

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Veterans Health Administration

*Audit of
Support Service
Contracts*

November 19, 2014
12-02576-30

ACRONYMS AND ABBREVIATIONS

A&A	Advisory and Assistance
COR	Contracting Officer's Representative
eCMS	Electronic Contract Management System
FAR	Federal Acquisition Regulations
FPDS	Federal Procurement Database System
FY	Fiscal Year
IGCE	Independent Government Cost Estimate
IOP	Integrated Oversight Process
OIG	Office of Inspector General
VA	Veterans Affairs
VHA	Veterans Health Administration

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Report Highlights: Audit of VHA's Support Service Contracts

Why We Did This Audit

In fiscal year (FY) 2012, the Office of Management and Budget stated Government spending for support service functions quadrupled over the past decade. Previous Office of Inspector General audits identified recurring systemic deficiencies in virtually all phases of the Veterans Health Administration's (VHA) contracting processes. VHA's support service contract costs increased 60 percent from approximately \$503 million for about 5,100 contracts in FY 2012 to just over \$805 million for about 4,700 support service contracts in FY 2013. We determined whether staff adequately developed, awarded, and monitored VHA support service contracts.

What We Found

VHA did not have effective internal controls or follow existing controls to ensure adequate development, award, monitoring, and documentation of support service contracts. Within our statistical sample of 95 support service contracts, we found 1 or more contract deficiencies in each. The contract deficiencies included insufficient documentation of key contract development and award decisions, assurance that paid invoice amounts were correct and funds were de-obligated following the contract completion, and a complete history of contract actions in VA's mandatory Electronic Contract Management System.

These deficiencies occurred because VHA management did not have an effective quality assurance program, Integrated Oversight Process reviews were not

completed, and contracting officers did not delegate and meet with contracting officers' representatives as required. If VHA does not take timely action to improve its support service contracting processes, we estimated it will inappropriately compete, award, and manage contract funds totaling \$159 million annually or \$795 million over the next 5 years through FY 2019.

What We Recommended

We recommended VHA improve their quality assurance and training programs, revise and complete Integrated Oversight Process reviews, objectively evaluate contracting officer's performance, and ensure contracting officers' representatives are delegated and met with quarterly.

Agency Comments

The Under Secretary for Health concurred with our recommendations and provided an acceptable action plan. We will follow up on the implementation of the corrective actions.

A handwritten signature in black ink that reads "Linda A. Halliday".

LINDA A. HALLIDAY
Assistant Inspector General
for Audits and Evaluations

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INTRODUCTION

Objective

The Office of Inspector General (OIG) conducted this audit to determine whether Veterans Health Administration (VHA) staff adequately developed, awarded, and monitored support service contracts.

VHA Support Service Contracts

In fiscal year (FY) 2012, the Office of Management and Budget issued a memo that reported Government spending for support service functions quadrupled over the past decade. OIG has identified weaknesses in VA's procurement practices as a major management challenge since 2005. Based on data from VA's Electronic Contract Management System (eCMS) and the Federal Procurement Data System (FPDS), we determined that VHA's support service contract costs increased 60 percent from approximately \$503 million for about 5,100 contracts in FY 2012 to just over \$805 million in FY 2013 for about 4,700 contracts.

VHA's Procurement and Logistics Office oversees contracts using three Service Area Offices (East, Central, and West), which are responsible for operations, oversight, and support of the 23 contracting offices. The FPDS manual categorizes support services as administrative, management, and professional services. Examples of support services include: evaluation, analysis, consulting, and technical assistance.

eCMS

VA's eCMS provides a centralized database for procurement actions and is VA's "Official Contract of Record." VA requires its acquisition workforce to use eCMS when soliciting for, awarding, or administering contract awards to establish a historical record of the contract actions. As of November 29, 2010, VA required staff to maintain contract documentation in eCMS for procurement actions valued at \$3,000 or more.

Related OIG Reports

Previous OIG audits have identified recurring systemic deficiencies in virtually all phases of VA's contracting processes relating to contract development, award, and monitoring.

- *Audit of VA's Technology Acquisition Center Contract Operations* (Report No. 12-02387-343, September 27, 2013)
- *Audit of National Cemetery Administration's Contracting Practices* (Report No. 12-00366-339, September 26, 2013)
- *Audit of Veterans Integrated Service Network Contracts* (Report No. 10-01767-27, December 1, 2011)
- *Audit of VA Electronic Contract Management System* (Report No. 08-00921-181, July 30, 2009)

Other Information

- Appendix A provides details on our scope and methodology.
- Appendix B provides our statistical sampling methodology.
- Appendix C provides explanation of the potential monetary benefits.

RESULTS AND RECOMMENDATIONS

Finding

VHA's Support Service Contract Development, Award, Monitoring, and Documentation Needs Strengthening

VHA did not have effective internal controls or follow existing controls to ensure adequate development, award, monitoring, and documentation of support service contracts. We reviewed a statistical sample of 58 competitive contracts and 37 noncompetitive contracts; we found 1 or more contract deficiencies in each of the 95 support service contracts we reviewed.

- Contract files did not always have sufficient evidence to support source selection, price reasonableness determinations, and required approvals for advisory and assistance (A&A) services.
- Contracting officers did not ensure contracts complied with key aspects of the contract award process, such as signing of contracts before the contracts' effective date or safeguarding that awards did not use prohibited contracting practices.
- Contracting officers did not ensure paid invoice amounts were correct and funds were de-obligated following contract completion.
- Contracting officers did not consistently include a complete history of contract actions in VA's mandatory eCMS.

These deficiencies occurred because VHA did not implement an effective quality assurance program or ensure contracting officers complete Integrated Oversight Process (IOP) reviews on all required contracts. Additionally VHA did not make sure contracting officers delegated and met with contracting officer's representatives (COR) on required contracts. As a result, we projected:

- VHA awarded 1,400 contracts without adequate source selections that could have saved \$17.6 million, and it awarded 810 contracts using prohibited contracting practices totaling \$122.7 million.
- VHA did not pay invoice amounts correctly or de-obligate completed contract funds properly for 790 contracts with errors totaling \$18.6 million.

