



Issue Date	November 15, 2002
Audit Case Number	2003-CH-1005

TO: Preston A. Pace, Jr., Director of Columbus Multifamily Housing Hub, Columbus Field Office

FROM: 
Heath Wolfe, Regional Inspector General for Audit, Region V

SUBJECT: Jewish Community Federation of Cleveland
Special Purpose Grant OH12-SPG-505
Cleveland, Ohio

INTRODUCTION

We completed an audit of Jewish Community Federation of Cleveland's Special Purpose Grant. We initiated the audit based upon a request from HUD's Director of the Cleveland Multifamily Housing Program Center. The objectives of our audit were to determine whether the Federation: used its Grant funds in an efficient and effective manner; and complied with the terms of its Grant Agreement.

To accomplish our audit objectives, we reviewed Jewish Community Federation of Cleveland's policies and procedures for the period February 1, 1995 through December 31, 2001. We also reviewed and evaluated the Federation's: management controls over the Special Purpose Grant; Special Purpose Grant Agreement; annual financial audit reports for the period July 1, 1995 through June 30, 2001; employee timesheets and position descriptions; general ledgers; cash receipts and disbursements ledgers; organizational structure; Articles of Incorporation; reliability of computer-processed data; and vendor files. In addition, we reviewed 24 CFR Part 84 and Office of Management and Budget Circular A-122. We tested \$188,635 of the \$1,241,138 (15.2 percent) in expenses that the Federation charged to the Grant as of February 1, 2002.

We reviewed Jewish Community Federation of Cleveland's records and HUD's records for the Federation. We interviewed the Federation's staff, its computer consultant, and staff from HUD's Cleveland Multifamily Housing Program Center. Our audit covered the period February 1995 to December 2001 for the Special Purpose Grant that the Federation received. We performed our on-

site audit work between January and May 2002. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please have them contact Ronald Huritz, Assistant Regional Inspector General for Audit, at (312) 353-6236 extension 2675 or me at (312) 353-7832.

SUMMARY

Jewish Community Federation of Cleveland did not administer its Special Purpose Grant in full compliance with Federal requirements and its Fiscal Standards Policy. Specifically, the Federation:

- Did not obtain computer consulting services for the Grant through open and free competition;
- Failed to execute a written contract for its computer consulting services received for the periods December 1998 through January 2000 and August 2000 through September 2001; and
- Lacked adequate documentation to support an additional \$44,720 in computer consulting services paid to its consultant as a reasonable expense of the Grant.

As a result, HUD lacks assurance that Grant funds were used efficiently and effectively, and the Federation's procurement of computer consulting services was not subject to open and free competition.

BACKGROUND

HUD awarded Jewish Community Federation of Cleveland a \$2,000,000 Special Purpose Grant (OH12-SPG-505) effective January 27, 1995. The purpose of the Grant was to establish a comprehensive system of support services to the frail elderly. The system is designed to increase services, access, delivery, and coordination through the Federation's partner agencies. Key components include social, health, and case management including access to: establishment of a transportation system; empowerment of the frail elderly and their caregivers by developing training programs to teach self-care and direct care to maintain or increase self-sufficiency; and a recruitment/training program to build a cadre of home health workers to allow the frail elderly to avoid entering nursing homes.

Jewish Community Federation of Cleveland incorporated as a nonprofit entity in 1903 as a charitable, educational, and religious organization to meet the needs of the Jewish

community. The Federation's purposes are to: cooperate with and assist other charitable, educational, and religious organizations in meeting the needs of the Jewish community; foster and maintain sound relations and understanding within the Jewish community and between the Jewish community and the community-at-large; conduct and support charitable, educational, and religious projects and programs; and raise funds to carry out the projects and programs. The President of the Federation is Stephen H. Hoffman. The Federation's offices are located at 1750 Euclid Avenue, Cleveland, Ohio.

