060

*All payments under the original awarded contract were contingent upon sale of mortgage-backed securities and paid out of sales proceeds only. Contract amendments allowed additional tasks to be paid out of GNMA program funds.

**Over \$20 million has been paid to the contractor as of 6/97.

AMOUNT OF MODIFICATIONS/TASK ORDERS

93-8-1: Fourteen task orders awarded with 10 modifications. Total task orders and funding modifications amount to \$5,483,444

96-C-12: No funding modifications to date.

Background

We reviewed two contracts awarded by GNMA to Ernst & Young. In January 1994, contract #93-8-1 was awarded to Ernst & Young to advise and assist GNMA on closing of deals for certain GNMA securities. GNMA obtained permission to issue a non-Federal Acquisition Regulations (FAR) contract since Ernst & Young would be paid from the closing of each deal. The contract was amended to include other tasks which were paid out of GNMA and FHA program funds on a time and materials basis. Other tasks include (among others):

- Draft the required Federal Register notices and regulations and handbooks.
- Advise GNMA of particular structure and marketing approaches.
- Advise GNMA regarding the accuracy and completeness of the offering documents.
- Represent to GNMA that the cash flow from the collateral can fulfill the obligations under all possible patterns of cash flows.
- Provide GNMA periodic assessments regarding the GNMA REMIC program.

To date, the contractor has received over \$20 million for this contract.

In December 1995, contract #96-C-12 for \$2.5 million was awarded to Ernst & Young to provide Marketing Services to GNMA. Specifically, the contractor was to create a brochure, quarterly newsletter, prepare an analysis of GNMA markets, and national and international road show presentations/materials.

Review Results

Contract Amendments

Our review noted that GNMA circumvented proper contracting procedures. Under contract #93-8-1, GNMA hired Ernst & Young to advise and assist them on closing of deals for certain GNMA securities. Originally, the contract was a non-Federal Acquisition Regulations (FAR) contract, and, was approved as such because the contractor was to be paid from the closing of the deals. However, GNMA amended the contract to allow other tasks to be paid for out of GNMA program funds. The contract amendments far exceeded the original intent of the contract and the scope of work was very broadly written so that almost all activities fit under the contract. Under FAR, GNMA would need to readvertise and solicit bids because the additional services exceed the original intent of the contract. GNMA did not. They merely amended the contract for tasks that were not related to the original intent of the contract. To date, GNMA paid over \$20 million for services under this contract; \$5 million was paid from the closing of the deals, the other \$15 million was paid out of GNMA and FHA funds for the additional tasks.

Competition

GNMA entered into an interagency agreement with the Federal Housing Administration (FHA) in order to add additional tasks to the existing contract with Ernst & Young. FHA stated that this was done because it did not have sufficient time to obtain the services through a competitive procurement process. The interagency agreement was executed by an individual in Housing who did not have delegated authority per HUD Handbook 2210.3 REV 8, paragraph 6-4C. Additionally, GNMA's Contracting Officer's warrant only covered GNMA program funds. An exception was allowed for GNMA's Contracting Officer to obligate funds other than GNMA program funds when FHA completed an interagency agreement to use the GNMA contract.

Urgent Method

Originally, GNMA intended on modifying contract #93-8-1 for Ernst & Young to perform marketing services. However, a legal opinion obtained by GNMA recommended that a separate contract be solicited for these services. Therefore, GNMA entered into contract #96-C-12 with Ernst & Young using an urgent method to award the contract.

GNMA included an exhibit on the justification for urgent procurement with its response to the draft report. The document begins with "Ginnie Mae must proceed with this procurement immediately due to the intense competition in the marketplace." We question the need for an urgent procurement in this situation. Federal Acquisition Regulations (FAR) 6.301(c) states contracting without providing for full and open competition shall not be justified on the basis of a lack of advance planning.

CONTRACTOR

Golden Feather Realty Services, Inc.
 13409 N.W. Military Highway
 Suite 302
 San Antonio, TX 78321

CONTRACT REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
018501	Single Family-Office of Housing	9-18-96	Indefinite Quantity- Fixed Unit Price	\$ 1,680,257

Contract runs for one year with 4 option years.

MODIFICATIONS

One funding modification for \$2 million.

Background

In September 1996, HUD awarded an indefinite quantity fixed-unit price contract to Golden Feather Realty Services, Inc. (Golden Feather) to provide: management of Single Family Real Estate Owned (REO) properties; marketing, listing and sale of Single Family REO properties; and monitoring of sales closing activities to ensure proper accounting for HUD's sales proceeds. The contract was awarded as part of a pilot program for contracting out the Single Family Housing REO functions. The entire demonstration program included three areas: Maryland, Louisiana, and Sacramento, California. Golden Feather was awarded all three contracts. The contract price for the three contracts were: Maryland \$1,680,257; Louisiana \$1,079,620; and Sacramento \$974,912. Our review covered the Maryland contract only.

Review Results**Justification**

Of the 17 proposals submitted, only 3 were determined to be in the competitive range and

considered technically acceptable by the Technical Evaluation Panel (TEP). After the Best and Final Offers were submitted and scored, only two offerors were considered technically acceptable. (It should be noted that one of the offerors filed protests to the competitive range determinations made by HUD under all three contracts. The protest was subsequently dismissed by the Comptroller General of the United States).

Many of the Technical Evaluation Panel ratings failed to provide adequate justification for the points given to Golden Feather under each evaluation factor. In reviewing the TEP scoring sheets of the offeror's proposals, it appears that panel members did not award points based on the criteria specifically set forth in the instructions. In particular, one TEP member initially gave another proposal a total score of 98. However, 8 of the 12 evaluation factors were subsequently decreased, lowering the final score to a noncompetitive score of 61. Minimal justification was given on the scoring sheet for the initial factor points given to the proposal. No justification was provided as to why the score was decreased. In addition, another TEP member provided an extensive justification for the minimal points given to the other proposal in each evaluation factor. However, this same TEP member provided only a brief justification for the points awarded to Golden Feather's proposal, even though the points awarded were much higher.

HUD's management response stated the audit conclusions were based on the individual score sheets of the panel members and did not consider the technical evaluation report signed by all panel members. HUD management stated variation in the scoring by the individual panel members or differing depth of justification on individual score sheets are not cause for finding an evaluation process unjustified when the report of the full panel clearly identifies the reasons for the ratings and the strengths and weaknesses of each offeror.

As stated above, the TEP report is not adequately supported by the score sheet of the TEP members. Further, the TEP report does not document the reasons why TEP members changed their scores so dramatically.

Funding Increase

Six months after the contract award, Golden Feather requested and was granted an additional \$2 million in contract funds. This amount is a 119 percent increase over the original contract of \$1.7 million. The contractor stated that the funding increase was to continue timely performance of the contract through September 1997. No supporting documentation nor any analysis was provided as evidence for the increase in funds. If the modification was due to HUD's underestimating the amount of work required, the cost of this demonstration now increased by 119 percent.

Cost Estimate

Except for personnel costs, the Government cost estimate for this contract did not provide specific detail and analysis on how each cost element was determined.

CONTRACTOR

ICF Incorporated
 9300 Lee Highway
 Fairfax, VA 22031-1207

CONTRACTS REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
5888	Office of Policy Development and Research	6/21/91	Indefinite Quantity Contract	\$2,511,355 (1)
16494	Office of Community Planning and Development	3/25/91	Indefinite Quantity Contract	\$9,064,241 (2)
18351	Office of Public and Indian Housing	1/27/95	Indefinite Quantity Contract	\$2,306,841 (3)

AMOUNT OF MODIFICATIONS

- (1) Original Amount - \$3 Million Maximum Amount; 3 Funding Modifications added \$225,341.
- (2) Original Amount - \$8 Million Maximum Amount; 16 Funding Modifications added \$1,674,539.
- (3) Original Amount - \$3 Million Maximum Amount; 6 Funding Modifications added \$1,338,144.

Background

HUD contracted the services of ICF, Incorporated (ICF) to provide research, studies, technical assistance, etc., relating to public or assisted housing, homeownership and affordable housing, special users, fair housing and equal opportunities, or community development. During 1992-1996, HUD awarded 17 contracts to ICF amounting to \$23,291,613 and 54 funding modifications totaling \$7,703,324. We reviewed three indefinite quantity contracts totaling \$14,000,000.

Review Results

Benefit

HUD spent \$434,959 on four contracted products that were canceled before completion because there was no longer a need for the product. Under contract #5888, three task orders were approved in 1991 and 1992 for the development of four guidebooks for the HOPE programs. The original completion date for the guide was August 1992. However, due to untimely reviews of ICF's work by HUD, the completion date was extended to January 1994. In March 1994, HUD canceled the task orders because the Department decided to terminate the HOPE programs. Consequently, the guides were never used. Before the cancellation, HUD paid ICF about \$360,000 of the contracted amount of \$402,797. In another case, HUD approved funding for the development of a user guide for the MTCS computerized system for \$118,000 on September 30, 1991 (the last day of the fiscal year). The order was canceled when HUD canceled the order for the installation of the computer system. However, before the cancellation, HUD paid ICF about \$74,959 of the \$118,300.

Our review also disclosed instances where the product HUD contracted for was found to be inadequate and unusable. For example, HUD contracted for a study of the barriers to Hispanic participation in HUD assisted housing for \$49,970. After paying ICF for the study, HUD determined that ICF's work was inadequate and did not publish the report.

Completion

Many of the contracted task orders were not timely performed. Numerous modifications extended the product's completion dates for several years. For example, under contract #5888, Task Order 1 had four modifications to extend the completion date from August 13, 1992 to January 31, 1994. Delays were caused by HUD's inability to perform timely reviews of ICF's work. Under Task Order 10, the scheduled completion date was modified two times to extend the completion date from December 1, 1992 to June 30, 1993. Despite the anticipated completion date, the final product was not completed until August 1996, more than three years after the intended completion date. Delays were caused by ICF's inability to meet intended deadlines.

Administration

Our review found that some of the GTRs did not adequately administer the contracts. The GTRs did not adequately monitor the contracts and they did not have a complete knowledge of the procedural requirements of contract review. For example, under contract #5888, the GTR did not know whether the final products for the 14 task orders were satisfactorily completed. Further, the GTR's files contained little documentation to support that proper monitoring and administration of the contract was being performed. The files did not have the required final GTR Performance Assessment reports for 11 of the 14 tasks orders. Also, some of the task orders were not closed-out in a timely manner. In another example, two task orders were completed July 31, 1994 and June 30, 1993, respectively, but it was not until March 4, 1997, that the GTM completed the necessary reports.