If VHA does not take action, we estimated it will inappropriately compete, award, and manage support service contract funds totaling \$159¹ million annually for support service contracts or \$795 million over the next 5 years through FY 2019.

¹ We rounded \$158.9 million for the three monetary categories to \$159 million.

Contract Development Procedures Were Not Followed

Contracting officers did not ensure contracts complied with important aspects of the contract development process for 45 unique contracts of the 95 contracts (47 percent) reviewed. The contract development phase is critical to achieve the outcomes sought by the requesting entity and facilitates the effective award and management of the contract. We found that contracting officers did not:

- Follow appropriate source selection procedures
- Adequately document price reasonableness determinations
- Obtain A&A approvals

From these 45 contracts, we identified 64 deficiencies with 17 contracts having multiple deficiencies. The Federal Acquisition Regulation (FAR) requires all contracts to follow prescribed source selection procedures. In addition, some contracts require price reasonableness determinations and A&A approvals. Table 1 shows the number of contracts from our sample of competitive and noncompetitive contracts where contracting officers did not comply with key aspects of the contract development process.

Table 1. Summary of Contract Development Deficiencies

Type of Deficiency	Number of the 58 Competitive Contracts With Deficiencies	Number Required for the 58 Competitive Contracts	Number of the 37 Noncompetitive Contracts With Deficiencies	Number Required for the 37 Noncompetitive Contracts
Source Selection	10	58	19	37
Price Reasonableness Determination	9	56	8	25
A&A Approval	16	18	2	3
Total Deficiencies	35		29	

Source: VA OIG review results

Inadequate Source Selection Documentation

VHA contracting officers did not document appropriate source selection procedures to include the rationale for their selection decision. Source selection procedures differ depending on whether the contract was competitive or noncompetitive.

Of the 58 sample competitive contracts, 10 contracts (17 percent) valued at approximately \$3.1 million did not contain sufficient documentation to support the source selection. The FAR states the award decision should be

based on evaluation factors that provide meaningful comparisons with relation to price or cost, quality, past experience, and other factors that affect contract award.

Contracting officers did not document, or in some cases conduct, evaluations when selecting sources for competitive contracts. For some of these competitive contracts, VHA staff provided us emails or statements indicating the selected contractors were preselected and the competition process was just a façade to avoid higher level reviews and questions. For example, a contracting officer awarded a contract for about \$150,000 for consulting services to provide assistance, structure, and experience for an organizational efficiency planning and implementation project.

The contracting officer stated he posted the solicitation on e-Buy² and four vendors provided proposals. Although the contracting officer established the evaluation criteria for review of the proposals, he could not provide us any documentation that the evaluation occurred. He explained there was no evaluation documentation because his supervisor wanted the selected contractor to get the contract.

Of the 37 noncompetitive contracts reviewed, 19 contracts (51 percent) valued at approximately \$5 million did not contain sufficient documentation to support the source selection. Contracting officers did not adequately document the justification for selecting the sources for noncompetitive contracts. The FAR requires a contracting officer to prepare a written justification when awarding a contract through other than full and open competition. For contracts that require written justification, the contracting officer must certify that the information is complete and accurate. Proper justifications for developing and awarding a noncompetitive contract include:

- Only one responsible source will satisfy agency requirements
- An unusual and compelling urgency
- Interest of national security
- Industrial mobilization; engineering, development, or research capability; or expert services
- International agreement
- Authorized or required by statute
- Public interest

² e-Buy is an electronic request for quote/proposal system designed to allow Government buyers to request information and obtain bids for products and services.

The following is an illustration of an inadequate justification for selecting the source for noncompetitive contracts.

A contracting officer awarded a sole-source contract for database subscription services because the requesting program office wanted to purchase this service from the selected vendor. However, no information was provided to support that this contractor was the only vendor that could provide this service. According to the contracting officer, the sole-source justification provided was the request from the program office and not a formal justification and approval. The contracting officer said she just accepted the vendor the program office requested. The contracting officer admitted she should have conducted independent research to determine whether the request was reasonable, and if deemed appropriate, prepared a formal justification and obtained the network contract manager's approval. In our view, the contracting officer did not meet the requirements of her warrant.

VHA's Procurement and Logistics Office has a Procurement Audit Office that is responsible for conducting compliance reviews of contracts. In FY 2013, the Procurement Audit Office reported similar problems with source selection. They found 46 percent of competitive contracts and 36 percent of noncompetitive contracts did not have the appropriate source selection justification in the file.

Source selection requirements are established to maximize competition to the greatest extent and ensure the Government receives the best value (pricing and other factors considered). We projected that source selection requirements were not properly followed for 1,400 contracts valued at \$88.2 million from the universe of over 3,300 contracts (42 percent). In our *Audit of VA's Technology Acquisition Center Contract Operations*³, VA's Office of Acquisition Operations Executive Director agreed that 20 percent was a reasonable expectation of savings when contracts are properly competed. Using an estimated savings rate of 20 percent, we projected VHA could save \$17.6 million (\$88.2 million x .20) by properly competing support service contracts. In addition, competition drives better quality.

*Price
Reasonableness
Determinations
Insufficient*

VHA contracting staff did not always prepare adequate price reasonableness determinations, when required. This step in the contracting process is fundamental and necessary to build integrity into the procurement process. FAR requires contracting officers to purchase services at prices that are fair and reasonable, and document the determination or their decisions for the basis of award. Contracting officers can determine price reasonableness from independent Government cost estimates (IGCEs), comparison of proposed prices in response to the solicitation, market research, knowledge

³*Audit of VA's Technology Acquisition Center Contract Operations* (Report No. 12 02387-343, September 27, 2013)

from recent purchases, and any other reasonable basis. However, contracting officers did not always sufficiently document how they determined price reasonableness.

