



Department of Veterans Affairs Office of Inspector General

Audit of VISN Procurement Practices for FSS Professional and Allied Healthcare Staffing Services

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Executive Summary

Results in Brief

The Office of Inspector General (OIG) conducted this audit to evaluate Veterans Integrated Service Network (VISN) procurement practices for Federal Supply Schedule (FSS) 621 I which encompasses professional and allied healthcare staffing services. The audit determined whether VISN contracting officers performed adequate price reviews and analysis and complied with Federal Acquisition Regulation (FAR) ordering procedures and competition requirements when they purchased staffing services through the FSS. Our audit of a statistical sample of 79 billed FSS healthcare staffing services orders disclosed that contracting officers had not adequately reviewed order prices and ensured compliance with FAR ordering and competition requirements during the period of April 1, 2007–March 31, 2008.

VISN contracting officers did not adequately review offered order prices. VISN contracting officers did not try to negotiate labor rates below the FSS not-to-exceed (NTE) rates and sometimes awarded labor rates which exceeded the established FSS NTE rates. The contracting officers also did not ensure adequate competition, maximize use of the FSS instead of local contracts, or maintain required contract documentation when they procured FSS professional healthcare staffing services. Finally, medical facility staff also made unauthorized commitments by placing orders directly with FSS healthcare staffing services vendors.

The Procurement and Logistics Office (PLO) lacked an effective oversight process for healthcare staffing services procurements. Further, they had not effectively worked with VA's National Acquisition Center (NAC) to implement adequate FSS procurement policies, procedures, and training to ensure VISN contracting officers and medical facility staff effectively administered FSS healthcare staffing services orders. The lack of guidance along with inadequate FSS procurement training made FSS healthcare staffing services orders more vulnerable to improper payments, higher prices, and FAR deficiencies. Current VISN healthcare staffing services procurement practices and FSS 621 I ordering procedures do not ensure the proper, cost effective use of FSS 621 I contracts, the integrity of the FSS procurement process, and compliance with the FAR.

Based on our audit results and statistical sampling projections, FSS vendors billed VHA for a projected 6,010 healthcare services orders during our review period, of which, 4,599 (77 percent) had not been adequately reviewed and 3,059 (51 percent) had ordering and competition issues. For those cases that had not been adequately reviewed, we projected that medical facilities could have saved about \$5.8 million for labor and \$1.8 million for travel expenses. Consequently, VHA could reduce its FSS healthcare staffing services costs by about \$7.7 million annually or \$38.5 million over the next

five years if it strengthens its review and ordering practices for healthcare services orders and leverages its efforts to meet competition requirements.

Background

FSS professional and allied healthcare staffing services contracts provide a simplified process to acquire nearly 60 different labor categories of physicians, nurses, therapists, and other allied healthcare professionals. The NAC awarded NTE rates for each service listed on the contracts. These are the highest labor rates that a FSS vendor should charge FSS customers for services included on the contracts. VA's use of FSS professional and allied healthcare staffing services contracts has increased 148 percent from \$136.8 million in FY 2004 to \$339.0 million in FY 2009. VISN contracting officers must comply with the FAR when ordering these services.

The OIG's Contract Review Division also reviewed the FSS 621 I Schedule in its draft report, "Special Review of Federal Supply Schedule 621 I—Professional and Allied Healthcare Staffing Services," dated October 15, 2009. This review assessed whether FSS 621 I Schedule achieved the pricing goals of the FSS program; NAC prices analysis methodologies were sufficient to establish fair and reasonable prices; the FSS pricing goals of NTE pricing were consistent with commercial practices in the healthcare industry; the FSS 621 I Solicitation's Commercial Sales Practices format was adequate to allow Contracting officers to make price reasonableness determinations; and ordering activities placed orders against FSS 621 I contracts in accordance with the contract terms and FAR. The OIG Contract Review Division's review focused primarily on the establishment of the FSS 621 Schedule with limited work on the purchase of services while this audit focused exclusively on VISN FSS 621 I ordering and purchasing practices.

Findings

Our audit of 79 randomly selected healthcare staffing services orders disclosed that VISN contracting officers had not adequately and consistently reviewed order prices and established and administered FSS orders in accordance with the FAR.

FSS Healthcare Staffing Services Orders Were Not Adequately Reviewed.

Contracting officers at 18 of the 19 VISNs represented in our sample of healthcare staffing services orders had inadequately reviewed 71 of the 79 orders. We projected that 4,599 (77 percent) of the 6,010 FSS healthcare staffing services orders placed during our 12-month review period lacked adequate reviews. The total estimated number of deficiencies identified by our audit exceeded the projected number of inadequately reviewed orders because many of the orders had one or more deficiencies:

- Contracting officers had not adequately assessed FSS healthcare staffing services vendors' price quotes to ensure the reasonableness of prices for a projected 4,185 (70 percent) of the 6,010 orders.
- Contracting officers did not ensure labor rates for FSS healthcare services orders remained at or below FSS NTE rates for a projected 776 (13 percent) of the 6,010 orders.
- Contracting officers did not effectively evaluate all-inclusive FSS healthcare staffing services orders to prevent improper payments for a projected 1,170 (19 percent) of the 6,010 orders. Improper payments occurred when order prices exceeded FSS NTE rates and FSS vendors received unsupported travel reimbursements.

In total, the VISNs we reviewed could have reduced their healthcare staffing services order costs and improper payments by a minimum of \$468,333 if adequate reviews including a sufficient price analysis had been completed. Based on our sampling and estimation methodology, VHA healthcare staffing services order costs and improper payments could be reduced by at least \$7.7 million annually or a minimum of \$38.5 million over the next 5-year period if contracting officers ensure FSS healthcare staffing service order prices do not exceed established NTE rates and compliance with FAR ordering and competitions requirements.

Ordering Procedures Did Not Comply with FAR Requirements. Contracting officers at 15 (79 percent) of the 19 reviewed VISNs placed 47 orders where the orders were not established or administered in accordance with FAR requirements. We projected that 3,059 (51 percent) of the 6,010 FSS healthcare staffing services orders placed during our 12-month review period had deficiencies because they did not meet FAR requirements:

- Medical staff bypassed contracting officers and made unauthorized commitments when they placed a projected 408 (7 percent) of the 6,010 orders directly with FSS vendors.
- Contracting officers did not ensure adequate competition when they did not issue requests for quotations (RFQs) to a minimum of 3 FSS healthcare staffing vendors for a projected 2,147 (36 percent) of the 6,010 orders.
- Contracting officers did not adequately plan a projected 88 (1 percent) of the 6,010 orders when they used local contracts to order healthcare staffing services even though the same vendors offered the same services for less on the FSS.