FINDING

The Federation Needs To Improve Its Contracting Process

Jewish Community Federation of Cleveland did not maintain an effective system of controls over its contracting process. The Federation failed to follow its Special Purpose Grant Agreement, HUD's regulations, Office of Management and Budget Circular A-122, and its Fiscal Standards Policy for open and free competition regarding the procurement of computer consulting services. In addition, the Federation did not: ensure that a written contract for the consulting services was in effect for the full term that the services were provided; and maintain adequate documentation to support \$44,720 in additional computer consulting services paid to its consultant as a reasonable expense of the Grant. The problems occurred because the Federation's top management failed to exercise their responsibilities to implement effective contracting controls. As a result, HUD lacks assurance that \$44,720 in Grant funds was used efficiently and effectively, and the Federation's procurement of computer consulting services was not subject to open and free competition.

Federal Requirements And Federation's Policy

Article I, paragraph E, of the Special Purpose Grant Agreement OH12-SPG-505, between HUD and Jewish Community Federation of Cleveland, required the Federation to follow the requirements of 24 CFR Part 84 and Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations.

24 CFR Part 84.43 requires that all procurement transactions be conducted in a manner to provide, to the maximum extent practical, open and free competition. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, invitations for bids and/or requests for proposals will be excluded from competing for such procurements. Awards will be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient with price, quality, and other factors considered. Solicitations will clearly set forth all requirements that the bidder or offeror must fulfill in order for the bid or offer to be evaluated by the recipient.

24 CFR Part 84.44(a)(3)(i), 84.44(a)(3)(ii), and 84.44(a)(3)(iv) require that solicitations for good and services will include: a clear and accurate description of the technical requirements for the material, product, or service to be procured; in competitive procurements, the description will not contain features that unduly restrict competition; and requirements that

the bidder/offeror must fulfill and all other factors to be used in evaluating the bids or proposals.

24 CFR Part 84.84(f) requires that some form of cost or price analysis must be made and documented in the procurement files in connection with every procurement action. This analysis should contain a comparison of price quotes, market prices, or similar indicators. A cost analysis is the review and analysis of each element of cost to determine reasonableness, allocability, and allowability. Part 84.84(h) requires that a system for contract administration will be maintained to ensure contractor performance with the terms, conditions, and specifications of the contract to ensure adequate and timely follow-up of all purchases.

Attachment A, Section 2, of Office of Management and Budget Circular A-122 requires that costs must be adequately documented to be allowable. Section 3 of Attachment A requires that for cost to be reasonable in its nature or amount, the cost must not exceed what would be incurred by a prudent person under the circumstances at the time the decision was made to incur the cost. The question of reasonable cost is scrutinized with particular care in connection with organizations or separate divisions that receive the balance of their support from awards made by Federal agencies. In determining reasonable cost, consideration should be given to whether individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government.

The Federation's Fiscal Standards Policy requires that whenever possible, all purchases above \$2,500 must be accompanied by evidence of three bids. The three-bid requirement may be waived in cases of emergency or when no comparable providers are available to bid on the purchase or contract.

Computer Consulting Services Were Not Properly Procured

Jewish Community Federation of Cleveland did not properly procure its computer consulting services contract with the Jared Group, Inc. In February 2000, the Federation signed a written contract with the Jared Group to develop a management information system for its Special Purpose Grant Program. HUD's regulation and the Federation's Fiscal Standards Policy required the Federation to award its computer consulting services contract through open and free competition. However, this was not done.

The Federation did not issue a Request for Qualifications or a Request for Proposal to obtain the computer consulting services for its Special Purpose Grant Program. A Request for Qualifications is used to determine whether a contractor has the necessary skills to provide the required services while a Request for Proposal is used to obtain cost estimates from contractors. In December 1998, the Federation's Information Technology Director telephoned at least four computer-consulting companies to assist in preparing specifications to develop a management information system. Based upon the responses received by the Director, the Federation engaged the Jared Group without a written contract in December 1998 to prepare specifications and a cost analysis to develop the system. The Jared Group

completed the specifications and cost analysis in February 1999. The analysis anticipated the system to cost \$46,150 plus ongoing costs for fixes and enhancements.