- Of 56 sample competitive contracts, 9 contracts (16 percent) valued at approximately \$3.3 million did not contain sufficient price reasonableness determinations.
- Of 25 noncompetitive contracts, 8 contracts (32 percent) valued at approximately \$4.3 million did not contain sufficient price reasonableness determinations.

The remaining 14 contracts in our sample did not require a price reasonableness determination because the General Services Administration had already determined price reasonableness or acquisitions were from mandatory sources authorized through legislation. The following is an example of an insufficient price reasonableness determination.

A contracting officer used an IGCE of \$500,000 to conclude that a competitive contract awarded to a vendor with a cost of \$225,168 to update computer-aided drawings was a reasonable price. However, there was no support for the \$500,000 amount. The COR told us that the requested \$500,000 IGCE was based solely on funding available and not on an estimate of the cost. Market research for the competitive contract identified four potential vendors; however, there was no evidence that the contracting officer attempted to solicit a bid from the other three vendors. Compounding this deficiency and causing us to further question this contract award, the COR confirmed and provided a string of emails revealing the contractor was preselected.

We identified price reasonableness errors of 16 percent and 32 percent for the competitive and noncompetitive contracts, respectively. However, in FY 2013, VHA's Procurement Audit Office reported that 40 percent of the reviewed contract files did not contain an adequate price reasonableness determination. Without adequate price reasonableness determinations, VHA lacks assurance that it is purchasing services at prices that are fair and reasonable. Further, weaknesses in these controls place contracting officers and program staff at increased risk of allegations of contract steering or other inappropriate actions.

*A&A
Approvals*

VHA's contracting staff did not always obtain the required approvals for A&A services prior to contract award. A&A service contracts are useful when expertise is required, but the need is not great enough to justify hiring a staff person to perform the function. These contracts include those designed to support or improve organizational policy development, decision making, management and administration, program and/or projected management, research and development activities, and professional advice and assistance.

Deliverables from A&A contracts may include information, advice, opinions, evaluations, recommendations, training, and the day-to-day aid of support personnel. The FAR requires the agency head to ensure that agency personnel with requisite training and capabilities are not available to perform the services being acquired. VHA procurement standard operating procedures require the Under Secretary for Health to sign approvals for A&A contracts over \$550,000, and the Chief Procurement and Logistics Officer to sign approvals for all other A&A contracts. The FAR requires contracting officers to ensure A&A determinations are made. These requirements help mitigate potential conflicts of interest, ensure the Government is not contracting for personal or inherently governmental services, and minimizes overreliance on contractors for critical activities related to the mission and operations.

Of the 95 sample contracts, we identified 18 competitive and 3 noncompetitive A&A service contracts. Only 2 of the 18 competitive contracts with A&A services were properly approved. For the remaining 16 contracts (89 percent) valued at approximately \$19.2 million, contracting officers awarded 8 contracts without approvals from the Under Secretary of Health and 8 contracts without approvals from the Chief Procurement and Logistics Officer. The following is an example of a competitive A&A contract not properly reviewed and signed at the appropriate level.

A contract was awarded to provide business process analysis to support VHA's Chief Business Offices. Some of the contracted services included collaborating in the development of business processes and facilitating sessions to elicit strategic direction and business requirements. According to the contracting officer, she did not consider whether these were A&A services. She said that A&A definitions were not clear, and therefore she tried to avoid awarding A&A contracts. As a result, this contract valued at approximately \$7.5 million was awarded without the Under Secretary for Health's signature.

Of the three noncompetitive A&A contracts, two contracts (67 percent) valued at approximately \$473,000 were not approved by the Chief Procurement and Logistics Officer prior to the contracting officer awarding the contract. The following is an example of a noncompetitive A&A contract not properly reviewed and signed at the appropriate level.

A sole-source contract was awarded for \$99,126 without the approvals for the sole-source and A&A service justifications. The contract provided onsite financial management services and assistance with complex financial activities, including budgeting, accounting, and financial reporting. The contracting officer did not obtain the necessary approvals for the sole-source justification or the A&A justification. The requesting office designated the services as A&A

and prepared a formal justification with concurrence from the Human Resource Office. However, they did not obtain approval from the Chief Procurement and Logistics Officer, and the contracting officer did not ensure this approval was completed before awarding the contract.

Contract Award Procedures Were Not Followed

Contracting officers did not ensure contracts complied with key aspects of the contract award process for 63 of the 95 contracts (66 percent) reviewed. The contract establishes the record of an agreement between the two or more parties that is enforceable by law. VHA's procurement manual requires contracting officers to sign contracts prior to the contractor beginning work. Further, the FAR requires contracting officers to ensure contracts are in the Government's best interest, requirements have been met, and sufficient funds are available. For example, to avoid unauthorized commitments, the FAR requires the contracting officer award the contract before the contractor can begin providing services. For these 63 contracts, we identified 80 deficiencies, with 17 contracts having multiple contract award deficiencies. Table 2 shows the number of contracts affected by each award deficiency.

Table 2. Summary of Contract Award Deficiencies

Type of Award Deficiency	58 Competitive Contracts	37 Noncompetitive Contracts
Signature Deficiencies	30	29
Prohibited Contract Practice Deficiencies	11	10
Total Deficiencies	41	39

Source: VA OIG review results

Unsigned Contracts

Contracting officers did not sign contract documents or the document before the contract effective date for 59 contracts (62 percent) valued at about \$25.9 million from the 95 sampled contracts. Signed contracts provide the Government and the contractor with a legal document stating the expectations of both parties. A contract is important because it protects both parties from misinterpretation of the contract terms.

- Of 58 sample competitive contracts, we could not find signed contract documents or contracts were not signed before the contract's effective date for 30 contracts (52 percent) valued at approximately \$17.9 million.
- Of 37 sample noncompetitive contracts, we could not find signed contract documents or contracts were not signed before the contract's effective date for 29 (78 percent) contracts valued at approximately \$8 million.