HUD's management stated the administrative structure of this contract was for the GTR to maintain the administrative records, and GTMs to maintain the technical records.

HUD management's response that the GTRs have the administrative responsibility and the GTMs have the technical responsibility does not absolve the GTRs of their responsibilities over the overall contract

product. OIG interviews of GTRs and review of files showed that the GTRs did not have adequate information or knowledge about the contract or products.

Costs

The GTRs were unable to perform adequate reviews of ICF's billing invoices because the invoices did not contain the information needed for an adequate review. Invoice statements did not include: hourly salary rates; names of the ICF personnel; or names of the subcontractors. In order to perform an adequate review, HUD should have required ICF to submit detailed invoices which provided necessary information. Without this information, HUD approved payment without knowing what hourly salary rates were charged and whether the key ICF personnel or subcontractors contracted to do the work, actually did the work.

Data

HUD did not maintain accurate data on ICF's contract. A review of HUD's database for ICF's contracts and task orders disclosed many errors. Numerous entries for task orders and modifications were missing. For example, for contract #5813, the report was missing task orders 1,3,4,5,6,7,9, and 10 and the modifications. Under contract #5888, HUD's database reported contracted amounts totaling \$5.5 million. In actuality, the contracted amount was for \$2.5 million.

HUD's management agreed that the database overstated the amounts to the contractor by \$3,000,000. However, HUD management disagreed that numerous task orders were not included in the database as cited in the audit report.

OIG review of HUD's database showed that the tasks and modifications were missing and contract amounts were not correct as cited in the audit report.

CONTRACTOR

Intown Properties, Inc.
 615 Peachtree Street NE, Suite 1100
 Atlanta, GA 30308

CONTRACTS REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Amount
C943S929-A001,A002	SFPD	9/25/92	unknown
H08C94002700000	SFPD	9/29/94	\$28,185,500
H09C94007100000	SFPD	1/03/94	\$3,108,022
013-93-163	SFPD	4/1/93	\$676,260
CPMF33692002	MFPD	4/1/92	\$4,000,000
C536S919A003	SFPD	9/30/91	\$610,815
C506S92CA001	SFPD	1/1/93	\$759,000
H03C93026200000	SFPD	5/26/93	\$687,378
H01C94000200000	SFPD	11/1/93	\$700,000
051-93-003	SFPD	10/1/92	\$200,000

*Single Family Property Disposition (SFPD)

**Multifamily Property Disposition (MFPD)

AGREEMENT TYPE

Fixed Price Indefinite Quantity with Cost Reimbursable Elements.

Background

We reviewed the procurement and implementation of numerous contracts for property management of HUD acquired properties awarded to Intown Properties, Inc. (Intown). Property management services are contracted for HUD's Single Family Real Estate Owned (REO) branches through Real Estate Asset Managers (REAMs), as well as for HUD's Multifamily Division through Property Managers (PMs). These services are contracted locally or through the applicable Administrative Service Center (ASC). The Office of Procurement and Contracts' database showed that Intown was awarded 27 contracts totaling \$41,583,008 during our audit period which covered Fiscal Years 1992-1996. We reviewed the following

contracts awarded by the Denver and New York ASCs.

Contract Number	ASC	Contract Amount Per Database
C943S929	Denver	unknown
H09C94007100000 (H09)	Denver	\$3,108,022
H08C94002700000 (H08)	Denver	\$28,185,500
013-93-163	New York	\$676,260
CPMF33692002	New York	\$4,000,000
C536S919A003	New York	\$610,815
C506S92CA001	New York	\$759,000
H03C93026200000	New York	\$687,378
H01C94000200000	New York	\$700,000
051-93-003	New York	\$200,000

Review Results**Contract Clause**

Our review disclosed that a poorly worded clause in REAM contracts is resulting in HUD paying hundreds of thousands of dollars in settlement costs to the contractor for expiring contracts, thus severely hampering the close-out process. Note 2 in the REAM contract states: "In the event properties are not sold when the contract expires or it is partially or fully terminated for the convenience of HUD, the Contractor shall be paid a negotiated amount for the documented expenses. Any such partial per property payment shall not exceed the prices stated above."

Because of Note 2, the possibility exists for HUD to make excessive payments for services provided under REAM contracts. The current REAM contract is structured where HUD pays Intown 30 percent of their fixed fee when the property is listed, and then, the remaining 70 percent when the property sells. Note 2 of the contract requires, upon contract termination, that the contractor receive payment for incurred expenses up to the contract amount. As such, at settlement, the contractor could get up to the entire 100 percent of the contract price, even though the property has not been sold. Intown was awarded three consecutive contracts to provide REAM services in the Santa Ana, CA area. For the first contract, as a result of Note 2, HUD paid Intown a final settlement cost of \$297,489. For the second contract, as a result of Note 2, HUD paid Intown a final settlement cost of \$569,574. The third contract is active at the present time.

Of the Intown contracts reviewed from the New York ASC, we found that a contract for REAM services for the state of Connecticut was taken to the Board of Contract Appeals and HUD was required to pay a settlement of \$224,329 to Intown. A contract for the Albany area has not yet been

settled even though the final claim was submitted in October, 1996. A Camden contract was closed based on HUD's previous losses. The settlement of \$23,205 included \$10,817 for "final invoice preparation." A contract for the Washington, DC area did not originally include Note 2, but it was modified to include it. That contract has not yet expired.

HUD is aware of this problem with Note 2, yet, the Office of Housing issued Notice H 97-10 on February 20, 1997, which still includes Note 2 in its model contract. In its response to the draft report, HUD stated a memorandum on this matter will be sent to all Field Offices.

Data

The Office of Procurement and Contracts' (OPC) database did not accurately reflect total contract amounts. Our review found that some contracts were not listed on the database and, for many of those that were, the amounts listed were inaccurate. For instance, our review at the New York ASC disclosed that the contracts did not always document the award amount. Furthermore, the Multifamily staff from Richmond were unable to obtain a printout of the actual contract costs for its MF-PM contract because the Property Management System (PMS) would only provide data for the last 12 months. Despite the fact that the field records were not complete, we were able to determine that at least four contracts for the New York ASC were not listed in OPC's database and that the total amount of the contracts was understated by at least \$2,621,671.

CONTRACTOR

J. Walter Thompson
 One Atlanta Plaza
 950 East Paces Ferry Road
 Atlanta, GA 30326

CONTRACT REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
20003	FHA Insurance Funds/Office of Housing - Federal Housing Commissioner	August 15,1991	Time & Materials/ Labor Hours	\$80,000,000

AMOUNT AWARDED

\$2,000,000 minimum value and \$80,000,000 maximum value for the time and materials/labor hours portion of the contract. JWT has received \$67,781,738 under this contract.

AMOUNT OF MODIFICATIONS

The contract had 10 modifications; one was a funding modification totaling \$970,082.

AGREEMENT TYPE

Firm-Fixed Priced Contract specified and approved under each order. Labor Hours/Time-and-Materials delivery orders reimbursed for actual cost and specified labor rates.

Background

In August 1991, HUD awarded a firm fixed-price contract to J. Walter Thompson (JWT) to provide expertise in the area of advertising and marketing to strengthen the effectiveness of HUD's Single Family Property Disposition advertising program. Specifically, HUD hired JWT to help reduce

advertising costs, save staff time, eliminate duplicative services, and to attempt to enhance the image of HUD properties across the country. The agreement set a \$2,000,000 minimum value and \$80,000,000 maximum value for the time and materials/labor hours portion of the contract. The contract maximum was \$73,332,800. The contract had 10 modifications, four were funding modifications totaling \$13,917,185. HUD did not fully exercise the last option on the contract which expired in April 1995. Per the contractor's records, JWT received \$67,781,737 under this contract.

Review Results

Contract Type

Our review found that HUD did not negotiate a contract most favorable to the Department. HUD negotiated a fixed price contract with JWT that cost JWT \$791,368 less than the negotiated price to complete. Had HUD negotiated a different type of contract or performed a better cost estimate, HUD may have paid less. Documentation in the contract file contains a statement by the OPC Contract Specialist that says:

“...OPC merely negotiated an inappropriate contract type. However, it was discussed thoroughly with the contractor and the GTR that this office was aware of the excessive profit gained by the contractor and that alternate contract types would be utilized under future delivery orders...”

By the time OPC recognized this, however, the contract was nearing completion and no further delivery orders were approved using alternative contract types.

Costs

Our review found that HUD did not maintain adequate controls to ensure that disbursements were made in accordance with the contract and HUD regulations. In one instance, HUD was overbilled \$124,357 by JWT. This was disclosed by the Defense Contract Audit Agency in a January 31, 1994 audit report. The report stated that JWT overbilled HUD \$124,357 under three delivery orders from August 15, 1991 through November 30, 1993. The amounts billed were over the “not to exceed amounts” and the GTR directed the contractor to allocate the overbilled costs to existing delivery orders that had not been exceeded. A Contract Specialist in the Office of Procurement and Contracts (OPC) advised the GTR that only the Contracting Officer has authority to authorize the contractor to incur costs beyond the contract/delivery order amount.

Also, our review noted instances where JWT double-billed HUD and HUD paid for the same services twice. JWT repaid HUD \$46,565 to cover double-billed items and items paid for which no open invoice appeared on JWT's aging statement.

Administration and Monitoring

JWT was required to submit monthly delivery order status and accomplishment reports to the GTR by or before the 10th of the following month. The GTR stated that JWT submitted all required reports but the GTR could not produce these reports. Further, the GTR stated that he closely monitored JWT to ensure work was progressing in accordance with content, quality, cost and time standards, but could not provide any documentation of such. HUD requires that GTRs maintain a working file that provides a history of the technical aspects of monitoring the contract.

The last delivery order for the contract, which ended in April, 1995, was not definitized due to the continued changes in the statement of work. It is assumed by the staff that all invoices were received from JWT and all payments have been made to the contractor. But HUD will not know until the final close-out audit is performed. The contract expired in April, 1995 but the close-out audit was not scheduled until May, 1997.

