



# Office of the Chief Procurement Officer, Washington, DC

## Procurement of Major Service Contracts

**Office of Audit, Region 1  
Boston, MA**

**Audit Report Number: 2017-BO-0001  
March 22, 2017**



**To:** Keith Surber  
Chief Procurement Officer, N

**From:** //signed//  
Ann Marie Henry  
Regional Inspector General for Audit, 1AGA

**Subject:** HUD's OCPO Did Not Always Comply With Acquisition Requirements When Planning and Monitoring Major Service Contracts

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 of major service contracts by the Office of the Chief Procurement Officer.

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 617-994-8345.



**Audit Report Number: 2017-BO-0001**

**Date: March 22, 2017**

**HUD's OCPO Did Not Always Comply With Acquisition Requirements  
When Planning and Monitoring Major Service Contracts**

## Highlights

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### What We Audited and Why

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We audited the U.S. Department of Housing and Urban Development's (HUD) procurement of major service contracts by the Office of the Chief Procurement Officer (OCPO) as part of our fiscal year 2016 audit plan and due to a hotline complaint regarding a contract for scanning services. Our audit objective was to determine whether HUD had adequate procedures in place to plan and monitor major service contracts to prevent waste and abuse.

### What We Found

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HUD's OCPO did not always support that Federal acquisition requirements were met when planning and monitoring major service contracts. A review of 10 contracts found violations of HUD procurement policies for specific contracts or agreements, resulting in unreasonable and unnecessary costs of more than \$21.3 million, more than \$9.6 million in funds to be put to better use, and ineligible costs of \$161,718.

### What We Recommend

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We recommend that HUD's Chief Procurement Officer (1) provide adequate documentation to support that more than \$21.3 million in obligated funds was spent for reasonable and necessary costs; (2) strengthen and implement acquisition controls to ensure that proper cost and price documentation is obtained, adequate monitoring is conducted, adequate market research is conducted and that contractors are evaluated to assess their capability to perform the work, and required contract documentation is maintained in the file to ensure that more than \$9.6 million that is yet to be used will not be spent for unreasonable and unnecessary costs; and (3) seek reimbursement of \$161,718 in ineligible funds disbursed for equipment and support services not specified in a scanning services contract.

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# Background and Objective

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The U.S. Department of Housing and Urban Development's (HUD) Office of the Chief Procurement Officer (OCPO) was created in 1998 to streamline and improve HUD's procurement operations. The office acquires products and services needed to support HUD's program missions and infrastructure; assists program offices in defining and specifying their procurement needs; and provides advice, guidance, and technical assistance related to procurement.

HUD's OCPO has overall authority and responsibility for HUD's contracting activities. Contracts are awarded and managed by six principal offices within HUD: OCPO in HUD headquarters and five field contracting operations located in Philadelphia, PA, Atlanta, GA, Chicago, IL, Ft. Worth, TX, and Denver, CO.

HUD contracts for a variety of services and supplies. These include contracts for professional services, such as research and evaluation studies; business process reengineering and technical assistance to HUD funding recipients; and logistical support services, including building maintenance and supplies. Contracts also provide for logistical and technical support for HUD's operations nationwide, including information technology hardware, systems, and services.

HUD program offices must plan their contracting needs annually. OCPO provides customer service and advice to support acquisition planning and the development of acquisition strategies. Program offices then submit requisitions for individual contract actions to OCPO in accordance with their plans. The requisition includes an independent government cost estimate from the program office to OCPO, which relies upon the information in conducting price analyses. During the request stage, OCPO designs appropriate solicitation and contract documents to support program mission objectives. Once the contract is awarded, contracting and program office staff work together to oversee the successful completion of the contract and the delivery of the needed products and services.

Our audit objective was to determine whether HUD had adequate procedures in place to plan and monitor major service contracts to prevent waste and abuse.

# Results of Audit

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## **Finding 1: The Office of the Chief Procurement Officer Did Not Always Support That Federal Acquisition Requirements Were Met When Planning and Monitoring Contracts**

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OCPO did not always support that Federal acquisition requirements were met when planning and monitoring major service contracts. A review of 10 service contracts showed that OCPO did not always support Federal acquisition requirements, including that (1) the contract price was fair and reasonable; (2) adequate monitoring was completed; (3) market research was completed before contract award, option years, and modifications; and (4) an assessment of a contractor's ability to perform the work was completed. For one contract, OCPO paid a scanning services contractor for ineligible equipment and support services not specified in the contract line item billed and for which the contract already provided compensation through a price per page reimbursement. These deficiencies were caused by OCPO's failure to follow Federal acquisition requirements and its failure to maintain complete contract files. As a result, OCPO could not support that more than \$21.3 million paid for contracts and more than \$9.6 million in contracts yet to be implemented, were reasonable and necessary and paid \$161,718 for ineligible equipment and support services.