The Federation did not provide the specifications to other consultants for review and to allow them to formally bid on the services. However, the 1997-1998 telephone book for the Cleveland, Ohio metropolitan area included over 360 computer-consulting companies to whom the Federation could have provided the specifications for bid. Instead, the Federation awarded the Jared Group a verbal contract in February 1999 to commence with developing the management information system. A written contract was not executed with the Jared Group until February 1, 2000. Because the Jared Group developed the specifications, HUD's regulation prohibited the Federation from awarding any contracts for the management information system to the Jared Group. HUD's regulation also required the Federation to execute written contracts to measure the Jared Group's full performance in developing the system. However, the Federation awarded verbal contracts to the Jared Group.

In order to determine whether the computer consulting services were reasonable, we compared the Jared Group's cost to proposals we obtained from three vendors. The vendors provided us cost proposals ranging from \$17,250 to \$58,050. The \$45,630 costs charged by the Jared Group between January 1999 and October 1999 appear to be within an acceptable range when compared to the vendors' quotes.

The Federation's Director of Foundation Reporting said the Federation requested the Jared Group to make fixes and enhancements to the Special Purpose Grant's management information system. As of September 15, 2001, the Federation paid the Jared Group a total of \$90,350 in Special Purpose Grant funds. The Federation failed to execute a written change order or contract modification with the Jared Group to include the fixes and enhancements in computer consulting services. As a result, HUD lacks assurance that the \$44,720 (\$90,350 less \$45,630) in additional Grant funds was used efficiently and effectively.

AUDITEE COMMENTS

We provided our draft audit finding to Jewish Community Federation of Cleveland's Director of Foundation Reporting and HUD's staff during the audit. The Federation's Chief Financial Officer and its Director of Foundation Reporting provided their comments on the draft finding on September 3, 2002. The Federation's comments included four attachments (written quotes and analysis of services performed by the Jared Group) that were not necessary for understanding its comments.

We held an exit conference with Jewish Community Federation of Cleveland's Chief Financial Officer and its Director of Foundation Reporting on October 30, 2002. We included the Chief Financial Officer and the Director of Foundation Reporting's comments in Appendix B of this report with the exception of the four attachments. HUD's Director of Columbus Multifamily Housing Hub received a complete copy of the Federation's comments with the four attachments. The Federation's President was provided with copies of the audit memorandum report.

[Excerpts paraphrased from the comments provided by Jewish Community Federation of Cleveland's Chief Financial Officer and its Director of Foundation Reporting on our draft audit finding follow. Appendix B, pages 13 to 17, contains the complete text of the comments for the draft finding.]

The objective at the beginning of Jewish Community Federation of Cleveland's procurement process was to identify a single vendor who could work with the Federation's staff to define and develop a database to facilitate the Special Purpose Grant services provided. The Federation contracted with the Jared Group after interviewing and obtaining quotes from three vendors because the Jared Group had the requisite skills and their price was most reasonable. The Federation did not develop written specifications to obtain the Jared Group.

Between July 2000 and September 2000, the Federation obtained written quotes from three vendors to carry out additional training, documentation, and system enhancements. The quotes received were 35 to 70 percent higher than the Jared Group's hourly rate.

The Federation disagrees that its procurement of computer consulting services to develop a management information system was not conducted through free and open competition. It was the Federation's belief that it would be more efficient to select a firm capable of assisting to define the system and translate the definition into an end product without having to expend costly and duplicative time to bring new professionals into the project after the definition stage. Competitive bids were obtained before the Federation selected the Jared Group although the Federation acknowledges that it did not utilize formal written bids or specifications.

