



**U.S. Department of Housing and Urban
Development, Office of the Chief Procurement
Officer**

**Contracting for Architectural and Engineering
Services**



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

Issue Date: March 4, 2014

Audit Report Number: 2014-KC-0001

TO: Keith Surber, Acting Chief Procurement Officer, AC

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: HUD Awarded an Architectural and Engineering Contract Without Conducting an Adequate Price Analysis and Paid the Contractor Without Adequate Support

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 architectural and engineering contracts.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. This report is issued without recommended corrective actions for reasons identified in the report itself. 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 913-551-5870.



March 4, 2014

HUD Awarded an Architectural and Engineering Contract Without Conducting an Adequate Price Analysis and Paid the Contractor Without Adequate Support

Highlights

Audit Report 2014-KC-0001

What We Audited and Why

We initiated this review based on a referral involving a multi-State manufactured home inspection contract awarded by the U.S. Department of Housing and Urban Development (HUD) in which the contractor billed and received excessive payments. Our audit objective was to determine whether HUD properly procured and made reasonable payments for its manufactured home inspection contract.

What We Recommend

This report contains no recommendations. No further action is necessary with respect to this report because the contract is complete and it did not exceed the minimum contract amount of \$10,000.

What We Found

HUD awarded a manufactured home inspection contract without conducting an adequate price analysis and paid the contractor without adequate support. Specifically, it failed to conduct an adequate price analysis of all fixed unit price elements, accepted the contractor's quote without negotiating, and approved and paid vouchers without adequate support for travel costs incurred and for subcontracted work. As a result, HUD did not pay a reasonable price for three inspections costing \$10,000.

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BACKGROUND AND OBJECTIVE

The U.S. Department of Housing and Urban Development's (HUD) Office of the Chief Procurement Officer (OCPO) is responsible for awarding and administering contracts and purchase orders to achieve HUD's mission, goals, and objectives. OCPO was established in March 1998 as part of a HUD reform initiative to streamline and improve HUD's procurement operations. It conducts procurement activities in its Washington, DC, office or one of its five field contracting offices in Denver, CO, Atlanta, GA, Chicago, IL, Fort Worth, TX and Philadelphia, PA. OCPO is primarily staffed with contract specialists and contracting officers with support by other staff.

OCPO's primary function is to obtain high-quality, time-sensitive services and products required by HUD headquarters to meet HUD's operational and program mission needs. It also develops and keeps current HUD's procurement regulations and procurement-related policies, handbooks, and procedures. The Chief Procurement Officer serves as HUD's senior procurement executive. The Chief Procurement Officer delegates procurement authority to HUD personnel who meet Federal qualification standards.

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 plan. The requisition includes an Independent Government Cost Estimate (IGCE) from the Program Office to OCPO who relies upon the information in conducting price analysis. 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 properly procured and made reasonable payments for its manufactured home inspection contract.

RESULTS OF AUDIT

Finding: HUD Awarded Its Manufactured Home Inspection Contract Without Conducting an Adequate Price Analysis and Paid the Contractor Without Adequate Support

HUD awarded a manufactured home inspection architectural and engineering contract without conducting an adequate price analysis and paid the contractor without adequate support. As a result, HUD did not pay a reasonable price for three inspections costing \$10,000.

Inadequate Analysis and Support

Inadequate Price Analysis

HUD failed to conduct an adequate price analysis of proposed fixed unit prices. This contract involved the inspection of manufactured homes in a multi-State region. HUD's cost estimate lacked the direct labor category of an inspector or engineer, who would conduct the inspection. It included only the direct labor categories of clerical, reviewers, and quality control, for which it estimated 62 hours, 70 hours, and 20 hours, respectively. HUD estimated that it would cost about \$12,502 per year for this contract but did not estimate the minimum number of inspections that would be completed each year or the cost of each inspection. Without an adequate price analysis, it could not show that it was reasonable to include \$10,000 as a minimum contract amount.

HUD accepted the contractor's quote of \$1,000, \$1,300, \$1,800, and \$2,000 per inspection for the base through the third option year, respectively, without negotiating the price or analyzing the quote to determine whether it was paying the best price for the service. This quote could not be compared with HUD's cost estimate as HUD did not develop an expected price per inspection.

Payments Without Adequate Support

HUD approved and paid vouchers from the contractor without adequate support for travel costs incurred and for subcontracted work. These vouchers were for manufactured home inspections conducted in the States of Utah and Texas.

Two of these vouchers included billings for travel reimbursement at the maximum amount allowable under the contract for travel to and from the inspection sites in Utah. However, the contractor failed to submit support for the travel expenses, and the related inspection reports were created by a local Utah company, making it apparent that the contractor had not traveled to Utah.

Further, according to the contract, the owner of the contractor company was required to notify HUD and seek its approval if he subcontracted the inspections. However, he subcontracted the two Utah inspections to an engineering company based in Cedar City, UT, and the Texas inspection to an engineering company based in Hewitt, TX, without HUD’s prior approval to use subcontractors.

Unknown Cause

We did not develop the cause of the issues identified as the contracting officer for this contract is no longer with HUD and due to the age and the contract amount we did not believe it was necessary.

Improper Payments

HUD did not pay a reasonable price for three inspections costing \$10,000 as shown in the below table.

Description	Subcontractor invoiced amount	Invoiced amount for services	Invoiced amount for travel	Total amount paid
Inspection in Texas	\$550	\$815		\$815
Inspection #1 in Utah	\$350	\$1,800	\$2,108	\$3,908
Inspection #2 in Utah	\$632	\$1,800	\$2,108	\$3,908
Final billing to reach minimum contract amount				<u>\$1,369</u>
Total	\$1,532			<u>\$10,000</u>

HUD paid \$4,216 in travel reimbursements for the two Utah inspections. One of the properties was located in the same city as the subcontractor company that conducted the inspection, and the other property was located about 60 miles away. In addition, the local subcontractors charged the contractor \$1,532 for the three inspections, while HUD paid the contractor \$10,000 for the same inspections. Based on the underlying costs, HUD overpaid for these inspections. However, the details of the amounts billed were inconsequential since the contract terms required HUD to pay a minimum contract amount of \$10,000 regardless of the number of inspections conducted.

This contract is now complete, and the contractor is not receiving HUD contracts.

Recommendation

This report contains no recommendations, and no further action is necessary with respect to this report.

SCOPE AND METHODOLOGY

To accomplish our objective, we

- Reviewed relevant laws, regulations, and HUD guidance,
- Reviewed information about the principals of the contractors reviewed, and
- Interviewed HUD staff and contractor staff.

We selected this manufactured home inspection contract based on a referral from the Office of Investigation. This contract was 1 of 2,107 contract actions by HUD, coded as architectural and engineering services contracts, between 2009 and 2012.

We performed our audit between September 2013 and January 2014. We performed fieldwork at HUD's office in Washington, DC. Our audit generally covered January 1, 2009, through December 31, 2012, but we expanded that period as necessary to complete our review of the selected architectural and engineering contract.

Our review involved obtaining a spreadsheet of computer-processed contracting data, but we did not use the data to support our audit conclusions as the data were used only for background information. Therefore we did not assess the data's validity.

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:

- Policies and procedures to ensure that architectural and engineering services are competitively procured.
- Policies and procedures to ensure that all payments are supported by adequate documentation.

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.

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 regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of HUD's internal controls.

APPENDIX

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Auditee Comments

The auditee elected not to provide written comments.