Further, contracting officers lacked significant procurement documentation, order documentation, and the official contract files needed to ensure the integrity of the FSS

procurement process and the proper establishment and administration of FSS healthcare staffing services orders for a projected 2,772 (46 percent) of the 6,010 orders.

Conclusion

VISN contracting officers did not adequately review order prices and comply with FAR ordering procedures and competition requirements when they purchased healthcare staffing services on the FSS. These issues occurred because PLO and the NAC had not issued specific policies and procedures on the review of FSS healthcare staffing services order prices and the use of all-inclusive rates. In addition, VISN contracting officers and medical facility staff needed training on FSS healthcare staffing services contracts and procurement requirements, and PLO lacked an effective oversight process for FSS healthcare staffing services procurements.

As a result, VISN procurement practices and ordering procedures did not ensure the proper, cost effective use of FSS healthcare staffing services contracts, the integrity of the FSS procurement process, and compliance with the FAR. Strengthened FSS healthcare staffing services procurement practices could reduce VHA expenses and improper payments by at least \$7.7 million annually or \$38.5 million over the next 5 years.

Recommendations

1. We recommend the Under Secretary for Health, in consultation with Office of Acquisition, Logistics and Construction (OAL&C), develop FSS healthcare staffing services procurement policy guidance and procedures to help ensure contracting officers effectively review and evaluate prices, award and administer orders, and comply with the FAR.
2. We recommend the Under Secretary for Health, in consultation with OAL&C, provide contracting officers training on FSS healthcare staffing services order prices, the establishment and administration of healthcare staffing services orders, and competition requirements.
3. We recommend the Under Secretary for Health have the PLO strengthen oversight and monitoring for FSS healthcare staffing services procurements to ensure the proper review of order prices, the correct reimbursement of travel expenses, and compliance with applicable FAR requirements.
4. We recommend the Under Secretary for Health instruct medical facility staff on the prohibitions against unauthorized commitments.
5. We recommend the Under Secretary for Health have the PLO evaluate the identified healthcare staffing services orders where facilities exceeded the FSS NTE rates to determine if any improper payments can be recovered.

Management Comments and OIG Response

The Under Secretary for Health agreed with our findings and recommendations and provided acceptable implementation plans. VHA's PLO will work with OAL&C to develop FSS healthcare staffing procurement policy guidance and procedures and train VHA acquisition staff on the effective review and evaluation of FSS order prices, the award and administration of orders, and compliance with FAR, including competition requirements. VHA also plans to implement quality reviews and audits to ensure compliance with applicable FAR requirements for FSS orders and has agreed to issue a memorandum to its VISNs and instruct its medical facility staff on prohibitions against unauthorized commitments. Finally, VHA will audit the identified orders where facilities exceeded the FSS NTE rates, and where appropriate, issue bills of collection. We consider the planned actions acceptable and will follow up on their implementation. Appendix D contains the full text of the Under Secretary for Health's comments.

*(original signed by
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Introduction

Purpose

The OIG conducted this audit to evaluate VISN purchasing practices utilizing FSS professional and allied healthcare staffing services. The objective of the audit was to determine whether VISN contracting officers performed adequate price reviews and analysis and complied with FAR ordering procedures and competition requirements when they purchased these services on the FSS.

Background

Over 40 years ago, the General Services Administration delegated the authority to operate FSS schedules for medical equipment and supplies and allied and professional healthcare services to VA's NAC. FSS contracts provide Federal agencies with a simplified process of acquiring commercial supplies and services in varying quantities while leveraging the Government's buying power to obtain better discounts. FSS professional and allied healthcare staffing services contracts, which were established by the NAC in 2001, encompass nearly 60 different labor categories of physicians, nurses, therapists, and other allied healthcare professionals.

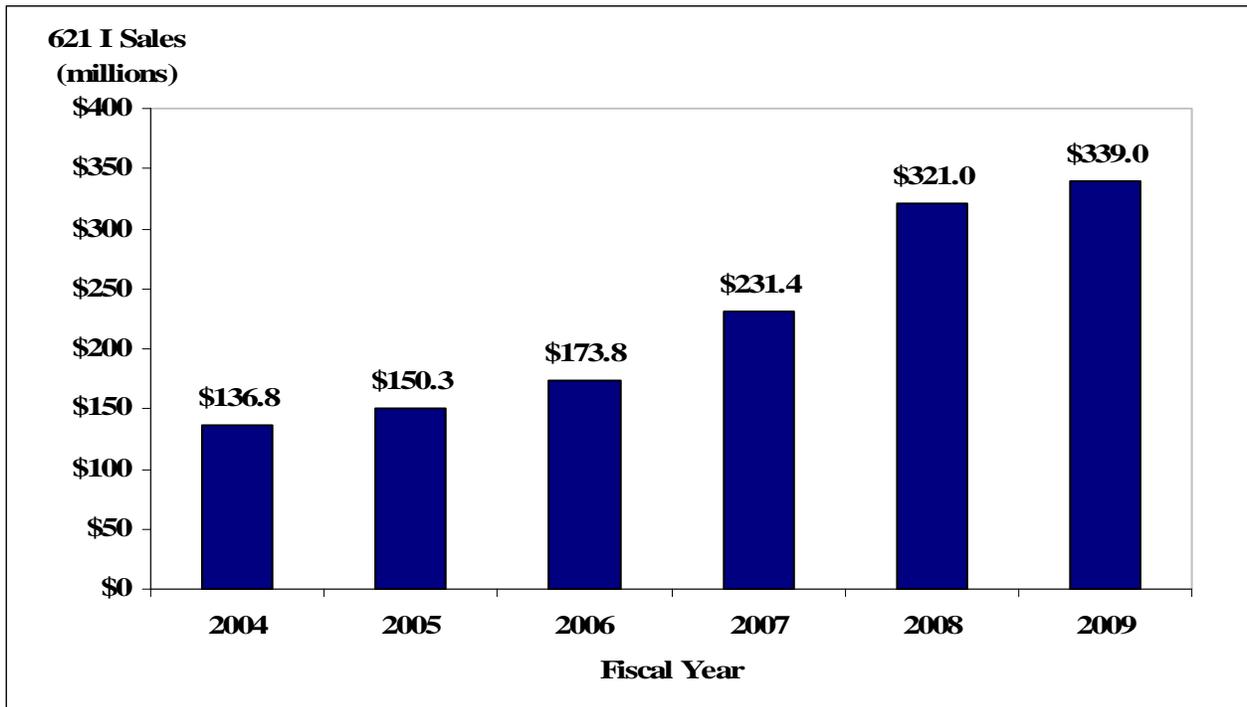
The FSS 621 I Schedule. FSS 621 I professional and allied healthcare staffing services contracts differ from other FSS contracts in that they have been established using NTE rates which reflect the highest hourly rate that can be paid for each listed service. According to General Services Administration Acquisition Manual, Section 538.271, FSS contract awards typically involve the negotiation of a contract at a discount from the vendors established catalog prices, a determination that the offered prices are fair and reasonable, and clear documentation in the award of the price/discount relationship between the Government and the identified vendor. Because FSS 621 I NTE rates still allow for price variations after the contract award at the time orders are placed based on locality, qualifications, types of services to be provided and other factors, FSS 621 I contracts do not fit the typical FSS contract structure. Despite these differences, the NAC has not issued ordering activities supplemental policy or guidance on how to properly establish FSS 621 I order prices.

