



Issue Date May 25, 2011

Audit Report Number 2011-HA-0002

TO: Jemine Bryon, Chief Procurement Officer, Office of the Chief Procurement Officer, N

FROM: Sandra G. Elion, Director, Headquarters Audit Division, GAH

SUBJECT: HUD Improved Its Administration of Interagency Agreements

HIGHLIGHTS

What We Audited and Why

We audited the Office of the Chief Procurement Officer's (procurement office) administration of interagency agreements (IAAs). This audit was part of our fiscal year 2010 audit plan because of congressional hearings on the use and management of IAAs throughout the Federal Government. Our objective was to determine whether the U.S. Department of Housing and Urban Development (HUD) effectively administered its IAAs and the costs to procure these products and services were reasonable.

What We Found

The procurement office improved its administration of IAAs by significantly reducing the backlog of expired IAAs. However, it must ensure that current IAAs are closed out in a timely manner. We also found that the costs HUD incurred to procure the products and services via IAAs were reasonable.

What We Recommend

There are no formal recommendations because the Chief Procurement Officer had already addressed the noted issues based on our previous audit.

Auditee's Response

We provided the discussion draft to the procurement office for comment on April 22, 2011. We held the exit conference on April 29, 2011, and received written comments from the procurement office on May 4, 2011. The procurement office agreed with our findings.

The complete text of the procurement office's response can be found in appendix A of this report.

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BACKGROUND AND OBJECTIVE

The U.S. Department of Housing and Urban Development's (HUD) Office of the Chief Procurement Officer (procurement office) is responsible for awarding and administering contracts for HUD. In addition to awarding contracts, the procurement office administers a large portfolio of contracts that have expired (the performance period has ended) or have been completed (products or services have been delivered). These procurement activities are performed at HUD headquarters as well as three contracting offices located in Philadelphia, PA, Atlanta, GA, and Denver, CO.

As part of its contracting function, the procurement office administers interagency agreements (IAAs) for HUD. IAAs are written contractual agreements that allow one Federal agency (the "requesting" agency) to obtain needed supplies, services, personnel, material, equipment, and facilities from another agency (the "servicing" agency) through the transfer of funds from the requesting agency. The life cycle for administering IAAs is the same as for contracts and includes four phases: planning, awarding, monitoring, and closeout.

Planning. Annually, the procurement office initiates the planning phase by requesting strategic procurement plans from each of HUD's program offices. HUD program offices submit their plan of proposed procurement actions necessary to support their strategic goals and mission to the procurement office.

Award. During the award phase, the contracting officer prepares and executes the IAA. At a minimum, the contracting officer ensures that IAAs contain the legal authority for the agreement, amount of funding, effective date, period of performance, description of supplies and/or services to be obtained, and payment cancellation and termination clauses.

Monitoring. The monitoring phase refers to the day-to-day oversight of the contractor's performance and compliance with the terms of the IAA. The government technical representative is the primary liaison between the contractor and the contracting officer regarding the technical aspects of a contract, payment review, inspection and acceptance of deliverables, and evaluating the contractor's performance.

Closeout. The final phase of administering an IAA is the closeout. Closeout refers to the administrative actions taken to retire completed IAAs (all work has been finished, all deliverables have been received and accepted or otherwise disposed of, and all financial matters have been settled). The program office initiates the closeout process, while the procurement office has the overall responsibility for closing out all contract actions.

In September 2006, the headquarters procurement office implemented an aggressive closeout initiative to remedy the serious backlog of 9,500 contract actions, purchase orders, and IAAs that were expired but not closed out in the procurement and accounting system. The procurement office considered IAAs to be "low hanging fruit," and as such, its goal was to continue to focus on closing these actions.

Congressional hearings in early 2010 examined the rapid growth of interagency contracts in the Federal Government. Specifically, Congress was interested in the massive increase in interagency contracting vehicles, the lack of competition, and whether the negotiated prices were too high.

Our objective was to determine whether the procurement office effectively administered its IAAs and the costs to procure these products and services were reasonable.

RESULTS OF AUDIT

Finding 1: The Procurement Office Did Not Close Out IAAs in a Timely Manner

The procurement office did not close out expired IAAs in a timely manner. This condition occurred because the procurement office (1) did not have timelines for closing out IAAs and (2) made closing out IAAs a low priority. As a result, the procurement office delayed deobligating \$107,905 from IAAs that had expired.

