

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Veterans Health Administration

*Audit of
Veterans Integrated
Service Network
Contracts*

December 1, 2011
10-01767-27

ACRONYMS AND ABBREVIATIONS

CO	Contracting Officer
COTR	Contracting Officer's Technical Representative
eCMS	Electronic Contract Management System
EPLS	Excluded Parties List System
FAR	Federal Acquisition Regulation
IGCE	Independent Government Cost Estimate
IL	Information Letter
IOP	Integrated Oversight Process
NCM	Network Contract Manager
OA&L	Office of Acquisition and Logistics
OIG	Office of Inspector General
PNM	Price Negotiation Memorandum
P&LO	Procurement and Logistics Office
SAO	Service Area Office
SDVOSB	Service-Disabled Veteran-Owned Small Business
VAMC	Veterans Affairs Medical Center
VAAR	Veterans Affairs Acquisition Regulation
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network
VOSB	Veteran-Owned Small Business

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Report Highlights: Audit of Veterans Integrated Service Network Contracts

Why We Did This Audit

Since FY 2000, the Office of Inspector General has identified procurement practices as a major management challenge for VA. In 2009, Veterans Health Administration (VHA) created Service Area Offices to oversee Veterans Integrated Service Network (VISN) contracting activities. VA also established an Integrated Oversight Process (IOP) to replace traditional technical and legal contract reviews. We conducted this audit to determine whether the new oversight structure and review process were effective in improving VISN procurement practices.

What We Found

The 2009 changes were not effective because VA did not follow the new review processes consistently and VA and VHA acquisition management did not provide adequate guidance and oversight on IOP implementation. When IOP reviews were conducted, contracts generally had fewer deficiencies. However, only 32 percent of contracts had required IOP reviews. We estimated that VISNs did not perform the required reviews for about 3,000 contracts, for a total value of about \$1.58 billion, awarded between June 2009 and May 2010. VHA internal audits in FY 2010 and FY 2011 revealed similar deficiencies. VA could have prevented many of the deficiencies associated with acquisition planning and contract award actions by conducting IOP reviews.

Further, absent effective management oversight, contracting officers did not promote competition to the maximum extent practicable, awarding noncompetitive

contracts to expedite contract workload. Because of this, comparisons of Government cost estimates for noncompetitive construction contracts showed VISNs could have paid about \$2.9 million less. Contract administration deficiencies like these also increased VA's risk of paying for goods and services it did not receive.

VHA had not developed information management tools to effectively monitor contract workload and optimal staffing levels. Without these tools, VISN acquisition management lacked the information to effectively manage VISN contracting activities. Until VHA develops the tools, VISN contracting activities will face challenges in complying with acquisition laws and awarding contracts in the Government's best interest.

What We Recommended

We recommended VA and VHA acquisition management improve oversight of VISN contracts and develop tools to effectively manage VISN contracting activities.

Agency Comments

The Under Secretary for Health and the Executive Director, Office of Acquisition, Logistics, and Construction agreed with our findings and recommendations and provided appropriate action plans. We will follow up on the implementation of corrective actions.

A handwritten signature in black ink that reads "Belinda J. Finn".

BELINDA J. FINN
Assistant Inspector General
for Audits and Evaluations

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INTRODUCTION

Objective The Office of Inspector General (OIG) conducted this audit to determine if VA and Veterans Health Administration (VHA) acquisition management provided the oversight and resources needed to ensure Veterans Integrated Service Network (VISN) contracting activities award and manage contracts in accordance with acquisition laws, regulations, and VA policy.

VHA Contracting Activities VHA is composed of 21 VISNs that oversee over 150 major healthcare facilities. Each VISN includes a contracting activity that purchases goods and services for VA Medical Centers (VAMCs). According to VA's Office of Acquisition and Logistics (OA&L), VISN contracting activities experienced a 70 percent growth in the number of contracts, valued at \$25,000 and above, and a 72 percent increase in the total dollars spent on those contracts for the last 5 years (FY 2006 through FY 2010).

VA Acquisition Reorganization In January 2009, VA realigned VHA's acquisition workforce under the authority of VHA's Procurement and Logistics Office (P&LO) and established three regional Service Area Offices (SAOs). Each SAO (East, Central, and West) has jurisdiction over a number of VISNs and is responsible for proactively managing the acquisition process of contracting activities assigned within each area. Previously, VISN management had authority over the contracting staffs and budgets. As of November 2010, an SAO East senior official provided information showing that VISN contracting activities reportedly had 2,428 authorized positions, consisting of 1,753 employees and 675 vacancies, which represented an overall vacancy rate of 28 percent.

On June 19, 2009, VA established an Integrated Oversight Process (IOP). The IOP reviews replaced the traditional technical and legal reviews of contracts required by the VA Acquisition Regulation (VAAR). The IOP requires each VISN contracting activity to commit the time and resources needed to conduct contract reviews and holds contracting officers (COs) responsible for building quality into the acquisition process. Depending on the type and estimated value of the contract and what is being procured, the process requires a peer review or second-level supervisor, Contract Review Team, or Contract Review Board to evaluate the contract.

The IOP also requires legal reviews for certain contracts to prevent violations of law and/or regulations and to minimize risks associated with protests and contract claims. Contract Review Teams and Contract Review Boards are composed of acquisition and legal professionals and should ensure that acquisitions comply with Federal and VA acquisition policy. VA's OA&L is responsible for monitoring this process and providing guidance and feedback to each VISN contracting activity.

RESULTS AND RECOMMENDATIONS

Finding 1 VA and VHA Need To Improve Oversight of VISN Contracts

Although VA and VHA acquisition management intended to strengthen VA's procurement practices through the establishment of the IOP and SAOs, required IOP contract reviews were not consistently performed and SAOs' oversight was inconsistent. We estimated that reviews were not conducted for almost 3,000 contracts, valued at about \$1.58 billion, awarded between June 2009 and May 2010. When IOP reviews were conducted, contracts generally had fewer deficiencies. Also, VISN COs were not promoting competition to the maximum extent practicable. The COs were awarding noncompetitive contracts in order to expedite the processing of an increasing contract workload. This occurred because VA and VHA acquisition management did not provide adequate oversight of VISN contracting activities.

As a result, despite the establishment of three SAOs and the new IOP, we identified recurring systemic deficiencies associated with acquisition planning, contract award, and contract administration. Recurring systemic deficiencies in contracting practices increased the risk that contracts awarded were not in the best interests of the Department, and increased the risk that VA did not always get the goods and services it paid for.

VISN Acquisition Oversight

After the IOP was established in June 2009, OA&L did not establish a mechanism to ensure reviews of VISN contracting activities were conducted in FY 2010. Further, VHA's P&LO did not conduct reviews of VISN acquisitions in FY 2009 or FY 2010. In December 2009, P&LO established an acquisition quality assurance function; however, the office responsible for overseeing the compliance of VISN acquisitions was not fully staffed or functional until December 2010. In May 2011, VHA established an Acquisition Compliance Audit Program. The audit program addressed a number of areas including contracting functions.

Quality assurance staff at each SAO stated that they conducted compliance reviews in VA's Electronic Contract Management System (eCMS) of contracts valued at \$25,000 and above. These reviews verified whether items a CO should have completed in eCMS were completed. However, key documentation supporting many of the sampled contracts was not in eCMS.

SAOs were not involved in VISN contract oversight in the same way in their respective regions. In July 2010, a quality assurance officer reported that SAO East was not participating in Contract Review Boards. In contrast,

SAO Central staff stated they were involved in Contract Review Team and Contract Review Board reviews. In October 2010, SAO West staff were reportedly also conducting pre-solicitation, pre-award, and post-award quality reviews for certain contracts eligible for Contract Review Board reviews and for contracts eligible for Contract Review Team reviews.

***Inadequate
Integrated
Oversight
Process
Implementation***

VA's OA&L and VHA's P&LO management could not provide evidence that analyses were conducted to evaluate contract workload and determine whether VISN contracting activities had the staff and technical expertise needed to implement the new IOP. Further, coordination between OA&L and P&LO concerning issues related to contract workload capability and capacity could have been better managed.

Our survey of Network Contract Managers (NCMs) indicated that 18 (86 percent) of 21 had experienced challenges in implementing IOP reviews. Responses related to implementing the IOP included a lack of experienced and warranted COs, lack of a VISN quality assurance or compliance officer, staffing shortages, and insufficient time to train COs on conducting the IOP reviews.

The policy required that OA&L monitor implementation of the IOP; however, OA&L could not provide evidence that it monitored implementation. Also, OA&L officials commented they did not provide sufficient guidance to VHA acquisition management on how to implement the IOP.

OA&L's and P&LO's lack of planning, guidance, and oversight on how to implement and improve the IOP contributed to the inconsistent completion of the required reviews for the sample of contracts reviewed. OA&L and P&LO could have worked better together to provide the leadership and coordinated support needed to oversee VISN contracting activities.

***Integrated
Oversight
Process Needs
Strengthening***

From our reviews of a random statistical sample of 172 contracts over \$25,000 from 7 VISNs, we estimated IOP reviews were not conducted for almost 3,000 contracts, valued at about \$1.58 billion.¹ For the 70 noncompetitive and 47 competitive contracts in our sample for which IOP reviews were not conducted, systemic contracting deficiencies associated with acquisition planning and contract award actions were identified.

¹ This projection was made to a universe of 5,012 contracts. The margins of error for this projection are based on a 90 percent confidence interval. See Appendix C for more information on the statistical sampling methodology used to develop this projection.

Table 1 shows the number of IOP contract reviews, by type, required for the contracts in our sample and the number of reviews that were not conducted.² While 73 percent of Contract Review Board reviews were conducted when required, the value of the six contracts lacking these reviews was \$39.5 million, which we considered significant.

Table 1

Number of IOP Contract Reviews Required and Not Conducted			
Review Type Required	Reviews Required	Reviews Not Conducted	Percent Not Conducted
Contract Review Board	22	6	27
Contract Review Team	17	12	71
Peer or Second Level Review	133	99	74
Totals:	172	117	68

Source: VA OIG

Required IOP reviews were performed for only 55 (32 percent) of the 172 contracts reviewed, valued at \$161 million. These contracts generally had fewer deficiencies than the contracts where required IOP reviews were not performed. However, key documentation supporting many of these contracts was not in eCMS.

Legal reviews required by the IOP were generally conducted for the contracts in our sample. Legal reviews were conducted for 11 of the 17 contracts that also required Contract Review Team reviews.³ For some contracts, we found evidence that legal reviews were conducted, even though the required Contract Review Team reviews were not. Furthermore, evidence showed that legal reviews were conducted for three of the six contracts where required Contract Review Board reviews were not conducted.

The new oversight structure and review process intended to strengthen acquisition operations at VISNs was not effective. In our opinion, had VHA acquisition management ensured required IOP contract reviews were conducted, many of the following issues could have been prevented. Without these reviews, VHA acquisition management lacks assurance that COs are awarding quality contracts.

² We did not project how many of each type of IOP review was not conducted, as only a limited number of Contract Review Board and Contract Review Team reviews were required.

³ The dollar thresholds for conducting required IOP legal reviews are generally the same as the thresholds for conducting Contract Review Team reviews.

**Acquisition
Planning and
Contract
Award
Deficiencies**

More deficiencies were identified with the noncompetitive contracts reviewed than the competitive contracts. Review of 89 noncompetitive contracts identified deficiencies associated with the acquisition planning and award phases for 81 of the 89. Review of 83 competitive contracts identified deficiencies in these phases for 61 of the 83. Internal audits conducted by VHA at the end of FY 2010 and during FY 2011 revealed similar deficiencies.