HUD's management stated the GTR maintains voluminous records and reports that detail the monitoring of the contract, and the contract was completed over two years ago and advance notice would be needed to locate specific records.

We agree the GTR has voluminous records, but the information obtained by the GTR does not document the monitoring of the contract. The GTR could not produce adequate files documenting his monitoring and oversight of the contract. The voluminous records consisted of information regarding the contract i.e. Regional plans, contract's profile but again, nothing supporting the monitoring and oversight of the contract.

CONTRACTOR**KAJAX Engineering, Inc.**

Corporate Office:

Support Service Center located at:

KAJAX Engineering, Inc.
1300 N. 17th Street, Suite 1300
Arlington, VA 22209

KAJAX Engineering, Inc.
1616 N. Formeyer Drive, Suite 120
Arlington, VA 22209

CONTRACT REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
18125	Mutual Mortgage Insurance Fund: Single Family Insurance Operations Divisions and Single Family Post Insurance Division	9/27/93	Indefinite Quantity - Time & Materials	Not to exceed \$12 million

AMOUNT OF MODIFICATIONS

The contract had 10 task orders with 23 contract modifications. Seven of the 23 were funding modifications totaling \$2,461,907.

AGREEMENT TYPE

Indefinite Quantity Contract-Time and Materials. Task Orders 3 and 6 were firm-fixed-price contracts.

Background

In September 1993, HUD awarded an Indefinite Quantity Contract to KAJAX Engineering, Inc.

(KAJAX) to handle written and telephone inquiries from mortgage companies, HUD Field Offices, homeowners, and other interested third parties. Specifically, the inquiries related to refunds due homeowners, claims, assignments, and third party tracers. The contract amount was not to exceed \$12 million. The contract had 10 task orders with 23 contract modifications. Seven of the 23 were for funding modifications totaling \$2,461,907. As of 2/28/97 HUD has paid KAJAX \$11,859,513. Two more task orders estimated at \$8 million are not included in this figure.

Review Results

Inherently Governmental Functions

KAJAX performs work that, in our opinion, is an inherently governmental function that should be done by HUD staff. KAJAX employees, located in a HUD building, represent themselves as HUD employees and are responsible for processing approximately \$13 million of HUD proceeds per year. The funds are received in the mail, which KAJAX employees open and process for HUD. HUD's Deputy Director of Financial Services stated that HUD lacks available staff to handle the volume of calls received and the department was not allowed to hire additional employees. Further, he noted that it is easier to obtain funding for contract services rather than for hiring additional staff.

In its response to the draft report, HUD disagreed that the contractor performed inherently governmental functions.

In our opinion, KAJAX Engineering, Inc., performed inherently governmental functions for HUD. KAJAX Engineering, Inc., personnel collected certain fees payable to HUD. Collection of fees payable to HUD is inherently governmental, and should be performed by HUD employees. Criteria for this matter is listed in 48 CFR § 7.503(c)(17) and Office of Federal Procurement Policy, Policy Letter 92-1, Appendix A. 48 CFR § 37.102(b) states agencies shall not award a contract for the performance of an inherently governmental function.

HUD's Deputy Director of Financial Services, when questioned regarding KAJAX Engineering, Inc., personnel's collecting fees and communicating with the public on HUD's behalf, stated that HUD lacks available staff to handle the volume of calls received and HUD has been precluded from hiring additional staff. The Deputy Director also noted that it is easier to obtain funding for contract services than for additional staff resources.

Employee/Employer Relationship

We believe that the contract creates an employee/employer relationship because the contract: (1) is expected to last beyond one year; (2) requires Government direction and supervision; and (3) provides services that are applied directly to integral efforts of agencies or an organizational subpart in furtherance of an assigned function or mission. These are three of the six elements listed in paragraph

6-2 B.6.a. of Handbook 2210.3 REV 8, Procurement Policies and Procedures, which will be considered in determining whether a contract establishes an employee/employer relationship.

Consequently, the contractor appears to be performing services for which HUD does not have statutory authority to procure. Title 48, Code of Federal Regulations Section 37.104(b), prohibits awarding personal services contracts without statutory authority.

HUD did not agree, in its response to the draft report, that the contract creates an employee/employer relationship.

KAJAX Engineering, Inc., appears to have personnel who are providing personal services to HUD. Such personnel work in the HUD Headquarters building and are at least partly subject to direct supervision by Government employees; use business and communications equipment supplied by HUD; collect fees arising from HUD's programs and communicate with the public on HUD's behalf; and perform clerical functions that are also performed by HUD employees. Further, HUD will need to supervise the contractor's collection of fees and communication with the public in order to protect HUD's interest and retain responsibility. Services of this type should be supplied by HUD employees according to 48 CFR § 37.104.

Competition

Although only one unexercised option year remained in the contract, HUD added two additional option years to its contract with KAJAX two weeks prior to KAJAX graduating from the SBA's Section 8(A) program. When a contractor graduates from the program, the government agency cannot add to the period of the contract's performance. Prior to the extension, HUD's justification for the early extension was the need for time to determine the course of action for future services. However, as of January 1997, approximately one and a half years later, HUD had just started to pursue a course of action for future services.

Administration and Monitoring

HUD issued eight out of 10 task orders and approved two out of five contract modifications after the contractor began performing the work. The GTR said on-site monitoring reviews are completed once or twice a year. However, the GTR stated that these reviews were not documented because deficiencies were not identified.

HUD's management stated there is nothing that supports the conclusion suggested by the above heading, indicating on-site monitoring reviews are conducted more frequently than contract requirements, and any deficiencies are taken care of almost immediately.

HUD Management failed to address in its response why HUD approved eight task orders and two contract modifications after the work began. HUD did not properly administer the contract by allowing KAJAX to begin work under unapproved task orders and contract modifications. It is HUD Management's responsibility to assure that the work required under the task orders and contract modifications is reasonable and necessary to the execution of the contract.

As the review results state, the GTR did not document the monitoring reviews. Without proper

documentation, there is no assurance that the reviews were completed and deficiencies were identified and corrected. Since the GTR stated reviews were not documented, the GTR files were not reviewed.

CONTRACTOR

KRA Corporation
 1010 Wayne Avenue
 Suite 850
 Silver Spring, MD 20910

CONTRACTS REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
5098	Office of Policy and Development	9/19/95	Indefinite Quantity Firm Fixed Price	\$149,943
5954	Office of Policy and Development	9/30/94		\$236,048
18543	Office of Policy and Development	9/29/96		\$239,814
5933	Office of Policy and Development	6/8/94		\$259,790

AMOUNT OF MODIFICATIONS

Contract 5933 had a funding modification increase of \$9,992. No other contracts had funding modifications.

AGREEMENT TYPE

Indefinite Quantity Contract-Firm Fixed Price for all contracts.

Background

Since 1994, KRA has had four indefinite quantity/firm-fixed price contracts with HUD totaling \$885,595. Three of the contracts have been completed (HC5098, H5954, and 18543) and the fourth (5933), is in process. HUD awarded the contracts to provide the following:

- **Contract 5098-** to create an inventory of violence prevention initiatives that have been evaluated and found to be effective in lowering the incidence of violent criminal behaviors in public housing and like environments.
- **Contract 5954-** to evaluate the Service Coordinator Program that was established to coordinate the provision of supportive services to the elderly and disabled living in HUD-assisted projects.
- **Contract 18543-** to enhance HUD's mortgage market analysis function to contribute in the most cost-effective way to revamping FHA and ensuring the opportunity of home ownership for all Americans, by facilitating the enhancement and/or outsourcing of the mortgage market reports.
- **Contract 5933-** to provide a basis for targeting corrective actions to reduce tenant income and rent determination errors in the assisted housing programs.

Review Results

No problems noted.

CONTRACTOR

Lockheed Martin Information System
 4701 Forbes Boulevard
 Lanham, MD 20706

CONTRACT REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
14703	Working Capital- Office of Information Technology	11/28/90	Fixed price for materials; cost reimbursable for labor and subcontractors	Base: \$140,258,879 Total: \$525,908,431 (with options)

As of December 30, 1996, the contract amount was \$504,189,078. The total contract could exceed one billion dollars by the end of the contract life (May 27, 2003).

AGREEMENT TYPE

Fixed price for materials; cost reimbursable for labor and subcontractors.

AMOUNT OF MODIFICATIONS

As of June 1, 1997, there have been 65 modifications to the contract, of which 41 are funding modifications. In addition, there have been 114 delivery orders for equipment and supplies totaling \$71,630,419.

Background

In November 1990, HUD awarded a fixed-price cost reimbursable contract to Lockheed Martin Information System. The purpose of the contract was to have Lockheed Martin work as HUD's systems integrator in charge of HUD's entire computer operations. Lockheed Martin acts as HUD's systems advisor. Lockheed Martin was given the responsibility of replacing all of HUD's automated data processing and telecommunications services, except application software development, with the HUD Integrated Information Processing System (HIIPS). HIIPS includes, but is not limited to: computer hardware; telecommunication hardware and networking; system software; workstations; HIIPS facilities; user support and assistance; training; and maintenance of HUD owned microcomputers and local area networks. The base contract was for \$140,258,879, with a total cost of \$525,908,431. As of December 30, 1996, the contract amount was \$504,189,078. The contract expires in May 2003.

NYMA, Inc., has been contracted by HUD, to monitor the Lockheed Martin contract.

Review Results

Overreliance

We believe that HUD is relying too much on Lockheed Martin, and on NYMA, the contractor HUD hired to monitor Lockheed Martin's contract. We noted no effort by HUD managers to pursue any other avenue except to continue Lockheed Martin's contract and NYMA's contract. Further, HUD does not appear to have sufficient in-house staff with the expertise to perform the technical monitoring functions of the Lockheed Martin contract. NYMA performs many of the monitoring functions and has a more complete set of records than HUD.

HUD officials responded to this section of the draft report "There has been no need to pursue other avenues for HIIPS." By discounting the need for any alternative, HUD is depriving itself of the possibility to take advantage of any viable options that may exist.

Costs

HUD is paying a higher price than needed for the \$71.6 million of computer hardware and peripheral equipment purchased by Lockheed Martin for HUD. Under the contract HUD pays a set price, which is agreed upon, for computer products. These prices are subject to periodic adjustments. Although HUD responded the prices are adjusted, we feel these adjustments should be made more often, especially for high price items.

