



Office of the Chief Procurement Officer, Washington, DC

Contract for Multifamily Mortgage Loan and Property Management Servicing and Accounting



To: Keith Surber
Acting Chief Procurement Officer, AC

Nancie Ann Bodell
Acting Director, Office of Asset Management and Portfolio Oversight, HTG

From: //SIGNED//
Edgar Moore
Regional Inspector General for Audit, New York, New Jersey Region, 2AGA

Subject: HUD Did Not Always Follow Applicable Requirements or Use Best Practices in the Procurement and Administration of Its Multifamily Servicing Contract

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's procurement and administration of its contract for multifamily mortgage loan and property management servicing and accounting.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (212) 264-4174.



Audit Report Number: 2015-NY-0001

Date: December 2, 2014

HUD Did Not Always Follow Applicable Requirements or Use Best Practices in the Procurement and Administration of Its Multifamily Servicing Contract

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) procurement and administration of its multifamily mortgage loan and property management servicing and accounting contract. We conducted this review based on concerns communicated to the HUD Office of Inspector General (OIG) by the Federal Housing Commissioner and HUD housing officials. The objectives of the audit were to determine whether HUD officials (1) ensured that the contract scope of services was appropriate and necessary, (2) maximized competition, (3) provided sufficient oversight and monitoring, and (4) provided adequate communication and coordination among the departments involved.

What We Found

HUD officials ensured that the scope of services was appropriate and necessary but did not always follow applicable requirements or use best practices in the procurement and administration of HUD's contract for multifamily mortgage loan and property management servicing and accounting. Specifically, HUD officials did not sufficiently track contract payments, identify and deobligate excess funds at contract closeout, or ensure adequate communication and coordination with the departments involved with this contract. Also, HUD officials did not obtain sufficient bidders; ineffectively selected the procurement method used, and did not maximize vendor awareness and visibility for this contract. We attributed these deficiencies to HUD's high rate of turnover and lack of central and consistent accountability and communication in the offices responsible for this contract.

What We Recommend

We recommend that HUD officials (1) deobligate the almost \$10 million in excess obligations on HUD's most recent award of the contract for these services and ensure that these funds are put to better use, and (2) implement procedures to ensure that obligated amounts are tracked and are consistent with funding needs, consistent oversight, accountability, and communication are promoted, best practices are followed to provide maximum competition, and decisions are made with the input of all parties involved.

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Background and Objectives

The U.S. Department of Housing and Urban Development's (HUD) Office of the Chief Procurement Officer (OCPO) was created in 1998 as part of the HUD 2020 Management Reform Plan to serve as the focal point to reform, streamline, and improve procurement operations. OCPO is responsible for obtaining all contracted goods and services required by HUD in an efficient and cost-effective manner to enable HUD to meet its strategic objectives. OCPO provides vital logistic support to HUD's program offices and other support offices to meet their mission needs and provides leadership throughout HUD for sound business practices.

HUD OCPO regularly executes a contract to provide multifamily mortgage loan servicing and accounting, property management servicing and accounting, and sections 202 and 811 direct loan Uniform Commercial Code (UCC) setup and maintenance. The specific functions included under the contract were:

- HUD-held loan servicing – Cashiering and servicing functions on HUD-held multifamily notes, Mark-to-Market Program notes, and Portfolio Reengineering Demonstration Program notes.
- Sections 202 and 811 direct loan UCC filing setup, and maintenance – Logging, tracking, and renewing required UCC documents.
- Property disposition – Tracking the management and sale of properties.
- Accounting – Maintaining accounting records for HUD-held notes.
- Information technology – Creating and maintaining a system to house all data related to the servicing of HUD-held notes and property disposition tracking.

