



Issue Date September 30, 1999

Audit Case Number 99-PH-163-0002

TO: V. Stephen Carberry, Chief Procurement Officer, N

FROM: David J. Niemiec, Acting District Inspector General for Audit, Mid-Atlantic,
3AGA

SUBJECT: Internal Audit
Follow-up Review of HUD Contracting

We have completed an internal audit of HUD's contracting activity. Our report contains four sections with recommendations requiring action by your office. The sections deal with the Contract Management Review Board, the cost analysis and evaluation of significant contracting actions, indefinite quantity contracts, along with contract monitoring and oversight.

Within 60 days please give us, for each recommendation in this report, 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. Also, please furnish us copies of any correspondence or directives issued because of the audit.

We appreciate the cooperation of you and your staff during this audit. Should you or your staff have any questions, please contact Allen Leftwich, Assistant District Inspector General for Audit at (215) 656-3401.

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Executive Summary

We performed an audit of the Department's contracting initiatives. Our objectives were to assess the affect of recent reform initiatives on the procurement process and to determine if the reform initiatives were providing adequate controls and safeguards against fraud, waste and abuse. The audit was undertaken to follow up on the corrective actions being taken in connection with the recommendations in our prior audit of HUD's contracting (97-PH-163-0001), dated September 1997.

The Department's reform initiatives have laid the groundwork for an effective acquisition process. It has hired a Chief Procurement Officer (CPO) and elevated the Office of Procurement and Contracts (OPC) to a level equivalent with program offices. Additionally, the CPO and his principal staff have implemented or are in the process of implementing reform initiatives that provide for: full time Government Technical Representatives (GTRs); GTR certification programs; a Contract Management Review Board (CMRB); financial and procurement system integration; and cyclical monitoring of program office GTRs.

Our review of the recently deployed HUD Procurement System (HPS) showed that substantial strides have been made in automating the Department's procurement data and establishing the necessary financial linkages to fully integrate HPS with HUD's core accounting system. Our analysis of HPS showed that the system was capable of providing detailed information for both headquarters and field office procurement actions and could track contract status from the advanced procurement planning stage through the request for contract services, solicitation, award, and post-award contract administration. Queries made through the system's standard reports module and its ad-hoc report generation tool showed that information was readily available and easily obtainable to assist day-to-day users and senior officials in managing procurement activity.

While the CPO's commitment to making the Department a model procurement agency is encouraging, we are not yet convinced that the Department's overall contracting attitudes and practices have changed significantly.

Our review disclosed HUD needs to improve its acquisition process by utilizing fully the new policies, procedures, and procurement structure it is implementing.

An important procurement reform initiative was the establishment of the CMRB to improve the planning, implementation, and monitoring of HUD procurement actions. However, the CMRB is not substantively involved in certain facets of the procurement process and, therefore, is unable to carry out its mission of ensuring HUD procurements represent the best values.

We reviewed two significant contract actions which are expected to cost the Department about \$400 million annually. The contracts involve the privatization of functions previously performed in-house, i.e., the management and marketing of HUD owned single family properties and the administration of Section 8 contracts with owners of FHA insured multifamily properties. Contrary to what is recommended in OMB Circular A-76, the Department did not compare the costs or effectiveness of having HUD staff perform these functions with the associated costs of having contractors perform them. During its awarding of the management and marketing contract, the Department did not evaluate whether contractors had the capacity to carry out their responsibilities under the contract and now must deal with the inadequate performance of its largest contractor.

We reviewed multiple award indefinite quantity contracts (IQCs) and found some of the awards incorporated elements that would provide HUD with procurement flexibility and the benefits of an ongoing competitive environment, while others did not.

We reviewed recent procurement actions to determine if the certification program for GTRs was improving contract oversight and monitoring. While we found that some GTRs were reviewing contractor invoices and maintaining file documentation according to HUD guidelines, others were not maintaining adequate file documentation or even carrying out the most basic GTR responsibilities.

Recommendations

We are recommending that the Department and OPC: have the CMRB become more involved in the overall procurement process; fully evaluate a contractor's ability or capacity to perform prior to awarding any contracts; implement procedures to ensure IQC awards incorporate elements that provide the Department with flexibility, while providing the best value to the Department; and identify those GTRs who have developed comprehensive contract monitoring plans and create and distribute a model plan.

Substantial improvement is needed in HUD's commitment to improving the acquisition process.

The CPO has made progress in addressing the recommendations in our prior audit of HUD contracting. Additionally, OPC has implemented reform initiatives that provide a framework for substantially improving the acquisition process. However, as detailed throughout the four sections of this report, the procurement policies, procedures and framework that are being established need to be routinely followed and fully implemented at all levels in the Department.

We discussed the results of our review with the CPO's staff during the course of the audit and provided the CPO with a draft report for comment. We discussed the draft report with him at an exit conference on September 24, 1999. The CPO's complete written response is in Appendix D. Portions of the response have been incorporated or summarized throughout the body of this report.

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Abbreviations

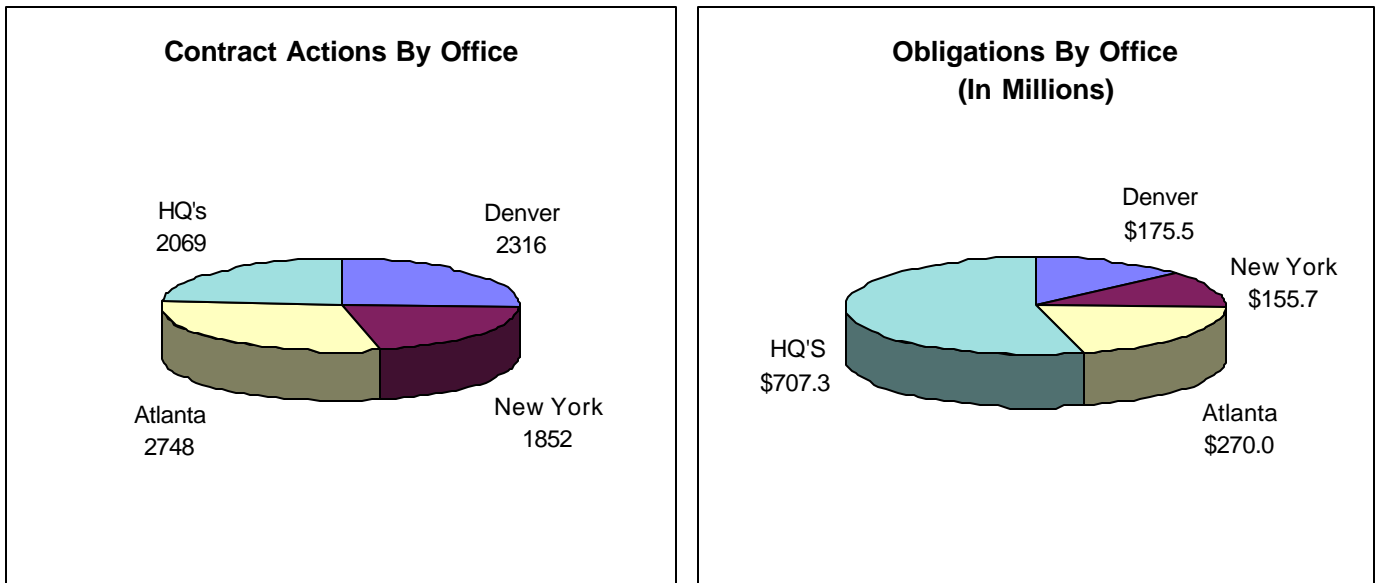
CFO	Chief Financial Officer	IT	Information Technology
CMRB	Contract Management Review Board	M&M	Management & Marketing
CPD	Community Planning and Development	NAPA	National Academy of Public Administration
CPO	Chief Procurement Officer	OIG	Office of Inspector General
EC	Enforcement Center	OMB	Office of Management and Budget
FAR	Federal Acquisition Regulation	OPC	Office of Procurement and Contracts
FTE	Full Time Equivalent	PD&R	Policy Development & Research
GNMA	Government National Mortgage Association	PIH	Public and Indian Housing
GTM	Government Technical Manager	REAC	Real Estate Assessment Center
HOC	Home Ownership Center	REAM	Real Estate Asset Manager
GTR	Government Technical Representative	RFP	Request for Proposals
HUD	Housing and Urban Development	RISC	Research Information Service Clearinghouse
IHA	Indian Housing Authority	TEP	Technical Evaluation Panel
IMG	Intown Management Group		
IQC	Indefinite Quantity Contract		

Introduction

The Office of the CPO was established in March 1998 as part of the HUD 2020 Management Reform Plan to serve as the focal point to reform, streamline, and improve HUD's procurement operations. It is headed by a CPO who reports to the Deputy Secretary. Its organizational structure is shown in Appendix C. The CPO serves as the Department's senior procurement executive and is responsible for the oversight and management of all departmental procurement activities.

OPC is responsible for procurement operations and policy. Headed by a director, it awards and administers all departmental procurement contracts and related agreements through its headquarters and field organizations.

Between October 1, 1997 and May 26, 1999, OPC initiated 8,985 contract actions and obligated \$1.3 billion, as illustrated below:



Audit Scope and Methodology

We performed an audit of the Department's contracting activities to assess the affect of recent reform initiatives on the procurement process and to determine if the reform initiatives were providing adequate controls and safeguards against fraud, waste and abuse in HUD's contracting activities. The audit was undertaken to follow up on the corrective actions being implemented on the recommendations in our prior audit of HUD's contracting (97-PH-163-0001). To achieve the audit objectives, we: (1) reviewed applicable regulations, policies, procedures, and guidelines; (2) interviewed staff from HUD and a contractor who had recently completed a procurement review at HUD; (3) reviewed a variety of contracting actions initiated

by both headquarters and field offices; and (4) reviewed contract and GTR files, financial records, policies, procedures, and prior reviews of HUD contracting.

We examined files maintained on contractors who provide services for various program offices. We also performed a comprehensive evaluation of the CMRB and the strategic planning process; reviewed the pre-award and implementation files for two significant spending decisions expected to cost \$2 billion; reviewed five multiple indefinite quantity contracts (IQCs) with cumulative maximum award authority exceeding \$500 million; and reviewed GTR monitoring and oversight of 12 contract actions worth \$22.8 million.