The Federation conducted a bid process for the management information system that included interviewing and obtaining quotes from three vendors. This process met the Federation's Fiscal Standards Policy by documenting the bidding process. The Federation also believes that it substantially met HUD's requirements. The Federation acknowledges that its documentation of the process was not sufficiently detailed to meet all of the Federal requirements.

The Jared Group was operating under a contract with an hourly rate of \$65 per hour. The Federation has not been able to locate its original signed contract; however, there was one. The Federation acknowledges that the contract was not specific to the term and conditions of the engagement. However, the Federation could terminate the contract at any time if it was dissatisfied with the Jared Group's progress.

The draft finding indicates that the amount paid to the Jared Group exceeded the Federation's estimate by \$44,000. This is untrue. The \$44,000 represents the difference between the total cost of \$90,350 and the Federation's budget of \$46,000 for a portion of the management information system.

The Federation disagrees with Recommendation A that it reimburse the Special Purpose Grant \$32,300 from non-Federal funds for excessive costs paid that were not in accordance with the Grant Agreement. While Jewish Community Federation of Cleveland acknowledges

that it engaged the Jared Group without using written specifications or a formal written bid process and cannot locate the original written contract, the Federation believes it took adequate measures to procure the computer consulting services.

With regards to Recommendation B, the Federation agrees that it needs to enhance its procedures and controls over the administration of the Grant. The Federation fully accepts this Recommendation and will make these changes as soon as possible.

OIG EVALUATION OF AUDITEE COMMENTS

Jewish Community Federation of Cleveland did not follow its Special Purpose Grant Agreement, HUD's regulations, Office of Management and Budget Circular A-122, and its Fiscal Standards Policy for open and free competition regarding the procurement of computer consulting services. The Federation signed a written contract with the Jared Group to develop a management information system for its Special Purpose Grant Program. HUD's regulation and the Federation's Policy required the Federation to award its computer consulting services contract through open and free competition. However, the Federation awarded a written contract to the Jared Group without open and free competition.

The Federation did not issue a Request for Qualifications or a Request for Proposal to obtain the computer consulting services for its Special Purpose Grant Program. The Federation's Information Technology Director telephoned computer-consulting companies to assist in preparing specifications to develop a management information system. Based upon the responses received by the Director, the Federation engaged the Jared Group without a written contract to prepare specifications and a cost analysis to develop the system.

The Federation did not provide the specifications to other consultants for review and to allow them to formally bid on the services. Instead, the Federation awarded the Jared Group a verbal contract to commence with developing the management information system. A written contract was subsequently executed with the Jared Group. HUD's regulation prohibited the Federation from awarding any contracts for the management information system to the Jared Group since it prepared the specifications. HUD's regulation also required the Federation to execute written contracts to measure the Jared Group's full performance in developing the system.

The Federation requested the Jared Group to make fixes and enhancements to the Special Purpose Grant's management information system. As of September 2001, the Federation paid the Jared Group a total of \$90,350 in Grant funds. The Federation did not execute a written change order or contract modification with the Jared Group to include the fixes and enhancements. Therefore, HUD lacks assurance that the \$44,720 in additional Grant funds was used efficiently and effectively. The Federation needs to provide HUD documentation to support the additional \$44,720 in computer consulting services paid to the Jared Group was a reasonable expense of the Grant or reimburse the unsupported amount to the Grant from non-Federal funds.

The Federation's planned actions, if fully implemented, should improve its procedures and controls over its procurement transactions if they meet HUD's regulations and Office of Management and Budget Circular A-122.

RECOMMENDATIONS

We recommend that HUD's Director of Columbus Multifamily Housing Hub require Jewish Community Federation of Cleveland to:

- 1A. Provide documentation to support the additional \$44,720 in computer consulting services paid to the Jared Group was a reasonable expense of the Special Purpose Grant or reimburse the unsupported amount to the Grant from non-Federal funds.
- 1B. Implement procedures and controls to ensure that its procurement transactions meet HUD's regulations and Office of Management and Budget Circular A-122.