HUD officials stated that this service contract had been awarded to the same contractor, Dynaxys, LLC, for more than 20 years, resulting in approximately \$357 million in contract payments. This amount included an average annual contract amount of nearly \$17 million over the past 5 years. During this period, approximately 2,700 multifamily assets were serviced annually. Therefore, the Office of Multifamily Housing Programs (MFH) paid around \$6,296 per asset serviced each year. Dynaxys, LLC, proposed a renewal of the contract of approximately \$20 million annually for the next 5 years beginning in late 2013. HUD's most recent award of the contract, number C-OPC-23316, occurred on September 30, 2008 and expired on September 29, 2013. Since then HUD has executed two separate one year bridge contracts with Dynaxys.

Dynaxys, LLC, is a privately held business, which was founded in 1981 and was known as Dynamic Access Systems, LLC, until January 2007. It is based in Silver Spring, MD, and offers financial services software; accounting services; application hosting; and outsourcing services for government, commercial, and nonprofit markets and also provides consulting services.

The objectives of the audit were to determine whether HUD officials (1) ensured that the contract scope of services was appropriate and necessary, (2) maximized competition, (3)

provided sufficient oversight and monitoring, and (4) provided adequate communication and coordination among the various departments involved.

Results of Audit

Finding 1: HUD Did Not Adequately Administer Its Multifamily Mortgage Loan and Property Management Servicing and Accounting Contract

HUD did not adequately administer its multifamily loan and property management servicing and accounting contract with Dynaxys, LLC. Specifically, MFH officials did not sufficiently track contract payments, identify excess funds to be deobligated at the time of contract closeout, or adequately communicate and coordinate with the OCPO on this contract. The administration of this contract was hindered by a high rate of turnover in both offices. Consequently, funds were not properly safeguarded resulting in numerous duplicate payments and nearly \$10 million in excess funding not being deobligated almost a year after the end of the contract period. In addition, inadequate communication led to decisions related to the contract being made without the input of all involved parties, which led to disagreements and dissatisfaction. The obligated balance of almost \$10 million can be considered a savings when made available for other contract obligations or returned to the Treasury.

Insufficient Tracking of Contract Payments

HUD MFH officials did not sufficiently track payments related to HUD's multifamily loan and property management servicing and accounting contract with Dynaxys, LLC. We examined the payment records maintained by HUD officials in various offices. These records were incomplete and unorganized, which hindered access and tracking. The records also did not include sufficient payment registers for the entire term of the most recent award. Section 12-4 of HUD Handbook 2210.3, REV-9 states that the government technical representative shall maintain a working file for each contract they are assigned, which includes all vouchers and a payment register showing any remaining funds. This lack of documentation did not permit adequate tracking of contract funds throughout the term of HUD's contract with Dynaxys, LLC.

Throughout the term of HUD's most recent award of the contract, there were a number of occurrences of overpayments by HUD officials. These overpayments were identified by Dynaxys, LLC, officials and later refunded or credited to HUD. However, it is HUD MFH officials' responsibility to be aware of the invoice amounts and amounts to be disbursed. HUD MFH officials did not adequately track contract payments, and its assets were not safeguarded. The administration of this contract was hindered by a high rate of turnover in both MFH and OCPO.

Failure To Deobligate Excess Funds at Contract Closeout

HUD's most recent award of this contract was signed on September 30, 2008, and had 1 base year and 4 option years. At the end of the contract on September 29, 2013, there was a balance of excess funds obligated. The Federal Acquisition Regulation at 48 CFR (Code of Federal Regulations) 4.804-5(a)(15) requires that the administrative closeout of the contract be initiated after its completion. At the beginning of this process, the government technical representative

from MFH must inform the OCPO of any excess funds it might deobligate. When complete, the administrative closeout procedures must ensure that a contract funds review is completed and excess funds are deobligated. However, at the time of our review, HUD officials had not deobligated the excess funds.

HUD officials obligated more than \$83 million for this contract, including more than \$16 million for each of the 4 option years, even though there were a declining number of loans in the portfolio. Consequently, HUD disbursed about \$73 million to Dynaxys, LLC, for contract payments throughout the full term of the contract. HUD officials had deobligated \$591,500 during the base year of the contract, leaving an unliquidated obligation balance of almost \$10 million¹ at the time of contract closeout on September 29, 2013. Although, HUD officials were told about these excess funds by Dynaxys, LLC, they had not deobligated them. Thus, they failed to meet their responsibility to review the contract funds status and identify any excess funds to deobligate at the start of the contract closeout process.