**No Determination
for Competitive
and
Noncompetitive
Contracts**

COs could not provide evidence that they made a determination of responsibility of prospective contractors by checking the Excluded Parties List System (EPLS) prior to award, as required, for 49 contracts reviewed. We estimated that a determination of responsibility by checking EPLS was not made for nearly 1,290 contracts, valued at \$674 million.⁴ The purpose of the EPLS is to provide a single comprehensive list of individuals and firms excluded from receiving federal contracts. EPLS was established to ensure that COs solicit offers from and award contracts only to responsible contractors and do not allow a contractor to participate in any contract if debarred, suspended, or otherwise excluded. Without searching EPLS, COs cannot be assured that they are awarding contracts to responsible contractors; however, no instances were identified where a debarred contractor received an award.

VA reported that in May 2010, they implemented an automatic EPLS check in eCMS, which checks whether the proposed vendor is listed on the EPLS. If a vendor is listed, a contract award cannot be made to the vendor without an appropriate explanation. However, the automated check requires that contracts be processed through eCMS prior to award.

**Noncompetitive
Contract
Deficiencies**

VHA acquisition management has not ensured COs promote competition to the maximum extent practicable. This occurred because of a lack of oversight and inconsistent guidance on awarding noncompetitive contracts. In 1984, the "Competition in Contracting Act" was signed into law holding COs responsible for maximizing competition and strictly limiting the use of less than full and open competition. However, VISN COs awarded a significant number of noncompetitive contracts, which is the least preferred method of purchasing goods and services. Of the 5,012 contracts in our universe, 2,128 (42 percent) were noncompetitive.

⁴ This projection was made to a universe of 5,012 contracts. The margins of error for this projection are based on a 90 percent confidence interval. Appendix C provides more information on our statistical sampling methodology.

*Less Planning
Time for
Noncompetitive
Contracts
Awarded*

Our survey results showed that 142 (58 percent) of 246 COs and 11 (52 percent) of 21 NCMs indicated insufficient procurement administrative lead-time (lead-time) was a key factor affecting their ability to provide quality contracts. Lead-time is measured by comparing the date recorded in eCMS showing the CO received a complete procurement package from a program official to the date the CO awarded the contract. Lead times established in VHA's Standard Operating Procedure 160-10-01, "Procurement Process," dated June 25, 2010, provide customers with a realistic expectation of the time needed to complete a contract request. The lack of a lead time indicates poor planning by responsible program offices.

The date needed to measure lead time was not recorded in eCMS for 53 of the 172 contracts reviewed. For contracts that did include the date in eCMS, we compared the actual number of days needed to award a contract to estimates identified in VHA's Standard Operating Procedure 160-10-01. On average, COs awarded noncompetitive contracts in 42 days and competitive contracts in 108 days. In our opinion, COs were likely awarding noncompetitive contracts to circumvent competition requirements and expedite the procurement of goods and services.

*Noncompetitive
Contract
Oversight
Needs
Improvement*

COs did not always comply with acquisition laws, regulations, and VA policy when awarding noncompetitive contracts. The VHA Head of Contracting Activity is required to review and sign noncompetitive contracts valued over \$500,000. The VHA Head of Contracting Activity did not effectively or consistently review noncompetitive contracts valued over \$500,000 prior to award to ensure they were processed according to acquisition laws, regulations, and VA policy. In addition, 85 (96 percent) of the 89 noncompetitive contracts reviewed, valued at \$56 million, had one or more contract deficiencies. Details on some of the more significant contract deficiencies follow.

- Sixteen of the 89 noncompetitive contracts, valued at \$9.2 million, either lacked a justification for other than full and open competition or included a justification that we determined to be inadequate.
- Twenty-seven of the 89 noncompetitive contracts, valued at \$25.8 million, had a determination of price reasonableness that we determined to be inadequate. For 9 of these 27 contracts, valued at \$1.7 million, COs had not prepared a justification for other than full and open competition, or we concluded the justification to be inadequate.

The Federal Acquisition Regulation (FAR) states that COs should not use sole-source contracts or award any contracts using other than full and open competition unless the CO justifies the decision to do so in writing. The VAAR also requires COs justify contracts awarded using other than full and open competition.

*Documents
Needed for
Cost Estimates
and Price
Analysis*

Awarding noncompetitive contracts increases the risk of paying more for goods and services than necessary. For example, comparison of Independent Government Cost Estimates (IGCEs) to the actual award prices of the contracts we reviewed showed that VISN contracting activities could have paid an estimated 79 percent less, or approximately \$2.9 million, for noncompetitive construction contracts had COs better leveraged the IGCEs. While IGCEs are estimates and differences between the IGCEs, and the contract award amount may be appropriate, the differences should be explained and documented. Regardless, a price analysis is needed prior to award because the IGCE may have become unreliable due to new information.

COs did not always use IGCEs to negotiate reasonable prices for noncompetitive construction contracts. The FAR states an IGCE shall be prepared and furnished to the CO for each proposed construction contract greater than \$100,000. For the 18 noncompetitive construction contracts valued at over \$100,000 with IGCEs, 3 had evidence of price negotiations resulting in a reduction of \$90,532 from the original proposed price. Of the 15 remaining noncompetitive construction contracts:

- The estimated contract value for six contracts was more than the IGCE, with no evidence of negotiations. In addition, for five of these contracts, the explanation for prices paid was either not documented or did not provide an adequate explanation for the difference between the IGCE and the award price. For these contracts, VA paid a total of \$2.9 million more than the estimated price.
- The estimated contract value for nine contracts was less than the IGCE, and there was no evidence of negotiations for seven of them. For these contracts, VA paid about \$477,000 less than the estimated price.

The following example further illustrates the adverse effects of awarding noncompetitive contracts.

- A VISN noncompetitive construction contract, awarded to upgrade showers, was a priority set-aside for a Service-Disabled Veteran-Owned Small Business (SDVOSB). The IGCE was \$355,536 and the award amount was \$654,680. The CO did not conduct market research to identify other SDVOSBs that could meet the contract requirement and did not use the IGCE to negotiate a reduction in the proposed price. A peer review, which was required by the IOP for this contract, was not conducted. In addition, a justification for other than full and open competition and a determination of price reasonableness were determined to be inadequate. The CO reported a short turnaround time to award this contract, which was why the CO decided to award this noncompetitively. The award amount was 84 percent higher than the IGCE. An explanation

for significantly exceeding the IGCE amount should have been documented.

*Inquiries Not
Always Made*

COs did not inquire into potential conflicts of interest of VA employees involved with four of eight noncompetitive contracts reviewed, valued at \$5.9 million, where inquiring about conflict of interest was required by VA Directive 1663 and VHA Handbook 1660.3.⁵ While this directive requires COs inquire into potential conflicts of interest of VA employees participating in the acquisition and monitoring of healthcare resource contracts with an affiliate, VA has not established policy requiring inquiry into conflict of interest for all other contracts.

*Oversight for
SDVOSBs and
VOSBs*

Most of the noncompetitive contracts awarded to SDVOSBs and Veteran-Owned Small Businesses (VOSBs) reviewed did not meet acquisition laws, regulations, and VA policy.⁶ Forty of the 42 noncompetitive SDVOSB and VOSB contracts reviewed, valued at about \$17.9 million, had one or more contract deficiencies negatively impacting the quality of the contract award actions.

Review of the noncompetitive SDVOSB and VOSB contracts sampled indicated that justifications for other than full and open competition were not prepared or were inadequate, and the documentation supporting determinations of price reasonableness were also inadequate. As a result, VA lacks reasonable assurance prices paid for these contracts were appropriate. Details on some of the more significant contract deficiencies follow.

- Price Negotiation Memorandums (PNMs) were not prepared, or were determined to be inadequate, for 22 of 42 contracts awarded to SDVOSBs, valued at \$10.5 million.
- Price reasonableness determinations were inadequate for 13 of 42 contracts awarded to SDVOSBs, valued at \$1.7 million.
- Justifications for other than full and open competition were not prepared, or were determined to be inadequate, for 6 of 42 contracts awarded to SDVOSBs, valued at \$1.4 million.

⁵ VA Directive 1663, "Health Care Resources Contracting—Buying, Title 38 U.S.C. 8153," dated August 10, 2006, describes the requirements for buying healthcare resources and services. VHA Handbook 1660.3, "Conflict of Interest Aspects of Contracting for Scarce Medical Specialist Services, Enhanced Use Leases, Health Care Resource Sharing, Fee Basis and Intergovernmental Personnel Act Agreements," dated September 22, 2008, includes procedures for avoiding conflict of interest problems associated with Health Care Resource Sharing agreements authorized by 38 U.S.C. 8153.

⁶ This audit did not assess the eligibility of the businesses to receive awards under these socioeconomic programs.

- COs had not searched the VetBiz Vendor Information Pages database for 12 of the 42 contracts reviewed, valued at \$2.9 million. VAAR requires COs to search this database when selecting SDVOSBs and VOSBs for noncompetitive contract awards.

More importantly, VA's OA&L and VHA's P&LO have not provided the guidance needed by VISN contracting activities concerning the use of Public Law 109-461, "Veterans Benefits, Health Care, and Information Technology Act of 2006." This law, also known as the Veterans First Contracting Program, changed the priorities for contracting preferences within VA, and required COs to award contracts to SDVOSBs and VOSBs first and second, respectively.

The law also states that COs may award noncompetitive contracts up to \$5 million for the purpose of meeting VA's socioeconomic goals for SDVOSBs and VOSBs, provided the business is a responsible source and the award can be made at a fair and reasonable price. Except for the purpose of meeting the socioeconomic goal, a CO "shall award contracts on the basis of competition restricted to small business concerns owned and controlled by veterans if the contracting officer has a reasonable expectation that two or more small business concerns owned and controlled by veterans will submit offers and that the award can be made at a fair and reasonable price."

OA&L provided onsite training to COs who held Level II and Level III warrants at locations in each of the 21 VISNs from January through March 2010.⁷ However, this training occurred approximately 2 ½ years after the law became effective. COs were instructed to award contracts on the basis of competition restricted to SDVOSBs and VOSBs.

Despite this training, VHA acquisition management's interpretation of Public Law 109-461, and how COs should apply the law, differ across SAOs. For example, two of the three SAO Directors expect COs to award contracts on the basis of competition restricted to SDVOSBs and VOSBs; whereas the other SAO Director stated a CO can award noncompetitive contracts to these firms without considering competition. Furthermore, that SAO Director stated that COs are using Public Law 109-461 to avoid competition amongst SDVOSBs and VOSBs and expedite the processing of contract workload. Regardless of the SAO Directors' positions, VISN COs from each SAO used Public Law 109-461 as justification to award noncompetitive contracts to SDVOSBs and VOSBs.

⁷ A Level II Limited warrant holder may make expenditures up to \$5,000,000 for contracts, agreements, and orders against established contracts. A Level III Limited warrant holder may make expenditures up to \$100,000,000 for contracts, agreements, and orders against established contracts. A Level III Unlimited warrant holder may make unlimited expenditures. These warrants are generally granted for national program acquisitions.

Of the 89 noncompetitive contracts reviewed, 42 were awarded to SDVOSBs and VOSBs. COs cited Public Law 109-461 as justification to award 34 (81 percent) of these 42 noncompetitive contracts valued at \$16.4 million. For the 34 contracts, only 1 vendor was considered and awarded the contract.

- For 10 of the 34 contracts, the determination of price reasonableness was inadequate. In addition, the PNMs for these contracts were not prepared, or the documentation was determined to be inadequate.
- For 12 of the 34 contracts, the COs reported that they had inadequate lead time to process the award correctly, demonstrating a lack of acquisition planning.

VISN acquisition management was not adequately monitoring noncompetitive awards to SDVOSBs and VOSBs. The following example illustrates the process some COs are using regarding the award of contracts to SDVOSBs and why guidance is needed in this area.