### **Contract Prices Were Not Always Supported**

OCPO failed to perform independent cost estimates, or estimates were unsupported for 9<sup>1</sup> of the 10 contracts reviewed. In addition, OCPO failed to provide adequate cost and price data necessary to establish a fair and reasonable price for 5 of 10 contracts reviewed. HUD Handbook 2210.3, paragraph 4-2(A)(2)(b)(19), states that an independent estimate of the cost of the contract action must be included with the request for contract services. Cost estimates must also be prepared for actions other than new awards that will change the contract price. Federal Acquisition Regulation (FAR), section 15.402(a) states that contracting officers must obtain cost and pricing data as necessary to establish a fair and reasonable price. In addition, FAR, section 4.803(a)(7), requires that government estimates of contract price be included in the contract files.

The contract prices for two interpreter contracts were unreasonable. For one contract, the base year of the contract listed hourly mean wage rates at \$74.10 for an interpreter and \$77.95 for a team lead. For another contract, hourly wages were set at greater than \$100 per hour. The Bureau of Labor Statistics lists the hourly mean wage for an interpreter as of May 2014, in Washington DC, as \$33.96. The national hourly mean wage was \$23.71. OCPO did not certify the rates contracted for, as required by FAR, or provide an explanation for this discrepancy.

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<sup>1</sup> Of the nine contracts, five did not support that an independent cost estimate was completed, and four did not support that the independent cost estimate completed was reasonable.

In addition, the price for a scanning services contract was unreasonable. The base year of the contract listed scanning at \$0.17 per page, with the first option year at \$0.19 per page. A review of companies that provide scanning services showed that scanning starts at around \$0.035 to \$0.04 per page. OCPO did not certify the price per page amounts, as required by FAR, or provide an explanation for this discrepancy.

One contract specialist<sup>2</sup> stated that one service contract for hosting Web time was awarded without a cost estimate and that cost estimates were generally determined arbitrarily in PRISM.<sup>3</sup> Another contract specialist stated that independent cost estimates were in many cases made up and had no basis. The Assistant Chief Procurement Officer for Operations Support stated that OCPO needed better upfront planning to ensure that contract amounts were fair and reasonable. He said that cost estimates were generally unsupported and were justified subjectively. He stated that this condition existed because contracting officers were trained for contracting and often lacked the financial background and training necessary for developing and reviewing cost estimates. He added that OCPO had tried to hire staff trained to complete cost and price estimates but had not done so. According to the Chief Procurement Officer, OCPO hired one cost-price analyst in November 2016.

### **Contract Monitoring Was Not Supported**

OCPO failed to provide any evidence of monitoring for all 10 contracts reviewed. HUD Handbook 2210.3, REV-9, paragraph 12-1(A) states that contracting officers are responsible for ensuring that contracts are administered in accordance with FAR. The goal of contract administration is to ensure that both the contractor and the government meet the terms of the contract. It is the contracting officer's responsibility to ensure that the parties involved in the contract are informed of their responsibilities and that work products are delivered in accordance with terms and conditions of the contract.

Each contract had specific monitoring requirements that were required to be completed and documented based on the contract scope. For example, in the contract for mail and courier services, the contractor was required to submit daily, weekly, and monthly logs. The contract for interpreting services required that the government technical monitor provide HUD a monthly report of the activities. In addition, the interagency agreement for training and learning services required that HUD track, measure, and evaluate contractor performance monthly. The monitoring requirements were outlined in the contract; however, OCPO failed to provide support showing that monitoring was completed.

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<sup>2</sup> A contract specialist acts as the contracting officer's representative with regard to procurement matters and is responsible for the day-to-day award and administration of contracts. The contract specialist performs many of the substantive contracting duties and functions for which the contracting officer is ultimately responsible, such as preparing solicitations, evaluating proposed costs or prices, conducting negotiations, and preparing determinations and contract documents.

