



The Housing Authority of the City of Springfield, MA

Public Housing Operating Fund and Capital Fund Programs



To: Marilyn O'Sullivan, Director, Office of Public Housing, 1APH

//signed//

From: Justin E. Grzyb, Acting Regional Inspector General for Audit, 1AGA

Subject: The Housing Authority of the City of Springfield, MA, Did Not Always Comply With Procurement and Contract Administration Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of procurement for the Housing Authority of the City of Springfield, MA's Public Housing Operating Fund and Capital Fund programs.

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, appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 617-994-8380.



Audit Report Number: 2020-BO-1002

Date: March 19, 2020

The Housing Authority of the City of Springfield, MA, Did Not Always Comply With Procurement and Contract Administration Requirements

Highlights

What We Audited and Why

We audited the Springfield Housing Authority's Public Housing Operating Fund and Capital Fund programs because the Authority ranked fifth highest on our risk assessment of Massachusetts public housing agencies and is the third largest in the State. In addition, we had not audited the Authority in more than 10 years. The objective of the audit was to determine whether the Authority complied with procurement and contract administration requirements for its Public Housing Operating Fund and Capital Fund programs.

What We Found

Authority officials did not always comply with Federal procurement requirements and their own procurement policy. Specifically, they did not always adequately perform and document procurement, and contract terms were not always consistent with other procurement documents. In addition, Authority officials did not always comply with contract administration requirements. Specifically, they did not always ensure that (1) contract amounts were not exceeded, (2) change orders were approved in a timely manner, and (3) completion documents were submitted as required. These conditions occurred because Authority officials did not always follow their procurement policies and were not always aware of Federal procurement requirements due to a lack of training. Further, the Authority had inadequate controls to ensure that it adequately documented the history of the procurements and did not exceed contract amounts. As a result, the Authority incurred \$37,941 in ineligible costs, \$916,132 in unsupported costs, and \$408,968 in unspent funds that may need to be reallocated.

What We Recommend

We recommend that the Director of the U.S. Department of Housing and Urban Development's Boston Office of Public Housing require Authority officials to (1) repay from non-Federal funds the \$37,941 in ineligible costs, (2) support that \$916,132 spent on contracts was fair and reasonable or repay the funds, (3) support that \$408,968 in funds not yet spent on contracts was fair and reasonable or reallocate the funds, (4) establish and implement adequate record-keeping procedures to comply with Federal procurement requirements, and (5) establish and implement adequate controls so the Authority does not exceed the contract amount without appropriate contract amendments and approvals.

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Background and Objective

The Springfield Housing Authority was incorporated under the laws of the Commonwealth of Massachusetts. The Authority operates under a board of commissioners form of government to provide safe and decent housing to low- and moderate-income families and elderly individuals. The Authority owns and operates more than 1,700 public housing units under an annual contributions contract with the U.S. Department of Housing and Urban Development (HUD).

HUD's Office of Public Housing provides aid to local public housing agencies that manage housing for low-income residents at rents they can afford. The Public Housing Operating Fund provides operating subsidies to housing agencies to assist in funding the operating and maintenance expenses of their own dwellings in accordance with Section 9 of the U.S. Housing Act of 1937 as amended. HUD subsidies help maintain services and provide minimum operating reserves. In addition, HUD provides capital funds to modernize public housing developments.

HUD authorized the Authority the following assistance for fiscal years 2016 through 2018.

Year	Operating Fund	Capital Fund	Totals
2016	\$8,148,340	\$2,385,209	\$10,533,549
2017	8,277,936	2,470,702	10,748,638
2018	8,922,726	3,836,796	12,759,522
Totals	25,349,002	8,692,707	34,041,709

The audit objective was to determine whether the Authority complied with procurement and contract administration requirements for its Public Housing Operating Fund and Capital Fund programs.

Results of Audit

Finding 1: Authority Officials Did Not Always Comply With Procurement Requirements

Authority officials did not always comply with procurement requirements and their own procurement policy. Specifically, they did not adequately perform and document procurement, and contract terms were not always consistent with other procurement documents. These deficiencies occurred because Authority officials did not follow their procurement policies or were not always aware of Federal requirements due to a lack of training. In addition, Authority officials did not always obtain required documentation and maintain a central procurement file. Further, sometimes they made errors when drafting documents. As a result, they paid \$916,132 in unsupported costs and may pay \$408,968 in additional funds for procurements not properly awarded.

