



MAY 30 2007

TO: Elizabeth M. Duke, Ph.D.
Administrator
Health Resources and Services Administration

FROM: Daniel R. Levinson *Daniel R. Levinson*
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SUBJECT: Emergency Response to Hurricanes Katrina and Rita: Audit of Health Resources and Services Administration's Award Process for a Contract With Capital Link (A-03-06-00544)

This report provides the results of our audit of the Health Resources and Services Administration's (HRSA) award process for a contract with Capital Link of Boston, Massachusetts. The audit is one of several reviews of procurements by HRSA and other components of the Department of Health and Human Services (HHS) in response to Hurricanes Katrina and Rita in 2005.

BACKGROUND

Hurricane Relief Efforts

After Hurricanes Katrina and Rita destroyed or damaged a number of federally supported health care centers throughout the gulf coast, primary care associations (PCA) developed recovery plans to reestablish health care in the affected areas. PCAs, which are private, nonprofit organizations, promote cost-effective community health care services and assist federally supported health care centers with training, technical assistance, capital planning, and quality of care enhancements.

To support PCAs' recovery planning efforts, HRSA modified its existing cost contract with Capital Link. The existing contract obligated Capital Link to provide technical assistance to community health care centers undertaking facility projects. The modification obligated Capital Link to assess the capital needs of local health care centers and to work with PCAs to develop the capital-related sections of statewide hurricane recovery plans. The modification, effective September 28, 2005, provided \$200,000 for this purpose.

HRSA's Division of Procurement Management was responsible for soliciting, negotiating, awarding, and administering the contract modification.

Federal Acquisition Regulations

The Federal Acquisition Regulation (FAR) defines a contract as 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 a Government expenditure of appropriated funds, including awards, job orders, letter contracts, orders, and bilateral contract modifications (FAR 2.101).

The FAR establishes the basic requirements for acquisitions by Federal agencies. The Health and Human Services Acquisition Regulation (HHSAR) implements and supplements the FAR and provides requirements that specifically govern the HHS contract process.

The FAR and the HHSAR provide, among other things, that HHS agencies award each contract to a responsible party (FAR 9.103(a)) and document compliance with requirements for full and open competition and the determination that the price was fair and reasonable (FAR 6.101(b) and 15.402(a)). Agencies also must develop a statement or description of the goods or services being requested (FAR 16.504(a)(4)(iii)).

Letter contracts may be used only for urgent needs. Unpriced orders, which must contain price ceilings, may be used only when it is impractical to obtain pricing. In addition, agencies must consider the appropriate contract type pursuant to guidance in FAR part 16. In certain situations, consideration must be given to small and minority businesses and local firms.

On September 8, 2005, recognizing the unusual and compelling circumstances created by Hurricane Katrina, the HHS Office of Acquisition Management and Policy issued a “Class Justification for Other Than Full and Open Competition and Waiver of Synopsis Requirements” (waiver). The waiver, which was effective until October 27, 2005, allowed HHS agencies to temporarily limit the actions taken to ensure full and open competition during the procurement of urgently needed items and services. For example, the extent of market research and other competitive procedures could be limited as considered necessary in the circumstances. For procurements valued at more than \$100,000, the waiver required HHS agencies to ensure that their procurement records included a copy of the waiver, a note indicating compliance with the applicable limitations, and a signed statement that the award was made in response to the hurricane.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether HRSA complied with FAR and HHSAR requirements during the award process involving Capital Link.

Scope

We limited our audit to the award process for HRSA’s modification 3, effective September 28, 2005, to contract HSH232200434002C with Capital Link. We did not assess HRSA’s overall

internal control environment. We also did not review contract performance or the acceptance and inspection of goods and services received.

We performed fieldwork at HRSA's Division of Procurement Management in Rockville, Maryland, during May 2006.

Methodology

To accomplish our objective, we:

- reviewed FAR and HHSAR requirements,
- met with HRSA officials to ensure an adequate understanding of HRSA's actions during the award process and the basis for those actions, and
- examined the records of negotiation and other documentation related to the award of the modification to determine whether HRSA followed FAR and HHSAR requirements.

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

RESULTS OF AUDIT

HRSA complied with FAR and HHSAR requirements during the award process for modification 3 to contract HSH232200434002C with Capital Link. HRSA executed this contract modification under the waiver that limited actions necessary to ensure full and open competition. According to the procurement records, HRSA had determined that an unusual and compelling urgency existed sufficient to solicit from a single source and that Capital Link's expertise in the special financing needs of health care centers qualified it to provide the emergency planning services. Furthermore, the procurement records contained all documentation required by the waiver.

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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 reviews of this important subject.

If you have any questions about this report, please do not hesitate to call me, or your staff may contact Joseph J. Green, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through e-mail at Joe.Green@oig.hhs.gov. Please refer to report number A-03-06-00544.