- A VISN noncompetitive construction contract, awarded to install a humidifier, was a priority set-aside for an SDVOSB. The IGCE was \$74,439 and the award amount was \$159,606. While the CO stressed that this requirement was an emergency, he cited PL 109-461 as the justification for awarding a noncompetitive contract to the SDVOSB. For this contract, only one vendor was considered and awarded the contract. A peer review, which was required by the IOP for this contract, was not conducted. In addition, the CO reported that the estimate for this project was put together very quickly due to the emergency nature of this procurement. He stated that there seemed to be many things missing from the IGCE. As the IGCE for this contract was incomplete, it should not have been used as the basis for price reasonableness.

*VISN 20
Monitoring
Noncompetitive
Contracts*

One VISN we visited proactively monitored noncompetitive contracts. VISN 20 issued policy concerning the monitoring of noncompetitive contracts. Since August 2009, VISN 20 acquisition managers have reportedly reviewed noncompetitive contracts valued at \$100,000 and above prior to award for validity and sufficiency of content. Acquisition managers were directed by the VISN NCM to conduct these reviews prior to solicitation and award. VISN 20 acquisition management stated this helped decrease the number of noncompetitive contracts. VISN 20 had awarded the smallest percentage (24 percent) of noncompetitive contracts among the seven VISNs we visited. For the six remaining VISNs, the percentage of noncompetitive contracts awarded ranged from 38 percent to 52 percent.

**Contract
Administration
Needs
Improvement**

Multiple issues are negatively impacting the quality of VISNs' efforts to administer contracts. COs are not consistently initiating background checks for contractors having access to VA computer systems, COs are not consistently designating Contracting Officer's Technical Representatives (COTRs) to help oversee contract administration, and COs and/or COTRs are not consistently monitoring contractors' performance.⁸ Lapses in monitoring a contractor's performance or taking actions to ensure that goods and services have been received increases the risks that VA may not be getting what it paid for and increases the risk of contract failure. The FAR requires that COs ensure contractors comply with the terms and conditions of the contract and safeguard the interests of the Government in its contractual relationships.

**Background
Investigations
Not Conducted**

COs did not ensure background investigations were conducted for contractors who had access to VA information and systems for 18 of 35 contracts, valued at \$46.6 million, where investigations were applicable. VA Directive 0710, "Personnel Security and Suitability Program," requires contractors to be subject to appropriate background screenings prior to being permitted access to VA information or information systems needed to perform their jobs. As a result, VA systems and sensitive VA information are at risk for unauthorized access and misuse. The following example illustrates this issue.

- One VISN contract, valued at \$17.7 million, awarded to acquire radiology and nuclear medicine services included a requirement that all contracted personnel are subject to adjudicated background investigations prior to contract performance. The CO did not comply with this contract requirement and did not obtain adjudicated background investigations for 18 of 86 radiologists providing services under this contract. The CO reported receiving insufficient lead time to award the contract, which may be a contributing factor for why the background investigations were not fully completed.

**COTRs Not
Designated**

COs did not designate a COTR to monitor contractor performance for 23 of 172 contracts reviewed. The VAAR states the CO may designate another Government employee as COTR who may perform functions, including furnishing technical guidance and inspecting and certifying compliance with the quality and quantity requirements of the contract. While the designation is at the discretion of the CO, it is our opinion that COs should assign COTRs to help monitor contracts that are complex, have a high dollar value, involve patient care or safety issues, or are vulnerable to increased risk of fraud. Further, these types of contracts include longer term performance-based work that needs increased oversight. This was the case for 11 of the 23 contracts, valued at about \$12 million. The following examples illustrate

⁸ The IOP policy does not pertain to contract administration.

opportunities whereby a designation of a COTR had the potential to strengthen contract administration.

- **Patient Care and High Dollar Value.** A CO did not designate a COTR to monitor a VISN ground ambulance transportation contract valued at \$7.6 million. The contract required emergent and non-emergent transportation for eligible beneficiaries of a large VA Healthcare System. This contract specifically cited the COTR's responsibility to monitor the contractor's competency, accreditation, personnel licensure, and training, yet a COTR was not designated. Monitoring requirements should have been delegated to a COTR.
- **Health and Safety Concerns.** A CO did not designate a COTR to monitor a VISN contract established to remove, clean-up, and dispose of materials containing asbestos from a boiler plant at a VAMC. Invoices for this contract were certified by an administrative officer, who had not been formally designated to approve invoices and who worked for the Anesthesiology Service of the VAMC. Asbestos removal is work that traditionally requires specialized knowledge, typically possessed by an Occupational Safety and Health Service employee, to appropriately oversee the technical performance and completion of the contractor's work requirements.

Standard operating procedures for this contract were complex and included emergency planning, respiratory protection, medical surveillance, regulated area requirements, negative pressure systems requirements, encapsulation requirements, and disposal of waste. The CO should have designated a COTR with the right technical competencies and experience to monitor contractor performance and ensure the contractor complied with contract requirements.

- **Risk for Fraud.** A CO did not designate a COTR to monitor a VISN contract for EZ Passes used to pay highway tolls. The CO was unable to determine who used the EZ Passes, what vehicles were covered by the EZ Passes, and whether passes were used for official business. Subsequent to our inquiry, the CO designated four COTRs to monitor the contract. These designations should strengthen accountability over the EZ Passes and provide increased oversight to prevent abuses.

*COTRS
Designation
Letters Not
Prepared or
Adequate*

COs did not prepare a COTR designation letter for 14 of 149 contracts, valued at \$21.4 million, where a COTR was assigned.⁹ According to the VAAR and the *VA COTR Handbook*, the COTR designation letter must be in writing and must be signed by the COTR acknowledging they understand

⁹ COTRs were not designated for 23 of 172 contracts reviewed.

their duties, responsibilities, and limited authority. In our opinion, COTR designations should be maintained in eCMS.

In addition, some COTR designation letters included pro forma and vague language. These letters were not specifically tailored to contracts despite a variation in the type, value, and complexity of the contract. The *VA COTR Handbook* states the designation letter should be tailored specifically to each contract and should reflect the dollar amount, type, and complexity of the contract, which impacts the amount of monitoring required. COTR designation letters should provide COTRs the information needed to have an understanding of how to monitor contracts and the associated requirements. Specifically, letters should identify what information and action is needed to certify the accuracy of invoices before payment is made. The use of COTRs offers VHA opportunities to strengthen its contract administration and monitoring of contract performance. Further, using COTRs provides opportunities for COs to better utilize available resources to help address an ever-increasing workload.

*Ineffective
Validation and
Certification of
Goods or
Services*

COTRs did not adequately validate that work requirements were completed for 26 of 162 contracts, valued at \$6.5 million. Furthermore, someone other than the designated COTR certified invoices for 39 of 142 contracts, valued at \$26.7 million. The *VA COTR Handbook* states the COTR is responsible for determining whether goods and services delivered by the contractor conform to the technical requirements of the contract. The COTR is also responsible for reviewing the contractor's invoices, prior to certification, to ensure they accurately reflect that goods were received or services were completed in accordance with the requirements of the contract. The following example illustrates a situation where VA was at increased risk for paying for goods and services not in accordance with contract terms.

- For a VISN contract, valued at \$1,042,460, awarded to provide transcription services at a VAMC, the COTR could not provide evidence to show line counts were verified prior to certifying invoices. The contract required the contractor to provide the necessary documentation allowing VA medical staff to verify the total lines being billed. The COTR did not verify that billed lines were in accordance with contract requirements; therefore, the facility cannot be certain payments were appropriate.

*Acquisition
Documentation
Missing from
eCMS*

VISN COs did not always include contract documentation in eCMS to provide a complete history of contract award. VA policy, Information Letter (IL) 049-07-06, "Implementation and Mandated Use of VA's eCMS," dated June 15, 2007, states "all new procurement actions valued at \$25,000 or more must be accomplished within eCMS." Despite this requirement, 57 percent of CO survey respondents stated they maintain hardcopy contract

files in lieu of recording complete and accurate information in eCMS. Furthermore, eCMS does not have reports that enable senior VA and VHA acquisition managers, including SAO Directors and NCMs, to oversee or monitor implementation of the IOP process. The lack of documentation in eCMS adversely affects management’s ability to readily assess the quality, timeliness, and administration of contracts. Table 2 shows the number of contracts reviewed that did not include key planning, award, and administration documentation in eCMS after initial reviews of contracts in eCMS were completed.¹⁰

Table 2

Number of Contracts Reviewed with Missing eCMS Documentation		
Missing Documentation	Noncompetitive Contracts	Competitive Contracts
Acquisition Planning		
Evidence of Market Research Conducted	41 (46%)	26 (31%)
Independent Government Cost Estimate	32 (42%)	32 (46%)
Noncompetitive Justification	40 (45%)	N/A
Contract Award		
Price Negotiation Memorandum	48 (55%)	N/A
Determination of Price Reasonableness	44 (49%)	N/A
Signed Contract	26 (30%)	27 (33%)
Contract Administration		
Background Investigation Conducted Prior to Performance	15 (60%)	5 (42%)
COTR Designation Letter	42 (55%)	35 (48%)
Documentation of COTR Training	58 (76%)	50 (68%)
Invoices/Progress Payments	77 (88%)	62 (81%)

Source: VA OIG

Note: For some contracts, documents were not applicable, as noted by “N/A.”

eCMS Data Unreliable

We identified inaccurate data in eCMS for 44 of the 172 contracts reviewed, including inaccurate classifications of goods and services purchased, obligation amounts, estimated values, and award dates. According to VA’s Enterprise Acquisition Systems Service, eCMS can produce 14 unique reports designed to monitor usage and data integrity. However, none of

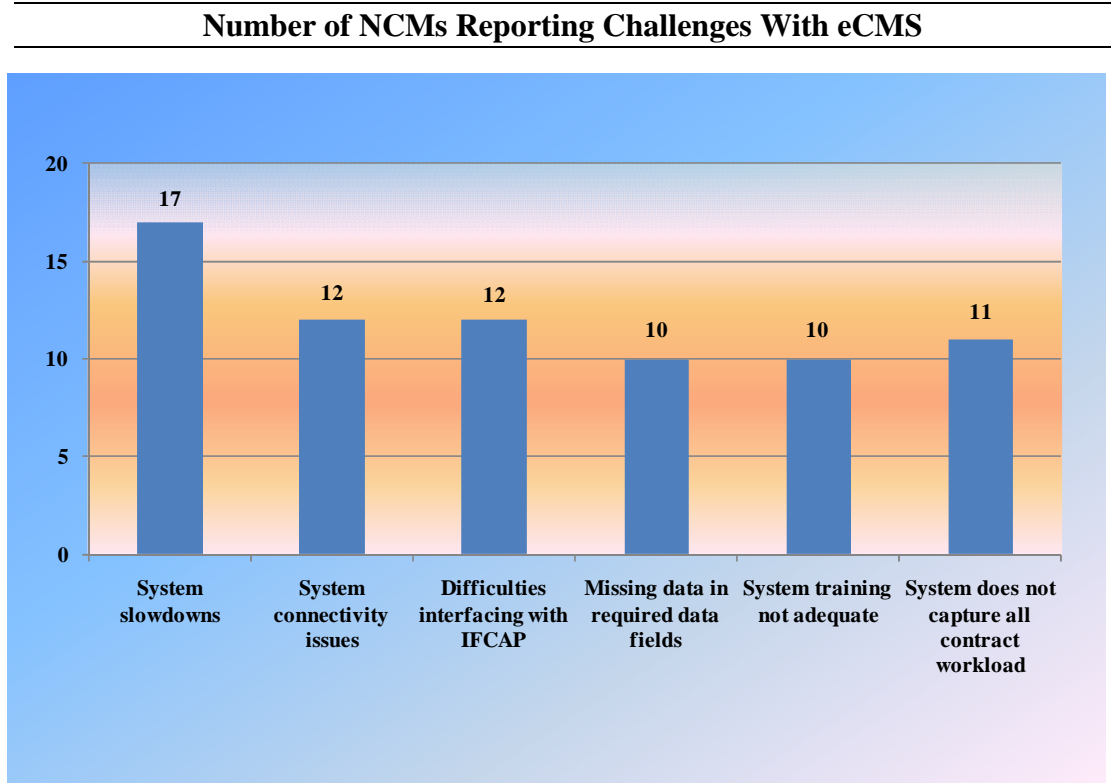
¹⁰ After initial reviews of contracts were completed in eCMS, VISN COs were asked to provide any documentation that was initially identified as missing in eCMS.

these reports identify compliance with the IOP. Inaccurate data also affects management's ability to assess the quality and timeliness of acquisitions.