VHA and other Federal agencies must still comply with general FSS order requirements contained in FAR Part 8.4 when ordering FSS 621 I services. FAR Subpart 8.4 sets forth the policies and procedures contracting officers must follow when placing orders on the FSS. FAR 8.405-2 establishes specific procedures for ordering hourly priced services requiring statements of work (SOW). Ordering activities must prepare SOW that include the work to be performed, the location of the work, the period of performance, a deliverable schedule, performance standards, and any special requirements. Contracting officers are also required to provide RFQs to three FSS vendors who offer the needed

services and to review and evaluate the proposals received from the vendors to determine if the total price for the services is reasonable. Orders should be placed with the FSS vendor that represents the best value.

Use of FSS 621 I Contracts. VA’s use of FSS professional and allied healthcare staffing services contracts has grown tremendously. In FY 2009, VA purchased services totaling \$339.0 million. As shown in Figure 1, purchases for these services have increased 148 percent over the past 6 years—from \$136.8 million in FY 2004 to \$339.0 million in FY 2009.

Figure 1. Trends in FSS Professional and Allied Healthcare Staffing Services Purchases



OAL&C and the PLO oversee all procurement activities within VA. At the Department level, OAL&C develops policy for VA-wide acquisition activities; manages national procurement activities, including the NAC; and provides training to VA contracting officers. Within VHA, the PLO Medical Sharing Team provides “day to day” policy direction, technical assistance, and general oversight for VISN and medical facility acquisition activities.

Prior OIG Reviews. The OIG’s Contract Review Division issued a draft report titled, “Special Review of Federal Supply Schedule 621 I-Professional and Allied Healthcare Staffing Services” on October 15, 2009. This review assessed whether the FSS 621 I Schedule achieved the pricing goals of the FSS program; NAC price analysis methodologies were sufficient to establish fair and reasonable prices; the FSS pricing

goals of NTE pricing were consistent with commercial practices in the healthcare industry; the FSS 621 I Solicitation’s Commercial Sales Practices format was adequate to allow Contracting officers to make price reasonableness determinations; and ordering activities placed orders against 621 I contracts in accordance with the contract terms and FAR.

Scope and Methodology

We audited, during the billing period April 1, 2007–March 31, 2008, a random sample of 79 FSS healthcare staffing services orders that 41 vendors billed VHA medical facilities for services. The 79 orders included 7 categories of positions identified in Table 1 below.

Table 1. Categories of Positions Represented in the Sampled FSS Orders

Category	Sampled FSS Orders	Percent
Nurses	29	34%
Physicians	20	23%
Nurse Assistants	11	13%
Technicians (such as Ultrasound)	11	13%
Therapists	7	8%
Pharmacists/Pharmacist Technicians	6	7%
Other Assistants (such as Dental)	2	2%
Total	*86	100%

*The total equals 86 because 72 orders included 1 FSS healthcare staffing services position category and 7 orders included 2 position categories.

To review these orders, we visited the 3 VISNs which had the highest number of orders and conducted desk reviews of the orders in the remaining 16 VISNs included in our sample. We gathered and reviewed contract file documentation, reviewed invoices, and interviewed contracting and other VA staff. Based on our statistical sampling and estimation methodology, we projected that VHA had placed 6,010 FSS healthcare staffing services orders during our 12-month period. (See Appendixes A and B, pages 15–18, for more detailed information on our scope and methodology and sampling and estimation methodology.)

Since our audit focused on the examination of VISN ordering practices for FSS professional and allied healthcare staffing services, we compared the orders’ prices set by the VISN contracting officers with the FSS 621 I NTE rates established by the NAC. We did not assess whether the NAC’s FSS 621 NTE rates were fair and reasonable for the services actually provided. We relied on computer-generated VA’s Financial Management System (FMS) data to identify our audit universe. We assessed the reliability and completeness of this data by comparing the FMS payment data with actual invoices obtained from the VISNs and VA medical facilities. From these tests, we concluded the data was sufficiently reliable to meet the audit objective.

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Results and Conclusions

VHA Needs to Strengthen FSS Healthcare Staffing Services Procurement Practices

Findings

Our audit of 79 randomly selected healthcare services task orders found that VISN contracting officers had not consistently reviewed FSS prices and administered the task orders in accordance with the FAR. This occurred because: (1) PLO had not worked effectively with the NAC to develop and issue policies and procedures on the review of FSS healthcare staffing services prices and the use of all-inclusive rates, (2) VISN contracting officers and VA medical facility staff needed training on FSS healthcare services contracts and procurement requirements, and (3) PLO and VISN officials lacked an effective oversight process for FSS healthcare staffing services procurements. Strengthened FSS healthcare staffing services monitoring and procurement practices that ensure the adequate review of order prices and compliance with FAR ordering and competition requirements could reduce VHA costs and improper payments by at least \$7.7 million annually or \$38.5 million over 5 years based on our audit results.

FSS Healthcare Staffing Services Orders Were Not Adequately Reviewed.

Contracting officers at the 19 reviewed VISNs had not adequately assessed and analyzed the total price of 71 of the 79 reviewed orders. Based on these results, we projected that the prices of 4,599 (77 percent) of 6,010 FSS healthcare staffing services orders placed during our 12-month review period had not been adequately evaluated to ensure the reasonableness of the total offered price. FAR 8.405-2(d) requires contracting officers to evaluate submitted proposals to ensure that the total price is reasonable. Nevertheless, contracting officers did not always conduct sufficient reviews of FSS order prices to ensure rates did not exceed the FSS NTE rates and adequately analyze components of all-inclusive prices.