Procurement Requirements Not Always Adequately Performed and Documented

Authority officials did not always maintain adequate records to detail the significant history of their procurements to support that they complied with requirements in accordance with 2 CFR (Code of Federal Regulations) 200.318(i) and the Authority's procurement policy. We identified the following deficiencies for the 13 procurements¹ that exceeded the Federal simplified acquisition threshold.²

Deficiency	Number of procurements
No performance or payment bonds	3
HUD approval not obtained for noncompetitive procurement	1
Inadequate support for cost reasonableness	5
Inadequate record keeping	12

Performance and Payment Bonds Not Always Obtained as Required

Authority officials did not always ensure that contractors obtained performance³ and payment⁴ bonds as required for 3 of 13 procurements reviewed. For contracts that exceed the Federal

¹ Procurements may have multiple deficiencies.

² At the start of the audit period, the Federal simplified acquisition threshold was \$150,000. This amount increased to \$250,000 on June 20, 2018.

³ Performance bonds are means to ensure that the contract is successfully completed. The performance bond guarantees that if the contractor is unable to complete the contract, the surety company will step in to finish the work.

⁴ The payment bond is a method of ensuring that the contractor pays the subcontractors and suppliers. By requiring payment bonds, the PHA avoids becoming entangled in disputes concerning payment of subcontractors and suppliers by the general contractor.

simplified acquisition threshold, HUD Handbook 7460.8, section 6.11D, and the Authority's procurement policy required that Authority officials obtain a bid guarantee⁵ from each bidder equivalent to 5 percent of the bid price and one of the following: (1) a performance and payment bond for 100 percent of the contract price, (2) separate payment and procurement bonds each for 50 percent or more of the contract price, (3) a 20 percent cash escrow, or (4) a 25 percent irrevocable letter of credit. For one contract, the Authority had \$74,990 at risk due to the lack of a performance bond and the remaining unfinished work. This condition occurred because Authority officials did not follow up with the contractors to ensure that they obtained all of the required documentation before executing the contract. As a result, the Authority's federally funded projects were at risk and could be subject to unnecessary costs or liens if contractors failed to complete the projects or pay subcontractors. Further, future construction contracts that exceed the Federal simplified acquisition threshold will be at risk if the Authority does not comply with requirements.

HUD Approval Not Obtained for Noncompetitive Procurement

Authority officials did not obtain written HUD approval before awarding a sole-source contract in accordance with 2 CFR 200.320(f) and HUD Handbook 7460.8, REV-2, section 8.4. Although the Authority received only one bid for this activity, it did not reinstate the bid process to obtain additional bids. Authority officials stated that they did not document a cost estimate or cost analysis for this procurement, but they reviewed historical costs with the same vendor to justify cost reasonableness, which was not adequate. As a result, Authority officials did not support that the \$341,530⁶ paid on this contract was reasonable.

Inadequate Support for Cost Reasonableness

Authority officials did not always support cost reasonableness in accordance with 2 CFR 200.404. Specifically, in five instances, they did not document cost estimates or cost analyses or support that they selected the most qualified architectural and engineering firms⁷ at fair and reasonable prices. For example, Authority officials did not document cost estimates for architectural and engineering services on projects or negotiate rates before awarding contracts for services. Further, Authority officials stated that they used historical prices to document the cost estimates; however, the same contractor provided the services. This condition occurred because Authority officials did not always follow their procurement policies and were not always aware of Federal requirements due to a lack of training. As a result, the Authority did not support the cost reasonableness of \$574,602 and may need to reallocate \$333,978 remaining on these contracts if it cannot support the cost reasonableness.

⁵ A bid bond or guarantee ensures that if awarded the contract, the bidder will accept and perform the work under the contract, not attempt to withdraw or otherwise not fulfill the contract, and ensures that the bidder will execute the contractual documents that are required within the time specified in the solicitation, or forfeit all or part of the guarantee.

⁶ This amount included a contract amendment, which increased the contract value.

⁷ The Authority selected multiple firms for on-call architectural and engineering services in 2016 and 2018, using a request for qualifications-based selection method of procurement. We reviewed one task order from each procurement that exceeded \$150,000.

Inadequate Record Keeping

Authority officials did not maintain sufficient records for 12 procurements to document the history of the procurement in accordance with 2 CFR 200.318(i). For example, the files did not always contain local advertisements, all original bid or proposal submissions, letters of award recommendation, adequate insurance documentation, and any review to ensure that the vendor was not suspended or debarred. These deficiencies occurred because the Authority had no process in place to ensure that it obtained and retained required documentation. Further, multiple individuals at the Authority were responsible for obtaining documentation with no central repository. As a result, Authority officials executed contracts before ensuring that they obtained all of the required documentation.