**Challenges
Using eCMS**

Twenty-one NCM and 246 CO survey respondents indicated that VISN contracting staff were dealing with a number of eCMS operational issues. The following figures identify the most frequently reported challenges when using eCMS by survey respondents.

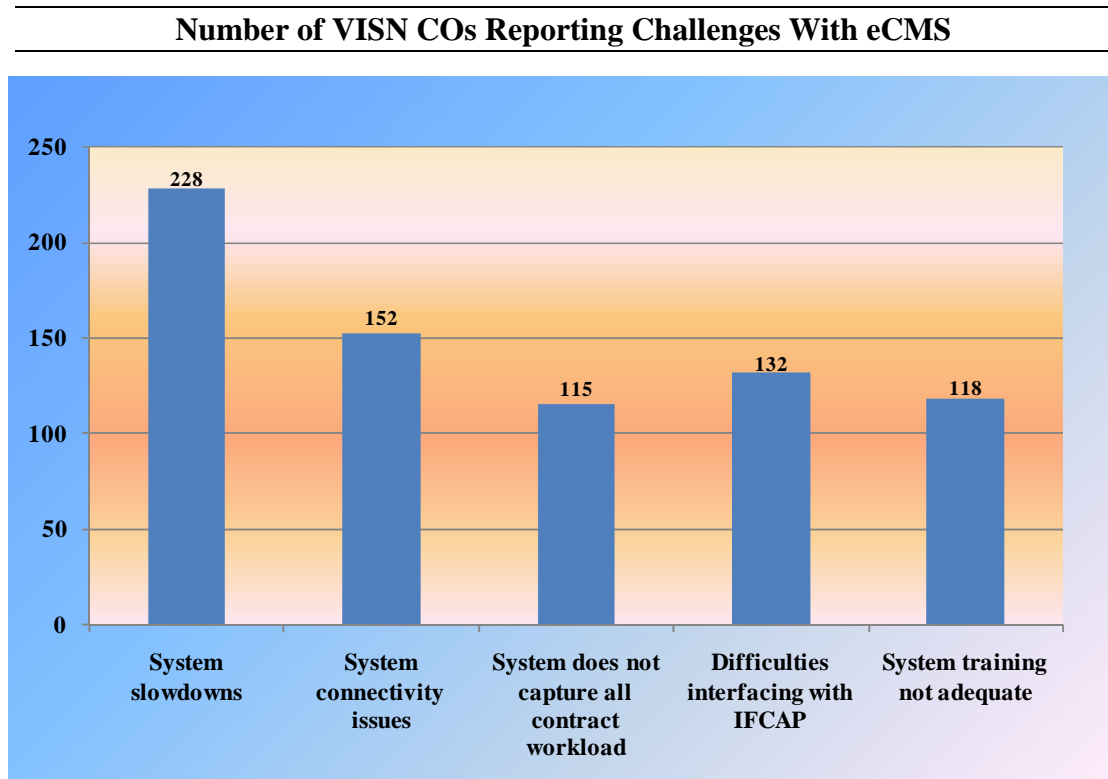
Figure 1



Source: VA OIG

Note: IFCAP is VA's Integrated Funds Control Point Activity, Accounting, and Procurement system.

Figure 2



Source: VA OIG

Note: IFCAP is VA's Integrated Funds Control Point Activity, Accounting, and Procurement system.

During the audit, VA and VHA took actions to implement improvements to eCMS related to usage and data reliability. According to VA's Director of the Enterprise Acquisition Systems Service, the Change Control Board recently approved changes to eCMS to help ensure appropriate data are entered into the system. A new version of eCMS was released in December 2010, which included dropdown lists for improved data consistency. This release also increased the number of mandatory data entries in eCMS. In addition, a review and approval process will reportedly be added to eCMS in FY 2011. This feature will provide business rules to enforce compliance at selected acquisition process milestones. In July 2011, VHA's Deputy Chief Procurement Officer issued a memorandum reinforcing the mandatory use of eCMS. These improvements are intended to help improve the accuracy and completeness of eCMS data and provide assurance that an acquisition was reviewed at significant milestones.

Conclusion

Recent changes intended to strengthen acquisition operations at VISNs were not effective. Although VA established the IOP and SAOs to improve the quality of acquisitions, VISN contracting activities did not consistently implement or follow the new review process. As a result, recurring systemic deficiencies associated with acquisition planning and contract awards were

identified. In our opinion, if VISNs had conducted these reviews, many of the identified deficiencies associated with acquisition planning and contract award actions may have been prevented. VISN COs also awarded contracts that were not in the best interest of the Government, and VA likely paid more than necessary for goods and services.

Deficiencies associated with contract administration increased the risk of VA not getting the goods and services it paid for. Furthermore, COs did not include documentation in eCMS that showed a complete history of an acquisition, including whether the required IOP review had been conducted. Until VA and VHA acquisition management provide the leadership, oversight, and guidance needed and strengthen controls to ensure complete and accurate data, internal and external reviewers will not have information needed to readily assess the quality, timeliness, and administration of VISN contracts. As a result, VISN contracting activities will continue to struggle in complying with acquisition laws, regulations, and VA policy.

Recommendations

1. We recommended the Under Secretary for Health develop a procedure ensuring required Integrated Oversight Process reviews are conducted before contracts can be awarded.
2. We recommended the Under Secretary for Health modify Integrated Oversight Process reviews to require a determination as to whether awards of noncompetitive contracts are justified and prices are reasonable.
3. We recommended the Under Secretary for Health provide guidance regarding the use of noncompetitive contracts and establish requirements in Veterans Health Administration's oversight program to ensure compliance.
4. We recommended the Under Secretary for Health implement a procedure ensuring the date needed to measure procurement administrative lead time is accurately recorded in the Electronic Contract Management System.
5. We recommended the Under Secretary for Health implement policy developed by VA's Office of Acquisition, Logistics, and Construction concerning the use of Public Law 109-461 as justification for other than full and open competition to award noncompetitive contracts to Service-Disabled Veteran-Owned Small Businesses and Veteran-Owned Small Businesses.
6. We recommended the Under Secretary for Health strengthen procedures to ensure that Excluded Parties List System checks are conducted, inquiries into conflicts of interest are made, and background investigations of contractor personnel are conducted.

7. We recommended the Under Secretary for Health develop guidance and criteria on when to designate a Contracting Officer's Technical Representative.
8. We recommended the Under Secretary for Health establish a requirement for Contracting Officers to document in Contracting Officer's Technical Representatives' designation letters the information and action needed to certify invoices for payment.
9. We recommended the Under Secretary for Health provide Contracting Officer's Technical Representatives guidance on monitoring contractor performance and validating receipt of goods and services.
10. We recommended the Under Secretary for Health develop a mechanism ensuring Contracting Officers document the results of required Integrated Oversight Process contract reviews in the Electronic Contract Management System.
11. We recommended the Executive Director, Office of Acquisition, Logistics, and Construction, develop policy concerning the use of Public Law 109-461 as justification for other than full and open competition to award noncompetitive contracts to Service-Disabled Veteran-Owned Small Businesses and Veteran-Owned Small Businesses.
12. We recommended the Executive Director, Office of Acquisition, Logistics, and Construction, develop a mechanism ensuring Contracting Officers document the results of required Integrated Oversight Process contract reviews in the Electronic Contract Management System.

**Management
Comments and
OIG Response**

The Under Secretary for Health and the Executive Director, Office of Acquisition, Logistics, and Construction agreed with our findings and recommendations and plan to address our recommendations by October 1, 2012. The Under Secretary advised us that VHA has taken actions to address issues concerning contracting. For example, VHA has implemented an Acquisition Compliance Audit Program. Additionally, the Executive Director reported that VA will implement policy concerning the use of *PL 109-461* and further enhance eCMS capabilities to improve acquisition practices.

The Under Secretary and the Executive Director provided responsive implementation plans to address our recommendations. We will monitor the Department's progress and follow up on its implementation until all proposed actions are completed. Appendix I provides the full text of the Under Secretary's comments and Appendix J provides the full text of the Executive Director's comments.

Finding 2 VHA Lacks Tools and Resources Needed To Effectively Manage VISN Contracting Activities

VHA acquisition management has not developed the information management tools and measures needed to effectively monitor contract workload, staffing levels, and CO performance. VHA management has not developed a strategy to address staff vacancies. VHA's acquisition leadership has not given these issues the priority needed or committed the resources necessary to address them. As a result, management lacks the information needed to make informed decisions concerning resource needs and allocation, and VISN contracting activities lack the staff needed to effectively process an increasing contract workload.

Ineffective Use of Workload and Staffing Management Tools

VHA is not maintaining a workload data tool capable of readily determining optimal staffing levels. Although VHA used VA's FY 2010 workload data tool in the past to determine optimal staffing levels, VA has not committed the resources needed to maintain the tool. Additionally, VHA has not committed the resources to fully evaluate whether eCMS or an SAO-developed staffing list can be used to manage contract workload and staff.

VA's Workload Data Tool Could Be Better Utilized

In February 2010, VA developed a workforce planning tool that determines optimal staffing levels relative to workload volume and complexity and the grade and certification levels of COs. The tool compares current staffing levels with optimal staffing levels to identify gaps in the workforce. According to the Acting Associate Deputy Assistant Secretary, Acquisition Program Support, this was OA&L's first attempt at developing such a tool. VA's tool was used by VHA to identify gaps in resource requirements within its VISN contracting activity acquisition workforce.

VHA determined it needed an additional 399 acquisition employees to meet current VISN contracting activity workload. In support of approving the full time equivalent position request, VHA stated its analysis revealed a severe disparity between VISNs in terms of acquisition support staffing. VHA indicated staffing ranged from some VISNs having excess staffing to six VISNs having a shortfall of over 40 positions each. VHA also reported that some of these VISNs had approximately half the staff required.

VHA stated that, based on the current environment of increased oversight, growing workload, and the mobile workforce, it was imperative that they address these issues. The request for 399 additional staff was approved by the Under Secretary for Health. VHA's Resource Management Committee approved the first phase of a hiring plan, which included 142 full-time employees, on April 1, 2010. On June 25, 2010, the Resource Management Committee approved the hiring of the remaining 257 full-time employees.

VA is not updating and maintaining the workforce planning tool to periodically assess whether current staffing levels are sufficient to meet contract workload. In June 2010, OA&L's Director of Acquisition Policy demonstrated the tool's capability and reported that for the tool to remain useful, it requires constant monitoring and input of current data. However, in December 2010, the Acting Associate Deputy Assistant Secretary, Procurement Policy, indicated the plan is to update the tool on an annual basis. If VA and VHA commit the resources needed to maintain the tool, and update the data more regularly than annually, the tool has the capability to identify gaps in VISN contracting activities' workforce and trend contract workload and staffing levels.