HUD MFH officials did not reconcile the amounts obligated and disbursed for this contract. High turnover of officials appointed to administer the contract contributed to these failures. As a result, the unliquidated obligation balance of almost \$10 million can be considered a savings when made available for other contract obligations or returned to the Treasury.

Inadequate Communication Among HUD Officials

The administration of HUD's contract with Dynaxys, LLC, was hindered by the inadequate communication among HUD officials involved, including those in MFH and OCPO. Specifically, HUD officials identified many instances of disagreement and lack of cooperation among those involved with this contract.

The lack of adequate communication was partly due to the high employee turnover. Specifically, during the 5-year term of the most recent contract with Dynaxys, LLC, there were five different government technical representatives from MFH and four different contracting officers from OCPO. HUD also had high turnover in the government technical monitors assigned to the contract and at one point, had as many as seven from various divisions within MFH. The turnover in these positions did not ensure consistent and central oversight of the contract and did not provide a smooth transition among the HUD officials appointed to this contract.

Section 11-2 of HUD Handbook 2210.3, REV-9 states that the government technical representative serves as HUD's primary liaison between the contractor and the contracting officer. Therefore, he or she must also act as a liaison between the contracting officer and the respective program office. However, there had been a lack of communication and cooperation among these parties for this contract. We identified several instances of weak relationships between OCPO and program officials. Decisions related to this contract had not been made with the input of all involved parties, which led to dissension and disagreement. Communication

¹ The unliquidated obligation balance was \$9,975,696 as of August 25, 2014.

among HUD officials involved needs to improve. The OCPO and MFH should each designate a responsible official who will have accountability over these services going forward.

Conclusion

HUD did not adequately administer its multifamily loan and property management servicing and accounting contract with Dynaxys, LLC. HUD MFH officials did not adequately track the amount of funds obligated to and disbursed for this contract. HUD officials obligated more than \$83 million for this contract and disbursed or deobligated only about \$73 million throughout the full term of the contract. MFH officials did not identify and report the excess funds to be deobligated to the OCPO at the time of contract closeout. The administration of this contract was hindered by a high rate of turnover in both offices. Consequently, funds were not properly safeguarded resulting in numerous duplicate payments and nearly \$10 million in excess funding not being deobligated almost a year after the end of the contract period. In addition, inadequate communication led to decisions related to the contract being made without the input of all involved parties, which led to disagreements and dissatisfaction. The obligated balance of almost \$10 million can be considered a savings when made available for other contract obligations or returned to the Treasury.

Recommendations

We recommend that HUD's Acting Chief Procurement Officer

- 1A. Deobligate the excess \$9,975,696 obligated to contract number C-OPC-23316 with Dynaxys, LLC, for multifamily loan and property management servicing and accounting.

We recommend that HUD's Acting Director, Office of Asset Management and Portfolio Oversight

- 1B. Establish and implement procedures to ensure that the amounts obligated for each of the contract option years are consistent with present funding needs. This amount should include a reconciliation of the amounts obligated and disbursed during the prior contract year, as well as proper maintenance and tracking of payment records.
- 1C. Establish and implement procedures to promote central and consistent oversight of contracts, including standardized procedures and documentation to assist in the transition among HUD officials appointed to administer contracts.

Finding 2: HUD Officials Did Not Always Follow Best Practices in Their Procurement of HUD’s Multifamily Mortgage Loan and Property Management Servicing and Accounting Contract

HUD OCPO officials did not always follow best practices in their procurement of HUD’s multifamily loan and property management servicing and accounting contract with Dynaxys, LLC. Specifically, HUD OCPO officials did not do enough to ensure that there was adequate competition when they did not select the most effective procurement method or maximize vendor awareness and visibility for this contract. We attributed these deficiencies to the lack of central and consistent accountability and communication under the contract with Dynaxys, LLC. As a result, HUD OCPO officials did not ensure maximum competition for these contracted services and that the contract was procured as efficiently as possible when only one proposal was received.