The audit generally covered the period from October 1997 through April 1999. We performed our on-site review from May to September 1999. Audit tests were based on judgmental samples. We conducted the audit in accordance with generally accepted government auditing standards.

Contract Management Review Board (CMRB)

Under the direction of the Chief Procurement Officer (CPO), the Office of Procurement and Contracts (OPC) has taken a number of steps to address the recommendations in our prior contracting audit (97-PH-163-0001). One significant step involved establishing a Contract Management Review Board (CMRB) to improve the Department's overall procurement efforts encompassing the planning, implementation, and monitoring of HUD procurements.

The CMRB's primary mission is to ensure that procurement needs:

- Are well defined and appropriately justified;
- Meet the critical needs of HUD;
- Have sufficient staff resources devoted to achieve desired cost, schedule and performance outcomes.

While the CMRB has successfully obtained program office cooperation in submitting strategic plans that identify and value anticipated procurement actions, its lack of involvement has limited its success in other aspects of contract administration. Its only significant involvement in procurement actions comes during the planning stage, when procurement plans are described conceptually, but lack the detail and information that is available when task orders are being processed for award. Without being involved in all facets of the procurement process, the CMRB will not be able to effectively carry out its mission.

Background

The CMRB was established in September 1998 to improve the planning, implementation, and monitoring of HUD procurements. Under its procedures, program offices whose total procurement obligations are expected to be more than \$1 million during a fiscal year are to submit strategic plans outlining all procurement actions expected to exceed \$100,000. In addition to its role in procurement planning, the CMRB is to be involved in improving the implementation and monitoring of procurement actions.

CMRB Objectives Are to Ensure That:

proposed contracting represents a critical need of the Department and does not duplicate other proposed, ongoing or completed work

increases in contracting are well-justified and that alternatives to reducing costs have been fully considered

sufficient staff have been identified to monitor the proposed contracting

statements of work will be of the highest quality (and performance based whenever possible) so that the Department will get the highest maximum

return for its investment

there has been sufficient analysis performed to support an independent estimate for the proposed contract costs

the proposed outcome for each major procurement is described in terms of cost, schedule and performance

Strategic Procurement Plan Analysis

Our analysis showed that the program offices submitted procurement plans which identified and valued their anticipated procurement actions for fiscal year 1999. Moreover, it was evident that staff from OPC, Information Technology, and the Chief Financial Officer's office reviewed and analyzed the plans to ensure program offices explained the basis for their procurement actions and provided additional information when requested by the CMRB.

Our analysis also showed that the CMRB's only significant involvement in procurement actions occurred at the planning stage when there was insufficient information available to assess whether or not procurement actions were critical to the needs of the Department and represented the best value that could be obtained. While existing procedures provide for the continued involvement of the CMRB in the other stages of the procurement process, its involvement was not evident during the post planning phases of contract administration, which includes the award of contracts, monitoring/oversight, and outcome assessment, for the following reasons:

- most contract actions do not fall within CMRB review thresholds;
- the CMRB does not review contract activity carried over from prior years because the activity is not detailed in the program offices' procurement plans; and
- program offices are not implementing their planned procurement actions timely.

CMRB Review Thresholds

At contract award, the CMRB did not review individual contract actions taken by the field and only reviewed individual contract actions processed by headquarters if they exceeded \$5 million. Strategic procurement plans provide a conceptual picture of anticipated procurement needs, but do not include the amount of information that is available when task orders are awarded and supported with detailed statements of work, Government cost analysis, and proposed outcomes. As illustrated in the following chart, only 1 of the 148 procurement actions undertaken during the fiscal year were subject to CMRB review when they were awarded.

Location	Actions Taken		Reviewed by CMRB At Contract Award	
	No.	Amount (millions)	No.	Amount (millions)
HQ's	88	\$100	1	\$13.25
Field	60	\$224	0	
Total	148	<u>\$324</u>		<u>\$13.25</u>

Carryover Procurement

Fiscal year 1999 procurement plans included \$84 million in prior years procurement items that were not subject the CMRB's review. As of April 29, 1999 these carryover obligations represented most of the procurements made by some program offices:

Office	New Actions Reviewed By CMRB	Carryovers	Obligated New Actions
CPD	\$31.1 Million	\$ 5,263,288	\$ 100,000
Housing	\$73.6 Million	\$37,081,390	\$15,802,054
PIH	\$65.8 Million	\$ 8,640,109	\$ 5,151,920

Timely Implementation of Procurement Plans

The fiscal year 1999 procurement plans that were approved for the Offices of Administration, Community Planning and Development (CPD), Housing, GNMA, Information Technology (IT), Policy Development and Research (PDR), and Public and Indian Housing (PIH), as well as the Enforcement Center (EC) and Real Estate Assessment Centers (REACs) identified \$596 million of planned contracting actions. At April 29, 1999, or seven months into the fiscal year, only \$258 million, or 43 percent, of these planned actions had been obligated. The following program offices obligated considerably less than 20 percent of their planned actions:

<u>Office</u>	<u>Planned Obligations</u>	<u>Actual Obligations</u>
CPD	\$31.1 Million	\$.1 Million
EC	\$15.1 Million	\$1.1 Million
PIH	\$65.8 Million	\$5.2 Million
REACs	\$45.2 Million	\$8.2 Million

OPC agreed that some program offices are not carrying out their procurement actions as timely as they should, but viewed this as an improvement over what had been happening in the past. OPC said that for

the first time there are planning documents and tracking mechanisms to hold Assistant Secretaries accountable for their offices' procurements and indicated that Assistant Secretaries will have to provide explanations why planned procurement actions that were considered to be critical to the needs of HUD at the beginning of the fiscal year did not result in contract awards.

OPC management did not feel that the CMRB needed to perform more thorough reviews at the time of contract award. Since the CMRB reviewed the strategic plans, OPC felt the \$5 million contract action threshold was sufficient. In our view, the program office strategic procurement plans provide a conceptual picture of anticipated procurement needs, but do not have the detail that is available when task orders are awarded. The added detail would allow the CMRB to review procurement actions according to its objectives and mission.

The CMRB's representative from the CFO's office generally agreed that the CMRB is not substantively involved in certain facets of the procurement process. Additionally, he described the CMRB's present role in the process as more of a "rubber stamp". He stated the CMRB should require program offices to identify their planned procurements much earlier to enable the CMRB to effectively analyze and challenge planned procurements.

* * * * *

In summary, we believe OPC has improved the procurement planning process and could similarly improve procurement implementation and monitoring if the CMRB was more actively involved in certain facets of the procurement process, as provided for in its rules and procedures. Additionally, as detailed in other sections of this report, HUD program offices have been slow in recognizing and accepting the CMRB's increased role in ensuring procurement needs are critical and represent the best value to the Department.

Auditee's Comments

The CPO agreed that strategic planning should be initiated early enough to evaluate alternatives, the CMRB should be involved throughout the procurement process, and it should review some completed actions to evaluate outcomes. However, he believed the CMRB did not need to be more involved at contract award since the Department's program offices and OPC are responsible for the day-to-day management of acquisitions, including writing effective work statements, analyzing/negotiating costs, as well as awarding and administering contracts. Further, the CPO believed more CMRB oversight at contract award would not be beneficial and would tend to dilute his authority.

OIG Evaluation of Auditee's Comments

Additional CMRB oversight at contract award would be beneficial. While we agree that the Department's program offices and OPC are responsible for the day-to-day management of acquisitions, the CMRB's oversight of individual contract actions is contemplated in its rules and procedures. Its evaluation of what the CPO has described as the two most important acquisition decisions, what we buy and who we buy it from, could strengthen the procurement process.

Recommendations

We recommend you assure that:

- 1A. The CMRB is actively involved throughout the procurement process to include planning, implementation, and monitoring.
- 1B. Strategic planning is initiated early enough so the CMRB has the ability to review anticipated procurements and viable alternatives;
- 1C. The CMRB oversees the pre-award of significant headquarters and field contracting actions (when contract type, statement of work, independent Government estimate, etc., are available for review and evaluation); and
- 1D. The CMRB reviews a representative sample of completed actions to evaluate procurement outcomes.

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The Department's Cost Analysis and Evaluation of Significant Contracting Actions

Even though prudent business practice and sound judgment dictate otherwise, the Department carried out two significant procurement actions without conducting OMB Circular A-76 cost comparisons. The procurement actions involved the management and marketing of HUD owned single family properties and the administration of Section 8 housing assistance payments. These contracts are expected to involve two billion dollars in expenditures. The Department justifies its actions by saying that the A-76 cost comparisons were not legally required.

Even though the reinvented HUD has placed greater reliance on outside contractors to conduct its business, it has not conducted an OMB Circular A-76 cost comparison in the past 11 years (including management and marketing and Section 8 contract administration) to determine whether procurement decisions were cost-effective. In our opinion, these multi-billion dollar spending decisions are exactly the type of decisions that were envisioned in OMB Circular A-76 and prudent management would encourage careful analysis of such matters. In pertinent part, the Supplement to Circular A-76 states that the Circular is not designed to simply contract out. Rather, it is designed to balance the interests of the parties in a make or buy cost comparison; provide a level playing field between public and private offerors to competition; and encourage competition and choice in the management and performance of commercial activities. It is designed to empower Federal managers to make sound and justifiable business decisions (underscoring added).

While the management and marketing contracts and the Section 8 contract administration proposals provide for the privatization of functions previously performed in-house, there was little evidence to show that Department seriously considered the costs or effectiveness of HUD staff performing these functions versus the costs of contracting for these functions with the private sector, in compliance with OMB Circular A-76 procedures. Simply speaking, it would follow that if top management's reorganization policies provide for reductions in staff and the privatization of HUD business, then these decisions have been made without evaluating the costs and benefits of these actions. Ultimately, these are the types of decisions that perpetuate the management problems that exist at HUD and will continue, if management does not recognize the need for up-front cost analysis and sound business decisions based on a disciplined approach, as provided for under A-76 requirements.