MANAGEMENT CONTROLS

In planning and performing our audit, we considered the management controls of Jewish Community Federation of Cleveland to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

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

Based upon our review, we believe the following items are significant weaknesses:

- Program Operations

Jewish Community Federation of Cleveland did not manage its Special Purpose Grant according to program requirements. Specifically, the Federation did not maintain an effective system of controls over its contracting process (see Finding).

- Compliance with Laws and Regulations

Jewish Community Federation of Cleveland did not follow HUD's regulations and/or Office of Management and Budget Circular A-122 to ensure that full and open competition existed

regarding the procurement of computer consulting services and contract terms were documented (see Finding).

- Safeguarding Resources

Jewish Community Federation of Cleveland lacked adequate documentation to support the additional \$44,720 in computer consulting services paid to its consultant as a reasonable and necessary expense of the Grant (see Finding).

FOLLOW-UP ON PRIOR AUDITS

This is the first audit of Jewish Community Federation of Cleveland by HUD's Office of Inspector General. The latest Independent Auditor's Report for the Federation covered the period ending June 30, 2001. The Report contained no findings.

Appendix A

SCHEDULE OF UNSUPPORTED COSTS

<u>Recommendation Number</u>	<u>Unsupported Costs</u> ^{1/}
1A	<u>\$44,720</u>
Total	<u>\$44,720</u>

^{1/} Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

AUDITEE COMMENTS



HUD - OIG
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September 3, 2002

MEMORANDUM

TO: Mr. Ronald F. Huritz
Assistant Regional Inspector General
for Audit
US Department of Housing & Urban Dev.

FROM: Barry Reis, Chief Financial Officer *BR*
Sheila Allenick, Director of Foundation Reporting *SJA*

RE: Response to Draft Audit Finding

General

We believe there are some basic misunderstandings regarding the procurement process and the resulting costs. Before we respond to the draft findings item by item, we think it would be helpful to clarify a few points:

1. The Procurement Process - Our Objective

Our objective at the beginning of the procurement process was to identify a single vendor who could work with the program staff to define and develop a database to facilitate the services being provided at project locations. Because of the limited computer skills of the end users, we needed to identify a strong technical provider with excellent people skills who could help the staff define their needs - from our experience, this is not an easy combination of skills to find. We contracted with The Jared Group after interviewing and obtaining quotes from three vendors because their consultant had the requisite skills and their price was the most reasonable. We did not develop written specifications in this process, as we were looking for a skill set that was less quantitative and more qualitative in nature.

2. The Interim Budget was not a Specifications Document

The document you refer to as specifications was nothing more than an interim budget, which was reviewed by the volunteer committee which oversees this project. Staff prepared and presented it after Jared was engaged, and it was far too sparse to be used as specifications. Instead, it was an important step in the

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monitoring process for the project. On the attached Exhibit A, approximately \$60,000 of the first three categories was reflected in that interim budget, including approximately one-third of the "Development (alpha version)" category, all of the "Development (production version)", and about 50% of the "Training and Documentation". The rest of the "Development (alpha version)" category was incurred before the interim budget was even presented. This \$60,000 compares to approximately \$46,000 budgeted. The difference is due to changes required by staff as the product evolved and we revised the requirements. This is not unusual for IT projects when no comparable products exist and you are creating something from scratch.

3. Written Quotes Were Obtained for Training, Documentation & Enhancements

In July – September, 2000, we obtained written quotes from three additional vendors to carry out additional training and documentation, as well as system enhancements. These quotes are attached. As you can see, the quotes received were 35-70% higher than Jared's hourly rate. This period covered training of new staff as well as enhancements called for after the program staff began to use and rely more and more on the database. Note that the NORC project was growing steadily throughout this time, and it would have been almost impossible to foresee all the needs in any set of specifications that might have been drafted.