In FY 2013, VHA's Procurement Audit Office reported 41 percent of the reviewed contracts were not signed. Although 41 percent appears to be better than our reported 62 percent, one contracting officer told us that revising and backdating documents was a common practice to prepare for VHA's quality assurance reviews. Ensuring that contracting officers sign contracts prior to the effective date and uploading them in eCMS needs to be a priority for VHA. Without a signed contract, VHA is at risk of potential legal actions with a contract that may be unenforceable. In addition, the signature serves as an accountability measure to prevent misuse of appropriated funds.

*Contracts
Awarded by
Prohibited
Practices*

Of the 95 sample contracts reviewed, contracting officers awarded or processed 21 contracts or contract modifications (22 percent) totaling approximately \$14.3 million through prohibited contracting practices. These prohibited practices included contracting officers extending contracts beyond contract terms or the FAR, orders placed against expired contracts, improper personal and inherently governmental service contracts, and contracts awarded without a bona fide need.

- Of 58 sample competitive contracts, 11 contracts or contract modifications (19 percent) valued at about \$9.6 million were awarded using prohibited contracting practices.
- Of 37 sample noncompetitive contracts, 10 contracts or contract modifications (27 percent) valued at approximately \$4.7 million were awarded using prohibited contracting practices.

The following are examples of contract actions awarded by prohibited contracting practices.

- A contracting officer awarded a purchase order for approximately \$59,400 for home oxygen services in August 2012. However, the contracting officer used an expired contract to place the order. We determined the contracting officer improperly extended the contract at least 22 times from the time the contract expired in August 2010 through August 2012.
- A contracting officer violated the *bona fide* needs rule for a contract awarded to develop business process software for the health care enrollment system on September 30, 2011, obligating approximately \$1.2 million from FY 2010 appropriated funds. However, the contractor did not agree to the contract terms until January 12, 2012, and then signed the contract and requested it to start effective January 16, 2012. Since FY 2010 appropriated funds were used for a contract that was not effective until FY 2012, this violated the bona fides need rule that mandates a fiscal year's appropriations be obligated only to meet a legitimate or bona fide need arising in the fiscal year that the appropriation was made.

Ensuring orders and extensions are placed against valid contracts with appropriate clauses is essential to adhering to the FAR and providing VHA with maximum competition and the best value. Additionally, certain contracts for services are prohibited in cases where contracts are so intimately tied to the public's interest that they must be performed by Federal employees to avoid potential conflicts of interest and ensure decisions are in the Government's best interest. We projected contracting officers awarded 810 contracts (24 percent) totaling \$122.7 million that were prohibited by contracting criteria and regulations.

Monitoring of Contractor Performance Needs Improvement

Contracting officers did not ensure paid invoice amounts were correct and funds were de-obligated following the contract completion.

- Of the 58 sample competitive contracts, we identified paid invoice and de-obligation errors totaling about \$1.5 million for 18 contracts (31 percent) valued at approximately \$17.5 million.
- Of the 37 sample noncompetitive contracts, we identified paid invoice and de-obligation errors totaling approximately \$524,000 for 9 contracts (24 percent) valued at approximately \$8.4 million.

According to VHA's Procurement Standard Operating Procedures, the CORs must validate invoices against terms of the contract, certify valid invoices for payment, and notify the contracting officer within 3 days if invalid. The FAR requires closeout of the contract after receiving evidence of completion. Closeout procedures must include a review of the contract funds and de-obligation of excess funds. The following examples further illustrate weaknesses associated with these monitoring controls.

- VHA awarded a contract for 13 months of program coordination services for VHA's National Center for Health Promotion and Disease Prevention. We reviewed time sheets and determined that the COR certified invoices paying the contractor for personal time off. However, the contract terms explicitly stated that VHA would only pay for services performed under the contract. The COR agreed that VHA overpaid the contractor \$26,542. The COR stated that generated bills of collection to recoup the overpayment were sent to the contractor on January 23, 2014.
- A metered mail contract had about \$131,000 of excess postage funds remaining when the contract expired September 30, 2012, and VHA awarded a new contract to a different vendor. When we inquired about the remaining excess funds, the program office official told us she was not aware of the process to de-obligate funds and would contact Fiscal Service. In January 2014, Fiscal Service staff sent a bill of collection to the previous vendor and in February 2014, received the remaining balance of approximately \$131,000.

Contracting staff improperly paid invoices and did not de-obligate funds for completed contracts for a projected 790 contracts (24 percent). VHA could have saved \$18.6 million through better invoice and fund management.

**Contract
Documentation
Missing in
eCMS**

VHA contracting officers did not always include contract documentation in eCMS to provide a complete history of contract awards. We identified documentation was missing in eCMS for 53 of the 58 competitive contracts (91 percent) and all of the 37 noncompetitive contracts. Some of the more significant required contract documentation missing from eCMS included:

- Signatures for contracts and modifications
- IGCEs for required contracts
- Documents showing competition or justifications and approvals for other than full and open competition
- Price reasonableness determinations
- Base contracts used to establish task or delivery orders

FAR and VA acquisition policies require contract files to include documentation to support key activities in contract development. While the FAR allows agencies to retain contract files in any storage medium, VA transitioned from a hard copy-based contracting process to eCMS in 2007. In November 2010, the Office of Acquisitions and Logistics mandated use of eCMS for all procurement actions valued at or above \$3,000. Implementation of eCMS was intended to improve contract processing by promoting uniformity in contracts, improving capability of consolidating requirements, and providing a secure electronic archiving system.