VHA also lacked reasonable assurance that its medical facilities received the best value for FSS healthcare staffing services orders. This occurred because PLO had not worked effectively with the NAC to issue formal guidance on how to properly review and analyze FSS healthcare staffing service order prices; VISN contracting officers needed training on FSS healthcare staffing services procurement processes; and PLO lacked effective monitors for FSS healthcare staffing services procurements. In total, the reviewed VISNs could have reduced their healthcare staffing services order costs and improper payments by about \$468,333. VHA could annually save a projected \$7.7 million if contracting officers adequately review and analyze FSS healthcare staffing service order prices, properly use FSS NTE rates, and ensure competition requirements are met (see Appendix B on page 16 for a discussion of sampling and estimation methodology).

Orders Were Not Adequately Assessed for Price Reasonableness and Best Value. Contracting officers had not assessed the reasonableness of the total prices and ensured the orders represented the best value to the Government for 61 of the 79 reviewed orders. We projected that the prices for 4,185 (70 percent) of the 6,010 healthcare staffing services orders had not been adequately analyzed because the contracting officers had not received specific guidance or training on the effective review and analysis of FSS healthcare staffing service order prices. Contracting officers who ordered FSS healthcare staffing services relied on the requirements in FAR 8.404 that address the purchase of FSS services at fixed hourly rates. They did not include FSS service contracts where the fixed hourly rates could vary based on the vendor, the location of the facility, and the national or regional NTE rates established by the NAC.

When using fixed, hourly rate FSS contracts, FAR 8.405-2 only requires contracting officers to issue RFQs, including a SOW and evaluation criteria, to at least three FSS vendors. After the vendors' responses are received, FAR requires these responses to be assessed according to the evaluation criteria and to place the order with the schedule vendor that represents the best value. However, FSS healthcare services contract order prices need additional price analysis to ensure that contracting officers ordering services for facilities across the country obtain the best value for the location receiving the services. According to the former Deputy Chief PLO, these price analyses should include reviews of historical data from previous acquisitions for similar services, market prices from other community providers, and Medicare and salary survey information. However, neither the NAC nor PLO has issued formal guidance advising contracting officers of the need for this additional analysis or how to perform these analyses when they order FSS healthcare services.

In addition, 24 of the 61 orders that lacked sufficient price analysis also lacked documentation required by FAR 8.405-2(e) explaining how the FSS vendors were selected. Documentation of the evaluation criteria and vendor selection decisions for FSS orders ensures the Government has received the best value and helps preserve the integrity of the procurement process.

Some VISN contracting officers did not analyze the order prices because they selected vendors based on their past experience or they believed that additional price analysis was not necessary because the NAC had already determined the fairness and reasonableness of the FSS NTE prices. Eighteen of the 51 (35 percent) contracting officers we interviewed also stated that they analyzed quotes by comparing the received FSS vendor quotes. However, we found that 23 of the 79 reviewed orders lacked the required solicitation of 3 RFQs needed to ensure adequate competition. (See page 10 for further discussion addressing the lack of competition.)

Awarded Rates Exceeded FSS NTE Rates. Contracting officers did not ensure for 18 of the 79 reviewed orders that the awarded rates for the services were at or below the FSS NTE rates. We projected that 776 (13 percent) of the 6,010 orders had rates that

exceeded the FSS NTE prices. The NAC awarded NTE rates for each service listed on the contract. These are the highest labor rates that a FSS vendor should charge FSS customers for services included on the contract. Nevertheless, VISN contracting officers did not review and analyze price quotes to ensure that the labor rates included in the offered prices were at or below the established FSS NTE rates. Consequently, contracting officers overpaid FSS vendors for healthcare staffing services because they either did not know a NTE rate existed, did not consistently check the NTE rates, or they did not review the vendors' labor rates when they used all-inclusive prices to establish orders.

For these 18 orders, the VISN contracting officers should work with the NAC to recover FSS healthcare staffing services payments where the awarded hourly labor rates exceeded the established FSS NTE rates. The following example demonstrates how the use of all-inclusive rates resulted in awarded labor rates that exceeded the FSS NTE rate:

VISN 6 in Durham, NC awarded an order with the all-inclusive rates of \$132.00 (regular hours) and \$152.00 (overtime hours) to obtain the services of an internal medicine physician for a facility. With travel costs excluded, the labor rates equated to \$117.31 and \$137.31. These rates significantly exceeded the FSS NTE rates of \$89.80 for regular hours and \$99.50 for overtime by \$27.51 and \$37.81, respectively. During the period, October 17, 2007 through March 31, 2008, the vendor provided 1,355 regular time hours and 1,734 overtime hours of services for this order. Hence, the order's costs could have been reduced by a minimum of \$102,839 $(1,355 \text{ hours} \times \$27.51) + (1,734 \text{ hours} \times \$37.81)$ if the prices had been adequately reviewed and analyzed and the FSS NTE rates had not been exceeded.

For the 18 orders where the awarded rates exceeded the FSS NTE rates, our comparison of the awarded rates with the FSS rates indicated that VISN contracting officers overpaid FSS contractors a total of \$234,990 and missed opportunities to reduce the orders' prices further because they did not conduct adequate price analyses for the costs of services in that locality. Based on these results, we projected that the use of national FSS NTE rates would, at a minimum, prevent annual improper payments of about \$5.8 million or \$29.0 million over a 5-year period.

Use of All-Inclusive Rates Hindered Effective Price Analysis. Contracting officers did not effectively analyze the prices for 36 of the 79 orders because they requested all-inclusive price quotations and did not request price breakdowns for labor, travel, and other components of the price. For 19 of the 36 orders, this practice contributed to about \$355,000 in improper payments because contracting officers could not be sure that the awarded labor rates were at or below the FSS NTE rates or that the FSS contractors were reimbursed properly in accordance with the Federal Travel Regulations (FTR). Based on these results, we projected the use of all-inclusive rates for a projected 1,170 (19 percent)

of the 6,010 orders prevented the effective review and analysis of FSS healthcare services order prices.