<sup>3</sup> PRISM is the Federal acquisition system in which OCPO maintains contract information.

### **Market Research Was Not Always Supported**

OCPO failed to support a market research study for 3 of the 10 contracts reviewed. HUD Handbook 2210.3, REV 9, paragraph 4-1(C) states in accordance with FAR, Parts 7 and 10, research of the marketplace must be conducted to determine what sources exist to provide the required services. This market research should be a cooperative effort of the associated program office and OCPO. The program office should consult with OCPO early in the procurement process to determine the extent and nature of the research needed. OCPO was unable to provide support for the required market research studies for the three contracts.

### **An Assessment of a Company's Ability To Perform Work Was Not Supported**

OCPO failed to support the assessment of a company's ability to perform work for 3 of the 10 contracts reviewed. HUD Handbook 2210.3, REV-9, paragraph 4-2(B)(2) states that for 8(a) firms<sup>4</sup> with prior HUD experience, the assessment may include a statement and brief description of the work completed and a statement that the firm is presently performing acceptably or has successfully completed similar work in the past. For 8(a) firms that are new sources to HUD, the associated program office should obtain sufficient information to determine that the firm is capable of meeting the proposed requirement. Such information should include the prior relevant experience of both the firm and proposed key personnel and references and clients for whom the 8(a) firm has previously performed. OCPO was unable to document the assessment of the contractor's ability to perform the work for three contracts.

### **Other Contract Documentation Was Missing**

We found additional instances in which OCPO could not provide specific information or documentation required by law or regulation. This missing documentation included (1) search letter-offer letter, (2) acceptance letter, (3) modifications, and (4) a determination and findings document.

### **Ineligible Equipment and Support Services Were Charged to a Scanning Services Contract**

We determined a hotline complaint from an OCPO contracting officer for a scanning services contract<sup>5</sup> had merit. The complaint alleged that unallowable and unreasonable costs were charged to a reimbursable line item for repacking and shipping files. We reviewed \$305,777 in reimbursable costs charged to the contract on monthly invoices from October 2014 through September 2015 and identified \$161,718 (53 percent) in ineligible equipment and support services. OCPO incorrectly reimbursed the contractor for ineligible equipment and support services, such as scanners, computers, monitors, licensing and fees, and software, under a cost reimbursable line item designed for repacking and shipping files. According to the terms of the contract, the contractor had been reimbursed for these costs through a firm-fixed-price line item

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<sup>4</sup> The Small Business Administration's 8(a) Business Development Program offers a broad scope of assistance to socially and economically disadvantaged firms.

<sup>5</sup> Contract number DU100R-14-P-0016, dated September 25, 2014, including modification M001, effective September 30, 2014; modification M002, effective November 6, 2014; modification M003, effective June 25, 2015; and modification M004, effective September 24, 2015.



for the conversion of paper and electronic documents at \$0.17 per page scanned, which included equipment and support services for the scanning operations. We attributed this deficiency to OCPO's failure to follow Federal acquisition requirements and the terms of the contract. When OCPO implemented the first option year of the contract, it converted the cost reimbursable line item to a firm-fixed-price cost for shipping, significantly decreasing the potential cost from a not-to-exceed value of \$918,720 to a fixed shipping cost of \$74,374.

### **Conclusion**

OCPO did not always support that Federal acquisition requirements were met when planning and monitoring major service contracts. Specifically, it did not always support that (1) the contract price was fair and reasonable; (2) adequate monitoring was completed; (3) market research was completed before contract award, option years, and modifications; and (4) an assessment of contractor's ability to perform the work was completed. Also, for one contract, OCPO paid a contractor for ineligible equipment and support services not specified in the contract line item billed. These deficiencies were caused by OCPO's failure to follow Federal acquisition requirements and its failure to maintain complete contract files. As a result, OCPO could not support that more than \$21.3 million paid for contracts and more than \$9.6 million in contracts yet to be implemented were for reasonable and necessary costs and paid \$161,718 for ineligible equipment and support services. (See table in appendix C)

### **Recommendations**

We recommend that HUD's Chief Procurement Officer

- 1A. Provide adequate documentation to support the \$21,373,462 in unreasonable and unnecessary obligated funds.
- 1B. Strengthen and implement acquisition controls to ensure that proper cost and price documentation is obtained, adequate monitoring is conducted, adequate market research is conducted and that contractors are evaluated to assess their capability to perform the work, and required contract documentation is maintained in the file to ensure that \$9,645,864 that is yet to be used will not be spent for unreasonable and unnecessary costs.
- 1C. Seek reimbursement for \$161,718 in ineligible funds disbursed for equipment and support services not specified in a scanning services contract.