After we briefed VHA contracting officials of our audit results, VHA contracting staff provided us with signed contracts or modifications not recorded in eCMS. Since contracting staff previously stated that they could not provide these documents, we contacted four contracting officers who all admitted they signed the contracts after the fact enabling them to provide us with a signed version, albeit a falsified version of the document. In these instances the integrity of contracting practices is clearly eroded to the point contract information cannot be relied upon and accountability measures need to be put in place to prevent similar activities in the future.

Since July 2009, the OIG issued multiple reports describing problems with contracting staff failing to maintain documentation in eCMS. Additionally, in FY 2013, VHA's Procurement Audit Office conducted seven audits of contracting offices and reported that all seven offices were not documenting their contract actions in eCMS. To ensure the highest level of system and data integrity, VHA needs to strengthen compliance with the mandatory use of eCMS to correct this systemic problem.

Successful Government contracting requires documenting and maintaining a record of key decisions and contract terms. These critical documents provide the support necessary to ensure the Government receives what it pays for and contracts can withstand protests and other legal disputes.

Improved Oversight Needed

The recurring systemic deficiencies associated with development, award, monitoring, and documentation of contracts occurred because:

- VHA did not have an effective quality assurance program to ensure identified contracting issues were corrected.
- IOP reviews designed to build quality into contracts and improve the contracting process were not completed.
- Contracting officers did not always delegate CORs or meet with them quarterly as required. This process was put in place to build quality into VA's contract actions.

VHA Needs To Improve Quality Assurance and Performance Evaluation Efforts

VHA did not have an effective quality assurance program or mechanism for evaluating contracting officer performance. VHA's Procurement and Logistics Office defines quality assurance as an integrated systematic program designed to plan, implement, monitor, establish, and correct processes. Although VHA conducted numerous compliance reviews, there was no office consistently overseeing and ensuring that contracting quality was improving.

We found quality assurance efforts among contracting offices varied, and none conducted quality reviews until the end of FY 2013. At that time, the Central Service Area Office initiated a surveillance plan to conduct qualitative reviews of sampled contracts. However, there was no planned oversight or follow up to ensure corrective actions were implemented or effective.

In FY 2011, VHA's Procurement Audit Office formalized its process and began completing compliance audits for each of the contracting offices on a 3-year cycle. The office director stated these audits focused on compliance with FAR and VA acquisition regulations to ensure documentation was present and signed. However, the audits did not include a determination of whether the documentation was sufficient to support the contract decisions and met FAR and VA acquisition requirements, such as including required contract clauses or sole-source justifications.

The office director stated that following each audit, the audited contracting office's leadership was responsible for developing its own corrective action plans and following up on areas with identified deficiencies. However, the director further stated the procurement audit office was not responsible for ensuring the plans were effective. Rather, they relied on the quality

assurance to ensure staff at the 3 Service Area Offices and 23 contracting offices correctly implemented the plans.

Additionally, VHA did not have an effective method for evaluating contracting officer performance and identify training needs for the types of contracting deficiencies we identified. VHA managers evaluated contracting officers' performance based on multiple measures included in four different elements—contract formulation, contract administration, customer service/teamwork, and communication. To receive a fully successful evaluation, a contracting officer must meet the specified standard contained in the performance plan. For example, a contracting officer must maintain complete documentation in eCMS for 95 percent of the contracting officer's awarded contracts. Contracting supervisors told us there was no mechanism to capture the data necessary to determine whether a contracting officer achieved the required percentages.

VHA needs to have a comprehensive quality assurance program to ensure contracting offices correct processes for identified deficiencies and improve contracting quality. This program should, at a minimum, include the ability to evaluate key aspects of contract development, award, monitoring, and documenting such as source selection, price reasonableness, A&A approvals, contract signatures, use of valid contracts, and adequate oversight of paid invoices and de-obligation of completed contract funds. An effective quality assurance program would provide VHA the ability to consistently evaluate contracts and trend results, evaluate contracting officer performance, identify training opportunities, and consider necessary policy or procedure revisions.

*VHA Needs To
Conduct and
Modify IOP
Reviews*

IOP reviews designed to improve contract quality were not always completed. Oversight of contract reviews was transferred from VA's Office of Acquisition and Logistics to the heads of each of the contracting activities in June 2009, when VA established the IOP. We found 52 of the 58 sample competitive contracts required an IOP review. Of the 52 competitive contracts requiring IOP reviews, VHA staff did not conduct or properly complete reviews for 33 contracts (63 percent) valued at about \$24.8 million. Additionally, 35 of the 37 sample noncompetitive contracts required an IOP review. Of the 35 noncompetitive contracts requiring IOP reviews, VHA staff did not conduct or properly complete reviews for 28 contracts (80 percent) valued at approximately \$8 million.

The IOP promoted quality throughout the acquisition cycle and required each contracting activity to commit the time and resources needed to conduct contract reviews. The IOP also held contracting officers responsible for building quality into the acquisition process. Depending on the type and estimated value of the contract and what was being procured, the process required a peer review or second-level review, Contract Review Team, or Contract Review Board to evaluate the contract.

We found that IOP reviews did not contain a step to evaluate whether a contract included A&A services. In addition, only one of VHA's multiple IOP review templates for services contained a step to determine whether the contract received the correct A&A approval. Of the 18 contracts we identified with an A&A approval issue, 10 of them (56 percent) had already received an IOP review. Even though these 10 had received an IOP review, there was no indication on the review that A&A services were not properly approved.

For FY 2013, VHA's Procurement Audit Office reported that only 64 percent of contracts over \$25,000 requiring an IOP review had an IOP review in the contract file. Contracting staff may have prevented many of the problems we found had they completed the required IOP reviews. We determined that contracts without required IOP reviews had three times as many source selection issues, and all had issues with price reasonableness determinations. VHA needs to ensure IOP reviews are completed and add IOP review steps to verify A&A approvals.