Historical Lack of Sufficient Competition

This contract had been awarded to Dynaxys, LLC, for more than 20 years, resulting in approximately \$357 million in contract payments. This amount included an average annual contract amount of nearly \$17 million over the past 5 years. During this period approximately 2,700 multifamily assets were serviced annually. However, HUD had received few proposals from competing vendors.

HUD MFH officials expressed concern over the historical lack of competition for these contracted services, which may have resulted from the expansive scope of work and Dynaxys, LLC’s ownership of the rights to the database and software used to perform the work required. The scope of this contract was originally only for multifamily loan servicing but expanded over time because of continuous addition of new tasks. The historical lack of sufficient competition existed because of the absence of central and consistent accountability over this contract.

Ineffective Selection of Procurement Method

HUD’s most recent award of the contract was procured through the Federal supply schedule program using the U.S. General Services Administration’s (GSA) e-Buy online tool. E-Buy is an online request for quotation (RFQ) tool to receive information for complex, large quantity, or big-ticket procurement requirements that streamlines the solicitation process and posts solicitations, receives quotes, finds sources of supply, and submits responses.

HUD OCPO officials solicited the services for this contract under GSA’s Financial and Business Solutions (FABS) Schedule 520. They identified potential contractors under the category of Loan Servicing and Asset Management. GSA defines the services included under this category as assisting agencies in servicing, monitoring, and maintaining loan assets. However, the scope of this contract and related servicing were unique. Further, the scope included additional services, such as accounting and maintenance of HUD’s related UCC filings. Therefore, it was difficult to classify the scope of the services provided under this contract into one of the categories on GSA’s FABS Schedule 520. The scope of services included under the contract had been necessary to meet HUD’s needs because all tasks performed were required for MFH to

operate effectively. However, because the services were unique, using the GSA schedules, through e-Buy, may not have been the most effective method of procurement. HUD officials should have considered other options that may have resulted in more assurance that the contract was procured as efficiently as possible.

HUD OCPO officials provided the July 21, 2008, RFQ to six different vendors through GSA's e-Buy online tool. However, only one vendor responded to the RFQ, the incumbent contractor, Dynaxys, LLC. HUD officials told us that this procurement was initially planned as a full and open competition but was instead submitted through GSA's FABS Schedule 520 because of time constraints. Based on the unique scope of this contract and lack of proposals submitted in response to HUD's July 21, 2008, RFQ, the GSA schedules, through e-Buy, may not have been the most effective method of procurement for this solicitation and unintentionally limited competition.

Vendor Awareness Not Maximized

HUD OCPO officials generally followed regulations for placing orders under a Federal supply schedule in section 8.4 of the Federal Acquisition Regulation. Contracts awarded under the Federal supply schedule are considered to be issued using full and open competition, and GSA has already determined the prices and rates to be fair and reasonable. Although the requirements were technically followed, HUD OCPO officials could have done more to ensure that this contract was more competitive as shown by HUD consistently receiving only one proposal in response to the RFQs for these services. Provisions in the Federal Acquisition Regulation in effect at the time of this solicitation (48 CFR 8.405-2(c)(3)(i)) state that a solicitation of this size and complexity should have been provided to additional vendors, especially when only one proposal was submitted. The regulation states that in addition to meeting the requirements of 8.405-2(c)(2), which states that the RFQ must be provided to at least three schedule contractors the RFQ (including the statement of work and evaluation criteria) must be provided to additional schedule contractors that offer services that will meet the needs of the procurement. It adds that when determining the appropriate number of additional schedule contractors, the ordering activity may consider, among other factors, the complexity, scope, and estimated value of the requirement and the market search results.