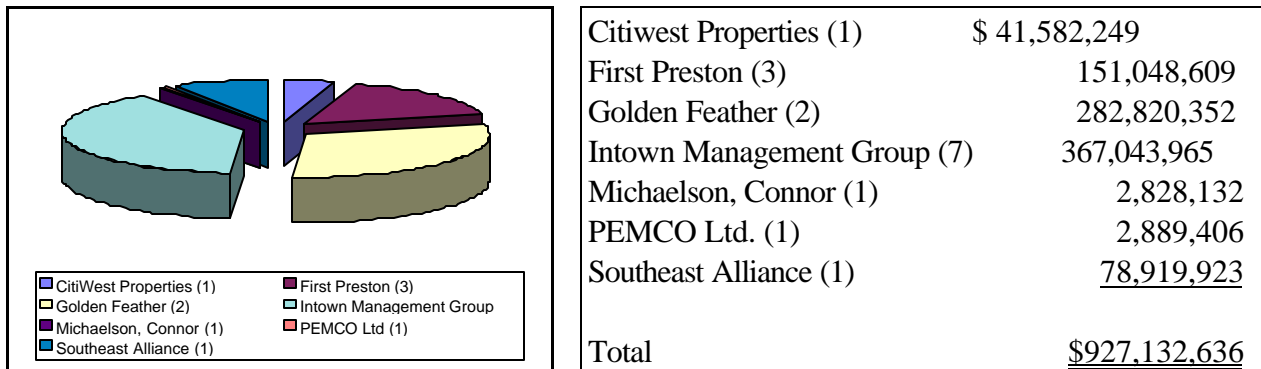
Regarding the management and marketing contracts, the Department stated that there is no requirement to conduct an A-76 review if the Department is not affecting more than 10 HUD employees. Additionally, it said that it is the program office's responsibility to evaluate all of the procurement alternatives, and the contracting office's responsibility to ensure that once the procurement decision is made that the award is carried out efficiently. The Department also stated that the decision to contract

out project-based Section 8 is not even an appropriate item for inclusion in this review because it is not a Federal Acquisition Regulation (FAR) compliant contract and therefore not subject to any OPC oversight.

While we agree that these concerns involve program office fiscal responsibility, we do not agree that they are inappropriate for OPC involvement or CMRB oversight, especially in light of the recent reforms initiated by the CPO. Clearly, OPC reform initiatives establish procedures for the improvement of cost estimating and needs assessment through an acquisition process based on the fundamentals of integrated project teams and the application of business principles.

Management and Marketing Contracts

We reviewed the implementation and pre-award files for the recently awarded contracts for the managing and marketing of HUD’s multi-billion dollar single family inventory. Prior to the awards, these functions were handled by a combination of HUD staff and real estate management contractors nationwide. Sixteen contracts were awarded to 7 different contractors with 5 year spending estimates of \$927 million.



Even though these procurements have five year spending authority of approximately \$1 billion and the contractors have substantial control of HUD’s multi-billion dollar single family inventory, the Office of Housing did not adequately document or evaluate basic business decisions before executing these contracts.

The management and marketing contracts provide for the privatization of functions previously performed in-house, but there is no evidence that HUD management considered the costs of performing these functions with HUD staff versus the anticipated private sector costs, according to OMB Circular A-76. Instead of preparing an A-76 cost study as it had contemplated at one time, Housing requested a determination from the CFO that an A-76 study was not technically required, since HUD was not going to reduce staff. Additionally, the memorandum that was sent to the CFO indicated that Housing envisioned property sale contracts as needed, similar to the pilot contracts that already existed. Nowhere in the memorandum was it explained that Housing was going to contract out

the entire single family portfolio which would cost about \$200 million. The CFO agreed with Housing that, since the Department was not reducing staff, the study was not required and none was conducted. This rationale is particularly questionable given all the downsizing and restructuring that had been and was being considered by the Department.

While this study may not legally be required, good management and fiscal responsibility would dictate that some cost benefit analysis would be desirable and useful when HUD is considering a billion dollar procurement which changes the way it does business in a significant way. Even the National Academy of Public Administration (NAPA), which praised HUD for its recent procurement reforms, stated “ HUD must have performance standards and operating principles for the new model procurement system that are based on sound business principles and replicate best practices in government agencies and private sector firms.”

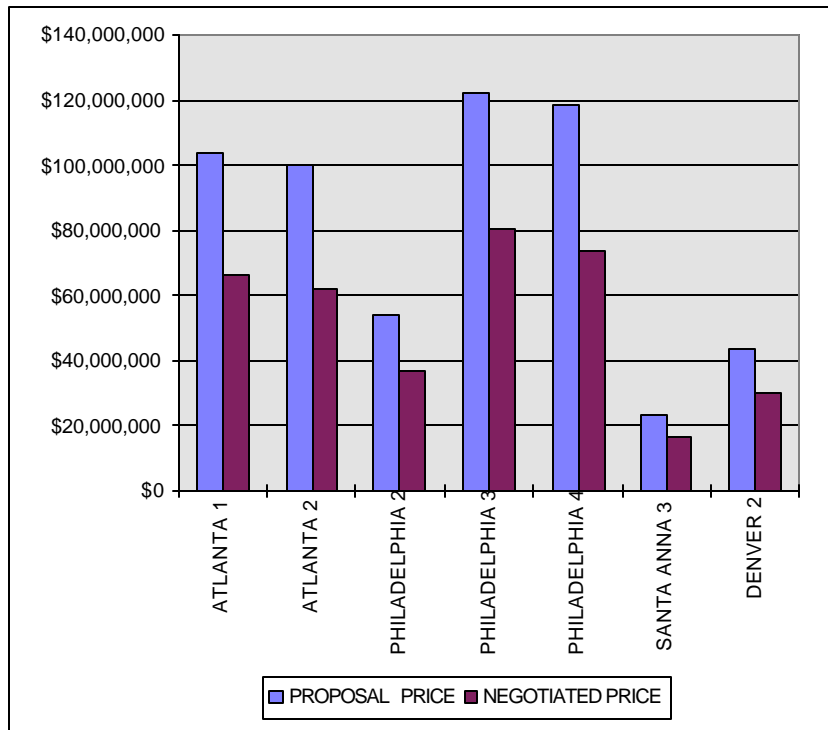
OPC management stated the decision not to conduct an A-76 study was made by the program office and was supported by the CFO. Additionally, OPC management stated its involvement was sufficient, as the proposals pre-dated the CMRB, and that it is the program office’s responsibility to evaluate all of the procurement alternatives, and the contracting office’s responsibility to ensure that once the procurement decision is made that the award is carried out efficiently.

In addition to the absence of a cost analysis for the management and marketing procurement, we noted the following additional concerns during our review of the pre-award file and our analysis of the acquired property inventory reports:

Financial and Operational Capacity

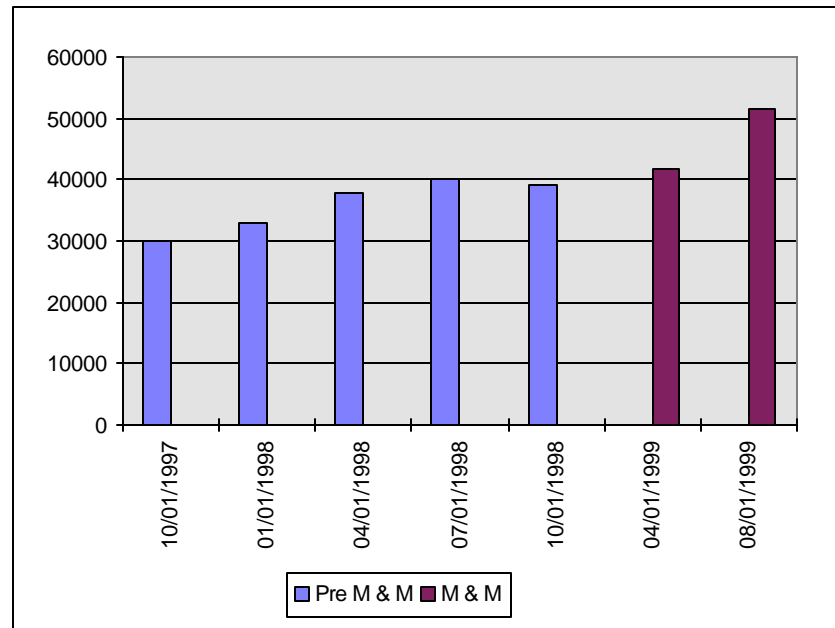
Intown Management Group was awarded contracts for 7 of the 16 procurements and this encompassed a significant portion of HUD’s acquired single family portfolio. Contracting staff were asked if they considered Intown’s financial capacity to manage such a large portion of the HUD portfolio, as these issues were not evident in the summary of negotiations or the technical evaluation reports. The staff indicated these considerations were discussed and it was determined that Intown had sufficient financing to manage these contracts.