# Scope and Methodology

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We conducted the audit from October 2015 through November 2016 at HUD’s office located at 451 7<sup>th</sup> Street SW, Washington, DC, and our office located in Hartford, CT. The audit covered the period January 1, 2013, through December 31, 2015, and was adjusted when necessary to meet our audit objective.

To accomplish our objective, we

- Reviewed applicable sections of FAR, applicable laws, regulations, HUD Handbook 2210.3, Rev 9, and HUD guidance.
- Reviewed relevant background information.
- Reviewed ongoing audits of OCPO and the management decisions associated with those audits.
- Interviewed OIG staff to determine areas on which to focus the review.
- Interviewed HUD staff in Washington, DC, to obtain an understanding of OCPO controls.
- Reviewed HUD OIG annual financial audits for fiscal years 2013 and 2014.
- Reviewed the latest 3 years of Federal Procurement Data System–Next Generation annual validation and verification reviews and procurement management reviews.
- Reviewed a sample of 10 contracts totaling more than \$31 million<sup>6</sup> to assess compliance with Federal acquisition requirements. We selected the sample from a universe of 221 contracts totaling more than \$12.5 billion. We selected a random sample of seven<sup>7</sup> of the ten contracts to evenly represent high and low contract values. We selected two contracts based on referrals from the HUD OIG Contracting and Procurement Division that there was risk potential. We selected the last contract based on a complaint from an OCPO contracting officer. The sample was comprised of five sole-source 8(A) contracts,<sup>8</sup> four interagency agreements,<sup>9</sup> and one AbilityOne contract.<sup>10</sup> The sample was not meant for projecting purposes.

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<sup>6</sup> The more than \$31 million in contracts consists of both implemented costs and costs yet to be used.

<sup>7</sup> We initially selected a random sample of 15 contracts. We excluded 8 of the 15 because these files were task orders.

<sup>8</sup> The Small Business Administration sole-source vehicle assists small, disadvantaged firms by enabling agencies to engage in direct contracts with certified contractors.

<sup>9</sup> An interagency agreement is a written agreement that allows one Federal agency (HUD is the requesting agency) to obtain needed supplies and services generally from another government agency.

<sup>10</sup> The AbilityOne program provides employment opportunities for Americans who are blind by authorizing and directing Federal purchases of services provided by nonprofit agencies employing the blind. AbilityOne procurements are considered “other than competitive” procurements under the Competition in Contracting Act.

To achieve our audit objective, we relied in part on computer-processed data from the HUD Integrated Acquisition Management System and the Federal Procurement Data System – Next Generation. We used the data to help identify the contracts reviewed. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes.

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 objective.

# Internal Controls

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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 objective:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed 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:

- OCPO did not comply with acquisition requirements when it did not ensure that contract prices were adequately supported (finding).

- OCPO did not comply with acquisition requirements to ensure that contracts were adequately monitored and sufficient documents and records were properly maintained (finding).
- OCPO did not comply with acquisition requirements to ensure that adequate market research was completed and that the contractor's ability to perform the work was assessed (finding).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs and Funds To Be Put to Better Use**

<b>Recommendation number</b>	<b>Ineligible 1/</b>	<b>Unreasonable or unnecessary 2/</b>	<b>Funds to be put to better use 3/</b>
1C	\$161,718		
1A		\$21,373,462	
1B			\$9,645,864
<b>Totals</b>	<b>161,718</b>	<b>21,373,462</b>	<b>9,645,864</b>

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unreasonable or unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (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 instance, if OCPO implements our recommendations to determine the necessity and reasonableness of more than \$9.6 million in contracts yet to be used, it can assure HUD that these funds will be supported and properly put to better use.


# Appendix B

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

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



CHIEF PROCUREMENT OFFICER

February 28, 2017

MEMORANDUM FOR: Anne Marie Henry, Regional Inspector General for Audit, IAGA  
FROM: *Keith W. Surber*  
Keith W. Surber, Chief Procurement Officer, N  
SUBJECT: Draft Audit Report Number 2017-BO-10XX, HUD's OCPO Did Not Always Comply With Acquisition Requirements When Planning and Monitoring Major Service Contracts

Thank you for the opportunity to comment on the subject draft audit report. We appreciate your consideration of our comments on the initial draft.