*Contracting
Officers Need
To Delegate
and Meet With
CORs*

Contracting officers did not always delegate CORs or meet with them quarterly as required. VHA requires contracting officers to appoint a COR for all health care services contracts. These delegations authorize the COR to perform the administrative duties of the contract to include monitoring contractor performance. For the 55 competitive contracts requiring a COR, we identified COR delegation letters for 39 contracts (71 percent). For the 27 noncompetitive contracts requiring a COR, we only identified delegation letters for 8 contracts (30 percent).

We determined that a COR delegation was not required for 13 contracts generally because they were one-time purchase service contracts, such as replenishing mail meters or purchasing online subscriptions for medical reference materials. Since CORs have the primary responsibility of ensuring services are received in accordance with the contract terms, they are required to certify compliance with contract requirements prior to payment and maintain documentation related to communication with the contractor and contracting officer.

Contracting officers did not meet with the delegated COR quarterly as required by VHA criteria. Quarterly meetings should be documented and include reviewing and discussing contract progress and invoices. Contracting officers are required to place a summary of the COR's meeting minutes in eCMS. Some contracting officer and CORs stated they communicated with each other during the pre-award process, but once the contract was awarded, there was little to no communication unless there was an issue with contractor performance. We identified a significant number of contracts where quarterly meetings did not occur, as well as a number of monitoring issues with those contracts.

- Of the 39 competitive contracts with delegated CORs, 33 (85 percent) did not meet at least quarterly with the contracting officer. We identified monitoring issues with 16 of the 33 contracts (48 percent) where CORs did not meet with the contracting officer quarterly.
- Of the eight noncompetitive contracts with delegated CORs, six (85 percent) did not meet at least quarterly with the contracting officer. We identified monitoring issues with three of the six contracts (50 percent) where CORs did not meet with the contracting officer quarterly.

VHA needs to ensure contracting officers delegate and meet with CORs as required by VHA criteria.

Conclusion

The contracting issues we identified with the lack of accountability and internal controls are concerning, considering VHA has increased its reliance on support service contracts. We projected that 3,200 of the 3,300 support service contracts (96 percent) had at least 1 development, award, monitoring, or documentation deficiency. In addition, we projected VHA improperly paid \$159 million, which included \$17.6 million from inadequate source selections, an additional \$122.7 million from contracts awarded by prohibited contracting practices, and another \$18.6 million from not properly managing invoices and obligated funds.

VHA's support service contract costs continued to increase, from approximately \$503 million in FY 2012 to just over \$805 million in FY 2013. The deficiencies we identified place VHA at risk for potential protests, legal claims, and questionable spending. VHA needs to correct these deficiencies by improving controls and oversight to mitigate these risks. If VHA does not take timely action to improve its support service contracting processes, we estimated it could inappropriately compete, award, and manage funds for contracts totaling \$795 million over the next 5 years through FY 2019.

Recommendations

1. We recommended the Interim Under Secretary for Health implement a quality assurance program that provides sufficient oversight to ensure that contracting issues are corrected by the responsible contracting office.
2. We recommended the Interim Under Secretary for Health implement a mechanism to facilitate and ensure contracting officers' performance can be objectively evaluated against their performance standards.
3. We recommended the Interim Under Secretary for Health monitor contracting officer performance deficiencies and ensure training is provided to correct identified deficiencies.

4. We recommended the Interim Under Secretary for Health ensure contracting staff complete Integrated Oversight Process reviews in accordance with established policies and contracting officers' performance standards.
5. We recommended the Interim Under Secretary for Health revise Integrated Oversight Process review procedures to include a review to ensure Advisory and Assistance services are identified and approved.
6. We recommended the Interim Under Secretary for Health ensure that contracting officers delegate in writing contracting officers' representatives requirements and authorities to monitor contracts, as required by Federal and VA acquisition policy and contracting officers' performance standards.
7. We recommended the Interim Under Secretary for Health ensure that contracting officers conduct and document quarterly meetings with contracting officers' representatives as required by VA acquisition policy.

**Management
Comments**

The Interim Under Secretary for Health concurred with our recommendations and reported that VHA's Procurement and Logistics Office will revise the quality assurance program, develop contracting officer performance standards that can be objectively evaluated, and develop a plan for reporting performance deficiencies that will allow the national training officer to develop an annual training plan.

In addition, the Procurement and Logistics Office will ensure contracting staff complete required IOP reviews and revise IOP review procedures to ensure contracts with A&A Services are properly identified and approved. Lastly, the Procurement and Logistics Office will revise the COR standard operating procedures to ensure proper delegation and monitoring is occurring, program roles and responsibilities are clearly defined, and contracting officers meet with the delegated COR quarterly and document these meetings.

OIG Response

VHA's planned corrective actions are responsive. We will monitor VHA's progress and follow up on the implementation of our recommendations until all proposed actions are completed. Appendix D provides the full text of the Interim Under Secretary for Health's comments.

Appendix A Scope and Methodology

Scope

We conducted our audit work from October 2012 through September 2014. Our audit focused on evaluating the development, awarding, and monitoring of VHA's support service contracts over \$10,000. Our audit universe included approximately 3,300 contracts valued at about \$494 million with the performance period initiated in FY 2012. The issuance of this report was delayed for several months as a result of the Government furlough and OIG decisions to redirect its staff and efforts to address patient wait time allegations at the Phoenix VA Health Care System and at VA health care facilities nationwide.

Methodology

We reviewed applicable laws, FAR and VA acquisition regulations, and VHA policies. We interviewed VHA management and staff to obtain an understanding of their contracting procedures.

To evaluate whether contracts were properly developed and awarded, we reviewed a statistically random sample of 95 contracts that were effective in FY 2012 with obligated values totaling about \$78.4 million. As part of each contract reviewed we evaluated available data in eCMS and interviewed contracting officers, CORs, and other contracting officials. During these interviews we requested information necessary to evaluate the appropriateness of contract development and award actions. We also discussed identified issues with VHA officials.