Inconsistent Contract Terms

The Authority's contract terms were not always consistent with the solicitation and board approvals. In one instance, the request for proposal was for a 1-year contract with 2 option years; however, the contract was executed for 3 years without the option years. In another instance, the invitation for bid and the contract were for 3 years with two 1-year options; however, the recommendation to the board and the board approval was only for a 3-year contract with no option years. These deficiencies occurred because Authority officials lacked knowledge of Federal procurement requirements and made errors when drafting the documents. As a result, there was a risk that the Authority could incur ineligible costs if the contract exceeded the Authority's available funds or board-approved amounts or terms.

Conclusion

Authority officials did not always ensure that procurements were fair, reasonable, and adequately documented to ensure compliance with requirements. By not following procurement requirements, the Authority was not able to support \$916,132 and may pay an additional \$408,968 for procurements not properly awarded. These deficiencies occurred because Authority officials did not follow their procurement policies or were not always aware of Federal requirements due to lack of training.

Recommendations

We recommend that the Director of HUD's Boston Office of Public Housing require Authority officials to

- 1A. Support that \$916,132⁸ spent on contracts was fair and reasonable in accordance with Federal requirements or repay the Operating Fund or Capital Fund program from non-Federal funds any amount that cannot be supported.
- 1B. Support that \$408,968⁹ in funds not yet spent on contracts would be fair and reasonable or reallocate the funds to ensure that they will be put to their intended use.

⁸ \$341,530 + \$574,602 = \$916,132

⁹ \$74,990 + \$333,978 = \$408,968

- 1C. Reprocure any contracts for which cost reasonableness cannot be supported and contracts were not properly awarded to ensure compliance with HUD requirements.
- 1D. Ensure that all Authority staff members working with procurements and contract administration receive Federal procurement training.
- 1E. Establish and implement adequate record-keeping procedures to comply with Federal procurement requirements, including a checklist for the file to ensure that they complete all procurement requirements and receive all required documents.

We recommend that the Director of HUD's Boston Office of Public Housing

- 1F. Ensure that all architectural and engineering contracts or task orders awarded during our audit period are reviewed for cost reasonableness.

Finding 2: Authority Officials Did Not Always Comply With Contract Administration Requirements

Authority officials did not always comply with HUD and Federal contract administration requirements. Specifically, they did not always ensure that (1) contract amounts were not exceeded, (2) change orders were approved in a timely manner, and (3) completion documents were submitted as required. These deficiencies occurred because the Authority did not have controls in place to monitor contract payments, approve change orders, and obtain project completion documentation. As a result, Authority officials overpaid \$37,941 on service contracts that exceeded contract amounts. Further, there was a risk that the Authority did not have funds to pay for change orders and that contractors could place a lien on the Authority.

Contract Amounts Exceeded

Authority officials exceeded the contract amount by \$37,941 for 2 of 13 contracts without written approval from the contracting officer; therefore, they did not follow requirements in HUD Handbook 7460.8, REV-2, section 11.4. This condition occurred because the Authority did not have adequate controls to ensure that its payments did not exceed the approved contract amount. In one instance, the vendor charged the Authority a higher monthly service fee than the contract allowed. The accounting department did not have a copy of the contract to verify the accuracy of the monthly amount. As a result, the Authority overpaid \$12,789 in Federal funds on the contract. In another instance, the Authority exceeded the annual contract amount approved by the board. Authority officials stated that some of the work may not have been part of the contract scope and should have been charged as purchase orders. As a result, the Authority exceeded the annual contract amount approved by the board by \$25,152.

Change Orders Not Always Approved in a Timely Manner

Authority officials did not approve change orders for 6 of the 13 procurements in accordance with the Authority's procurement policy and form HUD-5370, section 29(j). In one instance, Authority officials did not approve a change order to extend the completion date. Further, five contracts required a change order for additional work; however, Authority officials did not approve the change orders in writing until after the work was completed or the services were performed. Change orders should have been approved in writing by the contracting officer before the work was performed to ensure that the Authority had the funds to make the payments in accordance with HUD requirements and its procurement policy.¹⁰ For example, one construction project required additional work, which exceeded \$61,000, or 15 percent of the contract. The contractor had completed the additional work before the contracting officer and board approved the change order. This condition occurred because Authority officials did not always follow their procurement policy and HUD requirements. In addition, Authority officials stated that they thought they needed to obtain board approval before the contracting officer signed the change orders. As a result, the Authority risked not having the funds available to pay for the additional completed work.