Now, below are our responses to the draft audit finding from your review of the Jewish Community Federation of Cleveland's Special Purpose Grant.

Finding # 1 – Information System consultant not procured under open and free competition

We disagree that the procurement of services to develop the database supporting this program was not conducted under open and free competition. As described above, at issue is the definition of the project, and what services we were procuring. It was our belief that it would be more efficient to select a firm capable of helping to define the database and translate the definition into an end product without having to expend costly and duplicative time to bring new professionals into the project after the definition stage. Further, because of the limited computer skills of the end users, continuity was deemed critical. Competitive bids were obtained before we selected The Jared Group, although we acknowledge that we did not utilize formal written bids or specifications. The specifications referred to in the draft audit finding were actually an interim budget prepared for review by the volunteer committee overseeing the development of the database. That budget was far too vague to constitute specifications which

could be distributed and used to elicit bids. The creation of an interim budget to complete the project for which the consultant was hired was simply a normal step in the monitoring process.

In summary, the Federation conducted a bid process for the total project at the outset, including interviewing and obtaining quotes from three vendors. We selected both the lowest cost and most qualified provider from those vendors. This met the Federation's Fiscal Standards Policy, which requires that we document the bidding process, which was done, albeit somewhat informally. We also believe that we substantially met HUD's requirements. Nevertheless, we acknowledge that our documentation of the procurement process was not sufficiently detailed to meet all the federal requirements.

Draft Audit Finding # 2 – Three bids not solicited

As described above, written specifications were not created before Jared was engaged, as the intent of this procurement was to identify a vendor who could both define and create the database without having to bring in and train new resources midstream. At no point in the initial consultant selection process did we limit the tools or software which could be used to develop this database – we were more focused on the analytical abilities and people skills of the consultants from whom we obtained bids. We conducted interviews and obtained hourly rates to identify the most suitable vendor. We acknowledge that written specifications and soliciting formal written bids would have more fully complied with applicable regulations. Nevertheless, three bids were solicited.

In addition, written bids were received between July and September, 2000 for ongoing maintenance, training, and enhancements to the product. Those bids are attached. You will note that the three additional vendors provided quotes which were significantly higher than Jared's price.

Draft Audit Finding # 3 – Consultant paid with grant funds did not have a full-term contract

As we explained to the auditor, The Jared Group was operating under a contract with an hourly rate of \$65.00 per hour. We have been unable to produce our original signed contract, though there was one. In any event, we acknowledge that the contract was not specific as to terms and conditions of the engagement. However, it could be terminated at any time, if we were dissatisfied with their progress.

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Draft Audit Finding # 3 – Evaluation of Cost

The draft finding compared the full \$90,350 paid to Jared to the interim budget for 710 hours, which, as described earlier, only covered about \$60,000 of Jared's actual expenses. Therefore, we disagree that they were paid for almost double the estimated hours, as the 1,390 hours included work performed both before and after the work encompassed by the interim budget.

We take particular issue with the contention that you simulated an open and fair competition by requesting proposals from six consultants three years after the fact, for programming based on specifications that did not exist at the time The Jared Group was engaged. First, the information technology climate is vastly different now than it was in early 1999. It is our understanding that computer consultants are hungry for any type of work, and therefore, pricing this project now versus 1999 would be wholly unfair.

Second, we do not understand how you could consider such widely disparate quotes for a project like this a reliable comparison. If this sample was a good representation of what the project might have cost, how do you explain hours ranging from 144 to 387 and a cost per hour of \$75 - \$175, all of which were higher than Jared's rate of \$65. What information did you share with them? Were they given a copy of the database or just the budget that we prepared in the middle of the project? If you gave them the end product, these bidders had an unfair advantage over The Jared Group, which had not yet designed the end product and could not forecast what the end product would be without additional input from the users. In fact, there were numerous revisions and enhancements requested after that interim budget was prepared.