Another matter we noted was that HUD sometimes makes purchases of items which do not have an established price on the list with Lockheed Martin. For example, in June 1996, NYMA advised HUD that a certain purchase it was about to make through Lockheed Martin was overpriced. HUD proceeded with the purchase in July 1996 and paid Lockheed Martin over

\$4,000 per unit for computers that Lockheed Martin purchased for \$2,235 each.

Analysis

HUD has performed no review to determine the cost-effectiveness of the Personal Computer/Local Area Network (PC/LAN) Maintenance portion of the contract, other than when the contracts are renewed. Therefore, there is no assurance that the annual payment of over \$6,000,000 for a PC/LAN Maintenance Plan is necessary and reasonable. When the original contract was entered into, it was Lockheed Martin who provided HUD the subcontractors' bids for the maintenance portion of the contract. However, HUD could provide us with no documentation to show that the contracted price is reasonable.

In its response, HUD officials stated applicable evaluations existed in the files but OIG did not request them. This matter was discussed during our review and HUD apparently still misunderstands. Other than analyses when contracts are renewed, HUD has made no periodic assessments of the cost-effectiveness of the maintenance plan.

HUD pays a per unit, per month cost to Lockheed Martin for systems maintenance. In turn, Lockheed Martin subcontracts the work to Banctec, who charges Lockheed Martin a per unit fee.

Without evaluating the cost, HUD has no assurance it is paying a fair rate for computer maintenance. In addition, we have concerns regarding the inventory on the Maintenance Plan (see next section).

Inventory

A review of the systems equipment listing disclosed that old and obsolete equipment is not being removed from the Maintenance Plan inventory listing. As a result, HUD is paying for maintenance on old/obsolete equipment. For example, HUD is paying for the maintenance of unused Grid computers because they were never taken off the inventory listing. The Grid computers have not been used in many years. It is HUD's responsibility to monitor and maintain a current listing of the equipment on the Maintenance Plan. HUD has not updated the inventory listing for three years. Better inventory monitoring may save costs.

HUD's response to the draft report indicates concurrence with OIG's point. The HUD response states procedures have been revised to require quarterly reviews of maintenance rates. Further, HUD stated its first review resulted in the removal of 1,554 items which will save HUD \$275,500 annually.

In addition, we are concerned about the cost-consciousness of HUD staff since it adds new

inventory immediately onto the Maintenance Plan, even though the new products are covered under the manufacturer's warranty. According to HUD staff, they decided that they would not use the warranties, but instead use the Maintenance Plan, because the Maintenance Plan would probably shorten repair time. We believe it is not cost-effective to pay for the maintenance of a product that is already covered for repairs.

In its response to the draft report, HUD discounted the use of warranties for several reasons. One of those reasons was HUD's desire to respond to problems within four hours and repair or replace the equipment within 24 hours. We do not agree that all the reasons stated by HUD are valid, particularly the "4/24" hour service levels. We believe HUD should reconsider using such short time frames for all computer equipment. It may not be necessary for each piece of equipment to be repaired or replaced so rapidly.

Reevaluation

The Lockheed Martin contract was awarded with a provision for renewing twelve, one year options. We found no evidence to indicate that HUD is evaluating whether the contract should be renewed each year. Federal Acquisition Regulations (FAR), Section 17.207, require the contracting officer meet certain criteria and document certain analysis before an option is exercised. Instead, HUD is merely determining how much the contract should be for the next option year.

There are six remaining option years on this contract and HUD has already obligated over \$504 million of the original contract life estimate of \$525 million. If the remaining six options are exercised, the total contract could exceed \$1 billion. HUD is extremely dependent on this contract. Lockheed Martin handles HUD's entire computer operations including data storage. Although Lockheed Martin maintains HUD's computer nerve center and main frame at a site in Lanham, MD, no HUD employees are assigned to or work at this facility. Considering the scope and integral importance of this contract to HUD, much more effort should be devoted to periodic assessment, cost control, monitoring, and contingency planning.

HUD's response to the draft report listed various steps it takes to review the contractor's performance. However, the reevaluations are not performed in as much detail as required by the FAR.

CONTRACTOR

Myint & Buntua, CPAs
 5203 Leesburg Pike
 Suite 300
 Falls Church, VA 22041

CONTRACTS REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
16720	Office of Finance and Accounting	7/17/91	Indefinite Quantity/Cost Reimbursement	\$5,000 minimum not to exceed \$200,000
16722	Office of Housing - Federal Housing Commissioner	9/17/91	Indefinite Quantity/Cost Reimbursement	\$2,700,000 minimum not to exceed \$19,743,999
18544	Office of Housing - Federal Housing Commissioner	9/20/96	Indefinite Quantity/Cost Reimbursement	\$650,000 minimum not to exceed \$2,999,999

AMOUNT OF MODIFICATIONS

No funding modifications for contracts #16720 and #18544. Contract #16722 had five funding modifications as follows:

- Modification 2 increased contract authority from \$2,995,000 to \$5,994,000. Minimum Quantity is changed to \$800,000;
- Modification 3 increased the contract authority from \$5,994,000 to \$9,594,000;
- Modification 4 increased the contract authority from \$9,594,000 to \$15,094,000 and extended the contract period for two additional years;
- Modification 5 increased contract authority from \$15,094,000 to \$20,094,000;
- Modification 6 to correct modification No. 5 and increase the contract authority from 18,093,999 to 19,743,999. Delete 20,094,000 and substitute \$18,093,999.

Background

Myint & Buntua, a Certified Public Accounting Firm, was contracted under the Section 8(a) program through the Small Business Administration to provide the following:

- Contract #16720 entered into in July 1991 was to provide the Office of Finance and Accounting professional staff support by: composing handbooks and accounting procedures for various programs, developing or modifying computer applications; and conducting management and accounting reviews.
- Contract #16722 entered into in September 1991 was to provide professional accounting and/or insurance services for HUD's mortgage insurance and Title I programs.
- Contract #18544 entered into in September 1996 was a renewal of contract #16722 for the same services.

Review Results

Planning

HUD did not properly design for its contracting needs upfront prior to setting the parameters of the contract. For example, for contract #16722, contract modifications increased the contract amount from \$3 million to almost \$20 million. The contract was originally set for three years (9/91 to 9/94) for a maximum amount of \$2,995,000. The contract maximized in September 1992 and was increased to \$5,994,000. In May 1994, the contract was increased to \$9,594,000. The contract was then extended two years at a maximum contract amount of \$15,094,000. In June 1995, the contract amount was increased to \$18,093,999. A final increase in February 1996 took the contract amount to \$19,743,999.

CONTRACTOR

The National Conference of States on Building Codes and Standards
505 Huntmar Park Drive
Suite 210
Herndon, VA 22070

CONTRACT REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
18141	Office of Housing- Federal Housing Commissioner	10/29/93	Cost plus fixed fee	\$17,953,796

Through March 1997, NCSBCS has received \$14,436,568 on this contract.

AMOUNT OF MODIFICATIONS

The contract had 9 contract modifications with a \$3.1 million increase in funding.

AGREEMENT TYPE

Cost-plus-fixed-fee contract.

Background

The National Conference of States on Building Codes & Standards (NCSBCS) is a nonprofit organization formed for the purpose of promoting the development of an effective building regulatory system to insure the provisions of health, life, safety, and welfare.

NCSBCS has been HUD's contractor in charge of monitoring responsibility over the manufactured home process since program origination in 1976. The NCSBCS currently has a four year cost-plus-fixed-fee contract with HUD which was effective October 29, 1993. Through March 1997, NCSBCS has received \$14,436,568 on this contract. HUD's contracts account for nearly all of NCSBCS' work.

Review Results

A review of the contract indicated that in general, the contractor is performing in accordance with contract requirements and the contract is being properly administered. However, the following concerns were noted:

Scope of Work

The scope of work as detailed in the contract specifications appears to exceed the level of Federal monitoring required by 24 CFR 3282. Federal regulations only require audits of the manufacturer's *monitoring agents* four times per year. The contract specifications require at least one in-plant audit of *every home manufacturer*. Since many of the manufacturer's agents are monitoring more than four manufacturers, the contract monitoring requirements appear excessive.

Competition

The contract award for NCSBCS has a history of lacking competition. NCSBCS has been HUD's only contractor in charge of the monitoring of manufactured homes since the program's inception in 1976. At a minimum, the industry's perception is the RFP gives an unfair advantage to the incumbent. For the last two contract awards in 1988 and 1993, there was no competition and only one other bidder, respectively. The Association for Regulatory Reform has criticized HUD indicating that the RFP lacks competition and requires monitoring that exceeds Federal Guidelines.

OPC staff indicated they realize the RFP is not getting the competition desired. OPC staff indicated for the next RFP, scheduled for late 1997, they will initially advertise a contract synopsis in the Commerce Business Daily, seeking comments from potential bidders. OPC staff felt this effort will help stimulate competition for the next award.

Financial Systems

NCSBCS's draw down history indicates it circumvents HUD system controls. NCSBCS draws down contract funds from OFA via a voice response system. The only specific control built into NCSBCS's draw down authority is that draws exceeding \$150,000 will not be paid without an upfront program review. Of the 101 contract draws, 80 were between \$149,000 and \$149,900, or just below the threshold. No draw downs exceeded \$150,000. NCSBCS draws down about \$4 million per year and HUD has paid out about \$14.5 million over the past four years. Furthermore, the contractor only submitted monthly financial statements which do not correlate to the draw schedule since the contractor draws down funds two to four times per month.

HUD's management stated financial controls regarding contractor drawdowns through the Voice Response System are adequate. Specifically, HUD management stated HUD and the GTR receive drawdown statements and monthly financial reports from the contractor.

The contractor's drawdown history clearly illustrates it consistently uses a drawdown just under the HUD review threshold. Additionally, the GTR is not comparing monthly financial reports with the contractor drawdown requests.

CONTRACTOR

National Loan Servicer, Inc
 1444 Eye Street, NW
 Washington, DC 20005

CONTRACT REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
14753	Office of Community Planning and Development	July 1, 1988	Cost plus Fixed Fee and Incentive	\$129,044,265 (includes modifications)

Original contract amount \$38,229,572. Contract completed in August 1993.

