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**TO:** Elias A. Zerhouni, M.D.  
Director  
National Institutes of Health

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

**SUBJECT:** Emergency Response to Hurricanes Katrina and Rita: Audit of National Institute of Environmental Health Sciences's Award Process for a Contract With Organization Development Systems, Inc. (A-04-06-01034)

This report provides the results of our audit of the National Institute of Environmental Health Sciences's (NIEHS) award process for a contract with Organization Development Systems, Inc. (OD), of Alexandria, Virginia. The audit is one of several reviews of procurements by NIEHS 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

During Hurricanes Katrina and Rita, NIEHS partnered with the Environmental Protection Agency to identify and evaluate environmental health issues faced by relief workers and residents in the storm-affected areas. The Director of NIEHS tasked its Superfund Basic Research Program (Research Program) with compiling and disseminating data on these environmental health issues. To accomplish this task, NIEHS modified its existing contract with OD.

The existing labor-hours contract obligated OD to help communicate findings from studies conducted by Research Program grantees. The means of communication included scientific publications, conferences, policy and issue papers, and a Web site. The existing contract period ran from May 20, 2002, through May 19, 2003, with 4 option years extending through May 19, 2007. The \$350,000 contract modification, effective September 15, 2005, added tasks related to:

- coordinating with NIEHS, its Research Program grantees, and other organizations to build and analyze Geographic Information System data maps, which identify sources and flow routes of contaminants;

- building a Web page to support NIEHS's relief operations;
- disseminating the results of human exposure studies and health assessments performed by Research Program grantees; and
- facilitating workshops and conferences on such issues as the risks of exposure to hazardous materials and methods to mitigate those risks.

NIEHS's Office of Acquisition was responsible for negotiating, awarding, and administering the contract and its modifications.

### **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)). With respect to full and open competition, FAR 6.001(c) specifies: "Contract modifications, that are within the scope of the contract . . ." are exempt from the requirements. 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.

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

#### **Objective**

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

## **Scope**

We limited our audit to the award process for NIEHS's May 7, 2002, contract GS23F8091H with OD and its September 15, 2005, modification 9 to that contract. We did not assess NIEHS's overall internal control environment.

We performed fieldwork at NIEHS's Office of Acquisition in Durham, North Carolina, from April through June 2006.

## **Methodology**

To accomplish our objective, we:

- reviewed FAR and HHSAR requirements,
- met with NIEHS officials to ensure an adequate understanding of NIEHS's actions during the award process and the basis for those actions,
- examined the records of negotiation and other documentation related to the award of the contract to determine whether NIEHS followed FAR and HHSAR requirements, and
- reviewed progress reports and payment history data to determine whether controls were in place to ensure contract performance and payment.

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

## **RESULTS OF AUDIT**

NIEHS complied with FAR and HHSAR requirements during the award process for modification 9 to contract GS23F8091H with OD. The existing contract was awarded under the General Services Administration's (GSA) Multiple Award Schedule, a list of contracts with commercial firms to provide supplies and services at stated prices for given periods of time. GSA had already determined that prices for goods and services on the schedule were fair and reasonable. Pursuant to FAR 6.001(c), the contract modification was exempt from requirements for full and open competition. Nevertheless, the modification was based on Multiple Award Schedule prices, which, in accordance with FAR 8.404(d), were determined by GSA to be 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](mailto:Joe.Green@oig.hhs.gov). Please refer to report number A-04-06-01034.