*Not Using
eCMS Reports*

If acquisition staff put complete and accurate information into eCMS, the system has the capability to provide reports that monitor workload and CO performance. According to VA's Enterprise Acquisition Systems Service, eCMS can produce 14 unique reports designed to monitor usage and data integrity, contract workload, and CO performance. While 19 (95 percent) of 20 NCM survey respondents reported that they were aware of eCMS's capability to generate reports that can monitor contract workload and CO performance, only 11 (58 percent) of these 19 NCMs or their staff used these reports. VHA acquisition management needs to ensure NCMs and their staffs fully utilize the report capabilities of eCMS to monitor contract workload and CO performance.

*VHA Staffing List
Could Be Further
Developed*

VHA has not fully developed a staffing list capable of readily identifying acquisition staffing levels, as well as COs' warrants, certifications, experience levels, and the turnover rates of its acquisition workforce. In May 2010, we asked VHA's P&LO to provide a list of VISN COs with warrants of \$25,000 and above.¹¹ VHA could not provide an accurate and complete list of COs working at VISN contracting activities, let alone identify the staff with warrant levels of \$25,000 and above.

In July 2010, SAO East budget analysts compiled a list of VISN contracting activity personnel for all three SAOs. Reportedly, the list was to be used as a basis for transferring funds and control of VISN contracting activities from the VISNs to the SAOs. In August 2010, the SAO East Director provided a list of VISN contracting staff, current as of June 16, 2010. The source of the data was VA's Personnel and Accounting Integrated Data system. The list did not include CO warrant levels. In October and November 2010, we received two updated staffing lists from the SAO East. However, these staffing lists did not include requested warrant information. As of February 2011, VHA still could not provide a staffing list that contained warrant levels of VISN COs. The SAO East Director could not provide any new or additional data due to their limited resources.

¹¹ Warrants establish the dollar thresholds at which COs may purchase goods and services.

While VHA's list was compiled for budgetary purposes, it can have a broader application if expanded to capture additional information such as:

- Experience (example—the number of years as a CO)
- Areas of expertise (example—construction or healthcare)
- Current workload (example—type and number of acquisitions being processed and managed during a period of time)

The expanded VHA list, if maintained and updated periodically, could be used to monitor and identify the following by SAOs:

- Staffing levels (example—staff on board, authorized positions, and vacancies)
- Workforce composition (example—number of VISN COs, their warrant authority, experience levels, and areas of expertise)
- Turnover rates
- Gains and losses (example—warrant authority, experience, and expertise gained and lost and reasons why individuals left)
- Workload ratios and allocation (example—type and number of acquisitions being processed and managed during a period of time by a CO)

The SAO East Director reported that the information above would be useful; however, data to this level of detail are currently unavailable. The Director said that they do not have the resources needed to capture this type of data.

**Increasing
Contract
Workload and
Staffing
Concerns**

VHA management has not provided the staff needed to meet VISN contract demand and ensure quality acquisitions. As of November 2010, VISN contracting activities had 2,428 authorized positions, consisting of 1,753 employees and 675 vacancies, which represented an overall vacancy rate of 28 percent. For the 7 VISNs reviewed, vacancy rates for contracting supervisors ranged up to 33 percent and contracting staff ranged up to 28 percent. In addition, the supervisor to staff ratio varied widely. For example, a VISN had 4 contracting supervisors overseeing 89 staff, which equates to about 22 staff per supervisor, while another VISN had 5 supervisors overseeing 54 staff, which equates to about 10 staff per supervisor. As of October 2011, VHA reportedly increased contracting staffing nationwide. The number of authorized positions increased to approximately 2,451 while the number of vacancies decreased to 265 by October 2011.

Supervisors were also managing a relatively inexperienced staff. Based on survey responses, 53 percent of COs had 5 years or less experience. In addition, VISN contracting activity workload (valued at \$25,000 and above) increased 70 percent from FY 2006 through FY 2010. VHA's P&LO was

unable to provide reliable VISN contracting activity staffing levels for years prior to FY 2010; therefore, we were unable to compare staffing levels to the growth of contract workload.

Both VISN contracting management and staff reported that increased contract workload, staff shortages, and inexperienced staff are factors that impacted contracting activities' ability to award quality contracts. Twelve (57 percent) of 21 NCM and 201 (82 percent) of 246 CO survey respondents reported increased workload represented one of their greatest contract-related challenges.

Appendix F displays the increase in the number of contracts awarded by VISN contracting activities and dollars spent on those contracts and Appendix G shows the most frequently reported NCM and VISN CO contracting challenges.

Performance Measure Needed to Identify Reasonable Workload

Although VA has established performance measures for its acquisition program, VHA acquisition management cannot use current measures to determine what constitutes a reasonable contract workload given the type, value, and complexity of contracts managed by COs. According to VHA's Director of Acquisition Quality, VHA at one time had workload standards regarding the number and type of contracts per CO but never used them.

VISN contracting activity management lacked the standards needed to allocate workload and readily assess whether workload is reasonable. Based on CO survey responses and discussions with contracting supervisors, COs feel they are responsible for more contracts than they can effectively manage. Additionally, survey responses from COs who transferred to VA from other agencies stated VA's contract workload is much greater than what they experienced at their former agencies.

Recruiting and Retaining Contracting Staff

VA's Acquisition Academy, located in Frederick, MD, was created to address the growing acquisition workforce challenges facing VA. VA estimated that 26 interns from the Academy would be placed into its workforce in 2010 and 30 interns in both 2011 and 2012. As of February 2011, no interns had been permanently assigned to VISN contracting activities.

VA's Acquisition Academy alone cannot meet the staffing and training needs of VISN contracting activities. VISNs are acting independently and proactively to establish ways to recruit and train their acquisition workforce. For example, VISN 20 established an intern program outside the VA Acquisition Academy to hire and train entry level COs. The VISN selected seven interns in November 2010 for its acquisition program. The interns are currently receiving acquisition training through the Defense Acquisition University, rather than through the VA Acquisition Academy.

In addition, VISN contracting activities reported difficulties in retaining their contracting staff. For example, VISN 11 management reported losing four of its most competent and experienced COs to the Department of Homeland Security for less complex work, less volume of work, higher grades for non-supervisory COs, and more flexible work schedules. Since losing these COs, the VISN also lost two other experienced COs who returned to the Department of Defense.

One SAO Director said the office has a tremendous number of vacancies it is trying to fill and dealing with different medical center Human Resources offices has been very slow and frustrating. He added that at times, it seems the office is losing staff as quickly as it can hire them, and it is difficult to notice progress toward reaching its full staffing needs.

Conclusion

VHA acquisition management needs to develop and maintain the tools necessary to monitor contract workload and optimal staffing levels. Without these tools, VISN acquisition management will lack the information needed to effectively manage contracting operations. Acquisition management also needs to develop the strategies needed to recruit and retain a VISN acquisition workforce capable of effectively processing an increasing contract workload. Until VHA develops the needed tools and strategies, VISN contracting activities will continue to face challenges in complying with acquisition laws, regulations, VA policy, and with awarding contracts in the best interest of the Government.

Recommendations

13. We recommended the Under Secretary for Health develop and maintain the information management tools and measures needed to ensure Veterans Integrated Service Networks have the contracting staff needed to meet workload demands and ensure quality acquisitions.
14. We recommended the Under Secretary for Health develop strategies to recruit and retain a sufficient acquisition workforce capable of processing Veterans Integrated Service Network contract workload.

**Management
Comments and
OIG Response**

The Under Secretary for Health agreed with our findings and recommendations and plans to address our recommendations by June 30, 2012. The Under Secretary advised us that VHA plans to take actions to address issues concerning contract workload and staffing. For example, VHA will develop an acquisition workload tool that will provide data needed to monitor acquisition workload and workforce.

The Under Secretary provided responsive implementation plans to address our recommendations. We will monitor the Department's progress and follow up on its implementation until all proposed actions are completed. Appendix I provides the full text of the Under Secretary's comments.

Appendix A Background

VA's Acquisition Profile

VA is one of the Federal Government's largest procurement and supply agencies, spending almost \$15 billion on goods and services annually. The successful operation of VA programs is dependent on the efficient procurement of services, supplies, and equipment.

VA Acquisition Offices

VA's OA&L reports to the Secretary, through the Assistant Secretary for Acquisition, Logistics, and Construction, and is responsible for providing goods and services needed by client activities. OA&L has a Government-wide role in the supply management of medical supplies and non-perishable goods. The mission of VHA's PL&O is to ensure clinical services for veterans are provided through maximizing quality acquisition and logistic strategies.

Contracting Process

The contracting process includes acquisition planning, solicitation, evaluation, award, and contract administration. A complete procurement package should be provided to the contracting activity with sufficient procurement administrative lead time built into the acquisition process to promote competition to the maximum extent practicable. In general, after receiving the procurement package, the CO prepares a solicitation, required reviews are conducted, and the CO seeks offers from the public. Once offers are received, program and acquisition officials evaluate the offers, make a selection, and the CO awards the contract. To administer the contract, the CO typically designates a COTR to monitor contractor performance and validate the receipt of goods and services prior to certifying invoices for payment.

Contracting Officers

COs have authority to enter into, administer, or terminate contracts and make related determinations and findings. The FAR states that "no contract shall be entered into unless the contracting officer ensures that all requirements of law, executive orders, regulations, and all other applicable procedures, including clearances and approvals, have been met." COs are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships.

VA's Integrated Oversight Process

In an attempt to establish a more fluid, less labor-intensive oversight process, VA issued IL 001AL-09-02, "Integrated Oversight Process," on June 19, 2009. Major tenets of the IOP include: (1) peer or second-level reviews, (2) Contract Review Teams composed of acquisition and legal counsel who ensure contract files are appropriately documented for acquisitions, (3) Contract Review Boards composed of "seasoned" professionals responsible for reviewing all acquisitions at the solicitation and pre-award phases with a total value estimated to exceed \$5 million, and (4) legal reviews applicable to

acquisitions with total values that fall within dollar ranges specified in the policy. The purpose of the legal review is to ensure the contract action fully complies with applicable laws and regulations.

**Electronic
Contract
Management
System**

This Web-based information system replaced a mostly manual and paper-based contract management operation used throughout VA. This system was designed to improve VA's contract management. IL 049-07-06 requires new procurement actions valued at \$25,000 or more be completed in eCMS.

**Related OIG
Reports**

Previous OIG audits have identified recurring systemic deficiencies in virtually all phases of VA's contracting process. These recent reports contain contract-related findings.

- *VHA Audit of Oversight of Patient Transportation Contracts* found VISN contract managers did not effectively provide the oversight needed to develop, administer, award, and monitor patient transportation contracts. VHA missed opportunities to provide full and open competition in soliciting offers and awarding patient transportation contracts. (Report No. 09-01958-155, May 17, 2010).
- *Audit of VA Electronic Contract Management System* found that eCMS was not used effectively and procurement information in eCMS was incomplete. The report stated that VA could not achieve the expected benefits of eCMS, including the ability to integrate and standardize procurement processes, reduce workload, and improve communications, without complete information. (Report No. 08-00921-181, July 30, 2009).
- *Audit of VHA Noncompetitive Clinical Sharing Agreements* found VAMCs overpaid contractors because COTRs did not verify the VAMCs received services at the prices specified. In addition, COs did not provide the COTRs clear guidance about their responsibilities, nor did the COs implement procedures to routinely review the COTRs' monitoring activities to ensure they were effective. COTRs also did not receive sufficient training to monitor clinical sharing agreements. (Report No. 08-00477-211, September 29, 2008).
- *Review of VHA's Efforts to Meet Competition Requirements and Monitor Recovery Act Awards* found COs did not properly evaluate prospective contractors' ability to perform required work before they awarded contracts and orders. In 92 percent of the awards reviewed, VA did not perform adequate contractor responsibility determinations to mitigate possible risks to Recovery Act funds and taxpayers' interests. (Report No. 10-00969-248, September 17, 2010).

