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**TO:** Joe Ellis  
Assistant Secretary for Administration  
and Management

**FROM:** Daniel R. Levinson *Daniel R. Levinson*  
Inspector General

**SUBJECT:** Emergency Response to Hurricanes Katrina and Rita: Audit of Program Support Center's Award Process for a Contract With the Texas Department of State Health Services, Office for the Elimination of Health Disparities (A-03-06-00530)

This report provides the results of our audit of the Program Support Center's (PSC) award process for a contract with the Texas Department of State Health Services, Office for the Elimination of Health Disparities (Texas), of Austin, Texas. The audit is one of several reviews of procurements by PSC 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

Following Hurricane Katrina, HHS's Office of Minority Health expanded existing partnerships with several State offices of minority health, faith-based organizations, and community-based organizations to provide immediate short-term relief. State offices were tasked with identifying and establishing partnerships with faith- and community-based organizations that had the facilities and resources to support Hurricane Katrina evacuees, particularly minorities. State offices were also tasked with developing an approach to address medical and housing needs and with publishing and disseminating guides for evacuees and volunteers pertaining to health, mental health, social service, and human welfare resources.

To support the Office of Minority Health's initiative, PSC awarded a fixed-price contract to Texas. The contract obligated Texas to address the State's health and housing needs. The contract, effective September 28, 2005, provided \$99,990 for these purposes.

PSC's Strategic Acquisition Service was responsible for soliciting, negotiating, awarding and administering the contract.

## **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 hurricanes.

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

### **Objective**

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

### **Scope**

We limited our audit to the award process for PSC’s contract HHSP233200500970P, effective September 28, 2005, with Texas. We did not assess PSC’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 PSC's Strategic Acquisition Service in Rockville, Maryland, from January through March 2006.

### **Methodology**

To accomplish our objective, we:

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

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

### **RESULTS OF AUDIT**

PSC complied with FAR and HHSAR requirements during the award process for contract HHSP233200500970P with Texas. PSC awarded this contract under the waiver that limited actions necessary to ensure full and open competition. According to the procurement records, PSC had determined that an unusual and compelling urgency existed sufficient to solicit from a single source and that Texas's established partnerships with organizations and communities qualified Texas to provide the emergency 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](mailto:Joe.Green@oig.hhs.gov). Please refer to report number A-03-06-00530.