



Issue Date	May 22, 2009
Audit Report Number:	2009-CH-0001

TO: James M. Martin, Deputy Chief Financial Officer, F

FROM: 
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SUBJECT: The U.S. Department of Housing and Urban Development Complied with the Office of Management and Budget's Competitive Sourcing Requirements Governing Its Management of Human Capital

HIGHLIGHTS

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) management of human resources. We initiated the audit based on our annual audit plan and our strategic plan to help HUD resolve its major management challenges. Our objective was to determine whether HUD implemented a process and methodology to determine when to contract out for services or when to keep the services in house. Our audit did not include reviewing procurement items and/or competitions before December 1, 2004, and it did not include a review of HUD's procurement and/or contracting activities to determine whether they meet applicable federal requirements. This is the final of three audit reports regarding HUD's management of its human resources.

What We Found

HUD complied with the Office of Management and Budget's (OMB) requirements for the competition of commercial activities (competitive sourcing procedures). All three of the streamline competitions statistically selected for review contained adequate documentation to support HUD's assessment of whether government employees should perform tasks that are readily available in the commercial marketplace or rely on the private sector for the performance of those tasks.

What We Recommend

Since we did not identify any deficiencies, there are no recommendations in this audit report.

Auditee's Response

We provided our discussion draft audit report to HUD's Deputy Chief Financial Officer on May 8, 2009. The Deputy Chief Financial Officer waived the need for an exit conference and had no comments on our draft audit report.

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BACKGROUND AND OBJECTIVE

Competitive sourcing is a process that compares private-sector and government bids to determine the most cost-effective way to buy services. This government-wide initiative was introduced under the President's Management Agenda (Agenda) of fiscal year 2002. The Agenda is the starting point for government and management reform. The focus of the Agenda is to

- Identify five government-wide and nine agency-specific goals to improve federal management and deliver results and
- Reflect President Bush administration's commitment to achieve immediate, concrete, and measurable results.

The competitive sourcing initiative is expected to achieve efficient and effective competition between public and private sources. This initiative promotes innovation and efficiency and consistently generates significant savings and noticeable performance improvements.

The Risk Management Division (Division) in the U.S. Department of Housing and Urban Development's (HUD) Office of the Chief Financial Officer provides oversight and coordinates the annual Federal Activities Inventory Reform (FAIR) Act of 1998 requirements. Further, the Division issues and implements competitive sourcing policy, provides recommendations to the competitive sourcing official on competitions, monitors competitions and outcomes, and serves as the primary interface with the Office of Management and Budget (OMB).

Additionally, the longstanding policy of the federal government was to rely on the private sector for needed commercial services. To ensure that the American people receive maximum value for their tax dollars, commercial activities should be subject to the forces of competition. In accordance with OMB Circular A-76, Performance of Commercial Activities, federal agencies shall:

- Identify all activities performed by government personnel as either commercial or inherently governmental.
- Perform inherently governmental activities with government personnel.
- Use a streamlined or standard competition to determine if government personnel should perform a commercial activity.
- Apply the Federal Acquisition Regulations 48 CFR [*Code of Federal Regulations*], chapter 1, in conjunction with the circular, for streamlined and standard competitions.
- Comply with procurement integrity, ethics, and standards of conduct rules, including the restrictions at 18 U.S.C. [*United States Code*] 208, when performing streamlined and standard competitions.
- Designate, in writing, an assistant secretary or equivalent level official with responsibility for implementing the circular, hereafter referred to as the competitive sourcing official (official). Except as otherwise provided by the circular, the official may delegate, in writing, specified responsibilities to senior-level officials in the agency or agency components.

