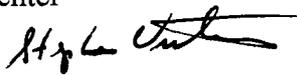




Office of Audit Services, Region III
Public Ledger Building, Suite 316
150 S. Independence Mall West
Philadelphia, PA 19106-3499

JUN 26 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 Action HHSP233200500508G with Alaska Structures, Inc. (A-03-06-00504)

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 Action HHSP233200500508G with Alaska Structures 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, or your staff may contact Michael Walsh, Audit Manager, at 215-861-4480 or through e-mail at michael.walsh@oig.hhs.gov. Please refer to report number A-03-06-00504 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 ACTION
HHSP233200500508G WITH
ALASKA STRUCTURES, INC.**



Daniel R. Levinson
Inspector General

June 2006
A-03-06-00504

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

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.





JUN 26 2006

Office of Audit Services, Region III
Public Ledger Building, Suite 316
150 S. Independence Mall West
Philadelphia, PA 19106-3499

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 Action HHSP233200500508G with Alaska Structures, Inc. (A-03-06-00504)

This report provides the results of our audit of the Program Support Center (PSC) award process used for contract action¹ Order Number HHSP233200500508G Modifications 0 and 1 for Contract Number GS07F0084K with Alaska Structures, 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 action in two parts, effective September 2, 2005 and October 12, 2005, to Alaska Structures, Inc. The contract action, in the form of Order Number HHSP233200500508G (Modification 0 for \$487,467 and Modification 1 for \$603,570), was issued under preexisting contract number GS07F0084K. This contract action provided services to hurricane victims. These services included Medical Disaster Facilities.

¹ A contract action 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.

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.

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 to Alaska Structures, Inc., under Order Number HHSP233200500508G (Modification 0 for \$487,467 and Modification 1 for \$603,570) for Contract Number GS07F0084K with Alaska Structures, 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 the 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 action 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 \$487,467 and \$603,570 for the contract action HHSP233200500508G under Contract Number GS07F0084K with Alaska Structures, Inc., for provision of services to hurricane victims.