¹⁰ According to the Authority's procurement policy section 2.2, board approval was required for change orders, alone or in total that exceeded \$25,000.

Project Completion Documentation Not Obtained

Authority officials did not always obtain final certificates of completion and release of all claims from the contractors before final payments were made in accordance with HUD Handbook 7460.8, REV-2, section 11.2.H. This condition was caused by the lack of closeout procedures in the Authority's procurement policy. As a result, there was a risk that the Authority paid contractors for work or materials that the contractors did not pay to their subcontractors or vendors, and a lien could have been placed on the Authority.

Conclusion

As a result of the lack of controls, the Authority overpaid \$37,941 and there was a risk that the Authority did not have funds to pay for change orders and that contractors could place a lien on the Authority. These deficiencies occurred because the Authority did not always follow HUD and Federal contract administration requirements.

Recommendations

We recommend that the Director of HUD's Boston Office of Public Housing require Authority officials to

- 2A. Repay the Operating Fund program from non-Federal funds for the \$37,941 in ineligible costs when the amount paid exceeded the contract value.
- 2B. Establish and implement adequate controls so the Authority does not exceed the contract amount without appropriate contract amendments and written approvals.
- 2C. Establish and implement adequate controls to obtain all of the required project completion documentation prior to final payment.

Scope and Methodology

We performed our audit work from June to October 2019 at the Authority's office located at 60 Congress Street, Springfield, MA. Our review covered the period April 1, 2016, to March 31, 2019.

To accomplish our objective, we

- Reviewed relevant Federal procurement laws and regulations pertaining to the Public Housing Operating Fund and Capital Fund programs.
- Reviewed the Authority's procurement policies and procedures and applicable State procurement requirements.
- Interviewed and held discussions with Authority officials and HUD Office of Public Housing officials located in Boston, MA.
- Reviewed the Authority's annual financial statements for fiscal years 2016, 2017, and 2018.
- Reviewed the Authority's contract log¹¹ for its Public Housing Operating Fund and Capital Fund procurements during the period March 1, 2016, through June 6, 2019.
- Selected and reviewed 100 percent of the 13 activities¹² procured during our audit period with a contract amount totaling more than \$6 million.¹³ Reviewed the Authority's hardcopy files and financial records for these 13 activities, which included 8 Capital Fund and 5 Operating Fund procurements.¹⁴
- Reviewed the Authority's board minutes from January 2016 through April 2019.
- Performed visual inspections of the Capital Fund activities to verify that work was completed and the status of activities that were in process during our review.

To achieve our objective, we relied in part on the Authority's computer-processed data. Although we did not perform a detailed assessment of the reliability of the financial data, we performed a minimal level of testing and found the data to be adequate for our purposes.

¹¹ The contract list was as of June 6, 2019.

¹² We selected procurements that exceeded the Federal simplified acquisition threshold of \$150,000 in effect during our audit period.

¹³ This amount does not include any additional amounts from change orders.

¹⁴ Some procurements reviewed also included non-Federal funds (State or central office cost center). We did not question costs paid with non-Federal funds in our review.

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

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:

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of resources is consistent with laws and regulations.
- Validity and reliability of information – Policies and procedures that management has implemented to reasonably ensure that valid and reliable information is obtained, maintained, and fairly disclosed in reports.

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:

- Authority officials did not follow the procurement requirements and their own procurement policy (finding 1).
- Authority officials did not always follow contract administration requirements (finding 2).