Contracting officers at 15 of the 19 reviewed VISNs (79 percent) obtained price quotations and established orders with rates that combined the labor rate and transportation and lodging costs in one price. Hence, use of the all-inclusive rates without any related cost breakdowns did not provide contracting officers the visibility they needed to effectively review and evaluate the individual components of the prices, such as the labor rate. (See discussion in prior section of “Awarded Rates Exceeded NTE Rates.”) This practice made it difficult for contracting officers to identify the vendors’ actual travel charges, consider the mix of local and travel staff the vendors planned to provide, and to limit the reimbursement of travel costs to only those allowed under the FTR. Under FAR 31.205-46 and FTR Part 301-11 Subpart D on FSS healthcare staffing services, vendors are only entitled to the reimbursement of their staff’s reasonable travel and lodging costs. The following example illustrates how improper travel payments sometimes occurred when contracting officers used all-inclusive rates to establish FSS healthcare staffing services orders:

VISN 8 in Bay Pines, FL accepted all-inclusive rates from a vendor of \$61.00 for medical/surgical registered nurses and \$66.00 for intensive care registered nurses for both local and travel staff. Because the VISN contracting officer requested all-inclusive rates and did not request a cost breakdown for evaluation purposes, the facility paid the FSS vendor the same rate for the same position regardless of whether the nurses were local or had to travel to the facility. The all-inclusive rate included \$10.99 an hour for housing and meals, which the facility paid to the 30 nurses who traveled to the facility, as well as to the 28 local nurses who did not incur travel costs and thus were not entitled to reimbursement. The 28 local nurses worked 14,056 hours creating \$154,475 ($\$10.99 \times 14,056$) in improper payments between April 4, 2007–October 26, 2007.

In total, 11 of the 19 reviewed VISNs had 18 healthcare staffing services orders with \$233,343 in improper payments related to travel because the VISNs reimbursed the vendor for local staff members who were not entitled to lodging and transportation. Improper payments also occurred because VISNs continued to pay vendors for lodging and transportation as part of the overtime rates and extensions of the original period of performance, even though the vendor had already been reimbursed for these expenses under the regular hourly rate or during the original period of performance. Consequently, we projected that 516 (9 percent) of the 6,010 orders which had not been adequately reviewed and analyzed had improper travel-related payments and that VHA could prevent \$1.8 million in annual or \$9.0 million in improper payments over the next 5 years if contracting officers adequately analyzed all-inclusive rates.

Ordering Procedures Did Not Comply With FAR Requirements. Contracting officers and medical facility staff at 15 of the 19 reviewed VISNs placed healthcare staffing services orders, which did not fully meet FAR requirements. VISNs generally lacked the ordering procedures needed to ensure the proper, cost effective use of the FSS healthcare staffing services contracts and the integrity of the FSS procurement process. We found that 47 of the 79 reviewed orders placed during our 12-month review period had one or more FAR compliance problems. We projected that 3,059 (51 percent) of the 6,010 FSS healthcare staffing services orders had 5,415 FAR compliance problems (see Appendix B on page 16 for a discussion of sampling and estimation methodology).

FAR compliance problems included instances where medical facility staff engaged in unauthorized commitments and contracting officers did not ensure competition requirements were met, the use of available FSS contracts, or the proper maintenance of contract documentation. These problems demonstrated VHA's lack of oversight in the area of FSS healthcare staffing services procurements, significant lapses in the knowledge and actions of VISN and medical facility staff responsible for the proper establishment and administration of FSS healthcare staffing services orders, and the increased risks to VHA when staff members do not comply with FAR requirements.

Unauthorized Commitments. Medical facility staff in 7 of the VISNs reviewed bypassed contracting officers and placed 8 of the 79 reviewed orders, totaling \$599,908, directly with FSS vendors. We projected that 408 (7 percent) of the 6,010 FSS healthcare staffing services orders involved unauthorized commitments. FAR 1.602-1 states that only warranted contracting officers may enter into and sign contracts on behalf of the Government. This includes all types of commitments, which obligate the VA to expend funds for supplies and services. Further, because contracting officers were not involved in the ordering process, these orders lacked required contract documentation; price reviews and analyses; SOW and purchase orders delineating the expected period of performance; and special employment requirements, such as licensure, certifications, and background investigations.

Because the facility staff placed the services orders directly with FSS healthcare staffing services vendors, the medical facilities had no assurances that all of the orders' administrative and special employment requirements were met. For the 8 orders we identified, VISN and medical facility staff lacked documentation showing that background investigations had been completed for 14 FSS contract staff and that certification and privileging reviews had been completed for 14 FSS contract staff. The following example illustrates the problems, which can occur when facility staff, instead of contracting officers, place FSS healthcare staffing services orders.

In VISN 3 (Bronx, NY), an administrative officer in Radiology ordered the services of a Nuclear Medicine Technologist from an FSS vendor for 4 months. The administrative officer, who had no contracting authority, did not negotiate the rates and accepted whatever the vendor charged. Although the vendor's FSS NTE rate for this position was \$57.00, the vendor charged the medical facility \$75.00 an hour. Hence, the Nuclear Medicine Technologist provided about 601.5 hours of service at a cost of \$45,113. If a contracting officer had placed this order and used the FSS NTE rate, VA would have paid a maximum of \$34,286 ($\57.00×601.5 hours) or \$10,827 less ($\$45,113 - \$34,286$) for this order. In addition, the administrative officer never ensured the completion of a background investigation for the contracted technologist.

Medical facility staff who made these unauthorized commitments stated either that they did not know they had to go through contracting to hire temporary employees or that they did not go through contracting because they considered the orders to be emergency procurements. For the three unauthorized commitments where the medical facility staff claimed the orders addressed emergencies, we could not confirm that the orders addressed urgent, unforeseen healthcare staffing shortages. In our opinion, these unauthorized commitments could have been avoided through better acquisition planning. Also, contracting officers have the authority under FAR 8.405-6 to restrict competition and expedite FSS orders when "an urgent and compelling need exists, and following ordering procedures" could result in "unacceptable delays."

Competition Requirements Were Not Met. At 10 of the 19 reviewed VISNs, the contracting officers did not comply with competition requirements before they awarded 23 out of the 79 reviewed orders. Competition requirements in FAR 8.405-2(c)(2)(ii) for purchases above the micro-purchase threshold level require contracting officers to issue RFQs to a minimum of three FSS vendors that provide healthcare staffing services. Despite these requirements, 23 of the 79 reviewed orders lacked documentation that the contracting officers had issued RFQs to at least three FSS vendors or had justified, as required by FAR 8.405-6, why the minimum number of vendors had not been solicited. Subsequently, we projected that 2,147 (36 percent) of the 6,010 orders lacked the solicitation of the minimum 3 RFQs. Contracting officers did not comply with FAR competition requirements because they generally preferred to use FSS vendors with whom they had done business before or they lacked documentation showing that they had issued RFQs to three FSS vendors.