Appendix B Scope and Methodology

We randomly selected 172 competitive and noncompetitive contracts (valued at \$248.3 million) from the universe provided by the OA&L for review. We reviewed contract documentation in eCMS for the 172 contracts, each valued at \$25,000 and above. These contracts were awarded and managed by seven VISNs under the jurisdiction of the three SAOs. We contacted VISN contracting staff and program officials to obtain missing eCMS documentation and to ask questions concerning the acquisition and monitoring of the contracts.

For each contract, we reviewed planning, award, and administration-related documentation to determine if the contracts complied with the FAR, VAAR, and VA policy. We also verified whether these contracts were reviewed in accordance with IL 000AL-09-02, "Integrated Oversight Process," effective June 19, 2009.

Online surveys were conducted of 21 NCMs and 246 randomly selected VISN COs during June and August 2010 to obtain information about VISN contract activities. We obtained a 100 percent response rate.

We also reviewed relevant laws, regulations, policies, procedures, and guidelines to determine whether VISN contracting activities were managed effectively. In addition, we also conducted site visits to VHA's P&LO and VA's OA&L located in Washington, DC.

To obtain information about the oversight of VISN contracting activities, we interviewed a supervisor from VA's Risk Assessment Team, and VHA's Director of Acquisition Quality. Further, we interviewed the Directors of SAO East, Central, and West and their quality assurance staff to learn more about their compliance reviews of VISN acquisitions.

An onsite visit was conducted at VISN 2 to test our audit plans, and six other randomly selected VISNs as shown in Table 3. While onsite, we interviewed VISN acquisition personnel, including NCMs, eCMS Application Coordinators, and VISN quality assurance staff, to learn more about VA's contracting practices and controls.

Table 3

VISNs Selected for Onsite Review	
VISNs Visited	Locations
VISN 2	Buffalo, NY
VISN 4	Pittsburgh, PA
VISN 8	St. Petersburg, FL
VISN 11	Indianapolis, IN
VISN 16	Ridgeland, MS
VISN 20	Vancouver, WA
VISN 23	Minneapolis, MN

Source: VA OIG

**Reliability of
Computer-
Processed
Data**

To test the reliability of computer-processed data, we randomly selected 50 competitive and noncompetitive VISN contracts from our universe and compared the contract information with data in eCMS. Comparison of the data showed that seven contracts had data discrepancies associated with obligation amounts or estimated values. However, these discrepancies did not impact our ability to address our audit objective. Further, while missing eCMS contract documentation was identified, report findings and conclusions were based on information VISN contracting staff provided in addition to what was available in eCMS.

**Government
Audit
Standards**

We conducted our audit work from April 2010 through July 2011. Our assessment of internal controls focused on those controls relating 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 objective.

Appendix C VISN Contract Universe and Statistical Sampling Methodology

Introduction We selected a random sample of awarded VISN contracts to assess whether required oversight reviews were conducted and to determine the adequacy of compliance with various provisions contained in the FAR, VAAR, and VA acquisition policy.

Contract Universe We identified our universe of contracts using data extracted from the Federal Procurement Data System-Next Generation. We obtained data from VA in order to complete the audit. The universe included 5,012 contracts awarded by VISN COs from June 20, 2009, through May 14, 2010.¹²

Of the 5,012 contracts, 2,884 (58 percent) were competitive and 2,128 (42 percent) were noncompetitive. The value of the competitive contracts was \$3.04 billion and noncompetitive contracts \$926 million.

Contract Sample Our random sample of 172 contracts included 83 competitive and 89 noncompetitive contracts. The competitive contracts were valued at \$185 million and the noncompetitive contracts were valued at \$63.2 million. Also, this random sample included 80 SDVOSB and VOSB contracts, valued at \$90.2 million.

The 83 competitive contracts consisted of:

- Construction—45 (54 percent) valued at \$83.3 million
- Service—22 (27 percent) valued at \$36 million
- Healthcare Resource—8 (10 percent) valued at \$34.4 million
- Commodity—8 (10 percent) valued at \$31.4 million

The 89 noncompetitive contracts consisted of:

- Construction—41 (46 percent) valued at \$17.8 million
- Service—33 (37 percent) were valued at \$13.7 million
- Healthcare Resource—10 (11 percent) valued at \$31 million
- Commodity—5 (6 percent) were valued at \$704,104

¹² The contract review was limited to contracts subject to VA's Integrated Oversight Process and excluded contracts such as delivery and task orders made against the Federal Supply Schedule and national contracts and blanket purchasing agreements not subject to this process. Our universe included contracts awarded from June 20, 2009, the day VA's Integrated Oversight Process became effective, through May 14, 2010.

Sample Design

We used a two-stage, stratified, clustered sample design. In the first stage, 6 of 20 VISNs were selected with probability of selection proportional to the total contract value in each VISN. We visited VISN 2 in the audit planning phase and included this VISN in our sample with certainty. The seven VISNs formed the clusters in our sample. In the second stage of sampling, we used stratified random sampling to select contracts from each of the seven VISNs selected in the first stage. The sample universe was stratified by competitive and noncompetitive contracts for each VISN visited. We further stratified these three strata based on contract value: (1) \$25,000–\$99,999, (2) \$100,000–\$5,000,000, and (3) greater than \$5,000,000. Then we used Random.org to select random samples of contracts within each stratum. We reviewed the contracts in random order. One-hundred and ninety-five contracts were selected, but 23 (12 percent) did not meet the scope of our audit and were removed from our sample.¹³ Thus, our final sample size included 172 contracts.

**Projections/
Estimation**

We computed projections of issue rates and contract values using design-based estimation techniques that took the complexity of the sample design into account for estimating the margins of error for projections. We computed sampling weights as the product of the inverse of the probabilities of selection at each stage of sampling. These weights inflate sample findings to the population projections. We also post-stratified the sampling weights so that sample totals equaled known population parameters.

We based our calculations of the margins of error on a 90 percent confidence interval. 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.

¹³ Contracts that did not meet the scope of our audit included those with award dates outside our time frame and those that did not meet our criteria. For example, we excluded delivery and task orders from our review.

Appendix D Contract Projections Based on Sample

The following four tables contain estimates, margins of error based on a 90 percent confidence interval, the lower and upper limits of the 90 percent confidence interval, and sample sizes used during the performance of this audit.

Table 4 **Estimated Contract Values for Contract with No Integrated Oversight Process Reviews Conducted (\$ inMillion)**

Field/Value	Estimated Value	Margin of Error	90% Confidence Interval		Sample Size
			Lower Limit	Upper Limit	
Competitive	\$958	\$503	\$453	\$1,460	47
Noncompetitive	\$627	\$296	\$331	\$923	70
Total:	\$1,584	\$582	\$1,002	\$2,165	117

Source: VA OIG

Table 5 **Estimated Number of Contracts with No Integrated Oversight Process Reviews Conducted**

Field/Value	Estimated Number	Margin of Error	90% Confidence Interval		Sample Size
			Lower Limit	Upper Limit	
Competitive	1,446	369	1,077	1,815	47
Noncompetitive	1,553	243	1,310	1,796	70
Total:	2,998	408	2,591	3,406	117

Source: VA OIG

Table 6 **Estimated Percent of Contracts with No Integrated Oversight Process Reviews Conducted**

Field/Value	Estimated Percent	Margin of Error	90% Confidence Interval		Sample Size
			Lower Limit	Upper Limit	
Competitive	59%	12%	47%	71%	47
Noncompetitive	79%	8%	72%	87%	70
Total:	68%	7%	61%	75%	117

Source: VA OIG

Table 7 **Estimates of Contracts Where Excluded Parties List System Not Search Prior to Award to Determine If Contractors Have Been Debarred or Suspended From Receiving Federal Contracts**

Field/Value	Estimated Percent	Margin of Error	90% Confidence Interval		Sample Size
			Lower Limit	Upper Limit	
Value (millions)	\$674	\$492	\$182	\$1,166	49
Number	1,286	294	992	1,580	49

Source: VA OIG

Appendix E VISN Noncompetitive Contract Review Results

The following table quantifies the frequency associated with the specific weaknesses we identified at the seven VISNs visited related to our reviews of 89 noncompetitive contracts.

Noncompetitive Contract Issues	VISN							Total Issues
	2	4	8	11	16	20	23	
No Integrated Oversight Process Review Conducted	14	9	9	10	13	5	10	70
No or Inadequate Market Research	7	4	2	1	1	3	4	22
No or Inadequate Justification for Other Than Full and Open Competition	5	4	1	1	2	1	2	16
Inadequate Determination of Price Reasonableness	4	3	5	3	5	2	5	27
No or Inadequate Price Negotiation Memorandum	6	7	6	5	5	2	8	39
Excluded Parties List System Not Searched Prior to Award	7	6	0	3	3	1	4	24
Background Investigations Not Initiated Prior to Performance	0	3	1	3	6	1	1	15
No Contracting Officer's Technical Representative Letter	1	3	2	0	1	1	1	9
Inadequate Validation of Goods or Services Prior to Payment	3	1	1	1	5	3	2	16
Someone Other Than Contracting Officer's Technical Representative Certifying Invoices	3	3	4	4	7	2	2	25

Source: VA OIG

Appendix F VISN Competitive Contract Review Results

The following table quantifies the frequency associated with the specific weaknesses we identified at the seven VISNs visited related to the reviews of 83 competitive contracts.

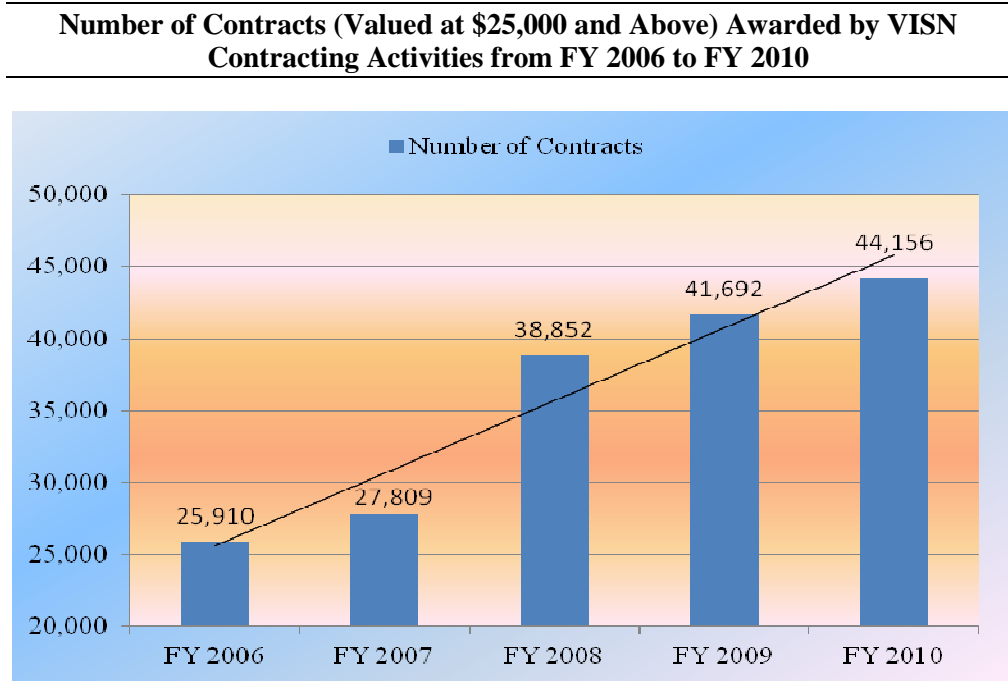
Competitive Contract Issues	VISN							Total Issues
	2	4	8	11	16	20	23	
No Integrated Oversight Process Review	12	6	8	9	3	2	7	47
No or Inadequate Market Research	0	3	1	1	2	0	1	8
Excluded Parties List System Not Searched Prior to Award	4	3	3	5	4	2	4	25
Background Investigations Not Initiated Prior to Performance	0	0	0	1	1	1	0	3
No Contracting Officer's Technical Representative Letter	0	1	0	2	1	0	1	5
Inadequate Validation of Goods/Services Prior to Payment	2	2	3	2	0	0	1	10
Someone Other Than Contracting Officer's Technical Representative Certifying Invoices	2	3	3	3	1	2	0	14