Instructions for Closing IAAs

The procurement office had made progress in closing IAAs; however, we found some IAAs were not closed in a timely manner.

Historically, the procurement office had treated the IAAs the same as it did contracts with regard to planning, awarding, and monitoring. However, since subpart 4.804 of the Federal Acquisition Regulation (48 CFR [Code of Federal Regulations], chapter 1) is silent on when IAAs should be closed out, it was left to the discretion of the individual contracting offices to determine when IAAs should be closed out. But, in February 2008 the procurement office then brought the IAA closeout timeline into alignment with the requirement for all other contracts when it issued Acquisition Instruction 08-1. This instruction specified that IAAs should be closed within 6 months after their expiration.

At the beginning of HUD's 2006 contract closeout initiative, HUD had a backlog of 567 IAA actions. However, since the procurement office considered those actions to be "low hanging fruit" (i.e., relatively easy to close), it aggressively pursued IAA actions that had expired. Consequently, more than 1,000 IAA actions had been closed by March 2011.

Expired IAAs Were Not Closed in a Timely Manner

We acknowledge the progress that the procurement office has made to date. However, we observed that of the 13 IAAs in our review that had expired, 6 IAAs were closed late, by as much as 25 months after the 6-month grace period. Additionally, 2 of the 13 IAAs had not been closed, although they had expired more

than 20 months before the end of our audit period. By not closing these eight IAAs in a timely manner, the procurement office delayed the deobligation of \$107,905 from the IAAs that had remaining balances.

Conclusion

Although we found IAAs that had not been closed in a timely manner, the procurement office had made a concerted effort to reduce its backlog of expired IAAs by closing more than 1,000 IAA actions. In addition, as a result of our previous audit (2010-HA-0003, dated September 30, 2010), the procurement office placed more emphasis on the contract closeout process by holding contracting officers and contract specialists accountable for closing contracts in a timely manner.

Recommendation

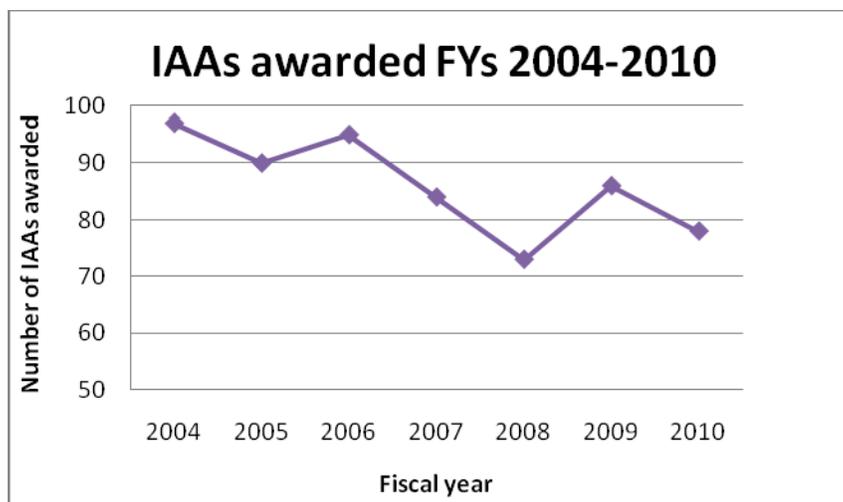
There are no formal recommendations because the Chief Procurement Officer had already addressed the noted issues based on our previous audit.

Finding 2: HUD’s Use and Costs for IAAs were Reasonable

HUD effectively used IAAs to obtain products and services. The number of IAAs decreased and the services obtained were unique to the Federal agencies that HUD entered into agreements with. The services allowed HUD to meet its operational needs.

HUD Effectively Awarded IAAs

Our review of Congress’ specific concerns about the rapid growth in “interagency contracts” (IAAs) in the Federal Government disclosed that HUD’s approach to obtaining services from other Federal agencies was reasonable. The number of IAAs HUD awarded between fiscal years 2004 and 2010 decreased.



Source: Office of the Chief Procurement Office. November 5, 2010

Although there was a moderate increase in the number of IAAs awarded between 2005 and 2006 and again between 2008 and 2009, there was an overall reduction of 19 percent in the number of IAAs awarded during this 7-year period.