Use of Local Contracts Instead of FSS. At 3 of 19 VISNs, the contracting officers had not adequately planned 3 out of the 79 reviewed healthcare staffing services orders to ensure that the services were obtained in the most economical manner. The FAR, section 7.102, requires agencies to plan their acquisitions so that the Government meets its needs in the most effective, economical, and timely manner. Nevertheless, we found that the

contracting officers placed these three orders using local contracts even though the same vendors offered the same services for less on the FSS. Consequently, we projected that 88 (1 percent) of the 6,010 healthcare staffing services orders could have been better planned and placed using the FSS instead of local contracts. This problem is illustrated by the following example:

In VISN 16 in Jackson, MS, a contracting officer established a local contract for an internal medicine physician with a FSS vendor who offered the same services through the FSS. The vendor charged an hourly labor rate of \$106.50 for the services under the local contract while the vendor's FSS NTE rate for the same services was \$83.00. If the medical facility had used the FSS instead of a local contract, the medical facility could have saved about \$76,803 ($(\$106.50 - \$83.00) \times 3,268.2$ hours). The contracting officer stated that the Medical Sharing Office had recommended she purchase the services on the open market instead of through the FSS. However, she could not explain the basis for the recommendation and acknowledged that an FSS contract should have been used instead.

In conclusion, the three medical facilities paid \$81,969 more for healthcare staffing services through local contracts than they would have if they had used available FSS contracts and NTE rates.

Contract Documentation Needed Improvement. Contracting officers, at 13 of the 19 VISNs reviewed, lacked sufficient contract documentation for 37 of the 79 reviewed orders, thus VHA had no assurances regarding the integrity of the procurement process, or that the orders had been properly established and administered. Based on our results, we projected that 2,772 (46 percent) of the 6,010 orders lacked adequate contract documentation. FAR 8.405-2(e) establishes the minimum amount of contract file documentation needed to support procurement actions and to ensure that contracts are procured in the most effective and economical manner. Despite these requirements, the 37 reviewed orders lacked significant initial procurement documentation, order documentation, or an official contract file. Orders had deficiencies in one or more of these areas. Twenty-nine of the 37 orders lacked significant initial procurement documentation, such as a SOW, a list of the considered vendors, and evaluation criteria because contracting officers did not consider this documentation to be a priority.

VHA Needs Policy Guidance, Improved Training, and Oversight for FSS Healthcare Staffing Services Procurements. We attributed the above FSS healthcare staffing services procurement deficiencies to insufficient FSS healthcare staffing services procurement training, a lack of policies and procedures for these types of procurements, and inadequate national and local oversight.

Policies and Procedures. Neither the NAC nor PLO have issued contracting officers formal guidance on the review and analysis of order prices or the use of all-inclusive rates when ordering FSS healthcare staffing services. This lack of guidance along with inadequate FSS procurement training made FSS healthcare staffing services orders more vulnerable to improper payments, higher prices, and FAR deficiencies.

Our audit determined that contracting officers routinely awarded all-inclusive FSS healthcare staffing services rates without any effort to obtain and review cost breakdowns from the FSS vendors. In addition, many contracting officers often completed insufficient price analyses because they only had the existing FAR FSS guidance or had different interpretations of what the FAR FSS guidance required. For example, a VISN 23 contracting officer stated the award of an order based on comparing received FSS vendor quotes constituted an adequate price evaluation while a VISN 12 contracting officer stated a price evaluation was not necessary for FSS healthcare staffing services contracts because the NAC had already deemed the FSS NTE rates to be fair and reasonable. The development and implementation of specific FSS healthcare staffing services procurement policy guidance and procedures by PLO and the NAC is needed in this rapidly expanding procurement area to help ensure VHA medical facilities receive the best value and comply with the FAR.

Training. Contracting officers needed additional guidance and training on FSS healthcare staffing services procurement processes. Of the 51 contracting officers we interviewed, 31 (61 percent) said they either had not received any training on FSS healthcare staffing services procurement requirements or had not received follow-up FSS training beyond the general, initial training provided when they first became contracting officers. Thirty-one (61 percent) of the 51 contracting officers interviewed agreed that more FSS training should be provided. In one case, a contracting officer stated that she had received FSS procurement training in 1989, well before the establishment of the FSS professional healthcare staffing services contracts in 2001. The former interim Chief of OAL&C's Acquisition, Training, & Career Development Division stated that the initial training for VA contracting officers provided only cursory FSS coverage and that OAL&C had an annual 1-week training course held in different locations nationwide that provided more in-depth FSS coverage. However, this training was not mandatory and ended after 2007. The former interim Chief speculated that field staff may have had problems attending this annual training due to travel funding issues.

Oversight. PLO lacked an effective oversight process to monitor the procurement of FSS healthcare staffing services. PLO initiated a national procurement stand down in November 2007 whereby it required all VHA contracting officers across the country to audit their existing contracts and to identify and address all identified contracting deficiencies. PLO officials thought that this internal review had identified and addressed many of the types of deficiencies found by our audit. PLO needs to implement continuous monitoring mechanisms to detect FAR contracting deficiencies, as well as

problems unique to FSS healthcare staffing services orders, such as award rates that exceed the FSS NTE rates and the use of local contracts for services available on the FSS.

Conclusion

VISN contracting officers performed inadequate reviews and price analyses and did not comply with FAR ordering procedures and competition requirements when they purchased healthcare staffing services utilizing the FSS. As a result, VISN healthcare resource procurement practices and FSS healthcare staffing services ordering procedures did not ensure the proper and cost-effective use of FSS healthcare staffing services contracts, the integrity of the FSS procurement process, and compliance with the FAR. These problems occurred because PLO and the NAC failed to issue formal policies and procedures on the use and administration of FSS healthcare staffing services contracts, VISN contracting officers and VHA medical facility staff needed training on FSS procurement processes, including those for healthcare staffing, and PLO lacked effective monitors for FSS healthcare staffing services procurements. Strengthened FSS healthcare staffing services procurement practices could reduce VHA expenses and improper payments by at least \$7.7 million annually or \$38.5 million over the next 5 years.

Recommendations

1. We recommend the Under Secretary for Health, in consultation with OAL&C, develop FSS healthcare staffing services procurement policy guidance and procedures to help ensure contracting officers effectively review and evaluate prices, award and administer orders, and comply with the FAR.
2. We recommend the Under Secretary for Health, in consultation with OAL&C, provide contracting officers training on FSS healthcare staffing services order prices, the establishment and administration of healthcare staffing services orders, and competition requirements.
3. We recommend the Under Secretary for Health have the PLO strengthen oversight and monitoring for FSS healthcare staffing services procurements to ensure the proper review of order prices, the correct reimbursement of travel expenses, and compliance with applicable FAR requirements.
4. We recommend the Under Secretary for Health instruct medical facility staff on the prohibitions against unauthorized commitments.
5. We recommend the Under Secretary for Health have the PLO evaluate the identified healthcare staffing services orders where facilities exceeded the FSS NTE rates to determine if any improper payments can be recovered.