- Require full accountability of agency officials designated to implement and comply with the circular by establishing performance standards in annual performance evaluations.
- Centralize oversight responsibility to facilitate fairness in streamlined and standard competitions and promote trust in the process. Agencies must allocate resources to effectively apply a clear, transparent, and consistent competition process based on lessons learned and best practices.
- Develop government cost estimates for standard and streamlined competitions in accordance with attachment C using the COMPARE costing software. Agencies shall not use agency budgetary estimates to develop government cost estimates in a streamlined or standard competition.
- Track execution of streamlined and standard competitions.
- Assist adversely affected federal employees in accordance with 5 CFR Parts 330 and 351. The statutory veterans' preference for appointment and retention (5 U.S.C. 1302, 3301, 3302, and 3502) applies to actions taken pursuant to the circular.
- Not perform work as a contractor or subcontractor to the private sector, unless specific statutory authority exists or the official receives prior written OMB approval.

We audited HUD as part of our strategic plan to help HUD resolve its major management challenges and our annual audit plan.

Our objective was to determine whether HUD implemented a process and methodology to determine when to contract out for services or when to keep the services in house. Our audit did not include reviewing procurement items and/or competitions before December 1, 2004, and it did not include a review of HUD's procurement and/or contracting activities to determine whether they meet applicable federal requirements.

RESULTS OF REVIEW

HUD Complied with OMB's Requirements for the Competition of Commercial Activities

HUD complied with OMB's requirements for the competition of commercial activities (competitive sourcing procedures). All three of the streamline competitions statistically selected for review contained adequate documentation to support HUD's assessment of whether government employees should perform tasks that are readily available in the commercial marketplace or rely on the private sector for the performance of those tasks.

Competitive Sourcing

The Agenda announced in 2001 and implemented in 2002 is a strategy for improving the management of the federal government. It focuses on five areas of management weakness across the government where improvements and the most progress could be made. One of its focuses is competitive sourcing. Competitive sourcing is a process that allows the private sector to compete with government employees for the performance of services and/or tasks that are readily available in the commercial marketplace. It was expected to generate significant savings and noticeable performance improvements.

HUD Complied with OMB's Competitive Sourcing Policy

During our audit period, December 1, 2004, through September 30, 2008, HUD conducted six competitive sourcing competitions:

- Spanish language translation and localization support services for HUD's Web site,
- Financial reporting services,
- Employee service center,
- Financial management systems compliance reviews,
- Motor pool services, and
- Training support services.

Of the six competitive sourcing competitions, we statistically selected three (Spanish language translation and localization support services for HUD's Web site, financial reporting services, and the employee service center) to review for compliance with the OMB's requirements regarding competition of commercial activities.

Our review determined that HUD complied with OMB's competitive sourcing requirements. For the activities/tasks that were selected for purchase in the commercial market, HUD provided documentation to support its decisions to contract for services or perform the services in house.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- The public announcement data obtained from the Office of the Chief Financial Officer's Risk Management Division identified the number of HUD's competitive sourcing competitions that were implemented during our review period October 1, 2006, through September 30, 2008. This period was extended back to December 1, 2004, to obtain sufficient competitive outsourcing competitions for review. Our audit did not include reviewing procurement items and/or competitions before December 1, 2004, and it did not include a review of HUD's procurement and/or contracting activities to determine whether they meet applicable federal requirements.
- Using the public announcements, we developed a sampling plan, statistically selected three of the six competitions identified and reviewed all the necessary forms/documents from HUD's competitive sourcing files to determine whether they complied with OMB's competitive sourcing requirements. HUD's competitive sourcing competitions selected for review were
 - Spanish language translation and localization support services for HUD's Web site,
 - Financial reporting services, and
 - Employee service center.
- We reviewed the requirements under OMB Circular A-76, Performance of Commercial Activities, and the FAIR Act of 1998.

Originally, there were seven competitive sourcing competitions, the seventh being HUD's multifamily housing rental assistance contract administration for programs other than Section 8, which was never implemented. According to HUD's Deputy Chief Financial Officer, the multifamily standard competition was a multiple contract competition that was cancelled.

We also interviewed HUD's management and staff.

We performed our audit work between October 2008 and April 2009. We conducted our audit at HUD's headquarters in Washington, DC and HUD's Chicago regional office. The audit covered the period October 1, 2006, through September 30, 2008. We extended this period as necessary.

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. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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:

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

We assessed the relevant controls identified above.

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

Significant Weakness

Based on our review, no significant weakness noted.