Intown reduced its bids from \$565.5 million to \$367 million, or over 30 percent from its original proposals, during the negotiation process. Revised best pricing schedules provided by Intown during the negotiation process may have been overly ambitious, as they did not account for any cost increases over the five year life of the contract, which included employee costs. In fact, Intown’s estimated costs would actually decrease due to improved efficiency and reduced overhead and profit. OPC staff stated that Intown had the highest technically rated proposal, and believed the negotiation process evidenced HUD’s interest in procuring the best value. A comparison of Intown’s proposed costs with its negotiated costs follows:



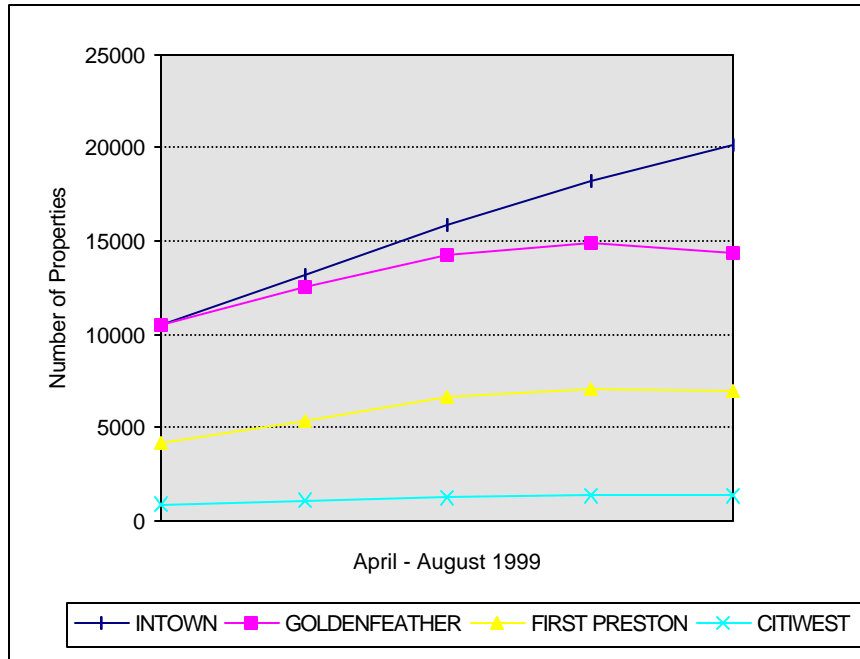
Performance Issues

Our analysis of acquired property inventory reports from the Single Family Acquired Management System showed that there was a large increase in property inventories during the first four months of the management and marketing contracts:

Number of Properties in HUD's Inventory

While all of the management and marketing contractors seemed to be having performance difficulties, Intown's level of performance was not approaching that of other larger contractors at the time of our review. Additionally, Intown's contract for the Denver Home Ownership Center was canceled because of performance matters and the CPO indicated that there was a possibility that Intown would lose additional contracts as they had not sufficiently addressed how they would correct their performance. As shown in the following table and graph, Intown's property inventory increased even more significantly than other management and marketing contractors:

	April Inventory	August Inventory	Inventory Increase (%)
Intown	10,540	20,150	91%
Goldenfeather	10,542	14,370	36%
First Preston	4,082	6,911	69%
Citiwest	<u>871</u>	<u>1,324</u>	52%
Totals	26,035	42,755	64%



Property Sales

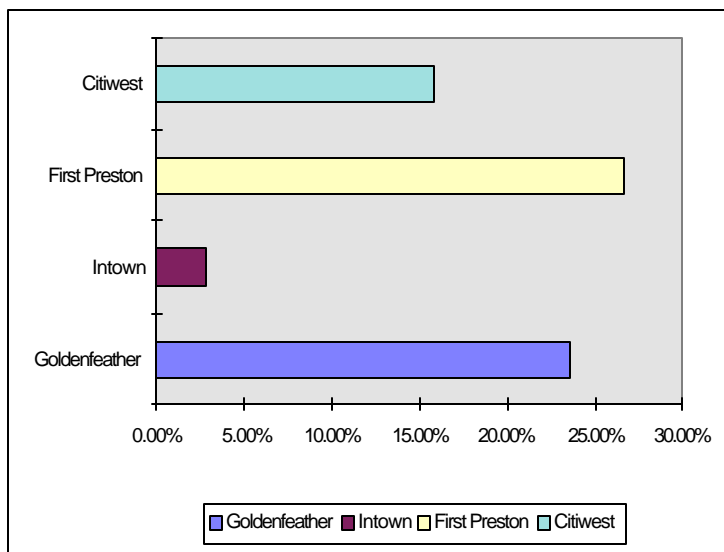
As illustrated below, Intown sold only 2.8 percent of its assigned inventory. Management and marketing contractors receive 30 percent of their fees when properties are listed and the remaining 70 percent when they are sold. Consequently, there was a concern that Intown would not be able to adequately maintain the 20,000 HUD properties assigned to them without the revenues generated from property sales. From April 1999 through July 1999:

Citiwest sold 210 properties or 15.9% of beginning inventory and acquisitions

First Preston sold 1845 properties or 26.7% of beginning inventory and acquisitions

Intown property sold 569 properties or 2.8% of beginning inventory and acquisitions

Goldenfeather sold 3391 properties or 23.6% or 23.6% of beginning inventory and acquisitions



On September 23, 1999, HUD announced it had terminated Management and Marketing contracts with Intown Management Group because the company did a poor job managing and marketing HUD foreclosures.

Contract Administrators for Project-based Section 8 Assistance Payments

In May 1999, HUD issued a request for proposals (RFP) for outside contractors to administer about 18,000 of the Department's project-based Section 8 contracts. These contracts account for about \$8 billion in annual housing assistance payments. Because HUD determined this action was not a formal procurement within the meaning of the Federal Acquisition Regulations (FAR), OPC was not significantly involved in the technical procurement aspects of this contract. Even though the contract's expected annual cost of \$209 million represents one of the Department's most significant contractual actions, it was not subject to CMRB procedures. Multiple contracts are expected to be awarded late in 1999.

The RFP represents a viable option and an innovative approach to conducting HUD business; however, the decision to contract did not adequately consider cost-benefit issues and may adversely affect the integrity of HUD's Section 8 program. While HUD determined that the RFP and the subsequent contract award process did not require formal OPC oversight and management, we believe the apparent desire to contract out regardless of cost is indicative of the environment within HUD.

Cost-Benefit Analysis

We recognize that the decision to contract out the administration of the project-based Section 8 contracts was not driven solely by cost/benefit considerations. It was readily evident the decision was based primarily on policy decisions to reduce the size of HUD's workforce and the corresponding need to identify workload that could be shifted to HUD intermediaries.

After requests from the U.S. Congressional Appropriations Committees and HUD-OIG, HUD provided an August 1997 cost analysis that compared the cost of funding an adequately staffed work force to perform the function versus the anticipated contract costs. HUD's analysis reflected that the in-house cost would be \$38 million less than the cost of contracting out the function. Even though HUD's own analysis showed it was significantly less expensive to perform the function in-house, the methodology used to compute the in-house estimates may have significantly overstated the amount of in-house resources actually needed. For example, the analysis assumed:

- an additional 1,400 full time staff equivalents, or eight times the current full time staff equivalents were needed to perform the functions. Other estimates indicate that only 500 were required.
- the average number of contracts assigned per full time equivalent (FTE) was 14, significantly below State Housing Financing Agency reasonable portfolio guidelines of 20 - 25 projects.
- a total project inventory of 22,100. This figure supported the staffing basis for several cost elements. The actual project inventory is 18,000.

Although HUD's analysis appeared to significantly overstate in-house requirements, it still showed that the estimated cost of performing the work in-house was \$38 million less than the cost of contracting out. HUD defended the more costly option on the assumption that a number of identified risks would be lowered. However, documentation supporting these risk assessments was not available.

Because cost considerations were not adequately studied, and given a higher priority, there are minimal assurances that contracting out of HUD's Section 8 contract administration duties is in the best interest of the Department.

Program Integrity

Currently, HUD staff administers about 20,000 Section 8 contracts. These contracts account for over \$8 billion in annual housing assistance payments to owners on behalf of eligible tenants. The RFP essentially puts out for bid a core HUD business function that, for the most part, is done in-house. Because of staffing shortages and other higher priority duties, the Department has been unable to devote sufficient resources to effectively perform the required functions. In its cost-benefit analysis, HUD estimated the required internal staffing needs to adequately perform Section 8 contract administration duties were about 1,600 full time equivalents (FTEs). Rather than build-up HUD's capacity to do the work, the Department has opted to contract out the function in its entirety. Outsourcing a major function of HUD's multifamily business could adversely affect the integrity of the Section 8 program because:

- contracted services are typically used to enhance in-house capability, not replace an entire business function.
- contracting out subjects the entire program to uncertainty.
- the contract cost will be absorbed by the Section 8 program, reducing the amount of funds that could be provided to intended beneficiaries.
- HUD’s ability to monitor contractor performance is questionable.

* * * * *

Although the Department is improving its procurement processes, we are concerned that these two procurements show that the Department is not really changing the way it decides what activities to contract out and how the contracting negotiations are to take place. Decisions are based on what is expedient and can be characterized as legal rather than what is shown to be the most prudent and cost effective business decision. It appears that the Department may still have a long road to travel in this regard.

Auditee’s Comments

The CPO reiterated its position that this entire section was not appropriate for inclusion in this review. He stated that there was no suggestion that any existing legal or regulatory requirement was ignored and if the OIG feels that the Department did not conduct sufficient analysis before proceeding with its decisions then it would be more appropriately discussed with Housing management.

**Evaluation of
Auditee’s Comments**

This section is appropriate for inclusion in this report. We believe the CPO through its reform initiatives is committed to improving the acquisition process, which includes review and oversight of its significant spending decisions. These reform initiatives are based on an overall acquisition process based on sound business principles and are intended to improve past deficiencies which include inadequate needs assessment and cost estimating in the acquisition process.

Recommendations

We recommend that you have the Department:

- 2A. Conduct OMB Circular A-76 cost benefit studies when significant spending decisions are evaluated. In the future the CMRB should be involved in the review and oversight of these decisions.
- 2B. Provide us with any subsequent information or revised plan of action regarding management and marketing contractors, as there was uncertainty regarding a current contractor's performance and ability to continue in operation. Additionally, it was unclear how the Department was going to award additional contracts, if necessary.
- 2C. Evaluate the performance of the management and marketing contractors in meeting contract objectives prior to optioning additional years on existing contracts or awarding additional contracts.

At a minimum, the analysis should evaluate the performance of the contractors in: reducing HUD's single family inventory; reducing the period of time a property is in the inventory; and increasing the net sales proceeds to HUD (net proceeds less the claim paid and all other expenses including contract costs).

- 2D. Evaluate Section 8 contract administration proposals to ensure prospective awardees have the financial and operational capacity to perform contract tasks.
- 2E. Develop a comprehensive monitoring plan to ensure Section 8 contract administration services are provided in accordance with contract provisions.

Indefinite Quantity Contracts (IQCs)

Multiple awards of contracts for indefinite quantities (IQCs) are procurement vehicles which are intended to give agencies flexible contracting tools. Their use is encouraged in the Federal Acquisition Regulations (FARs) and the Office of Federal Procurement Policy's Best Practices Guide. The Department utilizes these vehicles so it can respond quickly to its procurement needs.