Further, HUD had adequate justification for its use of the 13 IAAs included in our review. Some of those justifications included

- The services acquired were unique to the agencies that provided them (the U.S. Department of Treasury’s support for the HUD Integrated Human Resources and Training System).
- HUD lacked the subject-matter expertise to perform the services that were procured (the Office of Personnel Management’s services to develop training

strategies for HUD employees; and staffing and classification support to fill 1,000 employment vacancies).

- The timing/speed needed to respond to legislation and/or direct appropriation from Congress required HUD to enter into an IAA to meet the required timelines (the Federal Housing Administration's Mortgage Risk and Fraud Initiative and Public Law 102-550 Title X of the Residential Lead-Based Paint Hazard Reduction Act of 1992).
- HUD did not have sufficient contracting staff to manage contracts (the Office of Community Planning and Development's information technology services).
- The services being procured were to perform an inherently governmental function (Federal records management with the National Archives and Records Administration).

Conclusion

Because of the uniqueness and timing of the services that HUD obtained via the IAAs, we considered the justifications and the costs paid to be reasonable; especially since by using these IAAs HUD's program offices met their operational needs.

Recommendation

There is no formal recommendation because HUD effectively used IAAs.

SCOPE AND METHODOLOGY

We performed our audit work at HUD headquarters, Washington, DC, between October 2010 and March 2011. Our audit generally covered the period January 5, 2004, through September 30, 2010.

To accomplish our objective, we

- Reviewed applicable laws, the Federal Acquisition Regulation, HUD acquisition regulations, and HUD Handbook 2210.3 REV-9.
- Examined files for interagency agreements awarded between January 5, 2004, and September 30, 2010.
- Examined contract history reports and data from the procurement and accounting systems.
- Conducted interviews with HUD employees from the procurement office and HUD's program offices to determine their roles and responsibilities related to interagency agreements.

To achieve our objective, we relied in part on computer-processed data in HUD's Procurement System. 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.

The procurement office provided us with a spreadsheet of IAAs from HUD's Procurement System. That spreadsheet included 603 transactions valued at more than \$768 million that were awarded between January 5, 2004, and September 30, 2010. From these data, we identified four populations:

- 105 active/awarded (the performance period had not expired)
- 194 active/expired (the performance period had expired)
- 30 active/in closeout (the deliverables had been received and the closeout process started)
- 274 inactive/closed (the IAA had been closed)

We statistically selected a sample of 88 IAAs for our review. We selected one sample from the population of active/expired and inactive/closed IAAs to determine whether the IAAs were closed out in a timely manner. We computed the sample size using unrestricted attribute sampling and selected the IAAs using a random number generator. We selected another sample from the population of active/awarded IAAs to determine whether the costs to procure the products and services were reasonable. We computed this sample size using fractional, monetary unit sampling. For both samples we used a confidence level of 90 percent, an estimated error rate of 50 percent, and a precision rate of 10 percent.

We requested the files for 27 IAAs (13 active/awarded, 4 active/expired, and 10 inactive/closed). The procurement office could not locate one inactive/closed file; therefore we reviewed a total of 26 IAAs. We reviewed all of the active/awarded, 4 active/expired and 9 inactive/closed and concluded our review of the IAAs after reviewing these files.

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 finding and conclusions based on our audit objective.

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 objective:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with applicable laws and regulations – Policies and procedures that management has in place to ensure that resource use is consistent with laws and regulations.

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 Deficiency

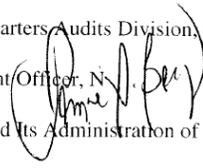
We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance on the effectiveness of the internal

control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Office of the Chief Procurement Officer's internal control.

APPENDIX

Appendix A

AUDITEE COMMENTS

	U.S. Department of Housing and Urban Development Washington, D.C. 20410
CHIEF PROCUREMENT OFFICER	MAY - 4 2011
MEMORANDUM FOR:	Sandra G. Elion, Director, Headquarters Audits Division, GAH
FROM:	Jemine A. Bryon, Chief Procurement Officer, NY 
SUBJECT:	Draft Audit Report – HUD Improved Its Administration of Interagency Agreements
<p>OCPO would like to thank the OIG for its acknowledgement of the improvements OCPO has made in its administrative practices pertaining to IAAs, and greatly appreciates the time and effort that went into this audit. Any questions regarding this memo should be directed to Ms. Elie F. Stowe at 202-402-3556.</p>	