Source: VA OIG

Appendix G Increasing Higher-Value Contract Workload

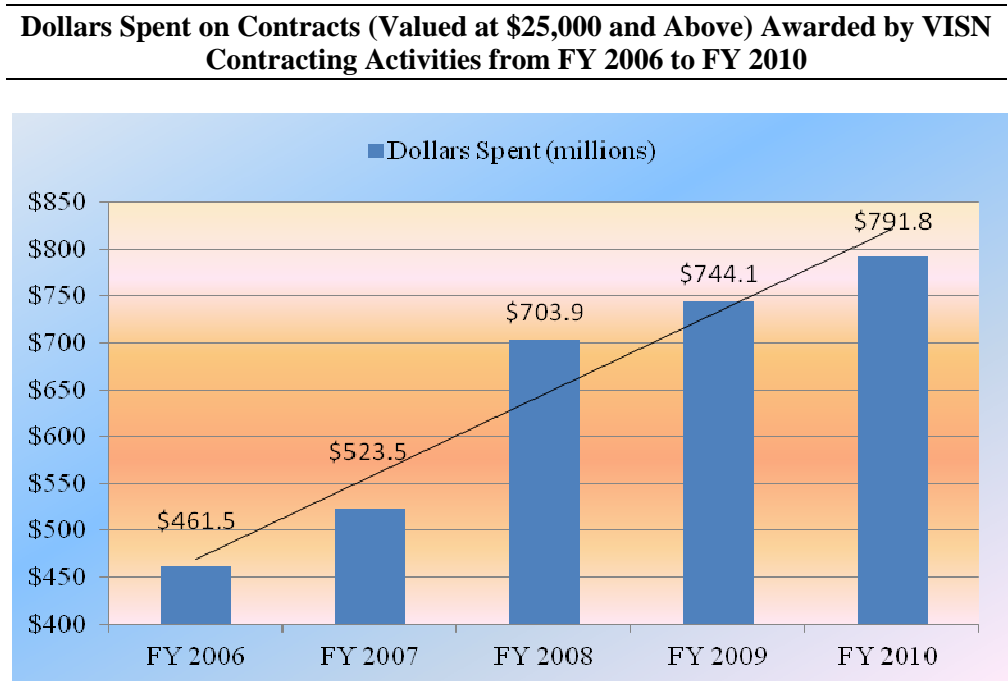
The following figures show the increase in the number of contracts awarded by VISN contracting activities and dollars spent on those contracts.

Figure 3



Source: VA OIG

Figure 4

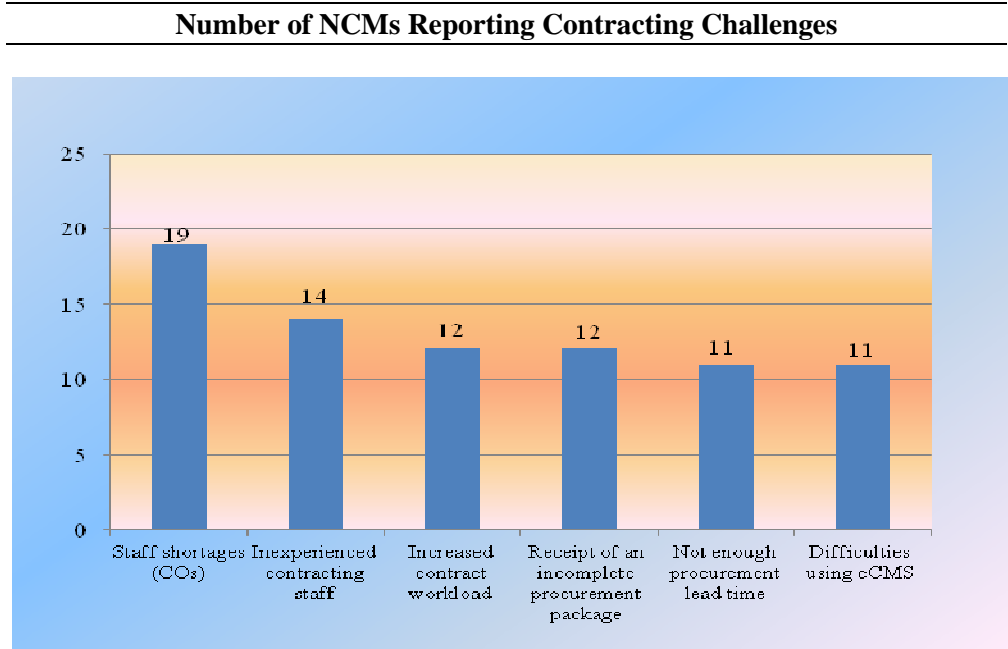


Source: VA OIG

Appendix H Surveys of Network Contract Managers and VISN Contracting Officers

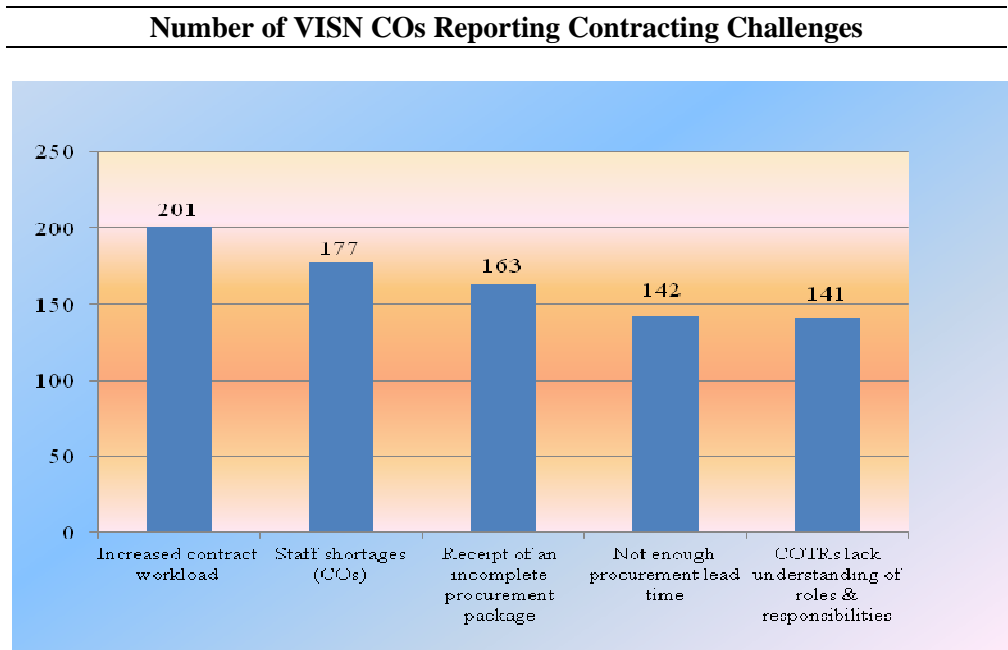
The following figures identify the most frequently reported challenges by NCMs and VISN COs.

Figure 5



Source: VA OIG

Figure 6



Source: VA OIG

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

Recommendation	Explanation of Benefits	Better Use of Funds¹⁴	Questioned Costs
2	Utilize the Independent Government Cost Estimates when negotiating prices for noncompetitive construction contracts valued at over \$100,000.	\$2,948,968	0
Total		\$2,948,968	\$0

¹⁴ This estimated better use of funds was calculated based on a review of 18 noncompetitively awarded construction contracts valued at over \$100,000. For six of these contracts, the estimated contract value was more than the Independent Government Cost Estimate, with no evidence of negotiations. Five of these contracts lacked an adequate explanation as to why the award amount exceeded the estimate. VA paid a total of \$2,948,968 more than the estimated price for these contracts.

Appendix J Under Secretary for Health Comments**Department of
Veterans Affairs****Memorandum**

Date: November 3, 2011

From: Under Secretary for Health (10)

Subj: Office of Inspector General (OIG) Draft Report, Audit of Veterans Integrated Service Network Contracts (VAIQ 7156760)

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

1. I have reviewed the draft report and concur with the recommendations and the potential monetary benefits. The Veterans Health Administration (VHA) appreciates this audit as it occurred very soon after our reorganization of the procurement and logistics function and therefore has assisted us in making improvements already in progress.
2. Prior to and during the OIG review, the VHA identified issues concerning contracting and has proactively taken aggressive action to address these issues. For example, the VHA:
 - Created and implemented the Acquisition Quality Compliance Audit Program. Under this program, each contracting activity will be audited every 3 years to address:
 - Organizational management;
 - Human capital;
 - Acquisition planning and information management; and
 - Contracting function of each organization.
 - Implemented Other than Full and Open Competition Standard Operating Procedures (SOP) that require the Head of Contracting Activity signature for all sole source contracts greater than \$500,000, and Network Contract Manager/Program Contract Manager or product line supervisory approval for awards from \$3,000 to \$500,000.
 - Created quality assurance (QA) positions at Network Contracting Activity (NCA), Service Area Office (SAO), and National levels. These QA and compliance positions will establish and implement quality procedures in the performance of the acquisition function.
 - Implemented a Responsibility Determination SOP that defines the requirements and provides examples for the proper completion of responsibility determinations.

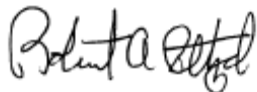
Page 2.

Office of Inspector General (OIG) Draft Report, Audit of Veterans Integrated Service Network Contracts (VAIQ 7156760)

3. The VHA is continuing to implement the Department of Veterans Affairs' (VA) Office of Acquisition, Logistics, and Construction (OALC) Information Letter (IL) 001AL-09-02, Integrated Oversight Process.

We have been faced with challenges due to the reorganization and the transition time, however, we are committed to continue making progress in improving oversight of Veterans Integrated Service Network (VISN) contracting, including adding appropriate staff to VHA Central Office as well as SAO and NCA offices.

4. Thank you for the opportunity to review the draft report. Attached is VHA's corrective action plan for the report's recommendations. If you have any questions, please contact Linda H. Lutes, Director, Management Review Service (10A4A4) at (202) 461-7014.



Robert A. Petzel, M.D.

Attachment

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

**OIG Draft Report, Audit of Veterans Integrated Service Network Contracts
(VAIQ 7156760)**

Date of Draft Report: September 13, 2011

<u>Recommendations/ Actions</u>	<u>Status</u>	<u>Completion Date</u>
-------------------------------------	---------------	----------------------------

Recommendation 1. We recommend the Under Secretary for Health develop a procedure ensuring required Integrated Oversight Process reviews are conducted before contracts can be awarded.

VHA Comments

Concur

The Veterans Health Administration (VHA) Procurement and Logistics Office (P&LO) issued the Integrated Oversight Process Standard Operating Procedure (IOP SOP) on May 10, 2011, to address how acquisition reviews are being conducted in accordance with Information Letter (IL) 001AL-09-02, Integrated Oversight Process.

Completed

VHA P&LO is also developing an additional internal quality assurance (QA) review program to review the implementation of the IOP SOP and address specific Office of Inspector General (OIG) concerns such as documentation of IOP reviews. Details of the additional QA review are being developed. The reviews are expected to begin during the 2nd quarter of Fiscal Year (FY) 2012 and continue until the completion of FY 2012.