AMOUNT OF MODIFICATIONS

Contract had numerous modifications totaling \$ 90,814,693.

Background

On July 1, 1988, HUD entered into a three year, \$38 million contract with National Loan Servicer, Inc. (NLS). Contract modifications amounted to an additional \$91 million. The purpose of the contract was for NLS to provide a wide range of administrative and management services for the Section 312 Rehabilitation Loan Program. The basic responsibilities were: servicing of all delinquent Section 312 loans; maintenance of a management reporting system; and implementation of loan policy guidance and loan program operations. The contract ended in August 1993.

Review Results**Control**

HUD allowed NLS to draw down \$49,898,978 from 1990 through 1993, using the LOCCS Voice Response System (via telephone) without proper controls. Draw downs were to be used to pay property and foreclosure related expenses for the Section 312 Loan Program. However, HUD built no controls into NLS draw down procedures to ensure the propriety of withdrawals. HUD did not: review draw downs; require supporting documentation from NLS; or establish dollar or percent threshold draw down maximums.

Overcharging

A March 24, 1989, HUD OIG audit report disclosed that under contract #14753, NLS (under a

previous name) inflated its performance levels to improperly earn incentive fees totaling \$119,402. In addition, under a previous contract, HUD-OIG disclosed, that NLS overcharged overhead rates by \$514,847. In both cases, NLS was required to remit these funds back to HUD. This shows the need for proper monitoring by HUD and the need for independent close-out audits.

Data

HUD does not maintain accurate data on NLS's contract. A review of the Office of Procurement and Contracts' computer database for the NLS contract disclosed many errors that understate the total contract amount by \$60,788,346. HUD's database reported contracted amounts totaling \$68,255,919, instead of the correct amount of \$129,044,265. The difference was due to missing modifications 1,2,3, and 6 through 10.

Work Product

NLS did not adequately complete the work under the contract. As a result, HUD incurred additional costs totaling \$592,748 to correct the deficiencies in 86 loan files. The deficiencies included matters such as: incomplete purchase of lien; improper application of funds; and inadequate supporting documentation to refute disputed legal fees. This was disclosed by the current contractor, Computer Data Systems, Inc., when it reviewed the files and found significant problems with the files previously maintained by NLS.

Close-Out

HUD has not closed-out the NLS contract even though it was completed almost four years ago in August 1993. Thus, HUD does not know whether contract funds of \$129 million were properly spent for property and foreclosure related expenses.

CONTRACTOR

The Nickerson Group
955 L'Enfant Plaza North
Suite 4000
Washington, DC 20024

CONTRACT REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
18512	FHA-Office of Housing	9/30/96	Indefinite Quantity	\$100,000 - \$3,000,000

Indefinite Quantity Contract. Individual task orders used to obligate funds. Three individual task orders have been issued under this contract. There have been two contract modifications; none were funding modifications.

TASK ORDERS AWARDED

Task Orders	Amount	Task Period	Agreement Type
Task Order 1	\$ 48,099	10/15/96-12/15/96	Firm Fixed Price
Task Order 2	\$ 48,144	12/15/96-2/15/97	Firm Fixed Price
Task Order 3	\$ 545,994	2/18/97-9/30/97	Cost Plus Fixed Fee
Total	\$ 643,237		

Background

In September 1996, HUD awarded a contract to the Nickerson Group to provide support services for the Department to implement its National Homeownership Strategy (NHS) and provide administrative support for its public-private partnership under the partnership agreement. The contract runs for three years and is not to exceed \$3 million. It is the first contract awarded to the Nickerson Group as a prime contractor.

The Nickerson Group, incorporated in July 1995, is owned by a former HUD employee and former vice-president of ICF (another HUD contractor). ICF is HUD's contractor for the planning and development of the NHS. ICF subcontracts some of its work to the Nickerson Group.

Review Results

Competition

Our review found that the Nickerson Group was not on the original solicitation mailing list but submitted a proposal that identified three contractors, one being ICF (the incumbent contractor), as possible subcontractors. All three firms expressed a willingness to be a subcontractor for the Nickerson Group, yet not one of the three firms sent in their own proposal to be considered, even though all three firms were on the solicitation listing.

Further, the SEB recommended the Nickerson Group as the only technically acceptable proposal of the five received. "KPMG" Peat, who submitted a proposal, was deemed technically unacceptable. But, this is not supported by the evaluator's scoring sheets. KPMG Peat received a very good or excellent in 15 of the 18 categories. In addition, the Nickerson Group proposal came in at \$469,000 for year 1, significantly more than the \$247,000 Government estimate and more than double the \$223,000 proposal received from KPMG. First year tasks were subsequently awarded at \$642,237.

HUD's management stated there is no documentation to support the case for a lack of competition. HUD management stated the Source Evaluation Board followed proper procedures in developing the competitive range, and the Board unanimously determined the Nickerson Group was the sole technically acceptable offer.

As stated above, the SEB's determination that The Nickerson Group was the only technically acceptable proposal is not supported by the SEB's own rating sheets, and HUD Handbook criteria.

Services

One of the major initiatives of the Nickerson Group's first year tasks was a National Homeownership Summit scheduled for May 1997. HUD paid \$285,000 to the Nickerson Group to organize the Summit, then HUD canceled the Summit.

HUD management stated the National Homeownership Summit was canceled since it was decided it was not the most effective means of reaching out to housing providers across the nation. Specifically, HUD management indicated they adopted a more cost effective and highly visible "National Homeownership Week" that would take place in hundreds of communities across the nation, which has been a resounding success and resulted in over \$200,000 of contract savings.

OIG's contracting review was completed prior to the events described above. HUD management should submit documentation supporting the National Homeownership Week events that took place subsequent to OIG's review.

Subcontractor

Under Task Order 3, the Nickerson Group hired Aspen Systems for \$210,000 as a subcontractor under a sole source contract. The Nickerson Group justified no competition in selecting Aspen Systems based on Aspen's direct experience in planning and managing the first National Summit. It should be noted that under a separate HUD contract with Aspen Systems, the Nickerson Group was awarded \$74,796 as a subcontractor tasked to assist Aspen in the design and implementation of seven regional homeownership summits.

Oversight and Monitoring

Although the contract is in the early stages, we noted the following concerns with regard to HUD's monitoring and assessment of the contract:

- The current GTR has no GTR training and does not appear to be familiar with GTR responsibilities.
- The GTR is not maintaining adequate documentation evidencing the contractor is performing required tasks. Specifically, the GTR had to request a status of contract deliverables from the contractor even though numerous items should have been previously submitted to and reviewed by HUD.
- It is unclear how HUD monitors the overall National Homeownership Strategy contracts. Specifically, prime contractors involved in the effort include Aspen Systems, ICF Inc., and the Nickerson Group. Therefore, it is difficult to determine how housing can adequately coordinate the efforts of the different contractors and assess the value received.
- It is unclear how OPC can maintain the integrity of the procurement process when prime contractors and subcontractors are exchanging roles. For example, ICF and Aspen are subcontractors for Nickerson, and Nickerson has been a subcontractor for Aspen and ICF in

previous contracts.

CONTRACTOR



NYMA, Inc.

7501 Greenway Center Drive

Suite 1200

Greenbelt, MD 20770

CONTRACT REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
16337	Office of Information Technology Computer Services Group	August 25, 1993	Indefinite Delivery/ Indefinite Quantity Task Order	First year (FY 1994) -\$2.0 million Option Years 1-4 - \$2.5 million per year (FYs 1995-1998)

Total contract not to exceed \$12 million.

TASK ORDERS AWARDED

FY94	FY95	FY96	FY97	Total
\$1,559,635*	\$1,751,374*	\$2,092,263*	\$2,308,137**	\$7,711,409

* actual cost

** task order amount; as of 1/17/97, \$1,434,005 has been obligated

Contract modifications almost exclusively to provide incremental funding and to make minor modifications to document personnel changes.

AGREEMENT TYPE

Non-Competitive 8 (a) Labor Hour Contract with options for 4 years. Indefinite Delivery-Indefinite Quantity Task Order. Subcontractors: Labor - Hour/Fixed Price

Background

In August 1993, HUD awarded an Indefinite Delivery-Indefinite Quantity Task Order Contract to

NYMA, Inc. The contract set a first year maximum cost not to exceed \$2.0 million and \$2.5 for the four following option years. The purpose of the contract is to provide staff support to HUD in reviewing, analyzing, evaluating, and coordinating its monitoring of its HUD Integrated Information Processing Service (HIIPS) contract with Lockheed Martin Corporation (LMC). The contract was non-competitive; selected under SBA's Section (8) program. Thus far, \$7,711,409 has been awarded under this contract.

Review Results

Inherently Governmental Function

HUD contracted with NYMA to perform work that is, in our opinion, an inherently governmental function. NYMA is responsible for helping HUD monitor its HIIPS contract awarded to LMC. The contractor, for all intents and purposes, is performing the same functions as HUD staff. The contractor is co-located with other HUD staff; attends staff and technical meetings; and takes its assignments and directions from HUD managers, who also review/approve the contractor's work. NYMA employees are evaluating billings, modifications, and making suggestions; items that only HUD staff should be doing.

In its response to the draft report, HUD stated NYMA is not performing an inherently governmental function. HUD states NYMA provides work in a support function.

Invoices submitted by NYMA, Inc., described numerous instances of the contractor's personnel accepting and rejecting communications equipment supplied to HUD by another contractor. Accepting and rejecting goods and services supplied to the Government is inherently governmental, and should be performed by HUD employees. Criteria for this matter is listed in 48 CFR § 7.503(c)(12)(v) and Office of Federal Procurement Policy, Policy Letter 92-1. 48 CFR § 37.102(b) states agencies shall not award a contract for the performance of an inherently governmental function.

Employee/Employer Relationship

We believe that the contract creates an employee/employer relationship because the contract: (1) is expected to last beyond one year; (2) requires Government direction and supervision; and (3) provides services that are applied directly to integral efforts of agencies or an organizational subpart in furtherance of an assigned function or mission. These are three of the six elements listed in paragraph 6-2 B.6.a. of Handbook 2210.3 REV 8, Procurement Policies and Procedures, which will be considered in determining whether a contract establishes an employee/employer relationship.