To evaluate contract monitoring efforts for these 95 contracts, we reviewed available data in eCMS and the Online Certification System, and interviewed contracting officers, CORs, and other VHA facility officials as necessary. During the interviews, we requested information necessary to evaluate the appropriateness of contract monitoring efforts and explanations for any identified payment or funding irregularities.

Fraud Assessment

The audit team assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur during this audit. The audit team exercised due diligence in staying alert to any fraud indicators by taking actions such as:

- Reviewing support for source selections to ensure they met competition requirements
- Reviewing determinations for price reasonableness to ensure fair pricing and best value
- Reviewing documentation for payments to ensure they were properly supported

We referred four contracts to OIG's Office of Investigations for potential fraud in selecting the vendor.

**Data
Reliability**

In performing our audit work, we relied on computer-processed data obtained from the FPDS, eCMS, and the Online Certification System. The FPDS is the Government's required reporting system for Federal agencies to input selected procurement data. VHA uses eCMS as its electronic contract filing system. The Online Certification System is VA's invoice payment processing system to electronically certify invoices for payment.

To test the completeness and accuracy of the data, we analyzed data fields and compared data between eCMS and the FPDS. We reconciled the data between the two systems, merged the data from each database, and eliminated duplicates to obtain a complete universe. Additional data reliability tests included steps to identify any missing data in key fields, calculation errors, and data outside of our period of review. Based on these tests and assessments, we concluded the data were sufficiently reliable for us to use to meet the audit's objective. However, the findings and conclusions of this report specifically address that we consider the information reported within eCMS to be incomplete.

**Government
Standards**

Our assessment of internal controls focused on those controls related to our 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 objectives.

Appendix B Statistical Sampling Methodology

To determine whether VHA adequately developed, awarded, and monitored support service contracts we sampled support service contracts (identified with an R product service code) with a performance period initiated in FY 2012.

Population

There were 5,096 support service contracts with a performance period initiated in FY 2012 valued at approximately \$503 million. We excluded 1,764 contracts with obligations greater than zero but below \$10,000 totaling about \$8.5 million. The sampled population consisted of 3,332 contracts valued at about \$494 million.

Sampling Design

As shown in Table 3 below, we stratified the population into four groups based on dollar amount. From each unique stratum, we used a statistical simple random sample. We designed the sampling plan to ensure all contracts had a chance of being selected and allowed for making a projection over the whole population. In total, the sample included 95 contracts effective in FY 2012 equal to or greater than \$10,000.

Table 3. Sample Size by Stratum

Stratum	Total Sample Size	Total Population at or Above \$10,000
1—\$10,000–99,999	19	2,282
2—\$100,000–999,999	55	978
3—\$1,000,000–2,999,999	11	61
4—At or above \$3,000,000	10 ⁴	11
Total	95	3,332

Source: VA OIG statistical sample selection from OIG statistician using data from eCMS and FPDS

Weights

We calculated estimates in this report using weighted sample data. Sampling weights are computed by taking the product of the inverse of the probabilities of selection at each stage of sampling.

Margins of Error and Projections

The margins of error and confidence intervals are indicators of the precision of the estimates. If we repeated this audit with multiple samples, the confidence intervals would differ for each sample but would include the true population value 90 percent of the time.

⁴ One contract was not limited to VHA. Since our scope was limited to VHA contracts we did not review this contract.

We projected that about 3,200 contracts had at least 1 error in development, award, monitoring, or documentation. We projected that source selections were not proper for 1,400 contracts totaling \$17.6 million ($\88.2×0.2), another 810 contracts totaling \$122.7 million were awarded using prohibited contracting practices, and invoices and obligated funds were not properly managed for 790 contracts with errors totaling \$18.6 million.

For those contracts that were not properly selected or competed, VHA may have been able to obtain the goods or services at a better price. In our Audit of VA's Technology Acquisition Center Contract Operations (Report No. 12-02387-343, September 27, 2013), VA's Office of Acquisition Operations Executive Director agreed that 20 percent was a reasonable expectation of savings when contracts are properly competed. Therefore, we used this conservative expected savings rate of 20 percent of the questioned dollars to estimate that VHA could have saved \$17.6 million.

VHA's support service contract costs increased 60 percent from approximately \$503 million in FY 2012 to just over \$805 million in FY 2013. If VHA does not take timely action to correct its support service contracting processes, we projected that over the next 5 years it will improperly compete, award, and manage funds totaling \$795 million.

Table 4 provides the estimates associated with contracting errors related to contract development, award, monitoring, and documentation deficiencies and total estimated potential monetary benefits.

Table 4. Projected Contracts and Values with Errors (\$ in millions)

Type of Error	Projected Contracts (Error %) ----- Questioned \$	Margin of Error	90% Confidence Interval Lower Limit	90% Confidence Interval Upper Limit	Error Number (Sample Size 95)
Contracts With at Least One Error	3,200 (96)	200	3,000	3,332	95
Contracts Awarded With Prohibited Practices	810 (24) ----- \$122.7	400 \$45.4	410 \$77.4	1,200 \$168.1	21
Improperly Managed Invoices and Obligated Funds	790 (24) ----- \$18.6	380 \$10.5	410 \$8.1	1,200 \$29.1	27
Improper Source Selection or Competition	1,400 (42) ----- \$88.2	460 \$31.6	950 \$56.6	1,900 \$119.8	29
Expected Savings Rate	20%	20%	20%	20%	
Expected Savings	\$17.6	\$6.3	\$11.3	\$24	
Total	\$159	\$47.8	\$111.1	\$206.8	

Source: OIG statistical analysis of contract data

Appendix C Potential Monetary Benefits in Accordance With Inspector General Act Amendments

Recommendations	Explanation of Benefits	Better Use of Funds	Questioned Costs
1-4, 6 and 7	Strengthen program controls to ensure contracts are properly developed, awarded, and monitored over the next 5 years.	\$795,000,000	\$0
Total:		\$795,000,000	\$0

Potential Monetary Benefit Calculation

Our estimate of potential monetary benefits comes from:

- Source selection requirements were not properly followed for 1,400 contracts (42 percent) valued at \$88.2 million from the universe of over 3,300 contracts. Using an estimated savings rate of 20 percent, we projected VHA could save \$17.6 million (\$88.2 million x .20) by properly competing support service contracts.
- Contracting officers awarded 810 contracts (24 percent) totaling \$122.7 million that were prohibited by contracting criteria and regulations.
- Invoice and fund management errors occurred for 790 contracts (24 percent) totaling \$18.6 million.