Abuse of IQC flexibility has been discussed in prior audits of HUD procurement. Therefore, we proactively reviewed five recent multiple awards of IQCs to ensure they were not vulnerable to similar abuses. These IQCs encompassed 20 contracts with maximum award authority exceeding \$500 million. Two of the IQCs incorporated elements that would provide HUD with procurement flexibility and the benefits of an ongoing competitive procurement environment. However, there were elements in the other three awards which raised questions about whether the awards provided HUD with adequate competition to ensure it was meeting its procurement needs and obtaining the best value. These three IQCs were awarded with broad statements of work and undefined maximum award authorities. We also observed that:

- contract files lacked details of maximum and minimum award determinations;
- clear statements were lacking about whether maximum awards were for each contract or cumulative and how OPC was going to assure that maximum amounts were not exceeded;
- the description of services to be provided by the contractor were too broad and could probably fit any future task;
- awards were made to an insufficient number of contractors; and
- some contract awards took more than one year.

OPC did not agree with our observations indicating they provided the necessary review and oversight to ensure the IQC process was used efficiently and effectively. OPC said it often advises program offices to establish maximum amounts under IQCs that are high enough to avoid any possibility of exceeding the maximums. Regarding IQCs not being awarded to a reasonable number of companies, OPC stated the competitions were advertised and therefore the number of respondents were outside of its control.

As previously noted, we found that some of the IQCs generally followed the best practices recommended by the Office of Federal Procurement Policy. OPC staff responsible for awarding GNMA contracts stated that IQCs should be designed to maximize competition by incorporating a clear statement of work, and that overly broad statements of work tend to limit competition as you would almost totally exclude the small business sector. This staff person generally agreed with our overall assessment of multiple awards of IQCs, stating the awards might not always result in best value procurements if program offices use them as a vehicle to fit virtually any future need.

Our comments on the IQCs we reviewed are in Appendix A. A summary of our observations follows.

Summary of Multiple IQCs Reviewed

Multiply Awarded IQC	Award Date No. of Awardees Contract Nos.	Maximum Award Authority Awarded to Date	Observations					
			1	2	3	4	5	6
Research Information Services Clearinghouse (RISC)	Sept & Dec 1998 2 Awardees OPC #'s 21229 & 21146	\$75 Million \$2.8 Million	C	C	C	C		C
Technical Assistance - IHA's	May 1998 5 Awardees OPC #'s 21170, 21171, 21172, 21174 & 21175	\$25 Million \$3.6 Million	C					C
Program Evaluation-Multifamily Housing	August 1998 6 Awardees OPC #'s 00089, 21192, 21193, 21194, 21195 & 21196,	\$25 Million \$300,000	C	C		C	C	
Business Consulting (GNMA)	October 1998 4 Awardees OPC #'s 21403, 21404, 21405 & 21406	\$6.7 Million \$1.3 Million						
Advisory Services (GNMA)	October 1998 4 Awardees OPC #'s 21414, 21415, 21416 & 21417	\$23 Million \$2.7 Million						
1 Contract files did not detail maximum award authority determinations 2 Sstatement of work 3 IQC not awarded to a reasonable number of contractors 4 HUD bound by potentially high IQC minimums (exceeding \$50,000) 5 Contract award process exceeded one year 6 Multiple IQC competed with task not suited for multiply awarded IQC								

Auditee's Comments

The CFO generally disagreed with our observations in this section of the report indicating that OPC has sufficient procedures to ensure these procurement vehicles are not abused and the section did not detail specific deficiencies resulting from OIG concerns.

**Evaluation of
Auditee's Comments**

We have modified this section to clarify that our review was proactive, and was intended to identify potential vulnerabilities associated with these awards.

Recommendations

We recommend that you:

- 3A. Implement procedures to ensure that IQCs incorporate elements that provide the Department with the needed flexibility while providing the best value to the Department. Contract files should provide an analysis of how maximum awards were determined and whether the maximum awards were intended to be for each contract or cumulative. Additionally, minimum IQCs should not unnecessarily commit the Department.
- 3B. Consider using oral presentations and limited written proposals to reduce the length of the contract award process.
- 3C. Solicit input from awardees on ways to improve the ordering process.
- 3D. Make a reasonable number of awards to ensure that there is competition throughout the ordering process.

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Contract Monitoring and Oversight

Recognizing the need to improve its contract monitoring capacity, the Department has initiated new programs to enhance and support the roles and responsibilities of its GTRs. Since March 1998, HUD established a certification program to standardize GTR training requirements, established full-time GTR positions, and developed performance elements and standards to assess the job performance of individuals assigned GTR responsibilities. Additionally, the CPO increased its efforts to monitor their performance.

The Department has made a significant effort to increase the quality and frequency of contractor oversight. Over 180 GTRs were trained and certified and 81 full-time GTR positions were created. While senior management commitment remains high, implementation of these reforms at the lower levels is slow. Significant improvements were noted in some program offices. In others, mid-level and lower-level managers inadequately emphasized the GTR's role in the contract monitoring process.

Background

Because of the significant weaknesses noted in our prior contracting audit (97-PH-163-0001), the Department initiated several key measures to improve the contract monitoring process. Most notably, it placed emphasis on strengthening the GTR role and holding them formally accountable for performing their duties. In a memorandum dated March 26, 1998, then Acting Deputy Secretary Ramirez announced the creation of the certification program. The program, implemented by the CPO, was designed to:

- standardize training requirements
- ensure GTRs acquire a solid fundamental understanding of the Federal contracting process as implemented by HUD
- provide GTRs with sufficient procurement instruction so they are prepared to perform their duties

Additionally, the memorandum required that specific GTR performance elements and standards be included in the job performance evaluations of all personnel who were assigned GTR duties.

In coordination with the CPO, each program office was responsible for identifying all staff members who would be serving in a GTR capacity and monitoring their progress through the certification process. Additionally, because of the volume of contract activity, seven of the program offices were required to establish full time GTR positions. As of July 15, 1999, 187 GTRs were certified.

Program Office	Part-time GTRs	Full-time GTRs	Total
Administration	0	15	15
Chief Financial Officer	6	0	6
Community, Planning and Development	7	2	9
Enforcement Center	1	2	3
Fair Housing and Equal Opportunity	2	0	2
Government National Mortgage Association	4	8	12
Housing	18	36	54
Employment and Equal Opportunity	2	0	2
Inspector General	5	0	5
Lead Hazard Control	7	0	7
Policy, Development and Research	42	0	42
Public and Indian Housing	4	15	19
Public Affairs	1	0	1
Real Estate Assessment Center	7	3	10
Total	106	81	187

Additionally, the CPO increased its oversight of program office contract activity and established procedures to conduct periodic reviews of GTR files at headquarters.

Reinforced GTR procedures and increased CPO oversight should improve HUD's ability to monitor contractor performance over time. However, contract monitoring deficiencies were still pervasive because some program managers have not sufficiently emphasized the newly established GTR roles and responsibilities.

Using HUD's Procurement System (HPS) report and data extraction capability to identify recent contract actions that obligated at least \$100,000, we determined that 88 new contract awards with a total value of about \$100 million were made by headquarters during fiscal year 1999 (through 26 May). We reviewed 12 of these actions that were valued at \$22.8 million and administered by certified GTRs to evaluate the effectiveness of newly implemented contract monitoring reforms. Our review showed that most GTRs did not: (1) develop and implement formal monitoring plans to ensure the contractors performed and were paid in accordance with their contracts, or (2) maintain files in accordance with HUD guidelines.

GTR Oversight of Contractor Performance and Payment

The GTRs had not developed or properly implemented formal, comprehensive monitoring plans for 11 of the 12 contracts. Often, they relied on informal contact to keep abreast of contractor activity. In some cases, the GTRs developed spreadsheets to monitor costs and deliverables, or included pro forma contractor performance reports in their files. However, they failed to make effective use of these

tools to implement a comprehensive oversight program for their contracts. Because plans were not developed and implemented, GTRs lacked a structured approach for enforcing contract provisions and could not adequately protect HUD's interests.

As discussed in the following paragraphs, some GTRs did not adequately monitor the status of contract deliverables and did not review and approve contractor invoices prior to payment. In addition, because 2 of the 12 contracts were interagency agreements, we assessed HUD's progress in resolving prior audit recommendations relating to the need and cost basis for these agreements.

- An analysis of the statement of work and contract provisions for the 12 contracts showed that 223 key deliverables should have been provided at the time of the review. However, GTRs could provide evidence that only 163 were delivered in accordance with contract specifications. In one contract action, a key deliverable was not provided.
- GTRs effectively reviewed and approved contractor invoices in only 6 of the 12 contracts. In 3 cases, the GTRs received invoices, but did not validate invoiced amounts as being reasonable and consistent with the services provided or the contract terms. In each of the 3 cases, the GTRs approved invoices for payment even though they did not contain sufficient information to permit a proper evaluation of the costs that were claimed. In 3 cases, GTRs did not receive invoices and were not involved in the review and approval of payments.
- In response to our prior report, HUD indicated that an interagency agreement needs and cost analysis would be accomplished by May 30, 1999. While the CPO conducted a July 1999 preliminary review of 56 interagency agreements and identified 12 that were no longer needed, sufficient analysis had not been accomplished to: identify and review the universe of interagency agreements (reviews were only completed in seven program offices); and to fully demonstrate the cost efficiency of maintaining many of the remaining 44 agreements identified as critical to HUD's needs.

In its Best Practices Guide for Contract Administration, the Office of Federal Procurement Policy states that GTRs should develop a comprehensive monitoring plan for each contract they administer. The plan must identify the performance outputs and describe the inspection methodology in sufficient detail so it can serve as the basis for conducting systematic and structured evaluations of contractor performance. Since our review showed that one GTR successfully developed and implemented a contract monitoring plan, we believe the Department could benefit by analyzing those plans already in place and develop a model contract monitoring plan for Department-wide GTR use. Additionally, the CPO should continue its assessment of interagency agreements and ensure that those identified as needed are sufficiently justified as the most cost efficient means of acquiring the services.