Consequently, the contractor appears to be performing services for which HUD does not have statutory authority to procure. Title 48, Code of Federal Regulations, Section 37.104(b) prohibits awarding personal services contracts without statutory authority.

HUD stated in its response to the draft report that NYMA employees are managed and evaluated by the contractor, not HUD. Further, HUD points out the following portion of the Handbook referenced

by OIG states the determination of an employer-employee relationship must be the result of the Contracting Officer's professional judgment considering all factors. HUD states "...The Contracting Officer has determined that the factors cited by the OIG are not determinative."

In our opinion, NYMA appears to have personnel who are providing personal services to HUD. Such personnel work in the HUD Headquarters building and are at least partly subject to direct supervision by Government employees; use business and communications equipment supplied by HUD; administer a communications equipment contract that supports HUD's mission; and perform contract administration functions alongside HUD employees. Further, HUD will need to supervise the contractor's administration of HUD's communications equipment contract to protect HUD's financial interests. Services of this type should be supplied by HUD employees and are personal services as detailed in 48 CFR § 37.104.

Monitoring

The GTR, who has never been formally trained for his role as the GTR, was not aware that over \$328,000 was incorrectly charged to the wrong Fiscal Year. In addition, payments are not always being made on time. We noted four instances in which HUD was in violation of Prompt Payment Procedures and was required to pay a late payment interest penalty charge.

Reliance

We believe that there has been little effort by HUD managers to pursue any other avenue for this responsibility other than to continue the NYMA contract. HUD apparently is making no attempt to learn from the contractor the technical functions they perform. Without this expertise, HUD is at a disadvantage. Further, no analysis has been performed by HUD to determine whether it is more effective in terms of quality and cost to contract the function compared to hiring technically qualified staff to perform the work.

CONTRACTOR



Price Waterhouse
1616 North Fort Myer Drive
Arlington, VA 22209-3100

CONTRACT REVIEWED



Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
18065	Office of Community Planning and Development	September 29, 1992	Indefinite Quantity - Cost plus Fixed Fee	\$1.9 million minimum not to exceed \$8 million

TASK ORDERS AWARDED

Task Order Number	Date	Amount
1	9/30/92	\$ 454,962
2	9/30/92	\$ 599,605
3	9/30/92	\$ 492,237
4	9/30/92	\$ 382,227
5	1/4/95	\$ 336,492
6	3/30/95	\$ 112,635
7	3/23/95	\$5,620,095

8	4/14/95	\$ 13,747
9	8/17/95	\$1,570,790
	Total	\$9,582,790

AMOUNT OF MODIFICATIONS

\$7.6 million in funding modifications.

AGREEMENT TYPE

Indefinite Quantity Contract-Cost Plus Fixed Fee

Background

In September 1992, HUD awarded a \$1 million not to exceed \$8 million Indefinite Quantity Contract-cost plus fixed fee contract to Price Waterhouse to provide technical assistance to eligible community development block grant recipients on a broad range of economic development activities. The contract had nine task orders amounting to \$9.6 million including modifications. The contract is almost complete.

Review Results

Equipment

We found an instance where HUD is paying for Price Waterhouse employees' equipment. HUD paid a total of \$45,583 for 17 laptop computers to be used by the contractor's personnel. The \$45,583 includes \$39,814 for the cost of laptops and \$5,769 which is a 14 percent add-on fee by Price Waterhouse. We believe that the contractor should provide their employees the necessary equipment to perform their services, but in any event, HUD should not pay a fee on top of the cost.

In its response to the draft report, HUD replied:

"This statement is not accurate. The contractor used contract funds to purchase a laptop computer for each of 10 generalists hired under the contract. When the generalists were terminated by Price Waterhouse in March of 1997, ownership of the laptops reverted to the Department in accordance with the standard terms and conditions of the contract. Generally, the lease or purchase of equipment for contractor employees' use during performance of a contract is neither improper nor imprudent as long as the need for the equipment is properly justified and it is being used for fulfillment of the contract requirements. Secondly, there is nothing contractually inappropriate by allowing the application of an additional charge (e.g.G&A) to the acquisition cost of authorized equipment purchases as long as such application is consistent with the firm's accounting system and indirect pool structure."

Apparently HUD management does not have any problems with furnishing the contractor with equipment and paying a premium to do so. In our opinion, however, the Government should not be paying for a contractor as large as this to furnish its employees with equipment which today are standard working tools. Furthermore, certainly HUD should not be paying the contractor an extra fee to buy such equipment, regardless of ultimate disposition.

Administration

HUD did not prepare cost estimates except for an initial estimate of from \$1 to \$8 million for the Indefinite Quantity Contract.

Work was shifted from Price Waterhouse to another contractor with an IQC because "...The issue is simply that PW is getting too close to the ceiling and we are trying to shift assignments out to other contractors which can handle the assignments...."

Modifications

Excessive modifications may have been used as a means of avoiding competition for additional work. Modifications increased the contract over the \$8 million maximum without documentation to support the feasibility or reasonableness of the additional costs. In particular, Task Order 7 started at \$100,000 and increased to \$5.5 million. Task Order 9 started at \$250,000 and increased to \$1.57 million. Separate competitively bid contracts may have been more beneficial to the Department.

Scope Of Work

The contractor, not HUD, appears to have dictated the scope and cost of services to be performed under a modification to Task Order 7. In particular, under modification #10, the contractor suggested to HUD to modify Task Order 7 because "...a complex new statement would lead to a difficult cost proposal and negotiation...." and the contractor suggested a price of \$990,000. HUD extended the contract per the contractor's requested scope of work, timeframes, and price.

CONTRACTOR**Ralph G. Moore & Associates(RGMA)**

211 West Wacker, Suite 900

Chicago, IL 60606

CONTRACT REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Amount
18066	Community Planning & Development	September 28, 1992	\$1,588,388

The contract ran for two years with option for four years; the contract ended in July 1996. There were six contract modifications, none were funding modifications. HUD paid \$1,587,069 to RGMA under this contract.

AGREEMENT TYPE

Cost-plus-fixed-fee contract.

Background

In September 1992, HUD awarded a \$1,588,388 cost-plus-fixed-fee contract to Ralph G. Moore & Associates (RGMA) to provide technical assistance to increase participation in Minority Business Enterprises (MBEs) in local Community Development Block Grant (CDBG) programs. Specifically, the contractor was ultimately to perform three tasks: 1) select communities and develop Technical Assistance Plans (TAPs) for eight communities; 2) implement the TAPs; and 3) develop training materials on five subjects relating to the furtherance of MBE participation in local CDBG programs, and give six training sessions on this material. The contract ran for two years with four option years; it ended in July 1996. HUD paid \$1,587,069 to RGMA under this contract.

Review Results

Product

It appears that HUD did not use the training materials it contracted RGMA to develop relating to the furtherance of MBE participation in local CDBG programs. The GTR did not know whether any communities or HUD used the training materials or whether any communities ever requested a copy of these materials. Further, the GTR did not know how communities were informed that

training materials were available for their use. The GTR noted that while she did not know who used the training materials, that HUD's contractor, Aspen, a clearinghouse that keeps training materials for HUD, may know. The Senior Program Manager at Aspen in charge of the Community Planning and Development area advised that she was not aware of any materials that were maintained relating to the contractor and its work on MBEs.

In addition, it appears that the training materials were never reviewed. The training materials, held by the GTR, included ten unopened envelopes and at least two packages with disks and tapes. The GTR was enrolled in an executive development training program for the past year that kept her from her duties as the GTR. A review of the files disclosed no evidence to suggest that the RGMA contract was monitored during the past year. In addition, while the contract ended in July 1996, the GTR still has not conducted the final close-out of the contract. The GTR has not been trained on GTR monitoring since 1985 or 1986.

HUD's management stated the training materials provided to the auditor were an extra set as required in the contract. HUD's management indicated all training materials had been previewed and revised based on staff input provided by the Chicago office.

We interviewed the GTR several times and were provided with boxes of documents and correspondence that were not in any particular sequence. The GTR did not know if the materials were used and, as noted in the audit report, referred us to a clearinghouse to determine if the materials were used. The result of the referral is also in the audit report. We noted the unopened packages to show a fact that was observed.

Contract Specifications

The original contract required the contractor to perform six tasks, later the contract was modified to only three tasks, without any reduction in the contract price. The three existing tasks remained essentially the same. The eliminated tasks included: preparing a preliminary concept paper describing the program design and approach for activities to be performed in the contract; providing computer software (after testing at two sites) for communities to analyze their MBE programs; and developing a guidebook for discriminatory practices analysis and conducting a minimum of three training seminars.

The modified contract required the contractor to perform three tasks: 1) select communities and

develop Technical Assistance Plans (TAPs) for anywhere between eight to fifteen communities; 2) implement the TAPs; and 3) develop training materials on five subjects relating to the furtherance of MBE participation in local CDBG programs, and give six training sessions on this material. Our review disclosed that the contractor did not perform all required tasks. First, for only five of the eight communities ultimately selected, did the contractor develop TAPs. The GTR stated that some communities did not want the contractor to provide them with formal written TAPs, but wanted informal unwritten TAPs instead. And secondly, the contractor only conducted one training session on four topics. As cited, the contract required that the contractor discuss five topics at six regional sites. The GTR stated that the contract was not fulfilled because HUD ran out of contract funds.

HUD's management stated the contractor successfully completed each task and produced every deliverable required under the contract.

We disagree that the contractor met the tasks specified in the contract. As noted in the report, the contract was revised without adequate justification and three of the six originally stated tasks were deleted without reduction in the contract amount.

CONTRACTOR



SOZA & Company, Ltd.

8550 Arlington Blvd.

Fairfax, VA 22031

CONTRACTS REVIEWED



Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount
18392	Office of Housing (Single Family)	9/30/94	Fixed Price Indefinite Quantity Cost Reimbursable	Min: \$ 500,000 Max: \$6,400,000
18535	Office of the Secretary (Contract)	4/24/96	Firm Fixed Price	\$ 146,742

Chief
Financial Officer
(Task Order)

Contract #18392 contract amount awarded to date: \$ 2,827,834.

Contract #18535 contract amount awarded to date: \$ 146,742.

AMOUNT OF MODIFICATIONS

Contract #18535: task order issued for \$146,742.