Under Secretary for Health Comments

The Under Secretary for Health agreed with our findings and recommendations and provided acceptable implementation plans. VHA's PLO will work with OAL&C to develop FSS healthcare staffing procurement policy guidance and procedures and train VHA acquisition staff on the effective review and evaluation of FSS order prices, the award and administration of orders, and compliance with FAR, including competition requirements. VHA also plans to implement quality reviews and audits to ensure compliance with applicable FAR requirements for FSS orders and has agreed to issue a memorandum to its VISNs and instruction to its medical facility staff on prohibitions against unauthorized commitments. Finally, VHA will audit the identified orders where facilities exceeded the FSS NTE rates, and where appropriate, issue bills of collection. Appendix D contains the full text of Under Secretary of Health's comments.

Audit Scope and Methodology

We audited a sample of 100 orders that the FSS healthcare staffing services vendors billed during the period, April 1, 2007–March 31, 2008. To obtain these orders, we used healthcare staffing services sales data reported by the FSS vendors to the NAC. The OIG’s Austin Data Analysis Division then extracted purchase data for these vendors from FMS. After we reviewed and excluded purchases that were not for FSS professional and allied healthcare staffing services, our audit universe consisted of 35,129 unique invoices totaling \$224.5 million.

We drew a simple random sample of invoices from this universe to identify the associated FSS healthcare staffing services orders for review (see Appendix B, page 16 for more information on our sampling methodology). From a random sample of 100 invoices, we excluded 21 invoices because they identified orders that had already been selected in our random sample or that were not for FSS professional and allied healthcare staffing services. Subsequently, we reviewed the remaining 79 orders in our sample.

To review these orders, we visited the 3 VISNs that had the highest number of orders in our sample and conducted desk reviews of the orders for the remaining 16 VISNs selected in our statistical sample. We gathered and reviewed FSS healthcare staffing services schedule and contract file documentation, reviewed invoices, and interviewed contracting and other VA staff.

For the statistical sample of 79 orders, we conducted our own price analyses. First, we analyzed the awarded prices to identify labor rates and transportation and lodging charges; second, if the labor rate exceeded the FSS NTE rate, we calculated the difference between the two rates to identify improper payments; and third, we reviewed the vendors’ transportation and lodging charges, the travel status of the provided contract staff, and amounts paid to identify improper payments. Based on the results of these price analyses, we projected the estimated reduction in VHA’s healthcare staffing services order costs if adequate order reviews had been completed and the projected number of occurrences for each type of price analysis and ordering deficiency identified by our audit. Table 2, on page 17, provides a summary of the sample.

Sampling and Estimation Methodology

To achieve our objective of determining whether VISN contracting officers performed adequate price reviews and analysis and complied with FAR ordering procedures when they purchased services on the FSS, we selected a sample of purchase orders for FSS professional and allied healthcare staffing services.

Population

The population consisted of FSS healthcare staffing services orders for which VHA medical facilities were billed during the period, April 1, 2007–March 31, 2008.

Sampling Design

We selected a simple random sample of invoices for purchase orders billed by vendors who had VA healthcare staffing services sales during the period, April 1, 2007-March 31, 2008. The invoice data was extracted from the FMS. We used the FMS as a sampling frame because no adequate sampling frame of purchase orders could be assembled or obtained from other VA automated information systems.

Since purchase orders with more related invoices in the frame will have a higher probability of selection, the sample of purchase orders is probability proportional to size (PPS) with invoices being the measure of size. Once we identified all purchase orders selected through our sample of invoices, we determined the number of invoices related to each of our selected purchase orders. This information was used to calculate the probability of selection and, therefore, the sampling weight for each sampled purchase order. The following table summarizes the sample selected for this audit. The first row of the table shows that 8 of the 79 sample orders each had 1 invoice which meant the PPS sampling weight was computed to be 444.67. Each of these orders represented just over 444 other orders in the universe.

Table 2. Sample Summary

Frequency of Orders	Number of Invoices	Sampling Weight	Frequency of Orders	Number of Invoices	Sampling Weight
8	1	444.67	3	25	17.79
2	2	222.34	1	26	17.10
3	4	111.17	2	28	15.88
4	5	88.93	1	29	15.33
4	6	74.11	1	30	14.82
2	7	63.52	2	31	14.34
2	8	55.58	1	34	13.08
4	9	49.41	1	37	12.02
6	10	44.47	1	42	10.59
1	11	40.42	1	43	10.34
2	12	37.06	2	44	10.11
4	13	34.21	1	48	9.26
2	15	29.64	1	51	8.72
2	16	27.79	1	64	6.95
1	19	23.40	1	72	6.18
3	20	22.23	1	106	4.20
3	21	21.17	1	122	3.64
1	22	20.21	1	128	3.47
1	23	19.33	1	141	3.15

Estimation Methodology

Sample purchase orders were weighted by the inverse of their probability of selection. The sampling weights were post-stratified using simple ratio adjustments so that sample-based projections of known population totals equal those totals. Sample projections and associated margins of error were estimated using a jackknife replication approach. This approach gives correct estimates of sampling error that account for the unequal sampling weights due to the PPS design and the post-stratification ratio weighting adjustments.

Projections and Margins of Error

Tables 3 and 4 on the following page show population projections and their associated margins of error. Margins of error were computed based on a 90 percent confidence interval. The population projection, plus or minus its associated margin of error, gives the lower and upper boundaries of the 90 percent confidence interval.

Table 3. Summary of Cost Projections and Margins of Error

	Projection	Margin of Error	Sample Size
Improper Labor Rate Payments	\$5,834,093	\$6,168,424	18
Improper Travel Payments	\$1,820,175	\$1,473,332	18
Subtotal	\$7,654,267	\$6,867,941	†28
Total Paid*	\$224,429,306	\$91,031,811	79
*Adjusted so that Total Paid equals known population total of 224,429,306.			
†The total sample size does not equal the total of the cost projections because some orders included both types of improper payments.			

