



JUN - 8 2007

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 CredentialSmart (A-03-06-00524)

This report provides the results of our audit of the Program Support Center's (PSC) award process for a contract with Digital Online Technologies, Inc., of Chicago, Illinois, which does business as CredentialSmart. 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, the HHS Office of the Secretary requested a contract to verify the credentials of volunteer medical professionals before deploying them to the gulf coast region. To support this initiative, PSC awarded a fixed-price letter contract and two modifications to CredentialSmart. The contract obligated CredentialSmart to provide prompt and secure credentialing services. The contract, effective September 1, 2005, and modifications 1 and 2, effective October 31 and December 15, 2005, provided \$145,000 for this purpose. Modification 2 also finalized the contract.

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 are written, preliminary contractual instruments that authorize contractors to begin manufacturing supplies or performing services immediately (FAR 16.603-1). An agency may use a letter contract only when the agency cannot negotiate a definitive contract in time to meet an urgent need (FAR 16.603-2(a)). Subsequently, the agency must negotiate the definitive contract, including the costs and all clauses required by “Contract Definitization” (FAR 52.216-25).

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.

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 CredentialSmart.

Scope

We limited our audit to the award process for PSC’s September 1, 2005, contract HHSP23320055009XE with CredentialSmart and its October 31 and December 15, 2005, modifications 1 and 2 to the contract. 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 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 HHSP23320055009XE with CredentialSmart and modifications 1 and 2 to the contract. According to the procurement records, PSC had determined that an unusual and compelling urgency existed sufficient to warrant the use of a letter contract and that a definitive contract could not be negotiated in time to meet the urgent need. PSC awarded the letter contract using the procedures prescribed by the FAR and the HHSAR. In executing modification 2, PSC definitized the contract as required to complete the contracting process and determined that the price was fair and reasonable.

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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-03-06-00524.