Contract #18392: contract has been modified 25 times which includes 20 Task Orders amounting to 2,827,834.

Background

In September 1994, HUD awarded contract #18392 to SOZA & Company (SOZA) to perform tasks related to disbursement processing for single family property disposition activities. In April 1996, HUD awarded contract #18535 for \$146,742 to SOZA to perform six A-123 reviews to assess the effectiveness of the management actions taken by HUD to correct material weaknesses in internal controls. Contract #18392 set a minimum contract amount of \$500,000 and a maximum of \$6.4 million.

Review Results

No problems were found with contract #18535. However, our review disclosed some problems with contract #18392.

Monitoring

SOZA is a SBA 8(a) firm which subjects it to the limitations on subcontracting of FAR 52.219-14(b)(1), which requires that at least 50 percent of the cost of contract performance incurred for personnel shall be expended by the SBA 8(a) firm. SOZA used Electronic Data Services as a subcontractor. However, we could find no evidence to show that HUD monitored for compliance with FAR 52.219-14.

Data

The Office of Procurement and Contracts' database did not accurately reflect contract amounts. Our review disclosed that the database did not contain the following five modifications. In total, the OPC database understated the total contract amount by \$635,963.

Modification Number	Amount Not Recorded
#5 (Task Order 1)	\$140,000
#6 (Task Order 1)	\$276,823
#7 (Task Order 1)	\$180,000
#8 (Task Order 1)	\$ 45,654
#8 (Task Order 2)	(\$ 6,514)

HUD's management agreed there are errors in the contract database regarding the SOZA contract. However, they indicated that contract modifications reported as missing from the database are in the database.

During our review, we compared the modifications contained in the contract files with those shown in the database and noted our results. If the modifications were added to the database subsequent to our review, it does not change our conclusion.

CONTRACTOR

Strategic Mortgage Services, Inc.

3160 Airway Avenue

Costa Mesa, CA 92626

CONTRACT REVIEWED



Contract Number	Requesting/ Funding Office	Contract Amount
18150	FHA-Office of Housing	\$13,000,000

As of January 31, 1997 contractor paid \$21,765,987 under contract 18150.

AMOUNT OF MODIFICATIONS



Funding modifications for contract #18150:

Option 1	\$ 7,296,000
Increase Option 1	\$ 3,040,000
Option 2	\$ 9,390,000
Option 3	<u>\$ 9,120,000</u>
Total	\$ 41,846,000

AGREEMENT TYPE

Fixed-fee indefinite quantity contract.

Background

HUD contracted Strategic Mortgage Services (SMS) to provide nationwide appraisal services for its Single Family Real Estate Owned properties. The first national contract was awarded to TRW Real Estate Loan Services in 1990. TRW was subsequently purchased by SMS. HUD awarded a \$13,000,000 contract to SMS on February 1, 1994. There have been four contract modifications totaling \$41,846,000. As of January 31, 1997, HUD has paid SMS \$21,765,987 under this contract. The contract is currently in its third option year.

Review Results

Purpose

We believe that the intent of HUD's contract with SMS was not met. During 1992, HUD ended its contract with TRW to enter into a national appraisal contract that would provide for wider pricing variations based on geographical areas. It was assumed that the new contract would result in more competitive pricing and lower overall costs to the Department. Further, it assumed that the lower pricing should result in greater use of the contract by Field Offices (FOs) which would decrease the need for local appraisal contracts.

Our review found that the contract did not provide for wider price variations based upon geographical area, lower costs to the Department, or result in a decrease in the use of local appraisers. First, HUD did not obtain wider pricing variations based on geographical area. The original contract had three appraisal prices; the contiguous United States, Alaska/Hawaii, and Puerto Rico. Likewise, the new contract retained the three regions and added a two zone system for the contiguous United States, but did not reflect any regional differences.

Second, the contract did not lead to more competitive pricing or lower overall costs to the Department. Only three proposals were received for the new contract. Two of those proposals were determined to be technically unqualified. Thus, price negotiations were held only with SMS. Moreover, the original contract provided for \$275 for a single family unit appraisal. The price for a single family unit under the new contract was \$295 for the base year and \$304 in option year 1 where it has remained.

Third, since the price per appraisal was not lowered, many FOs obtained appraisal services locally. For instance, from February 1996 through January 1997, less than 45 percent of the FOs utilized the SMS contract. For some of those who used SMS, they did so only because they did not have the staff needed to administer a local contract.

Cost Estimates

The GTR could provide no support or explanation as to the cost figures used to estimate the cost of the contract, \$1,000,000 each month. However, the GTR was unable to explain or provide support on how they arrived at this figure. In addition, while HUD obtained local appraisal prices to assist the Source Evaluation Board (SEB) in determining the reasonableness of the proposed pricing, no evidence could be found to show whether the SEB used these figures during the price negotiations. All the local appraisal prices were lower than the negotiated price with SMS.

HUD's management acknowledged written cost documentation could not be located during the review. However, HUD management included the basis for the cost estimate with its response which

is included with this report as a separately bound attachment.

Cost-Effectiveness

No review has been performed to determine the cost-effectiveness of the contract. HUD has performed no analysis to determine the cost-benefit of using a national appraisal service vs. local appraisers vs. Real Estate Asset Managers in setting the list price for the properties and the results of the sales. Yet, HUD has continued to renew its contract with SMS over the past three years. Slow selling properties result in higher holding costs and low priced properties result in a loss to HUD.

Monitoring

Our review found that HUD did not adequately monitor the SMS contract. For example:

- Contract monitoring was delegated to the individual FOs which received no oversight from the GTR
- Contractor's reports were not compared with input from the FOs, Single Family Acquired Asset Management System (SAMS), or the payment contractor
- The payment system did not provide adequate feedback to the FOs to ensure that the payments to the contractor were proper and the GTR did not review invoices prior to payment
- FOs were not consistent in contractor monitoring

HUD's management stated the GTR provides detailed instructions and memoranda to the local offices on how to order, monitor, and pay for appraisal services. HUD management also stated the GTR is closely involved with local offices and the contractor.

We did not receive any evidence that GTR's periodically monitored local offices to assure they were following the instructions delegated to them. Additionally, the GTR did not even have access to actual payment information for review.

CONTRACTOR

Youthbuild USA
 58 Day Street
 P. O. Box 440322
 Somerville, MA 02144

CONTRACT REVIEWED

Contract Number	Requesting/ Funding Office	Contract Date	Contract Type	Contract Amount	
18368	Community Planning & Development's Office of Economic Development	July 6, 1994	Cost Reimbursement	First two years	\$1,999,660
				Option Year 1	\$1,400,000
				Option Year 2	\$2,500,000

As of 4/24/97, HUD has paid Youthbuild USA \$4,561,636.65 under this contract.

AMOUNT OF MODIFICATIONS

There were five modifications; none were funding modifications.

AGREEMENT TYPE

Cost Reimbursement Contract

Background

Youthbuild USA was organized primarily to build a national constituency of local non-profit groups to support the Youthbuild program legislation. Youthbuild USA's staff spent time lobbying Congress to get the legislation creating the Youthbuild program passed and funded on the Federal level. In 1992, Youthbuild USA hired a Washington-based housing lobbyist to supplement their efforts. This encouraged legislation also contained a provision that HUD must set aside a percentage of the appropriation to be awarded to a contractor to provide technical assistance to program participants.

In July 1994, HUD awarded a cost reimbursable contract to Youthbuild USA to provide technical assistance to grantees in applying for, planning, and implementing Youthbuild programs. The major purpose of the program is to provide disadvantaged youth with education and employment skills through constructing and rehabilitating housing for low-income and homeless people. The initial two-year contract for \$1,999,660 and the first option year for \$1.4 million has expired. The remaining option year for \$2,500,000 has been exercised and the contract expires in June 1998. There has been no funding modifications. As of 4/24/97, HUD has paid Youthbuild USA \$4,561,636.65 under this contract.

Review Results

Overpayments

On March 11, 1997, the Defense Contract Audit Agency (DCAA) issued an audit report on Youthbuild USA's costing system. The report stated that the internal control system was inadequate to track and control the costs of the contract. In July and October 1995, HUD made duplicate payments on three of Youthbuild USA's invoices, totaling \$474,753. Ironically, it was Youthbuild USA who noticed the overpayment and in October 1995 informed the GTR of the duplicate payments. However, the GTR did not pursue the matter. It was not until June 1996, that a new GTR identified the overpayments and started the process for HUD to receive reimbursement. In August 1996, Youthbuild USA repaid HUD \$491,803, which represented the amount of the duplicate payments plus interest earned on the funds.

Monitoring

Our review disclosed that the GTR did not: perform adequate monitoring reviews of Youthbuild USA's activities; monitor the grantees; require the contractor to submit required reports of the on-site technical assistance provided to the grantees; or properly monitor the contractor's consultants.

- The Youthbuild USA contract requires that the contractor develop a technical assistance work plan for each site to be assisted. The contractor is required to submit the work plans to HUD for approval and will implement the work plan upon authorization from the GTR. HUD did not maintain documentation to show it had work plans on file for 32 out of 48 (67%) grant recipients.
- Neither the GTR nor Youthbuild USA monitor the activities of the Youthbuild grantees. The GTR said she does not monitor them because of their locations and Youthbuild USA does not monitor them because it is not part of their contract. From FY 1994 to FY 1996, 294 non-profits received Youthbuild grants, totaling \$132,147,516. The grantees are required to submit semi-annual activity reports to the Community Planning and Development's (CPD) Office of Economic Development. CPD only recently began using a database to track the grantees' activities on a continuous basis.
- HUD has not enforced the contract requirement that Youthbuild USA submit reports of the on-site technical assistance provided to the grantees. As of May 15, 1997, Youthbuild USA had not submitted any reports of the technical assistance provided to the FY 1994 and FY 1995 Youthbuild

grantees. From September 1995 to December 1996, Youthbuild USA averaged seven on-site reviews a month.

- Youthbuild USA uses consultants in the performance of the contract. In the past, HUD had questioned the type of work performed by some of the consultants. Youthbuild USA told HUD that they would keep them informed of the type of work performed by the consultants. However, HUD did not have documentation to support the type of work performed by 22 out of 45 (49%).