Table 4. Summary of Order Disposition Projections and Margins of Error

	Projected Number	Margin of Error	Projected Percent	Margin of Error	Sample Size
Orders Not Adequately Reviewed	4,599	1,058	77	18	71
Lack of Sufficient Analysis	4,185	1,065	70	18	61
Exceeded NTE Rates	776	486	13	8	18
No All-Inclusive Rate Analysis	1,170	538	19	9	36
Improper Travel Payments	516	312	9	5	18
Order Procedural Exceptions	3,059	1,099	51	18	47
Unauthorized Commitments	408	389	7	6	8
Competition Requirement Not Met	2,147	1,113	36	19	23
Local Contracts Were Used	88	102	1	2	3
Missing Documentation	2,772	1,100	46	18	37
Total Orders	6,010	1,730			79

In keeping with our statistical sampling and estimation methodology, we presented audit results using the above projections. We noted that the two categories, “Unauthorized Commitment Made” and “Local Contracts Were Used” had large margins of error which decreased the precision of the related projections. To supplement the projection data and show the impact of the decreased precision, we have provided the 90 percent confidence interval data for the two categories. At the 90 percent confidence level, the projected number of exceptions in the “Unauthorized Commitment Made” category ranges from 19 to 797 and for the category, “Local Contracts Were Used,” the number ranges from 3 to 190.

Monetary Benefits in Accordance with IG Act Amendments

<u>Recommendation</u>	<u>Explanation of Benefit</u>	<u>Annual Questioned Costs</u>	<u>5-Year Projection</u>
3	Develop procedures that ensure the proper evaluation of FSS healthcare staffing services order prices and the proper reimbursement of travel expenses.	\$7.7 million	\$38.5 million

Under Secretary for Health Comments

**Department of
Veterans Affairs**

Memorandum

Date: May 20, 2010

From: Under Secretary for Health (10)

Subj: Office of Inspector General (OIG) Draft Report, Audit of Veterans Integrated Service Network (VISN) Procurement Practices for Federal Supply Schedule (FSS) Professional and Allied Healthcare Staffing Services (Project No. 2008-00270-R7-0143, WebCIMS 454195)

To: Assistant Inspector General for Audits and Evaluations (52)

1. I have reviewed the draft report and concur with the recommendations. Attached is the Veterans Health Administration's (VHA) plan of corrective action for each of the report's recommendations.

2. VHA concurs with the report's recommendation to:

- **Develop FSS healthcare staffing services procurement policy guidance and procedures.** VHA's Procurement and Logistics Office (P&LO) will work in conjunction with the Department of Veterans Affairs' (VA) Office of Acquisition, Logistics, and Construction (OAL&C) to develop procurement policy guidance and procedures. In addition, P&LO will work with the Office of the Deputy Under Secretary for Health for Operations and Management (DUSHOM) to implement the policy guidance and procedures at the VISN level.
- **Provide contracting officers training on FSS healthcare staffing services order prices; the establishment and administration of healthcare staffing services orders; and competition requirements.** VHA's P&LO National Quality Assurance Director is coordinating with VA National Acquisition Center FSS Assistant Director for Program Manager and Resource Support to provide customer service training to the VHA Acquisition community.
- **Strengthen oversight and monitoring for FSS healthcare staffing services procurements.** VHA's P&LO will strengthen oversight by having Service Area Organization and VISN Network Contract Quality Assurance Managers conduct quality reviews. Also, the P&LO National Compliance Director will conduct contract file audits to ensure compliance with Federal Acquisition Regulations (FAR) requirements. The information gathered from the reviews and audits will be submitted to P&LO Deputy Chief Procurement Officer, and it will be used to monitor compliance with applicable FAR requirements.

Page 2

Office of Inspector General (OIG) Draft Report, Audit of Veterans Integrated Service Network (VISN) Procurement Practices for Federal Supply Schedule (FSS) Professional and Allied Healthcare Staffing Services (Project No. 2008-00270-R7-0143, WebCIMS 454195)

- **Instruct medical facility staff on the prohibitions against unauthorized commitments.** VHA's P&LO will work with the DUSHOM to issue a memorandum to VISN Directors instructing medical facility staff on the prohibitions against unauthorized commitments. Also, each medical center will conduct training on unauthorized commitments.
- **Evaluate the healthcare staffing orders where facilities exceeded the FSS NTE rates to determine if any improper payments can be recovered.** VHA's P&LO will conduct an audit and will issue bill of collections for all improper payments identified.

3. Thank you for the opportunity to review the draft report. A complete action plan to address the report's recommendations is attached. If you have any questions, please contact Linda H. Lutes, Director, Management Review Service (10B5) at (202) 461-7014.

(original signed by:)

Robert A. Petzel, M.D.

Attachment

to provide customer service training to the VHA acquisition community. This training includes modules on FSS health care staffing service orders prices; establishment and administration of healthcare staffing service orders; and competition requirements. The P&LO National Quality Assurance Director will ensure that each Network Contracting Activity Training Officer ensures contracting officers on their assigned teams are trained in the recommended areas.

In process September 30, 2010

Recommendation 3. We recommend the Under Secretary for Health have the P&LO strengthen oversight and monitoring for FSS healthcare staffing services procurements to ensure the proper review of order prices, the correct reimbursement of travel expenses, and compliance with applicable FAR requirements.

VHA Comments

Concur

The P&LO will strengthen oversight by having Service Area Organization and VISN Network Contract Quality Assurance Managers conduct quality reviews. In addition, the P&LO National Compliance Director will conduct contract file audits to ensure compliance with FAR requirements. The information gathered from the reviews and audits will be submitted to the P&LO Deputy Chief Procurement Officer, and the information will be used to monitor compliance with applicable FAR requirements.

In process September 30, 2010

Recommendation 4. We recommend the Under Secretary for Health instruct medical facility staff on the prohibitions against unauthorized commitments.

VHA Comments

Concur

P&LO will work with the DUSHOM to issue a memorandum to VISN Directors instructing medical facility staff on the prohibitions against unauthorized commitments. In addition, each medical center will conduct training on unauthorized commitments by September 30, 2010. P&LO will certify to DUSHOM when training is complete.

In process September 30, 2010

Recommendation 5. We recommend the Under Secretary for Health have the PLO evaluate the identified healthcare staffing services orders where facilities exceeded the FSS NTE rates to determine if any improper payments can be recovered.

VHA Comments

Concur

The P&LO will conduct an audit and will issue bill of collections for all improper payments identified.

In process

September 30, 2010

Veterans Health Administration
May 2010

OIG Contact and Staff Acknowledgments

OIG Contact	Janet Mah (310) 268-4335
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Acknowledgments	Andrea Chinchilla Milan Gokaldas Herlin Guerra-Sagastume Andrew Hamilton John Powers Danny Rico Theodore M. Smith Lee Giesbrecht, OIG Statistician
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