GTR Files

HUD Handbook 2210.3, Chapter 12, describes GTR contract administration roles and responsibilities. Section 12-4 requires that GTRs create and maintain a file for each contract under their administration. Depending on the contract stage, the file must contain up to 14 items that are essential to monitoring and documenting the history of contractor performance. Our review of the GTR files for the 12 contracts showed that there were deficiencies in all but one of the files. While some files were well-organized and contained most of the important contract monitoring and historically significant documents, others were not maintained. A summary of the 12 contract reviews follows:

Number of Items In GTR Files			
Contract Number	Required	Maintained	Not Maintained
C-OPC-21077 Task Order 2	13	4	9
C-OPC-18521 Task Order 5	13	0	13
C-OPC-21297 Task Order 1	13	7	6
C-OPC-21289 Task Order 1	14	5	9
C-OPC-21289 Task Order 2	13	6	7
C-OPC-18397 Task Order 75	11	9	2
C-OPC-18363 Task Order 11	12	9	3
C-OPC-21359 Task Order 1	12	12	0
C-OPC-18462 Task Order 8	12	11	1
I-OPC-21351	12	7	5
I-OPC-21354	13	3	10
C-OPC-21147	12	10	2

Appendix B provides further details on our review.

In response to our recommendations addressing contract administration weaknesses and the need for OPC oversight of program office contract activity, the CPO implemented an oversight program to monitor GTR files at headquarters. Review teams were formulated, a GTR working file checklist was created, reporting procedures were established, and a monitoring schedule developed. As of July 21, 1999, the team conducted reviews at three program offices (Administration, GNMA, and Housing) and evaluated 59 GTR files. The CPO's reviews disclosed deficiencies which were similar to the deficiencies that we noted.

While the CPO's efforts at improving GTR oversight have been partially successful, GTRs seemed more concerned about making sure files had the correct documents to pass a perfunctory checklist inspection than they were with using the files for substantive monitoring. Increased program office emphasis is needed to ensure GTR files are properly maintained and used. Requiring program offices to implement a similar GTR oversight program could help achieve this end. Additionally, future CPO and/or program office reviews should include provisions to validate the development and implementation of comprehensive contract monitoring plans.

* * * * *

In summary, 6 of the 12 contracts were administered by full-time GTRs. Monitoring was greatly improved when contracts were administered by full-time GTRs in program offices where their roles and responsibilities were emphasized and supported. In view of this, the CPO should consider expanding the number of program offices with full-time GTRs. While the overall GTR assessment of the CPO's training and certification program was mixed, some program offices supplemented this training with other courses specifically tailored to HUD's procurement policies. The full-time GTRs who participated in this supplemental training and were interviewed during our audit indicated that it was extremely beneficial in conducting their day-to-day GTR duties. All program offices should make this training available to their GTRs when feasible.

Auditee's Comments

The CPO agreed with our observations and recommendations.

Recommendations

We recommend that you:

- 4A. Identify those GTRs who have developed and implemented comprehensive contract monitoring plans, analyze plan strengths, and incorporate the best ideas into a model plan. Disseminate the model plan for HUD-wide GTR use.
- 4B. Advise program offices to develop and implement GTR oversight procedures for conducting periodic and systematic reviews of GTR files and monitoring plans.
- 4C. Incorporate an evaluation of GTR contract monitoring plans as an additional review item in the CPO's GTR oversight program.

- 4D. Fully implement planned actions to review interagency agreements and ensure that a thorough assessment of need and cost efficiency is performed and documented.
- 4E. Evaluate the feasibility of increasing the number of program offices with full-time GTRs.
- 4F. Advise program offices of the availability of exceptional GTR training and encourage its use when feasible.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the organizational plan, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the process for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Significant Controls

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

- Implementation of contract reform initiatives
- Acquisition planning
- Evaluation of procurement decisions
- Monitoring and oversight of contractors

We evaluated all of these controls by determining the risk exposure and assessing control design and implementation.

Significant Weaknesses

It is a significant weakness if internal controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports. Based on our review, we believe HUD had significant weaknesses in its acquisition planning, evaluation of procurement decisions, and its monitoring and oversight of contractors.

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Follow Up On Prior Audits

This review was undertaken to follow-up on the corrective action that was implemented in connection with our prior report on HUD Contracting Activity (97-PH-163-0001) issued on September 30, 1997. There were 18 recommendations in the report covering eight areas. All audit recommendations were closed based on completed or promised corrective action.

Recommendations (97-PH-163-0001)

AREA	NO.	STATUS
Need Determination Planning and Periodic Assessment	1A	Completed
	1B	Completed
	1C	Completed
	1D	Completed
	1E	Completed
Cost Consciousness	2A	Complete by 10/30/99
Contractor Oversight and monitoring	3A	Complete by 5/30/99
	3B	Completed
	3C	Complete by 5/30/99
	3D	Complete by 4/30/99
	3E	Completed
Prohibited Services	4A	Complete by 2/10/2000
	4B	Completed
Financial Systems	5A	Complete by 7/30/99
Closeout Procedures	6A	Completed
Interagency Agreements	7A	Complete by 5/30/99
Review of Individual Contract Actions	8A	Completed
	8B	Completed

Our primary objective in conducting this review was to determine if the recent contracting reforms implemented by HUD provided adequate controls and safeguards to prevent fraud, waste and abuse, and have improved procurement systems and controls. We reviewed recent procurement activity that addressed our previous recommendations in the following areas:

- Need Determination, Planning and Periodic Assessment;
- Cost Consciousness;
- Contractor Oversight and Monitoring;
- Financial Systems;
- Interagency Agreements; and
- Individual Contract Actions

We determined that the Department had implemented or was implementing action to address the recommendations in our prior report. However, we also determined that the Department still needs to make sure that the new policies and procedures being implemented were being followed consistently by all organizations in the Department. Further, it must take action to assure that procurement decisions are based on sound business judgments, not expediency.

IQC Reviews

Multiple IQCs - Research Information Services and Clearinghouse Operations

Contracts 21229 and 21146 are multiple awards for indefinite quantities of clearinghouse services for research information.

Award Date	Contractor	Term	IQC Award	Tasks/ Obligated Amount
September 30, 1998	Aspen Systems	60 Months	\$500,000 - \$75,000,000	5 \$ 2,832,310
December 23, 1998	ICF	60 Months	\$500,000 - \$75,000,000	0 \$ 0
<u>Observations</u> Contract files did not detail maximum award authority determinations Statement of work was broad IQC not awarded to a reasonable number of contractors HUD bound by high IQC minimums (exceeding \$50,000) Task competed for IQC award may not be appropriate				

Maximum award authority not detailed

Contract files did not document how the maximum award authority of \$75 million was calculated. The request for contract services and independent government estimate only included estimated costs of \$2.9 million for the first task which was competed at the time of initial award. A pre-award contract file checklist listed \$50 million, not \$75 million, but beyond that there was no explanation of how the maximum award amount of \$75 million was determined. A broad statement of work combined with a high maximum ordering authority allows program offices to fit virtually any task into an existing IQC.

Broad statement of work

The contract description of services (Section B-1) states the contractor shall provide research information services and clearinghouse operations for all HUD initiatives and programs (underline added). Discussions with the contracting specialist indicated HUD could award virtually any task associated with research information and dissemination from this award.

Reasonable number of contractors

There were only three bidders, two of whom were determined to be acceptable. Competition may be stifled by awarding an IQC with potential contract authority of \$75 million which is predicated on a contractor's ability to perform a specialized task that the GTR believed may not be appropriate for inclusion in a multiply awarded IQC.

HUD bound by high IQC minimums

HUD is required to award the minimum amount to all contractors in multiply awarded IQCs. Therefore, HUD must award at least \$500,000 in contract tasks to both contractors in this IQC.

Task competed for IQC award may not be appropriate

GTR correspondence in the contract file questioned the appropriateness of a HUD user task being included in a multiply awarded IQC, as the anticipated work tasks could not be tasked to different contractors.

Multiple IQCs - Technical Assistance IHAs

Contracts 21170, 21171, 21172, 21174 and 21175 are multiple awards for technical assistance to IHAs.

Award Date	Contractor	Term	IQC Award Amount	Tasks/Obligated Amount
May 6, 1998	Johnson, Bassin & Shaw	60 Months	\$50,000 - \$25,000,000	1 \$ 300,000
May 6, 1998	Pricewaterhouse	60 Months	\$50,000 - \$25,000,000	6 \$ 1,315,379
May 6, 1998	ICF	60 Months	\$50,000 - \$25,000,000	3 \$ 1,273,733
May 6, 1998	Steven Winter	60 Months	\$50,000 - \$25,000,000	1 \$ 300,000
May 6, 1998	ACKCO	60 Months	\$50,000 - \$25,000,000	1 \$ 400,000
<u>Observations</u> Contract files did not detail maximum award authority determinations Contract award process exceeded one year				

Maximum award authority not detailed in contract files

Contract files did not contain documentation detailing how the maximum award authority of \$25 million was determined. The request for contract services listed \$10 million in anticipated procurement needs, but the derivation of that amount was not detailed either. The former GTR stated she did not recall how the \$25 million maximum was determined but thought it was probably a best guess which included a “safety net” of award authority to allow the program offices to procure tasks without going through the lengthy competitive process.

Contract services were requested more than a year before the contract was executed

The request for services was dated July 1996 almost two years prior to the May 1998 award date. The former GTR stated that it seemed to take forever to award contracts as it was very time consuming to arrange times when the Technical Evaluation Panels could meet and review contractor proposals. Additionally, the former GTR stated that OPC was understaffed and it was difficult to obtain OPC’s timely input into procurement needs.

Multiple IQCs - Program Evaluation

Contracts 00089, 21192, 21193, 21194, 21195 and 21196 are multiple awards for evaluations of multifamily programs not to exceed \$25,000,000.