Although HUD OCPO officials provided their July 21, 2008, RFQ to six different vendors through GSA's e-Buy online tool, they received only one proposal in response, which was from the incumbent contractor, Dynaxys, LLC. As part of our review, we contacted the five vendors that did not submit responses to HUD's RFQ to identify their reasons for not responding. According to vendor officials, the lack of responses was because of possible client conflicts, the lack of support and capabilities, assumptions that HUD already had a vendor in mind because of the specific scope, and the ineligibility of one vendor to bid because it did not have the necessary items on its GSA schedule contract. Therefore, HUD OCPO officials should have reposted the solicitation or sought additional vendors when only one proposal was received.

HUD officials hosted an Industry Day on May 1, 2013, and issued a corresponding request for information (RFI) for the contracted services provided by Dynaxys, LLC. In response to the RFI, 18 vendors other than Dynaxys, LLC, submitted capability statements to HUD. As part of

our review, we contacted these vendors to obtain additional information regarding HUD's solicitation of these services. Specifically, we learned that a majority of the vendors that responded had no knowledge of these contracted services or the related RFQs before the May 1, 2013, RFI and Industry Day. Although almost all of the vendors contacted stated that they had the skills necessary to complete the work required under this contract and most stated that they had prior contracts with HUD, more than half were unaware of the prior solicitations, and more than a third did not have a GSA schedule contract for the category of Loan Servicing and Asset Management, which this solicitation was posted under in 2008. Vendors without a GSA schedule contract for this category were unable to bid on the solicitation and HUD OCPO officials could have reached outside of the GSA schedule contracts for loan servicing. The majority of vendors also did not consider HUD's lack of ownership for the software used by Dynaxys, LLC, as a deterrent to their bidding on a solicitation for this work as HUD officials had suggested. Therefore, based on the information provided by vendor officials, HUD OCPO officials have several options for increasing the visibility of HUD's solicitations and promoting more adequate competition.

Although HUD OCPO officials generally followed the regulations for purchases under a Federal supply schedule, they did not follow best practices in ensuring that competition was maximized. Based on the complexity, scope, and estimated value of the services contracted for, HUD OCPO officials could have encouraged more contractors to respond to their RFQs. Specifically, they should have performed more market research to increase competition and considered reposting the solicitation after receiving only one proposal. We attributed this to the lack of central and consistent accountability for HUD's contract with Dynaxys, LLC, as well as inadequate communication among the HUD officials involved with the services needed. HUD officials did not make decisions related to this contract with the input of all involved parties, which may have helped identify additional vendors and concerns regarding inadequate competition. HUD officials need to improve communication among the HUD officials to be successful going forward. HUD OCPO officials did not ensure maximum competition for these contracted services and, thus, were unable to ensure that this contract was procured as efficiently as possible.

Plans for Contract Going Forward

HUD officials acknowledged that there had been deficiencies in HUD's contract with Dynaxys, LLC. In response to these issues, HUD officials conducted a May 1, 2013, Industry Day and issued a corresponding RFI. Since the start of our review, HUD officials had met regularly to comprehensively plan the procurement of these services and were exploring options.

HUD officials had taken steps toward improving the contract before the end of our review. These steps included refining the scope of services required and resolving the inadequate communication among the HUD offices involved with this contract.

Conclusion

HUD OCPO officials did not always follow best practices in their procurement of HUD's multifamily loan and property management servicing and accounting contract with Dynaxys, LLC. Specifically, HUD OCPO officials did not do enough to ensure that there was adequate

competition when they did not select the most effective procurement method or maximize vendor awareness for this contract. HUD contracted with Dynaxys, LLC, for these services for more than 20 years with few competing bids. Based on the unique scope of this contract, using the GSA schedules, through e-Buy, may not have been the most effective method of procurement for this solicitation as it unintentionally limited competition. More than half of the vendors contacted stated that they did not know about these contracted services or the related RFQ before the May 1, 2013, RFI and corresponding Industry Day. We attributed this situation to the lack of central and consistent accountability regarding HUD's contract with Dynaxys, LLC. As a result, HUD OCPO officials did not ensure adequate competition for these contracted services and, thus, were unable to ensure that this contract was procured as efficiently as possible when they only received one proposal.