This equates to better use of funds totaling \$159 million (rounded by OIG statistician from \$158.9 million total of the 3 categories) annually or \$795 million over the next 5 years (\$159 million x 5 years).

Appendix D Interim Under Secretary for Health Comments

Department of Veterans Affairs

Memorandum

Date: October 16, 2014
From: Interim Under Secretary for Health (10)
Subj: OIG Draft Report, Veterans Health Administration: Audit of Support Service Contracts (VAIQ 7537403)
To: Office of Inspector General, Office of Audits and Evaluations (52)

1. I have reviewed the draft report and concur with the report's recommendations. Attached is the Veterans Health Administration's corrective action plan for recommendations 1-7.
2. Thank you for the opportunity to review the draft report. If you have any questions, please contact Karen Rasmussen, M.D., Director, Management Review Service (10AR) at VHA10ARMRS2@va.gov.



Carolyn M. Clancy, MD

Attachment

**VETERANS HEALTH ADMINISTRATION (VHA)
Action Plan**

OIG Draft Report: Audit of Support Service Contracts

Date of Draft Report: September 16, 2014

Recommendations/ Actions	Status	Completion Date
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OIG recommends that the Interim Under Secretary for Health

Recommendation 1. Implement a quality assurance program that provides sufficient oversight to ensure that contracting issues are corrected by the responsible contracting office.

VHA Comments: Concur

The Veterans Health Administration (VHA) Procurement and Logistics Office (P&LO) will redefine, redevelop, and implement a revised quality assurance (QA) program nationwide to include sufficient oversight to ensure identified issues are corrected.

To complete this action plan, VHA will provide documentation addressing oversight of QA program.

Status: In process	Target Completion Date: March 2015
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Recommendation 2. Implement a mechanism to facilitate and ensure contracting officers' performance can be objectively evaluated against their performance standards.

VHA Comments: Concur

VHA P&LO will develop contracting officer performance standards that can be objectively evaluated by contracting supervisor using the Electronic Contract Management System (eCMS).

To complete this action plan, VHA will provide documentation of the submittal of revised performance plans to the union for approval. Union approval to institute the plans could take up to a year and therefore will not be a deliverable. The expectation is that the new plans will be approved for implementation in fiscal year (FY) 2016.

Status: In process	Target Completion Date: March 2015
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Recommendation 3. Monitor contracting officer performance deficiencies and ensure training is provided to correct identified deficiencies.

VHA Comments: Concur

VHA P&LO will develop a plan for the reporting of performance deficiencies that will allow the National Training Officer to develop an annual training plan to coincide with the deficiencies identified.

To complete this action plan, VHA will provide the plan for reporting the deficiencies, and provide the FY15 National Training Plan that was develop based on internal audit results.

Status:
In process

Target Completion Date:
March 2015

Recommendation 4. Ensure contracting staff complete Integrated Oversight Process reviews in accordance with established policies and contracting officers' performance standards.

VHA Comments: Concur

VHA P&LO will ensure contracting staff understand and complete the required reviews in accordance with established policies. The completion of required Integrated Oversight Process (IOP) reviews will be part of the performance standards established in recommendation 2 and monitored by the individual supervisors.

To complete this action plan, VHA will provide the updated performance plans.

Status:
In process

Target Completion Date:
March 2015

Recommendation 5. Revise Integrated Oversight Process review procedures to include a review to ensure Advisory and Assistance services are identified and approved.

VHA Comments: Concur

VHA P&LO will revise IOP review procedures in the applicable internal VHA Standard Operating Procedures (SOP) to include a review to address the proper identification of Advisory and Assistance (A&A) contracts and ensure contracts with A&A Services are properly approved.

To complete this action plan, VHA will provide the revised IOP SOP.

Status:
In process

Target Completion Date:
March 2015

Recommendation 6. Ensure that contracting officers delegate in writing contracting officer's representatives requirements and authorities to monitor contracts, as required by Federal and VA acquisition policy and contracting officers' performance standards.

VHA Comments: Concur

VHA P&LO will revise the VHA Contracting Officer Representative (COR) SOP to ensure proper delegation and monitoring is occurring; program roles and responsibilities are clearly defined and standard practices are addressed for file reviews.

To complete this action plan, VHA will provide the revised COR SOP.

Status:
In process

Target Completion Date:
March 2015

Recommendation 7. Ensure that contracting officers conduct and document quarterly meetings with contracting officer's representatives as required by VA acquisition policy.

VHA Comments: Concur

VHA P&LO will revise the VHA COR SOP to ensure Contracting Officers (CO) meet with the delegated contracting officer's representative quarterly. The meeting will be documented and, at a minimum, will include reviews and discussions of contract progress and invoices. A CO/COR contract review template will be created to ensure important aspects of contractor performance are discussed and provide for consistent documentation of the quarterly meeting minutes that will be placed in eCMS.

To complete this action plan, VHA will provide the revised COR SOP and a CO/COR contract review template.

Status:
In process

Target Completion Date:
March 2015

Veterans Health Administration
October 2014

Appendix E Office of Inspector General Contact and Staff Acknowledgments

OIG Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
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Acknowledgments	Larry Reinkemeyer, Director Lance Kramer Brad Lewis Russ Lewis Meredith Majerle Ken Myers Dao Pham Carla Reid Jason Schuenemann Melanie Tsai Oscar Williams
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Appendix F Report Distribution

VA Distribution

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