As I stated in the out briefing regarding the draft report, I again apologize for our lack of responsiveness in providing you with the requested documents that might have resulted in a significantly different report. We have since provided you with a full binder of all available documents and hope that it helps to provide a complete picture of our major service contracts as you write the final report.

We provided you with some editorial comments on the draft that I won't repeat here. However, there are some specific points that I must make regarding the conclusions drawn in the report.

Regarding Finding 1:

1. I have concern with the statements in audit reports that an office "...did not always ...," as this statement can be applied to almost any audit of any contracting office on any contract issue simply because of the volume of work that we do and that, to avoid the statement, we must be 100% compliant all the time. Given the line of business, that is not a realistic expectation. However, that is why we have internal control processes to help prevent and detect noncompliance issues thus allowing us to correct them and improve operations. But it is virtually impossible to "always" perform every activity, even if we got 99 out of 100 perfectly right.
2. Much of the questioned amounts revolved around missing documentation. I hope we have provided sufficient documents this time that will significantly change that finding. However, it is also necessary to make specific points:

Comment 1

Comment 2

**Ref to OIG  
Evaluation**

**Auditee Comments**

Comment 3

a. Your draft report treats Interagency Agreements (IAA) as if they are contracts. As we discussed in the out brief, they are not contracts, and actually are not even required to be signed by a Contracting Officer. Many agencies process them through their CFO offices or other such mechanisms. HUD processes IAAs through OCPO as an internal control mechanism, but even so, not all IAAs are required to go through OCPO. As such, they are not subject to the same documentation requirements that contracts would be, including the need for an Independent Government Costs Estimate (IGCE) or a Contractor Performance Assessment Reporting System (CPARS) report, which is only required of contracts recorded in the Federal Procurement Data System (FPDS). IAAs are not submitted into FPDS. We believe this will alleviate most of the findings you have noted for 4 of the 10 actions.

Comment 4

b. Regarding the issue of determining prices to be fair and reasonable, you have relied extensively, and almost solely, on whether an acceptable IGCE was provided. We recently responded to a review by the Government Accountability Office (GAO) regarding the use and adequacy of IGCEs across the government. They also seemed to focus on the IGCE as a primary tool for determining price fair and reasonableness (PF&R). We pointed out to them that, while the IGCE is one tool, the Federal Acquisition Regulation (FAR) specifies many methods to determine fair and reasonableness. FAR 15.404-1, Proposal analysis techniques, excerpted below, describes the methods that can be used, and comparison with the IGCE is not even the preferred approach:

(b) (2) The Government may use various price analysis techniques and procedures to ensure a fair and reasonable price. Examples of such techniques include, but are not limited to, the following:

(i) Comparison of proposed prices received in response to the solicitation. Normally, adequate price competition establishes a fair and reasonable price.

(ii) Comparison of the proposed prices to historical prices paid, whether by the Government or other than the Government, for the same or similar items.

(iii) Use of parametric estimating methods/application of rough yardsticks.

(iv) Comparison with competitive published price lists, published market prices of commodities, similar indexes, and discount or rebate arrangements.

(v) Comparison of proposed prices with independent Government cost estimates.

(vi) Comparison of proposed prices with prices obtained through market research for the same or similar items.



**Ref to OIG  
Evaluation**

**Auditee Comments**

**Comment 5**

(vii) Analysis of data other than certified cost or pricing data (as defined at 2.101) provided by the offeror.

(3) The first two techniques at 15.404-1(b)(2) are the preferred techniques.

c. The FAR provides that the Contracting Officer (CO) is responsible for documenting the method(s) used to determine PF&R; that usually takes the form of a Price Negotiation Memorandum (PNM). While many people may review such a document and even look at the same facts and figures, they may be able to draw different conclusions, but the CO is solely empowered statutorily with making such a determination and, absent a failure to adequately document their PF&R, that determination stands. Mere disagreement with the determination is not sufficient. I hope that we have provided you with sufficient additional documentation and discussion herein to overcome your assessments that contract prices were not fair and reasonable.