Recommendations

We recommend that HUD's Acting Chief Procurement Officer

- 2A. Implement procedures that will ensure that best practices are followed to promote overall cost efficiency, reduce processing time, and provide adequate competition during the procurement process, including sufficient market research and maximum visibility, while taking into account the complexity, scope, and estimated value of the contract.
- 2B. Establish and implement procedures to promote central and consistent accountability and communication in the acquisition of multifamily mortgage loan and property management servicing and accounting services to ensure that all needs and concerns are addressed and decisions are made with the input of all involved parties.

Scope and Methodology

We performed the audit fieldwork from February through August 2014 at the HUD Office of Inspector General (OIG), Office of Audit, in Buffalo, NY, and HUD headquarters in Washington, DC. The audit scope covered the period September 30, 2008, through September 29, 2013, and was extended as necessary. We relied in part on computer-processed data primarily for obtaining background information on HUD's contract expenditures. We performed a minimal level of testing and found the data to be adequate for our purposes. To accomplish our objectives, we

- Reviewed applicable sections of the Federal Acquisition Regulation, HUD Acquisition Regulation, HUD Chief Procurement Officer handbook, and additional guidance as necessary.
- Interviewed HUD officials to obtain an understanding of and identify the concerns related to HUD's contract for multifamily loan and property management servicing and accounting.
- Interviewed contractor officials to understand the services provided under the contract.
- Polled 23 industry vendors that represented potential offerors for the services contracted for with Dynaxys, LLC, regarding the adequacy of HUD's solicitation process. This number included 18 vendors that responded to HUD's May 1, 2013, RFI and 5 vendors that were notified of HUD's July 21, 2008, RFQ. We received responses from 19 of the 23 vendors contacted.
- Reviewed the official contract files maintained by OCPO.
- Reviewed the contract payment requests maintained by Dynaxys, LLC. These payment requests represented 431 invoices totaling almost \$73 million.
- Reviewed the contract payment records maintained by various HUD officials. The records reviewed were maintained by the government technical representative appointed to the contract; the Office of Housing's Office of Financial Analysis and Reporting, Cash Management Branch; and the Office of the Chief Financial Officer. The quantity and total amounts of these records varied among the offices.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal 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.
- 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.
- Laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- HUD officials did not have adequate controls over the effectiveness and efficiency of program operations when they did not establish adequate administrative controls to ensure that maximum competition was promoted, sufficient documentation was maintained, and effective communication existed among all involved parties (see findings 1 and 2).

- HUD officials did not have adequate controls to ensure that resources were safeguarded when they did not sufficiently track and monitor contract payments and deobligate funds when the contract was closed (see finding 1).

Appendixes

Appendix A

Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use 1/
1A	\$9,975,696

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this case, if HUD implements our recommendation to deobligate the excess funds no longer needed for the contract that ended September 29, 2013, more than \$9.9 million in savings can be put to better use.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

OCPO Comments

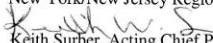


U.S. Department of Housing and Urban Development
Washington, D.C. 20410

OFFICE OF THE CHIEF PROCUREMENT OFFICER

November 6, 2014

MEMORANDUM FOR: Edgar Moore, Regional Inspector General for Audit,
New York/New Jersey Region, 2AGA

FROM: 
Keith Surber, Acting Chief Procurement Officer, N

SUBJECT: HUD comments regarding Contract for Multifamily Mortgage Loan
and Property Management Servicing and Accounting

HUD OCPO would like the OIG to consider the following comments before finalizing the subject audit report:

Comment 1

- OCPO de-obligated \$9,975,696.90 in funding and closed out contract #C-OPC-23316. HUD's Integrated Acquisition Management System (HIAMS) permits only one fiscal year of funding to be de-obligated per modification on any contract migrated into HIAMS. As such, seven separate modifications were needed to de-obligate the funding and close out this contract. The de-obligation modifications are listed below:

C-OPC-23316 - M016	\$ 347,047.68
C-OPC-23316 - M017	5,089,282.60
C-OPC-23316 - M018	1,440,744.63
C-OPC-23316 - M019	1,498,736.12
C-OPC-23316 - M020	1,280,873.01
C-OPC-23316 - M021	117,594.77
C-OPC-23316 - M022	<u>201,381.09</u>
Total	\$9,975,696.60

Comment 2

- When the referenced contract came up for renewal, OCPO staff identified the problems with the prior procurements and immediately initiated discussions with the program office to begin taking steps to improve competition for the follow on requirement. Additionally, HUD has done numerous things to increase communication between the Program Office and OCPO, increase contract oversight, and increase vendor awareness and participation in this requirement. HUD is in the process of redefining the Multifamily Mortgage Loan Servicing requirement to obtain these critical services through either a full and open competitive process or an Interagency Agreement (IAA) with the Department of Agriculture (USDA). To accommodate these two procurement strategies, HUD has taken several actions:

Visit our web page at <http://www.hud.gov/offices/cpo/index.cfm>

**Ref to OIG
Evaluation**

Auditee Comments

Comment 3

Comment 4

- The Program Office is currently completing the LEAN process to streamline their acquisition approach to develop a detailed and comprehensive Performance Work Statement (PWS).
- The Program Office and OCPO are meeting regularly to discuss the requirement and develop the requirements package.
- Developed a GANTT chart with key milestones for both procurement paths (re-compete or IAA).
- Conducting market research to increase vendor awareness and participation in the anticipated re-compete. HUD will issue a Request for Information (RFI) in November 2014 and plans to host a pre-proposal conference before award if a full and open competitive process is selected.
- From a policy standpoint, over the past several years, OCPO issued multiple Acquisition Instructions (AI) to promote education and understanding of the acquisition process throughout HUD. Also, OCPO will instruct its managers to conduct round table discussions with their staff on these topics and the current policies and procedures. The following AIs have been issued:
 - Acquisition Instruction 13-03 regarding additional contract oversight requiring quarterly reviews/meetings between OCPO, program and contractor personnel. By requiring this level of review and discussion, OCPO hopes that all parties will be armed to best work together throughout the contract.
 - Acquisition Instruction 13-08 regarding contract close-out procedures.
 - Acquisition Instruction 14-01 regarding Integrated Acquisition Teams which requires program officials, OCPO personnel, legal counsel and others to coordinate and collaborate in acquisitions exceeding the simplified acquisition threshold.
 - Acquisition Instruction 14-04 regarding market research that focuses on increasing competition through various market research activities.
- To address the high turnover rate, OCPO established several employee centric programs within the past six months to retain OCPO personnel. These include a three-level recognition program to include time-off, monetary and certificate-based awards, increased flexibility in work schedules, increased flexibility in telework, designation of outstanding individuals to attend procurement-related workshops and to take the NCMA professional certification exams, and increased nominations of outstanding employees to leadership-related programs.

**Ref to OIG
Evaluation**

Auditee Comments

Comment 5

If you have any questions please contact Keith Surber, Acting Chief Procurement Officer, at (202) 708-0600.

Attachment(s) Referenced Modifications to Contract # C-OPC-23316
 Referenced Acquisition Instructions

**Ref to OIG
Evaluation**

Auditee Comments


MFH Comments



OFFICE OF HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

MEMORANDUM FOR: Edgar Moore, Regional Inspector General for Audit, New York,
New Jersey Region, 2AGA

FROM: 
Nancie - Ann Bodell, Acting Director, Office of Asset Management
and Portfolio Oversight, HTG

SUBJECT: Draft Audit Report – HUD Did Not Always Follow Applicable
Requirements or Use Best Practices in the Procurement and
Administration of Its Multifamily Servicing Contract

This memorandum provides comments on the subject draft report. Because the final audit report, once issued, becomes a public document, and our response to recommendations will be dealing with some internal control issues, we will communicate separately our specific plans in the proposed management decision following issuance of the final audit report. Thank you for meeting with us on November 4, 2014 at the Exit Conference and the opportunity to comment on the draft audit report. The goal of our comments would be to enhance our use of your audit work.