In Process

October 1, 2012

Recommendation 2. We recommend the Under Secretary for Health modify Integrated Oversight Process reviews to require a determination as to whether awards of noncompetitive contracts are justified and prices are reasonable.

VHA Comments

Concur

To address the use of noncompetitive contracts, the IOP SOP issued on May 10, 2011, includes peer review forms that require the reviewer to assess whether the awards of noncompetitive contracts are justified and if the prices are reasonable.

Completed

Recommendation 3. We recommend the Under Secretary for Health provide guidance regarding the use of noncompetitive contracts and establish requirements in Veterans Health Administration's oversight program to ensure compliance.

VHA Comments

Concur

To address the use of noncompetitive contracts, VHA P&LO issued an Other Than Full and Open Competition SOP on March 22, 2011. This SOP requires:

- Head of Contracting Activity (HCA) review and signature for ALL sole source contracts above \$500K to \$10M; and
- Network Contract Manager/Program Contract Manager (NCM)/PCM) or product line supervisor review and signature from \$3,000 to \$500K.

To ensure compliance, the SOP requires the appropriate Service Area Office (SAO) to review any noncompetitive requirement requiring HCA or higher approval.

The current VHA P&LO Acquisition Quality Compliance Internal Audit program includes a procurement review portion that checks compliance with the procedures outlined in the Other Than Full and Open Competition SOP.

Completed

VHA's P&LO provided nationwide training on Other Than Full and Open Competition contracts from February 2011 through May 2011.

Completed

Recommendation 4. We recommend the Under Secretary for Health implement a procedure ensuring the data needed to measure procurement administrative lead time is accurately recorded in the Electronic Contract Management System.

VHA Comments

Concur

VHA's P&LO issued an Electronic Contract Management System (eCMS) SOP on June 25, 2010, to address the proper use of eCMS.

SAO QA offices complete eCMS spot checks quarterly. The spot checks ensure that Contracting Officers (CO) are using eCMS to attach a milestone plan to every procurement folder so that eCMS can be utilized to track Procurement Action Lead Time (PALT) more accurately.

The VHA National eCMS Coordinator has distributed a Data Values Guide that describes in detail the values that should be entered for each data value. The eCMS Coordinator has also presented additional eCMS data value instructions via the VHA Operations Network Contracting Activity (NCA) of the Month program. The NCA of the Month program provides additional eCMS, Contracting Officer's Technical Representative (COTR), Acquisition Quality, and Small Business Program training about three NCAs per month. The Associate Director of Procurement Operations conducted a Live Meeting with all SAOs, Deputy SAOs, NCMs and PCMs regarding eCMS best practices. Several metrics are used to track eCMS compliance such as the Integrated Funds Distribution, Control Point Activity, Accounting, and Procurement (IFCAP) module to eCMS metric. In FY 2012, VHA will add a PALT metric to the VHA dashboard to further assist in the tracking of eCMS compliance.

In Process

December 31, 2011

VHA's P&LO will also implement the use of the eCMS Acquisition Planning Module which will assist in tracking PALT.

In Process

April 1, 2012

Recommendation 5. We recommend the Under Secretary for Health implement policy developed by VA's Office of Acquisition, Logistics, and Construction concerning the use of Public Law 109-461 as justification for other than full and open competition to award noncompetitive contracts to Service-Disabled Veteran-Owned Small Businesses and Veteran-Owned Small Businesses.

VHA Comments

Concur

VHA agrees to implement policy developed by the Department of Veterans Affairs (VA) Office of Acquisition, Logistics and Construction (OALC) concerning the use of Public Law 109-461 when contracts are awarded noncompetitively to Service-Disabled Veteran Owned- Small Businesses (SDVOSB) and Veteran-Owned Small Businesses (VOSB). Whenever possible, VHA will use competitive procedures in awarding these contracts to SDVOSBs and VOSBs.

Recommendation 6. We recommend the Under Secretary for Health strengthen procedures to ensure that Excluded Parties List System checks are conducted, inquiries into conflicts of interest are made, and background investigations of contractor personnel are conducted.

VHA Comments

Concur

The eCMS was updated on May 8, 2010, to check the Excluded Parties List System (EPLS) automatically before a CO can make a contract award. The eCMS will not allow a CO to make an award if the vendor is on the EPLS list unless a CO determines an override is necessary. The

current VHA Acquisition Quality Internal Audit Program includes a review of EPLS documentation as part of the contract review program.

Completed

VHA's P&LO also released a Security SOP February 25, 2011, that addresses background investigations and issued a Responsibility Determination SOP to further address contractor suitability. The Security SOP establishes the VHA Service Center (VSC) Security Personnel Program as the office for the centralized processing of all VHA procurement special agreement check (SAC) adjudications and suitability determinations. The current VHA P&LO Acquisition Quality Compliance Internal Audit program includes a review of necessary security items as part of the contract review program.

Completed

Recommendation 7. We recommend the Under Secretary for Health develop guidance and criteria on when to designate a Contracting Officer's Technical Representative.

VHA Comments

Concur

VHA's P&LO released the COTR SOP on May 20, 2011. The COTR SOP includes instructions on when a COTR is required; the responsibilities of the CO and COTR; COTR training requirements; COTR nomination procedures; sample COTR designation letters; COTR record keeping requirements; and COTR invoice procedures.

Completed

Recommendation 8. We recommend the Under Secretary for Health establish a requirement for Contracting Officers to document in Contracting Officer's Technical Representatives' designation letters the information and action needed to certify invoices for payment.

VHA Comments

Concur

VHA's P&LO released the COTR SOP on May 20, 2011. This SOP requires COs to document the information and actions needed to certify invoices for payment in the COTR's designation letter.

Completed

Recommendation 9. We recommend the Under Secretary for Health provide Contracting Officer's Technical Representatives guidance on monitoring contractor performance and validating receipt of goods and services.

VHA Comments

Concur

VHA's P&LO released the COTR SOP on May 20, 2011. The COTR SOP includes instructions on monitoring contractor performance and validating receipt of goods and services.

Completed

Recommendation 10. We recommend the Under Secretary for Health develop a mechanism ensuring Contracting Officers document the results of required Integrated Oversight Process contract reviews in the Electronic Contract Management System.

VHA Comments

Concur

The IOP SOP includes a process flowchart that details the procedures to properly document the IOP reviews in eCMS. The current VHA P&LO Acquisition Quality Compliance Internal Audit program includes a check of the proper documentation of contract reviews.

Completed

Recommendation 11. We recommend the Executive Director, Office of Acquisition, Logistics, and Construction develop policy concerning the use of Public Law 109-461 as justification for other than full and open competition to award noncompetitive contracts to Service-Disabled Veteran-Owned Small Businesses and Veteran-Owned Small Businesses.

[NOTE: The Executive Director, OALC to provide response.]

Recommendation 12. We recommend the Executive Director, Office of Acquisition, Logistics, and Construction develop a mechanism ensuring Contracting Officers document the results of required Integrated Oversight Process contract reviews in the Electronic Management System.

[NOTE: The Executive Director, OALC to provide response.]

Recommendation 13. We recommend the Under Secretary for Health develop and maintain the information management tools and measures needed to ensure Veterans Integrated Service Networks have the contracting staff needed to meet workload demands and ensure quality acquisitions.

VHA Comments

Concur

VHA's P&LO will review the VA OALC workload analysis tool and verify if it adequately addresses VHA's needs as an acquisition workload tool. If the VA OALC tool does not adequately address VHA needs, the tool will be modified or a new tool will be developed.

In Process

January 31, 2012

The current VHA P&LO Acquisition Quality Compliance Internal Audit program results are also a tool that provides data VHA leadership needs to monitor the acquisition workload and workforce. The audit program elements assess NCM/PCM/SAO (1) Organizational Management; (2) Human Capital Management; (3) Strategic Acquisition Planning; and (4) Procurement functions.

Completed

Recommendation 14. We recommend the Under Secretary for Health develop strategies to recruit and retain a sufficient acquisition workforce capable of processing Veterans Integrated Service Network contract workload

VHA Comments

Concur

VHA's P&LO has obtained direct hire authority for the Washington DC Metropolitan Area and is pursuing direct hire authority nationwide to assist in the recruitment of staff.

Completed

Standards for recruitment and retention methods are also being developed.

In Process

June 30, 2012

VHA's P&LO is seeking approval to centralize all procurement (NCM/PCM, SAO and DCPO staff) human resources (HR) functions to one HR office, the VHA Service Center, to allow for the standardization and implementation of all recruitment and retention processes.

In Process

January 1, 2012

Veterans Health Administration
November 2011

Appendix K Executive Director, Office of Acquisition, Logistics, and Construction Comments

Department of Veterans Affairs

Memorandum

Date: October 25, 2011

From: Executive Director, Office of Acquisition, Logistics, and Construction (001ALC)

Subj: Draft Report, Audit of Veterans Integrated Service Network Contracts (Project Number 2010-01767-R1-0262) (VAIQ Number 7156033)

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

1. The Office of Acquisition, Logistics, and Construction (OALC) has reviewed your September 13, 2011 status request memo and the draft report, Audit of Veterans Integrated Service Network Contracts (Project Number 2010-01767-R1-0262). OALC provides the following response to the report recommendations 11 and 12:

- a. **Recommendation 11:** We recommend the Executive Director, Office of Acquisition, Logistics, and Construction develop policy concerning the use of Public Law 109-461 as justification for other than full and open competition to award noncompetitive contracts to service-disabled Veteran-owned small businesses and Veteran-owned small businesses.

OALC Response: Concur. OALC is developing an Information Letter (IL) to establish a process fostering competition when awarding contracts using Title 38, United States Code, sections 8127 and 8128, preferences for contracting with service-disabled Veteran-owned small businesses and Veteran-owned small businesses. The IL will require the contracting officer to obtain competition to the maximum extent practicable, clarify the use of competitive set-aside and sole source procedures, and focus on determining price reasonableness as required by the statute.

Targeted Completion Date: January 31, 2012

- b. **Recommendation 12:** We recommend the Executive Director, Office of Acquisition, Logistics, and Construction develop a mechanism ensuring Contracting Officers document the results of required Integrated Oversight Process contract reviews in the Electronic Contract Management System.

OALC Response: Concur. As noted on page 16 of the draft report, the Enterprise Acquisition Systems (EAS) Service anticipated adding a review and approval process to Electronic Contract Management System (eCMS) during fiscal year

Page 2.

OIG Draft Report, Audit of Veterans Integrated Service Network (VISN) Contracts
(VAIQ 7156033)

(FY) 2011. The original functionality for this was added to eCMS in FY 2010; testing was completed March 26, 2010; and the process was put into operation May 1, 2010. The review process from submission to closure is automated through and documented in eCMS, and may include peer/supervisory review, legal/technical review, or business clearance reviews.

The Request Document Review function in eCMS automatically attaches the acquisition to the review request. This request provides the ability to select reviewers, create request notes, select request types, priority, closure date, and whether to share comments across reviewers. Finally, the requester may attach external or briefcase files for review.

In FY 2012, EAS Service anticipates further enhancement to this functionality, providing a review and approval process for acquisition packages as a whole rather than document-by-document as provided under the current system. This enhancement is scheduled for release in the March 2012 upgrade of eCMS.

Targeted Completion Date: March 31, 2012

2. Should you have questions regarding this response, please contact Mr. C. Ford Heard, III, Associate Deputy Assistant Secretary for Procurement Policy, Systems, and Oversight, at (202) 461-6877, or via email: ford.heard@va.gov.



Glenn D. Haggstrom

Appendix L 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	Nick Dahl, Director Maureen Barry Lee Giesbrecht Karen Hatch Benjamin Howe Jenna Lamy Jennifer Leonard David Orfalea Steven Rosenthal Joseph Vivolo
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