Award Date	Contractor	Term	IQC Award Amount	Tasks/Obligated Amount
August 14, 1998	ABT Associates	60 Months	\$250,000 - \$25,000,000	2 \$ 55,400
August 14, 1998	Booz, Allen	60 Months	\$250,000 - \$25,000,000	0 \$0
August 14, 1998	Pricewaterhouse	60 Months	\$250,000 - \$25,000,000	0 \$0
August 14, 1998	Coopers & Lybrand	60 Months	\$250,000 - \$25,000,000	Coopers & Price merged
August 14, 1998	Aspen	60 Months	\$250,000 - \$25,000,000	2 \$254,763
August 14, 1998	Ervin & Associates	60 Months	\$250,000 - \$25,000,000	0 \$0
<u>Observations</u> Contract files did not detail maximum award authority determinations Broad Statement of Work HUD Bound by High IQC Minimums (exceeding \$50,000) Contract award process exceeded one year				

Maximum award authority not detailed

Contract files did not contain documentation detailing how the maximum award authority of \$25 million was calculated. The request for contract services listed \$19 million in anticipated procurement needs, but no details were provided for that amount. The independent Government cost estimate of \$165,000 only applied to the first task. The GTR stated he did not know how the total amount was determined as he was just recently appointed as the contract GTR.

Broad statement of work

The contract scope of work states the services required may cover any of the functions for which the Office of Multifamily Housing is responsible and may be requested on short notice at any time during the contract period. The GTR did not believe this scope of services was too general and stated he recently

reviewed statements of work which were being developed and were originally planned as tasks for this contract, but were determined to be outside of the scope of services.

HUD bound by high IQC minimums

HUD is required to award the minimum amount to all contractors in multiple IQC awards. Therefore, HUD must award at least \$250,000 in contract tasks to all five contractors in this IQC.

Request for contract services to executed contracts exceeded one year

The request for services was dated February 1997, or 18 months prior to the August 1998 award.

GNMA Multiple IQC

We reviewed two GNMA awards of IQCs prior to its contracting division reporting to HUD OPC. Generally, we did not observe the same problems identified during our reviews of the other multiply awarded IQCs. In fact, it appears that GNMA had adopted many of the best practices recommended by the Office of Federal Procurement Policy. Specifically:

- to streamline procurement award time and reduce proposal costs, GNMA required written proposals not to exceed 30 pages and then held oral presentations with bidders determined to be in the competitive range. OPC staff responsible for awarding GNMA contracts provided feedback from one contractor that stated they had reduced their proposal costs \$200,000 or 67 percent through this process.
- minimum IQC amounts were routinely set at \$10,000 to make the contracts valid and to avoid binding the government to higher amounts.
- the request for contract services provided detailed cost estimates how the maximum award amounts were determined.

Multiple IQCs - Business Consulting

Contracts 21403, 21404, 21405 and 21406 are multiple awards for indefinite quantities of business consulting services.

Award Date	Contractor	Term	IQC Award Amount	Tasks/Obligated Amount
October 9, 1998	Ervin & Associates	60 Months	\$10,000 - \$6,700,000	2 \$ 1,000,000
October 9, 1998	Channel Link Capital	60 Months	\$10,000 - \$6,700,000	0 \$0
October 9, 1998	Engineered Business Systems	60 Months	\$10,000 - \$6,700,000	0 \$0
October 9, 1998	Touchstone Financial Group	60 Months	\$10,000 - \$6,700,000	1 \$ 300,000

Multiple IQCs - Advisory Services

Contracts 21414 through 21417 are multiple GNMA awards for advisory services.

Award Date	Contractor	Term	IQC Award Amount	Tasks/Obligated Amount
October 13, 1998	Ernst & Young	60 Months	\$ 10,000 - \$23,000,000	1 \$ 1,931,020
October 13, 1998	Ervin & Associates	60 Months	\$ 10,000 - \$23,000,000	0 \$0
October 13, 1998	KPMG Peat Marwick	60 Months	\$ 10,000 - \$23,000,000	0 \$0
October 13, 1998	Pricewaterhouse Coopers	60 Months	\$ 10,000 - \$23,000,000	1 \$ 731,021

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Individual Contract Actions

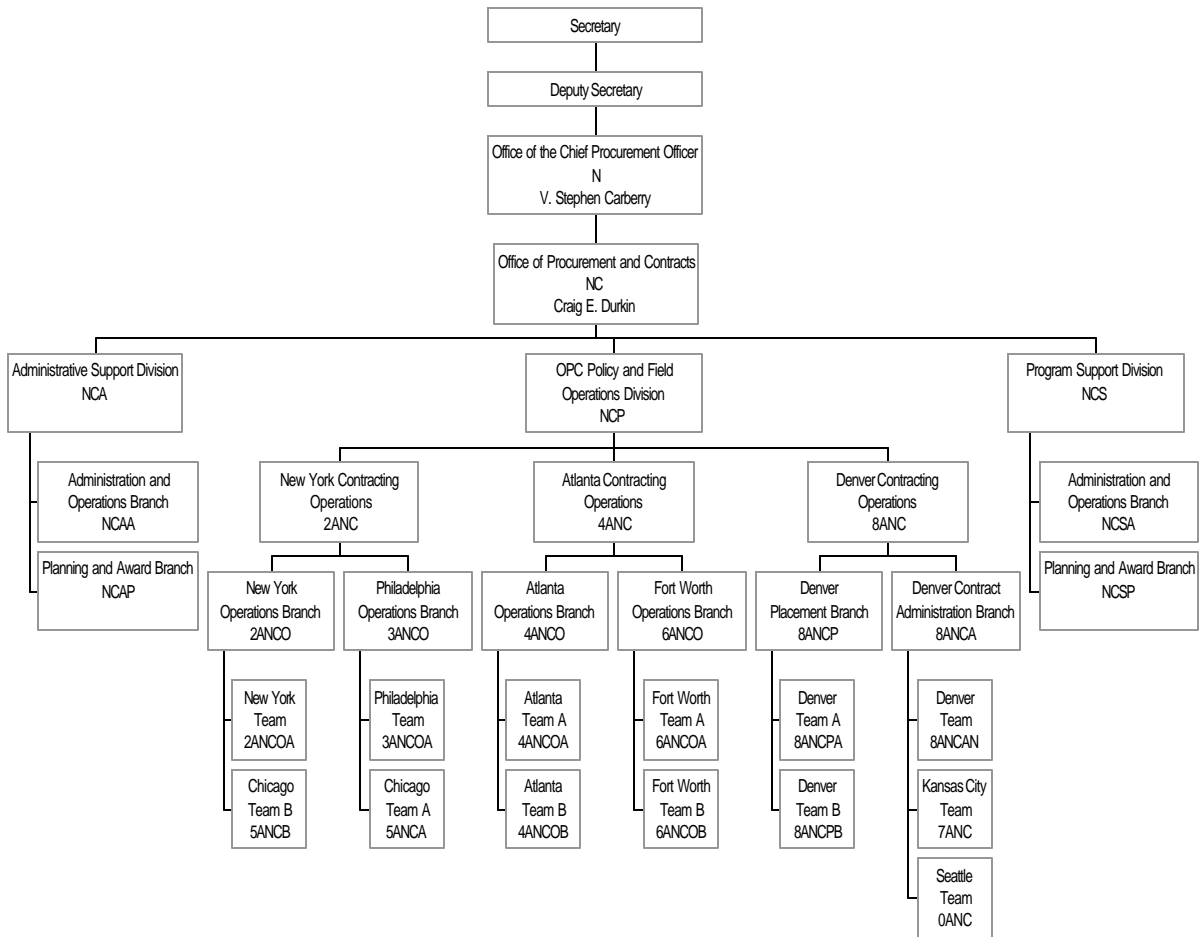
CONTRACT PROGRAM OFFICE	C-OPC-21077			C-OPC-18521			C-OPC-21297		
	TASK 2			TASK 5			TASK 1		
	CPD			CPD			HOUSING		
FILE REQUIREMENT									
Request	Y	Y		Y		N	Y	Y	
Proposal	Y		N	Y		N	Y		N
Work Plan	Y	Y		Y		N	Y	Y	
Contract/Mods	Y	Y		Y		N	Y	Y	
Deliverables	Y	Y		Y		N	Y		N
Notes - Contractor	Y		N	Y		N	Y	Y	
Deliverable Acceptance	Y		N	Y		N	Y	Y	
Inspection Reports	Y		N	Y		N	N		
Status Reports to Program	Y		N	Y		N	Y		N
Status Reports to Contracting	Y		N	Y		N	Y		N
Deliverable Distribution List	Y		N	Y		N	Y		N
Final Assessment	N			Y		N	Y		N
Payment Register	Y		N	Y		N	Y	Y	
Contracting Admin Recommendations	Y		N	N			Y	Y	
SUMMARY:	REQUIRED			13			13		
	MAINTAINED IN FILE				4			0	
	NOT MAINTAINED IN FILE					9			13
									6

CONTRACT PROGRAM OFFICE	C-OPC-21289			C-OPC-21289			C-OPC-18397		
	TASK 1			TASK 2			TASK 75		
	PD&R			PD&R			ADMIN		
FILE REQUIREMENT									
Request	Y	Y		Y	Y		Y	Y	
Proposal	Y	Y		Y	Y		Y		N
Work Plan	Y	Y		Y	Y		N		
Contract/Mods	Y	Y		Y	Y		Y		N
Deliverables	Y		N	Y	Y		Y	Y	
Notes - Contractor	Y		N	Y		N	Y	Y	
Deliverable Acceptance	Y		N	Y		N	Y	Y	
Inspection Reports	Y		N	Y		N	Y	Y	
Status Reports to Program	Y		N	Y		N	Y	Y	
Status Reports to Contracting	Y		N	Y		N	Y	Y	
Deliverable Distribution List	Y		N	Y		N	Y	Y	
Final Assessment	Y		N	N			N		
Payment Register	Y	Y		Y	Y		Y	Y	
Contracting Admin Recommendations	Y		N	Y		N	N		
SUMMARY:	REQUIRED			14			13		
	MAINTAINED IN FILE			5			6		
	NOT MAINTAINED IN FILE			9			7		
							2		