Appendixes

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$916,132	
1B			\$408,968
2A	\$37,941		
Totals	37,941	916,132	408,968

- 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/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 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 the Authority implements our recommendation to support the reasonableness and fairness of the unsupported contracts or reprocure the subject contracts, HUD would be assured that the remaining \$408,968 not yet spent on the contracts would also be considered reasonable.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



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Zakia J Haneef
Acting Regional Inspector General for Audit, 1AGA
Thomas P. O'Neill Jr. Federal Building
10 Causeway Street, Room 370
Boston, MA 02222-1092

Dear Zakia,

The Springfield Housing Authority (SHA) is formally responding to the draft Audit Report issued in January of 2020. The items included in the report in the draft report that the SHA requests to be excluded in the final report are:

- Contract # 35-C-2017-9-4- Attached is the Final Completion Paperwork;
- Contract # 35-C-2017-15-7- Attached is the Final Completion Paperwork;
- Contract # 35-C-2017-19-8- Attached is the Final Completion Paperwork;
- Contract # 35-C-2018-6-1- Attached is the Final Completion Paperwork;
- Contract # G-2018-2-2- Kone Elevator is in agreement they were overpaid \$12,281.75 of the \$12,789 that was cited as ineligible costs and SHA is currently awaiting the refund check. See attached correspondence;
- Contract #G-2016-13-10- Contract was Re-procured in December 2019 and New contract was awarded on 1/1/2020. See attached documents.

Comment 1

Comment 2

The SHA has created and implemented a new checklist (attached) for contract files to ensure all required documentation is received and properly filed.

Comment 2

On June 7, 2019, while the IG audit was ongoing, the Deputy Executive Director and Director of Capital Improvements and Procurement attended a NAHRO Federal Procurement and Contract Management Training to better educate staff on the Federal Procurement requirements.

Thank you for your consideration. If you have any questions, please contact me at djordan@shamass.org or 413-785-4500.

Denise R. Jordan

Executive Director

OIG Evaluation of Auditee Comments

- Comment 1 The Authority provided additional documentation to address some of the deficiencies. We did not include this documentation in appendix B as it was not necessary. However, we provided it to HUD. The Authority should work with HUD during the audit resolution process to ensure its procurements were supported as fair and reasonable, adequate controls are established to ensure the Authority does not exceed the contract amount without appropriate contract amendments, and required project completion documentation is obtained.
- Comment 2 The Authority provided a checklist that it stated was implemented to ensure that all required documentation is received and properly filed. In addition, the Authority stated that its executive staff attended training related to Federal procurement and contract management. We acknowledge the Authority's willingness to take corrective action for the issues cited in this audit report. The Authority should work with HUD during the audit resolution process to ensure that adequate controls are established to fully implement the recommendations included in this audit report.

Appendix C

Deficiencies and Questioned Costs by Procurement

	Contract number	Contract amount	Ineligible costs	Unsupported costs	Funds to be put to better use	Total questioned costs	Deficiencies
Capital Fund procurements							
1	35-C-2019-16-4	\$188,000	\$0	\$150,960	\$56,740	\$207,700 ¹⁵	3, 4
2	35-C-2017-1-1	156,400	0	155,129	1,271	156,400	3,4
3	35-C-2017-9-4	1,499,800	0	0	74,990	74,990	1, 4, 7, 8
4	35-C-2017-6-3	312,000	0	0	0	0	7, 8
5	35-C-2017-15-7	418,227	0	0	0	0	4, 7, 8
6	35-C-2017-19-8	452,300	0	0	0	0	1, 4, 7, 8
7	35-C-2018-6-1	397,885	0	0	0	0	4, 7, 8
8	35-C-2018-11-2	1,340,000	0	0	0	0	4
	Subtotal	4,764,612	0	306,089	133,001	439,090	N/A
Operating Fund procurements							
9	G-2016-13-10	176,441	0	341,530	0	341,530 ¹⁶	2, 3, 4, 5, 7
10	G-2018-7-6	340,151	0	137,934	202,217	340,151	3, 4, 5
11	G-2018-2-2	235,998 ¹⁷	12,789	130,579	73,750	217,118	1, 3, 4, 6
12	G-2018-7-5	245,000	25,152	0	0	25,152	4, 5, 6
13	G-2017-8-4	329,976	0	0	0	0	4
	Subtotal	1,327,566	37,941	610,043	275,967	923,951	N/A
	Totals	6,092,178	37,941	916,132	408,968	1,363,041	N/A

List of deficiencies

1. Performance and payment bonds not always obtained as required
2. HUD approval not obtained for noncompetitive procurement
3. Inadequate support for cost reasonableness
4. Inadequate record keeping
5. Inconsistent contract terms
6. Payment exceeding contract amount
7. Change orders not always approved as required
8. Project completion documentation not obtained

¹⁵ Total questioned costs exceeded the contract amount due to reimbursable expenses.

¹⁶ Total questioned costs exceeded the contract amount because a contract amendment was made to add additional costs to the contract.

¹⁷ Some of this contract was charged to State programs. We did not question any State funding.