



Office of Audit Services, Region III  
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JUN 21 2006

**TO:** Christie A. Goodman, Director  
Division of Acquisition Management  
Strategic Acquisition Service  
Program Support Center

**FROM:** Stephen Virbitsky   
Regional Inspector General for Audit Services

**SUBJECT:** Emergency Response to Hurricanes Katrina and Rita: Audit of Program Support Center's Procurement Process for Contract HHSP233200500328A with Cardinal Health 200, Inc. (A-03-06-00503)

The attached final report provides the results of our audit of the Division of Acquisition Management, Strategic Acquisition Service, Program Support Center (PSC) Procurement Process for Contract HHSP233200500328A with Cardinal Health 200, Inc. This action was part of the Department of Health and Human Services' hurricane relief effort.

The objective of our audit was to determine whether PSC complied with applicable sections of the Federal Acquisition Regulation and Health and Human Services Acquisition Regulation while making the involved procurement.

The audit showed that PSC procurement officials complied with Federal acquisition requirements during the award process.

If you have any questions or comments concerning the matters in this report, please contact me at 215-861-4470 or through e-mail at [stephen.virbitsky@oig.hhs.gov](mailto:stephen.virbitsky@oig.hhs.gov), or your staff may contact Michael Walsh, Audit Manager, at 215-861-4480 or through e-mail at [michael.walsh@oig.hhs.gov](mailto:michael.walsh@oig.hhs.gov). Please refer to report number A-03-06-00503 in all correspondence.

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**EMERGENCY RESPONSE TO  
HURRICANES KATRINA AND RITA:  
AUDIT OF PROGRAM SUPPORT  
CENTER'S PROCUREMENT  
PROCESS FOR CONTRACT  
HHSP233200500328A WITH  
CARDINAL HEALTH 200, INC.**



Daniel R. Levinson  
Inspector General

June 2006  
A-03-06-00503

# ***Office of Inspector General***

<http://oig.hhs.gov>

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# *Notices*

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## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.





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(A-03-06-00503)

This report provides the results of our audit of the Program Support Center (PSC) award process used for Contract<sup>1</sup> HHSP233200500328A with Cardinal Health 200, Inc. The audit was performed as part of the Inspector General's broad evaluation of procurements by PSC and other components of the Department of Health and Human Services (HHS) during relief operations in response to Hurricanes Katrina and Rita.

## BACKGROUND

In response to Hurricanes Katrina and Rita in 2005, Congress provided over \$63 billion to the Department of Homeland Security (DHS) for disaster relief. Utilizing its National Response Plan, the DHS Federal Emergency Management Agency (FEMA) coordinated relief efforts by assigning tasks to other Federal departments and agencies through mission assignments. FEMA assigned responsibility for relief operations in the areas of public health and medical services to HHS.

As part of the Federal Government's effort to assist relief operations, the PSC awarded a contract effective September 5, 2005, to Cardinal Health 200, Inc. This contract for \$1,383,180 provided services to hurricane victims. These services included, in part, medical and surgical supplies for 1,500 beds.

### Acquisition Requirements for Federal Contracts

The Federal Acquisition Regulation (FAR) provides guidance for acquisitions by HHS agencies. The Health and Human Services Acquisition Regulation (HHSAR) implements and supplements the FAR with policies and procedures that govern the contract process.

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<sup>1</sup> A contract means an action resulting in a mutually binding legal relationship obligating the seller to furnish the supplies or services and the buyer to pay for them. It includes all types of commitments that obligate the Government to an expenditure of appropriated funds including awards, job orders, letter contracts, orders, and bilateral contract modifications.

The FAR and the HHSAR provide that:

- HHS agencies must award contracts promptly to responsible parties. There must be documentation of compliance with full and open competition requirements, a determination that the price was reasonable, verification of payments and proper internal controls.
- There must be a specific statement as to the goods or services that are being requested. Letter contracts must only be used for urgent needs. Unpriced orders can only be used when it is impractical to obtain pricing, and must have price ceilings.
- A fixed price contract is preferable to reimbursing the contractor for time and materials expended. In certain situations, consideration must be given to small businesses and local firms.

Through its Strategic Acquisition Service, the PSC solicits, negotiates, awards, and administers Government contracts. Because this PSC procurement was made in accordance with a formal request (mission assignment) from FEMA, FEMA will reimburse costs incurred by HHS.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **OBJECTIVE**

The objective of our audit was to determine whether PSC complied with applicable FAR and HHSAR requirements while making the involved procurement.

### **SCOPE**

We limited our work at the PSC to the contract procurement process relating to the award issued for Contract HHSP233200500328A with Cardinal Health 200, Inc. We did not perform an assessment of the overall internal control environment at PSC. We did not review contract performance or the acceptance and inspection of goods and services received.

We used the FAR and the HHSAR as criteria in evaluating actions taken by PSC during the procurement process.

This audit was conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) as part of its examination of relief efforts provided by the Federal Government in the aftermath of Hurricanes Katrina and Rita. As such, a copy of the report has been forwarded to the PCIE Homeland Security Working Group, which is coordinating Inspectors General review of this important subject.

We performed our audit fieldwork at the PSC Strategic Acquisition Service's offices in Rockville, Maryland from January through March 2006.

## **METHODOLOGY**

To accomplish our audit objective, we met with PSC procurement officials to ensure an adequate understanding of the actions the PSC took during the procurement process and the basis for those actions. Within the PSC, we examined the records of negotiation and other documentation related to the award of this contract to establish whether PSC followed selected aspects of the FAR and HHSAR requirements.

We performed our audit in accordance with generally accepted government auditing standards.

## **RESULTS OF AUDIT**

PSC procurement officials complied with Federal acquisition requirements during the award process of \$1,383,180 for Contract HHSP233200500328A with Cardinal Health, 200, Inc. for provision of services to hurricane victims.