**Comment 6**

d. I would also point out that your reference to FAR 15.402 stating that COs must obtain cost and pricing data as necessary to establish a fair and reasonable price is a misstatement of the regulation. FAR 15.402 is an entire section regarding how much information to obtain from contractors in order to determine PF&R. Later in that section, it specifically states that COs shall

“Obtain the type and quantity of data necessary to establish a fair and reasonable price, but not more data than is necessary. Requesting unnecessary data can lead to increased proposal preparation costs, generally extend acquisition lead time, and consume additional contractor and Government resources. Use techniques such as, but not limited to, price analysis, cost analysis, and/or cost realism analysis to establish a fair and reasonable price. If a fair and reasonable price cannot be established by the contracting officer from the analyses of the data obtained or submitted to date, the contracting officer shall require the submission of additional data sufficient for the contracting officer to support the determination of the fair and reasonable price.” (emphasis added)

**Comment 7**

e. Your draft report also states that contract monitoring was not supported and placed virtually sole reliance for this finding on whether or not a CPARS report was provided. I hope the documents we provided will help overcome that finding for the 5 contracts for which a CPARS report would normally be required. In fact, HUD is one of the top rated CFO Act agencies when it comes to timely submission of CPARS reports; for FY 16 we ended up at approximately 95% compliance. However, I would also point out that contract monitoring is not solely performed via a CPARS report. That report is only performed at the end of each rating period and the expiration of the contract. Much more work goes into the monitoring process throughout the

**Ref to OIG  
Evaluation**

**Auditee Comments**

**Comment 1**

**Comment 8**

year, most of which is delegated by the CO to the Government Technical Representative (GTR). The GTR maintains their own files regarding performance issues such as delivery dates, performance problems, payments of invoices, meetings, reports, and all other manner of monitoring activities. The CO and GTR meet regularly to discuss the contractor's performance. All that goes into the development of the CPARS. But the CPARS report itself is not the sole evidence of whether or not monitoring is occurring. However, the fact that OCPO has documented with the Office of Federal Procurement Policy (OFPP) that we have achieved a 95% compliance rate will hopefully result in remission of this finding.

- f. Based on the additional documentation we provided and the information above, we believe that your determination that significant deficiencies exist in our internal controls would no longer be valid. We also believe that most, if not all, of the amounts considered to be unreasonable or could be put to better use, have been explained and eliminated from the report.
- g. We concur with the findings on the scanning contract and that some costs were ineligible.

Please contact me if you have any questions.

## OIG Evaluation of Auditee Comments

- Comment 1 The Office of the Chief Procurement Officer (OCPO) acknowledged its lack of responsiveness in providing requested documents throughout the audit that might have resulted in a significantly different report. We requested documentation throughout the audit and we provided the table of deficiencies detailed in Appendix C of this report to OCPO in August 2016. Although we acknowledge that OCPO provided a full binder of available documents as part of its response, it did not do so until after the exit conference nearly six months after we provided the details of the deficiencies. Our procedures do not allow us to review the amount of documentation provided prior to the issuance of the final report. We will review the additional documentation provided as part of the management decision process.
- Comment 2 OCPO expressed concern with the wording of the finding and stated that statements that an office, "...did not always..." could be applied to almost any audit of any contracting office on any contract issue due to the volume of work. We disagree. We provided sufficient detail in the report where we identified multiple deficiencies for the contracts and agreements reviewed, and provided OCPO with opportunities to provide additional documentation. Based on the documentation provided during the audit, we stand by our conclusion that OCPO did not always support that Federal acquisition requirements were met as detailed in the report.
- Comment 3 OCPO stated that interagency agreements (IAA) do not have the same requirements as contracts, including the need for an independent government cost estimate (IGCE) and contractor performance assessment reporting system (CPARS) reports. OCPO believes this should alleviate the findings associated with the four IAAs referred to in this report. We disagree. IAA's are a basis for obtaining goods and services, and we did not find a specific exemption to exclude these requirements when this type of acquisition was used. We can reconsider our position during the management decision process if OCPO can either provide documentation to show that contract prices were supported and monitoring was completed, or provide support exempting these contracts from these requirements.
- Comment 4 OCPO stated we relied extensively, and almost solely, on whether an acceptable IGCE was provided when determining contract prices to be fair and reasonable. OCPO said the IGCE is one tool and that the FAR specifies many methods to determine reasonableness. We disagree that we relied almost solely on the IGCE to determine whether contract prices were fair and reasonable. Although we considered the IGCE as part of our review, we also recognized there were other methods to evaluate cost and price, including cost-price analysis. The additional documentation provided will be reviewed as part of the management decision process to determine whether support was provided to support the cost and price.