Please note and make the following changes to your report:

- Throughout the report the Office of Multifamily Housing Programs is referred to in various ways. For consistency please initially use the Office of Multifamily Housing Programs (MFH) and then refer to MFH throughout.
- On page 6 of the draft, please add recommendation 1D to read, "A lead program manager from MFH will oversee the acquisition of these services for Housing and be responsible for making the final decision on acquisition methods. Stakeholders from other parts of Housing will assist this manager and provide staff and input as requested."

We also understand from the discussion at the Exit Conference that you will receive comments from the Office of the Chief Procurement Officer (OCPO). In this regard, we agree with OCPO in their request to change the wording of recommendation 2B removing the word "procurement" in favor of "acquisition." We also agree with OCPO in adding "reduce processing time" in recommendation 2A. We conclude with the statement that MFH agrees with the recommendations addressed to it, and requests the addition of recommendation 1D as discussed above to be handled by our Office of Asset Management and Portfolio Oversight (OAMPO) who will provide the management decision on behalf of MFH.

If you have questions regarding this communication, please contact Clint Bradley of my staff.

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Comment 6

Comment 7

Comment 8

Comment 7

OIG Evaluation of Auditee Comments

- Comment 1 HUD OCPO provided documentation to support that it had completely deobligated the unliquidated obligation balance of \$9,975,696 as of October 28, 2014. We reviewed this documentation and agree that the deobligation of these funds and closeout of this contract have been completed. The attached documentation was not included in the audit report due to its voluminous nature. This recommendation can be closed concurrent with the issuance of the final report.
- Comment 2 HUD OCPO stated that it had identified the deficiencies with the prior procurements for these services and immediately began working towards improving their processes. Throughout our review, we did find that OCPO had been proactive and taken steps towards correcting the deficiencies related to this contract. However, we also found that MFH officials had identified that there were potential issues with this contract and expressed their concerns to OCPO and OIG. Although OCPO had already begun making improvements to their processes, this progress needs to continue going forward and should be evaluated as part of the audit resolution process.
- Comment 3 HUD OCPO stated that it had recently issued multiple Acquisition Instructions to improve its processes. These were provided as attachments to OCPO's comments, but were not included in the audit report due to their voluminous nature. We reviewed the attached documentation and agree that OCPO had been proactive and taken steps towards correcting the deficiencies related to this contract. Although OCPO had already begun making improvements to their processes, this progress needs to continue going forward and should be evaluated as part of the audit resolution process.
- Comment 4 HUD OCPO stated that it had established several programs to address its high rate of turnover. OCPO has taken appropriate steps to limit the amount of turnover within its staff.
- Comment 5 The attachments referenced in OCPO's comments were received and reviewed. These documents support that OCPO was responsive and had begun taking corrective actions to address the recommendations. The attachments were not included in the report due to their voluminous nature.
- Comment 6 HUD Office of Multifamily Housing Program officials requested that their office be referred to as MFH throughout the audit report for consistency. We have made the necessary revisions to ensure consistency in the report.
- Comment 7 HUD MFH requested that we add a recommendation to finding 1 that will require a lead program manager from MFH to oversee the acquisition of these services for Housing and be responsible for making the final decision on acquisition

methods with assistance from stakeholders in other parts of Housing. However, we decided that the specific procedures to promote central and consistent oversight of contracts to be implemented by MFH should be accomplished as part of the audit resolution process under recommendation 1C and therefore we did not add an additional recommendation to the audit report.

Comment 8 HUD MFH agreed with the two revisions to the audit report that were discussed during the exit conference held for this audit. Recommendation 2B was revised by removing “procurement” and adding “acquisition” and recommendation 2A was revised by adding “reduce processing time.”