CONTRACT PROGRAM OFFICE	C-OPC-18363			C-OPC-21359			C-OPC-18462		
	TASK 11			TASK 1			TASK 8		
	HOUSING			HOUSING			ADMIN		
FILE REQUIREMENT									
Request	Y	Y		Y	Y		Y	Y	
Proposal	N			Y	Y		Y	Y	
Work Plan	Y	Y		Y	Y		Y	Y	
Contract/Mods	Y	Y		Y	Y		Y	Y	
Deliverables	Y	Y		Y	Y		Y	Y	
Notes - Contractor	Y	Y		Y	Y		Y	Y	
Deliverable Acceptance	Y		N	Y	Y		Y	Y	
Inspection Reports	Y		N	Y	Y		Y		N
Status Reports to Program	Y	Y		Y	Y		Y	Y	
Status Reports to Contracting	Y	Y		Y	Y		Y	Y	
Deliverable Distribution List	Y	Y		Y	Y		Y	Y	
Final Assessment	N			N			N		
Payment Register	Y		N	Y	Y		Y	Y	
Contracting Admin Recommendations	Y	Y		N			N		
SUMMARY:									
REQUIRED	12			12			12		
MAINTAINED IN FILE		9			12			11	
NOT MAINTAINED IN FILE			3			0			1

CONTRACT	I-OPC-21351			I-OPC-21354			C-OPC-21147					
	PROGRAM OFFICE			HOUSING			PD&R			CPD		
FILE REQUIREMENT												
Request	Y	Y		Y	Y		Y	Y				
Proposal	N			Y		N	Y	Y				
Work Plan	Y	Y		Y		N	Y	Y				
Contract/Mods	Y	Y		Y	Y		Y	Y				
Deliverables	Y	Y		Y		N	Y	Y				
Notes - Contractor	Y	Y		Y	Y		Y	Y				
Deliverable Acceptance	Y		N	Y		N	Y	Y				
Inspection Reports	Y		N	Y		N	Y		N			
Status Reports to Program	Y		N	Y		N	Y	Y				
Status Reports to Contracting	Y		N	Y		N	Y	Y				
Deliverable Distribution List	Y	Y		Y		N	Y		N			
Final Assessment	N			N			N					
Payment Register	Y	Y		Y		N	Y	Y				
Contracting Admin Recommendations	Y		N	Y		N	N					
SUMMARY:	REQUIRED			12			13			12		
	MAINTAINED IN FILE				7			3			10	
	NOT MAINTAINED IN FILE					5			10			2

As of March 1999



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Auditee Comments

Comments

Introduction:

- First paragraph: Although the CPO was hired in March 1998, the Office of the CPO and its reporting structure was not approved until June of 1998. Delegations of authority for the new structure took effect in October of 1998. The chart depicted in Appendix C should read “as of March, 1999.”

Section 1-Contract Management Review Board (CMRB)

- Page 3, middle paragraph reads as follows:

While the CMRB has successfully obtained program office cooperation in submitting strategic plans that identify and value anticipated procurement actions, its lack of involvement has limited its success in other aspects of contract administration. Its only significant involvement in procurement actions comes during the planning stage, when procurement plans are described conceptually, but lack the detail and information that is available when task orders are being processed for award. Without being involved in all facets of the procurement process, the CMRB will not be able to effectively carry out its mission.

This paragraph captures the main theme of this section of the IG report, and (in our view), its central misunderstanding. First, the main purpose of the CMRB is to strengthen the Department’s needs assessment and procurement planning processes. The draft report seems to acknowledge significant improvement in these areas. The CMRB was never conceived as a vehicle for “contract administration” or day to day management of the Department’s acquisitions. The Department’s program offices and the Office of Procurement and Contracts are (and should remain) responsible for writing effective work statements, analyzing/ negotiating costs, awarding and administering contracts. The current Inspector General strongly supported the establishment of the CPO position and the notion that the CPO have operational control of contracting and be accountable for its operations. It is paradoxical that this report recommends subordinating much of this control and accountability to members of a Board who have neither the time nor expertise to assume these responsibilities.

- Page 4-The paragraph at the bottom on CMRB thresholds is misleading. **All** planned actions over \$100,000 contained in the strategic procurement plans were reviewed by the CMRB. In addition, actions over \$1 Million contained zero-based needs assessments. Therefore, the last sentence should be revised to indicate that what is being discussed is CMRB review of actual work statements. That sentence and the subsequent chart should also indicate an “as of” date, since more than one specific action has been reviewed at this point.

- Page 5-the chart on Carryover Procurement is terribly misleading. The CMRB reviewed and approved "New Actions" for CPD of \$31.1Million (not \$100,000), for Housing Headquarters of \$73.6 Million (not \$15.8 Million), and for PIH of \$65.8 Million (not \$5.1 Million).

- Page 6-Recommendations:

1A-"The CMRB is actively involved throughout the procurement process to include planning, implementation and monitoring." We concur.

1B-"Strategic planning is initiated early enough so that the CMRB has the ability to review anticipated procurements and viable alternatives." We concur.

1C-"The CMRB oversees the pre-award of significant Headquarters and field contracting actions (when contract type, statement of work, independent Government estimate, etc., are available for review and evaluation)." We disagree for the reasons outlined above. Contracting in the Field is almost exclusively in support of the Office of Housing's mortgage insurance and real estate owned operations. Contract types are well-established and needs are market-driven. Although the CMRB has reviewed Housing's overall estimates for this activity, their review of individual contract actions would add no value and most likely impair the Field's ability to react in a timely and effective manner. The draft also provides **no findings** regarding deficient work statements or cost estimates which could conceivably have been rectified by CMRB review.

1D-"The CMRB reviews a representative sample of completed actions to evaluate procurement outcomes." We concur.

Section 2- The Department's Cost Analysis and Evaluation of Significant Contracting Actions

We believe that this entire section should be removed from the report. The draft report argues that the Department did not conduct sufficient analysis before proceeding with the decision to proceed with the management and marketing (M&M) procurement and the solicitation for contract administrators for project-based Section 8 Assistance payments. The M&M procurement was approved by the CMRB. The contract administrator requirement is not a Federal procurement. However, the Office of Housing has solicited our advice throughout the process to assure that appropriate safeguards are built into the evaluation process and the resulting agreements. The decisions to proceed with both requirements were vetted at the highest levels of the Department. There is

no suggestion that any existing legal or regulatory requirement was ignored. If the authors of the report continue to believe that the Department should have done more than it was required to do, we suggest you address this matter to the Assistant Secretary for Housing. In any event, we do not believe that the Department should conduct an A-76 cost comparison when none is required.

Section 3-Indefinite Quantity Contracts

- Page 17-IG observations and our comments (which also apply to the relevant examples in Appendix A) are as follows:

“Contract files lacked details of maximum award authority determinations”

There is no existing requirement that such determinations be documented.

“Clear statements were lacking about whether maximum awards were for each contract or cumulative and how OPC was going to assure that maximum amounts were not exceeded”

We disagree. Contracts are very specific about the maximum ordering limitation that applies to that contract. Contract specialists routinely check to assure that there is sufficient ordering authority before processing a new task order. Where is there an example of exceeding the maximum?

“The description of services to be provided by the contractor were too broad and could probably fit any future tasks”

We disagree that the statements of work are too broad. They are certainly more defined than numerous GSA schedule contracts which are routinely recognized by OFPP as fine examples of reinvention and much-needed procurement streamlining.

“Awards were made to an insufficient number of contractors”

Strongly disagree. After a full and open competition which complied with all requirements concerning solicitation and advertising, we awarded contracts to 2 of the 3 offerors (the third was technically unacceptable). Previously, there had only been one incumbent of this IQC. Competition was increased 100% and we awarded contracts to all the offerors who could perform the work.

“Minimum order quantities were unnecessarily high”

Disagree. Where is the basis for this conclusion. If the ordering period of these contracts had expired without our ordering the minimum the observation would be valid. They haven't and it isn't.

"Some contract awards took more than one year"

Agree.

- Page 17-The third paragraph indicates that we often advised program offices to establish maximum ordering that "are artificially high to avoid any possibility of exceeding the maximums." We have had several experiences with including a relative low estimate for the maximum in the RFP only to have the ordering ceiling reached very quickly due to the development of legitimate requirements which could not have been anticipated at the time we solicited for proposals. Because the ordering period often extends over a 5 year period, we do advise our clients to consider these uncertainties and not artificially constrain themselves by providing a low estimate which would compel us to conduct a time-consuming and costly full and open recompetition well before the ordering period has expired. We believe that this is sound advice, does not inhibit competition (if anything it makes the requirement more attractive), and does not affect the Department's ability to entertain other procurement options if necessary.

- Page 17-The fourth paragraph should be deleted. There is no position of GNMA Director of Contracts. The individual who is quoted is an employee of OPC who reports to the Director of the Administrative Services Division. **These** are the CPO/OPC official comments concerning the draft reports observations and recommendations.

- IG recommendations and our responses are as follows:

"3A-Implement procedures to evaluate IQC awards to ensure they incorporate elements that provide the Department with the needed flexibility while providing the best value to the Department. Contract files should provide an analysis of how maximum awards were determined and whether the maximum is to be intended for each contract or the cumulative total. Additionally, minimum IQCs should not necessarily commit the Department."

We believe that existing procedures are sufficient to achieve the objective noted in the first sentence of the recommendation. We will develop guidance related to establishing a maximum. We have always agreed that minimums should not unnecessarily commit the Department. Absent an observation that this has

occurred, we do not believe that any additional controls are necessary.

"3B-Consider using oral proposals and limited written proposals to reduce the contract award process."

We have not only considered it, we have done it. It is more often effective in dealing with task order or Federal Supply Schedule competitions when the known universe of prospective offerors is relatively small.

"3C-Solicit input from awardees on ways to improve the ordering process"

We concur.

"3D-Make a reasonable number of awards to ensure competition throughout the ordering process"

We believe that we have done this and that existing policies and practices will assure that we continue to do it.

Section 4-Contract Monitoring and Oversight

We concur completely with the observations and recommendations contained in this section. We only suggest that references to OPC be changed to CPO.

Distribution

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