- Comment 5 OCPO stated that the contracting officer is responsible for documenting the method(s) used to determine price reasonableness. OCPO further stated that the contracting officer is solely empowered statutorily to determine price reasonableness and, absent a failure to adequately document that the contract price was fair and reasonable, that determination stands. We do not contest the contracting officer's discretion in determining and documenting price reasonableness. Throughout the audit OCPO did not provide adequate documentation that the contract prices were fair and reasonable for the contracts listed in the report. Now that the audit is completed, the additional documentation provided will be reviewed as part of the management decision process.
- Comment 6 OCPO stated that our reference to FAR 15.402 stating that contracting officers must obtain cost and pricing data to establish a fair and reasonable price is a misstatement of the regulation. We disagree. It is the contracting officer's responsibility to gather data necessary to establish a fair and reasonable price. To make it more clear we adjusted the second deficiency in the table in Appendix C from cost-price analysis to cost and price data. The documentation provided by OCPO during the audit did not include adequate cost and price data to support that a fair and reasonable price was established for the contracts listed in the report. Now that the audit is completed, the additional documentation provided will be reviewed as part of the management decision process.
- Comment 7 OCPO stated that we placed virtually sole reliance on whether or not a CPARS report was provided to determine contract monitoring was not supported. OCPO also stated that there is more to monitoring than the CPARS and that the government technical representative (GTR) maintains their own files regarding performance issues, and meets regularly with the contracting officer to discuss the contractor's performance. We disagree with OCPO that our conclusion that contract monitoring was not supported was based solely on whether the CPARS was provided. OCPO provided no evidence of monitoring of the contracts reviewed because it failed to provide support of any monitoring throughout the audit, including, but not limited to, the CPARS report or GTR files. We recognize that OCPO provided a full binder of available documents along with its response to this report that may mitigate the conclusions reached. The additional documentation provided will be reviewed as part of the management decision process.
- Comment 8 OCPO concurred with the findings on the scanning contract and that some costs were ineligible. As the report recommends, OCPO should seek reimbursement for \$161,718 in ineligible funds disbursed for equipment and support services and provide us with support that funds were reimbursed.

## Appendix C

### Schedule of Sampled Contracts

	Contract service- contract number	Contract type	Deficiencies	Obligated amount considered ineligible	Obligated amount considered unreasonable	Unobligated balance to be put to better use
1	Scanning services DU100R-14-P-0016	Sole source	1,2,3,4,5	\$161,718	\$4,384,149	\$1,638,667
2	Interpreter services DU203NP-14-C-02	Sole source	1,2,3,4	0	1,514,580	2,405,120
3	Enhance electronic data DU100I-12-C-05	Sole source	1,2,3,5	0	3,014,913	0
4	Internal tracking mgmt. services DU100A-14-C-01	Sole source	1,2,3,4,5,6, 7,8,9	0	1,458,291	2,291,925
5	Interpreter services DU100R-14-P-0019	Sole source	1,2,3,6,7	0	513,411	809,159
6	Mail-courier services DU203NP-13-C-06	AbilityOne	3	0	1,565,367	2,150,993
7	Electronic capital planning I-OPC-23428	IAA*	1,3,9	0	1,385,800	0
8	Training-learning services I-PHI-01128	IAA	1,3	0	1,123,439	0
9	Hosting Web time DU202NP-14-I-08	IAA	1,3	0	2,320,500	350,000
10	Integrated Acquisition Environment management support I-OPC-23703	IAA	1,3,10	0	4,093,012	0
	Totals			<b>161,718</b>	<b>21,373,462</b>	<b>9,645,864</b>

\* IAA = interagency agreement

#### List of Deficiencies

1. Government independent cost estimate not provided or supported
2. Adequate cost and price data provided to support the contract price
3. No evidence of monitoring
4. Assessment of company's ability to perform work not provided
5. Market research study not performed or study considered inadequate
6. No search letter-offer letter
7. No acceptance letter
8. Missing contract
9. Missing contract modifications
10. Missing "determination and finding" document