If you sent out the interim budget as "specifications", it didn't address the number of users, sites, fields, records, or the lack of sophistication of the users. In short, it wasn't enough to generate appropriate bids. For us to fully comment on this point and to react to it, we would need to see exactly what was sent out to these potential consultants and we would need to understand their respective experience, capabilities and interpersonal skills. Without this information, the comparison seems arbitrary and inconclusive.

Finally, the draft audit finding compares the flawed quotes to our total project cost. As described above, the total cost of \$90,350 included the preliminary work which was not included in the interim budget, as well as additional training, documentation and enhancements, which we did bid out in calendar 2000. It does not appear that this comparison is apples to apples, because it looks like the quotes obtained were for only a portion of the project which was budgeted at about \$46,000. Further, the draft audit finding states that the amount paid to The Jared Group exceeded our estimate by \$44,000. This is also untrue, as the

\$44,000 represents the difference between the total project cost of \$90,350 and the interim budget for a portion of the project budgeted at \$46,000.

Draft Audit Finding Recommendations and Summary

In conclusion, we disagree with recommendation A that the Jewish Community Federation should reimburse the Special Purpose Grant \$32,300 from non-federal funds for excessive costs paid which were not in accordance with the Special Purpose Grant Agreement. While we acknowledge that we engaged The Jared Group without using written specifications or a formal written bid process, and we can not locate the original written contract, we believe we took adequate measures to procure the services needed to develop this database, train the users, document the capabilities of the database, and to refine and enhance the product in an efficient and effective manner, constantly keeping in mind our obligations to use these precious federal dollars wisely.

The end result is a database which we believe will be in great demand and which we will be offering to share with additional NORC sites. The development of this product will have a lasting effect on numerous projects of a similar nature and will have a great impact on the effectiveness of these kinds of projects. The program developed through this grant and the database which supports it are of major interest to other government institutions such as the Administration on Aging, and demand for this type of database is growing. We believe that we have invested these funds wisely and efficiently.

With regards to recommendation B, we agree that we need to enhance our procedures and controls for administration of grants like this, and to better document our procurement process. We fully accept this recommendation and will make these changes as soon as possible.

We look forward to receiving additional information concerning your bid process so that we can more fully respond to that portion of the audit finding before this report is finalized. We also look forward to meeting with you in person before the report is finalized.

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Appendix C

DISTRIBUTION OUTSIDE OF HUD

The Honorable Joseph Lieberman, Chairman, Committee on Governmental Affairs, 706 Hart Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs, 340 Dirksen Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn House Office Building, United States House of Representatives, Washington, DC 20515

The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn House Office Building, United States House of Representatives, Washington, DC 20515

Andy Cochran, Committee on Financial Services, 2129 Rayburn House Office Building, United States House of Representatives, Washington, DC 20515

Clinton C. Jones, Senior Counsel, Committee on Financial Services, B303 Rayburn House Office Building, United States House of Representatives, Washington, DC 20515

Sharon Pinkerton, Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B373 Rayburn House Office Building, United States House of Representatives, Washington, DC 20515

Stanley Czerwinski, Director of Housing and Telecommunications Issues, United States General Accounting Office, 441 G Street NW, Room 2T23, Washington, DC 20548

Steve Redburn, Chief of Housing Branch, Office of Management and Budget, 725 17th Street NW, Room 9226, New Executive Office Building, Washington, DC 20503

Linda Halliday (52P), Department of Veterans Affairs, Office of Inspector General, 810 Vermont Avenue NW, Washington, DC 20420

William Withrow (52KC), Department of Veterans Affairs, Office of Inspector General Audit Operations Division, 1100 Main, Room 1330, Kansas City, Missouri 64105-2112

Kay Gibbs, Committee on Financial Services, 2129 Rayburn House Office Building, United States House of Representatives, Washington, DC 20515

George Reeb, Assistant Inspector General for Health Care Financing Audits

Stephen H. Hoffman, President of Jewish Community Federation of Cleveland