Products

Youthbuild USA was required to develop one program manual and six handbooks during the two-year contract period. The handbooks would be used by the Youthbuild grant recipients/applicants to plan, develop, and implement a Youthbuild program. Youthbuild USA has completed only the program manual and one handbook. The GTR said delays in completing the handbooks were due to delays caused by both HUD and Youthbuild USA.

HUD's management response stated there is no contract requirement for the contractor to develop program manuals and handbooks during the first two contract years, as they were required to be submitted over the four year life of the contract.

Our review disclosed Task Order number three from the contractor's Statement of work states that the manual and six handbooks would be produced during the initial two year contract period.



**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE DEPUTY SECRETARY
WASHINGTON, D.C. 20410-0050**

September 8, 1997

MEMORANDUM FOR: Susan M. Gaffney, Inspector General, G

FROM: Dwight P. Robinson, SD

SUBJECT: Response to Draft Audit Report on Contracting

Thank you for the opportunity to respond to the Draft Report on Contracting conducted by the District Inspector for Audit, Mid-Atlantic.

The report is the latest in a series of recent undertakings by the Department to review its contracting and procurement systems. At the Secretary's direction, an intensive review of the Federal Housing Administration (FHA) procurement system was conducted by the National Academy of Public Administration (NAPA). The study found that the current system neither responds effectively to Department needs nor adequately ensures accountability. As a result of the NAPA review, the Secretary incorporated contract reform as a priority in the HUD 2020 Management Reform Plan. The report calls for NAPA to engage in a top-to-bottom redesign of HUD procurement system, with an emphasis on "safeguarding taxpayer dollars with a system that ensures quality and value," Management Reform Plan, page 16. In addition, Congress gave its support to HUD by authorizing the agency to retain NAPA to assist with the procurement redesign.

The Inspector General's (IG) draft report validates the conclusions reached by NAPA and the Secretary and provides further support for HUD's contract reform efforts. The IG's recommendations will be provided to NAPA for consideration as part of the contract system redesign. I also invite you and your staff to join the NAPA team in the redesign effort. I am sure that you will agree that there is no better way to ensure that the expertise and experience of the IG is fully utilized in resolving the issues identified by NAPA and your office. We look forward to your participation in this crucial effort.

While I am encouraged that the conclusions reached by the draft report demonstrate that HUD's contract reform efforts are on the right track, I must also advise you that the Assistant Secretaries have raised serious questions about the factual accuracy of the report as a whole.

Indeed, as outlined in the attachment, we have identified the following problems with the text of the report:

- o Material factual errors in virtually all of the contractor profiles.
- o Failure to review documentation and files.
- o Failure to interview or the conduct of only cursory interviews of key contracting personnel and Government Technical Representatives.
- o Material omissions in the contractor profiles.
- o Headings which make sweeping generalizations based on a single contract action.

In short, the responses of the program offices indicate that the draft report is flawed in its methodology, contains factual inaccuracies, and unbalanced in its characterization of specific contract actions. While recognizing this is only a draft, these deficiencies are inconsistent with **Generally Accepted Government Auditing Standards**, which require that audit reports be accurate, and objective, and conducted with due professional care. I am told that you expressed your concern at a meeting with the Assistant Secretaries when you learned of these problems with the report, and stated that you would not release a report with factual inaccuracies. I share your concern that these shortcomings undermine the accuracy of the draft report making it less useful as a tool to assist HUD's management reform efforts. Consequently, I request that you carefully review the attached comments before issuing the report. To the extent that these comments do not change the report, I request that you incorporate this memorandum and the attached comments from the Department managers within the report, per *Government Auditing Standard 7.38, 7.39 and 7.42*.

Once again, we look forward to continuing to work with you and your staff to improve the Department's contract systems.

Attachment



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE DEPUTY SECRETARY
WASHINGTON, D.C. 20410-0050

MEMORANDUM FOR: Susan Gaffney, Inspector General, G

FROM: *Marilynn A. Davis*
Marilynn A. Davis, Assistant Secretary, Administration, A
Jacquie M. Lawing, Assistant Secretary, Community Planning and Development, D *J M Lawing*
Kevin G. Chavers, President, Government National Mortgage Association, T
Nicolas P. Retsinas, Assistant Secretary for Housing, Federal Housing Commissioner, H *N P Retsinas*
Kevin E. Marchman, Acting Assistant Secretary for Public and Indian Housing, P *for K E Marchman*

SUBJECT: OIG Draft Audit Report on HUD Contracting

This memorandum includes specific comments to the Contract Profiles listed in Section V of the draft audit report. These comments, prepared by our program staff and the Office of Procurement and Contracts, respond directly to the OIG comments on each contract, and point out serious factual and methodological flaws in the draft report. Some of the generalized observations include:

I. The Draft Audit Report Lacks Objectivity and Factual Accuracy

Under generally accepted government auditing standards, audit reports should be objective, i.e., the report be accurate, balanced in content and tone, and fair and not misleading. The significant number of factual errors in the draft report, inflammatory characterizations of findings, and failure to note the efforts that GNMA, FHA and OPC have made to improve the procurement process undermine the credibility and usefulness of the report. With regard to the factual errors, Generally Accepted Government Auditing Standards state that "one inaccuracy in a report can cast doubt on the validity of an entire report...and can damage the credibility of the issuing audit organization...". Government Auditing Standard 7.54. With regard to objectivity, the auditing standards state that the report should be "balanced in content and tone" and must "guard against the tendency to exaggerate or overemphasize deficient performance". Government Auditing Standards 7.57, 7.58. The specific comments which follow document that these and over a dozen other

auditing standards were repeatedly violated in the draft report. The final report should be substantially revised to address these deficiencies.

II. Failure to Interview Key Contracting Officials

Auditors have an obligation to obtain sufficient, competent and relevant evidence before reaching a conclusion in an audit report. Many of the specific factual errors that are delineated in the attached contract profiles, which led to erroneous or overstated audit findings, could have been avoided if the auditors had discussed the contract actions with contracting officials. This was not done in this audit. For example, the Director of the Office of Procurement and Contracts was not interviewed. The Government Technical Representative (GTR) on the Department's largest contract, the Lockheed Martin contract was interviewed only at the entrance conference and briefly on GTM qualifications. Many other GTRs report having been interviewed for only 15 minutes. Had these individuals been interviewed, and initial findings and recommendations shared with them in advance of a draft audit, they would have provided additional information that would have led to a more accurate and credible audit report.

III. The Audit Methodology is Unclear and Undocumented

An audit report should explain the evidence gathering and analysis techniques used in the audit, and where a sampling technique is used, describe the sample design and state why it was chosen. The draft report, however, fails to explain the methodology, including the sampling criteria, which was used to select the 30 contractor profiles upon which the audit conclusions are based. HUD awarded and administered over 9600 contract actions during the period covered by the audit, yet the audit conclusions are derived from an examination of only 30 contracts, seven of which were awarded before the contract audit period of 1992-1996. This relatively small sample of HUD contracts, and lack of information as to why these particular contracts were examined (particularly since 108 contracts were originally reviewed by the OIG), calls into question the validity and credibility of the audit findings. See also Auditing Standard 6.64a (requiring documentation of sampling techniques and methodology), 7.15 (requiring the Report to describe the sample design and state the rationale behind the sample).

Thank you for the opportunity to comment.

September 15, 1997

MEMORANDUM FOR: Dwight P. Robinson, Deputy Secretary, SD

FROM: Edward F. Momorella, District Inspector General,
Mid-Atlantic 3AGA

SUBJECT: Acknowledgment of Response

Thank you for your timely response to our draft audit report on HUD's Contracting Activity, and especially for serving as the coordinator and focal point for assembling comments from the various program offices.

We recognize and appreciate the staff intensive efforts to provide a timely response, and want to assure you that each and every comment and exhibit will be carefully reviewed, analyzed, and considered in preparing our final report. Like you, we too are concerned that only accurate information be reported. In that regard, where the responses are questioning factual accuracy, we will re-check to assure that the evidence obtained during our audit or provided by your response supports what is reported. In those cases where the response indicates a misunderstanding of the issue, we will clarify what has been written. In addition, as you requested, we will incorporate your response as a separately bound attachment to the final report, distributed with all copies.

Some statements and allegations made in the response lead me to believe that there may be some misunderstanding on exactly how we performed our audit and the resulting conclusions and opinions. I would like to take this opportunity to clarify the following:

Persons Interviewed: The response implies that only cursory interviews were made of key personnel. This is incorrect. The fact is that we interviewed persons who were responsible for being most familiar with the contracts, namely the contract specialist and the GTR or GTM. During our audit, we obtained formal written interview records with over 225 persons, and had discussions with many more persons that were not recorded.

The response indicates that the Lockheed Martin GTR was only interviewed at the entrance and one other occasion. This is also inaccurate. We primarily dealt with the subordinate GTRs and GTMs who handled certain specific areas and the NYMA contract staff who had the most knowledge of Lockheed Martin. The NYMA staff had the most complete set of records since contract inception and many GTRs/GTMs had to go to NYMA to obtain documents for our inquires. The various GTRs/GTMs advised us they were keeping the chief GTR, Ms. Antiporowich, who had been appointed to that position in November, 1995, advised of the audit progress. In addition, we met with Ms. Antiporowich, and GTMs McCleery, Graham, and Balicki on June 13, 1997 to discuss the draft results.

Number of Contracts Selected: The response implies that originally 108 contracts were reviewed and only 30 examined or reported. This is incorrect. Our initial survey focused on 25 contractors. (This was later expanded to 30 contractors.) From all the contracts awarded to those contractors, we selected a judgmental sample for a comprehensive review of the seven specific areas; namely, need and justification determination, task and work order development, selection and award process, oversight and monitoring, cost controls and benefit analysis, and contract close-out. All 30 contractors selected for review are identified in Section V of the report, and the specific contract numbers sampled are identified.

Finally, I would like to add that during an audit we obtain a volume of information. In our efforts to keep the report brief, we attempted to provide an outline of what we believed were problems with the specific contracts. Many of the questions raised in your response we did address during the audit, and we will expand our report where clarification is necessary.

Our overall assessment in Section III , Areas Needing Improvement, cite only some examples of the conditions found, and was not intended to be all inclusive. We do not believe that we have made any sweeping generalizations from only a single contract deficiency, as alleged.

Again, thank you for your response, and we look forward to working closely with you on the corrective action plan and implementation.