

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Department of Veterans Affairs

*Audit of
Savings Reported Under the
Office of Management and
Budget's Acquisition Savings
Initiative*

September 30, 2012
11-03217-293

ACRONYMS AND ABBREVIATIONS

GAO	Government Accountability Office
OALC	Office of Acquisition, Logistics and Construction
OIG	Office of Inspector General
OMB	Office of Management and Budget
VA	Veterans Affairs
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network

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Report Highlights: Audit of VA's Savings Reported Under OMB's Acquisition Savings Initiative

Why We Did This Audit

In response to an Office of Management and Budget (OMB) acquisition savings initiative, VA set a 2-year savings goal of approximately \$1.5 billion for FYs 2010 and 2011, which included a \$721 million goal for the Veterans Health Administration (VHA). In December 2011, VHA reported achieving approximately \$1.1 billion in savings under this initiative. The Office of Inspector General (OIG) conducted this audit to determine if VHA reported accurate and supportable savings as part of OMB's acquisition savings initiative for FYs 2010 and 2011.

What We Found

VHA inaccurately reported \$710 million (65 percent) of the approximately \$1.1 billion in savings reported under the OMB acquisition savings initiative. Reported savings by VHA included errors in the following three categories:

- Savings not reportable under OMB requirements
- Duplicate transactions reported
- Savings that lacked sufficient supporting documentation

This overstatement occurred because VA and VHA did not provide VHA personnel with complete guidance or implement adequate oversight controls to ensure reported savings were valid and accurate. In addition, VHA used an interpretation of allowable savings that contradicted OMB guidance for this initiative.

What We Recommend

We recommend the VA Executive in Charge, Office of Management, and Chief Financial Officer develop and implement procedures that establishes appropriate controls to ensure VA more effectively responds to future savings reforms and initiatives.

Agency Comments

The Executive in Charge for the Office of Management and Chief Financial Officer concurred with our finding and recommendation and plans to issue a memorandum by December 31, 2012. This guidance will direct Department Administrations and Staff Offices to appoint a senior official who will certify all savings claimed to be accurate and in accordance with guidelines established by OMB for each savings reform or initiative. We consider this planned action acceptable, and will follow up on its implementation.

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

LINDA A. HALLIDAY
Assistant Inspector General
for Audits and Evaluations

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INTRODUCTION

Objective

The Office of Inspector General (OIG) conducted this audit to determine if the Veterans Health Administration (VHA) reported accurate and supportable savings as part of the Office of Management and Budget's (OMB) acquisition savings initiative for FYs 2010 and 2011.

OMB Acquisition Savings Initiative

In March 2009, the President called on Federal agencies to eliminate waste and maximize the value achieved from Government contracts. In July 2009, OMB issued implementing guidance, Memorandum M-09-25, *Improving Government Acquisition*. The guidance directed agencies to review existing contracts and acquisition practices and develop a 2-year savings plan to reduce FY 2008 baseline contract spending by 7 percent by the end of FY 2011. In September 2009, OMB clarified the savings target as 3.5 percent of baseline spending for FY 2010 and 7 percent of baseline spending for FY 2011.

VA Acquisition Savings Plan

In November 2009, VA submitted its Acquisition Savings Plan to OMB that included a \$958 million savings goal for FYs 2010 and 2011. The plan stated VA would implement a comprehensive monitoring process to ensure plan success. In January 2011, VA increased the goal to approximately \$1.5 billion (\$1.458 billion) to comply with OMB's September 2009 instructions.

VHA Savings Goal

Of the \$1.5 billion, VA established a 2-year, \$721 million savings goal for VHA. VHA planned to implement eight savings initiatives to achieve the \$721 million savings goal. Our audit focused on the following three initiatives that accounted for \$678 million (94 percent) of the reported savings:

- **Consolidated Contracting**—Savings resulting from the increased use of national contracts, regional contracts, and Veterans Integrated Service Network (VISN) consolidated contracts
- **Increased Competition**—Savings resulting from competing contracts that were previously awarded as sole-source (no bid) contracts
- **Bring Back Contracting-Army Corps of Engineers**—Savings resulting from canceling Army Corps of Engineers' contracts or reducing contract administrative costs by using VHA's in-house contracting resources

Reported Savings

VHA reported achieving approximately \$1.1 billion (\$1.097 billion) of VA's total \$2 billion in savings under OMB's acquisition savings initiative in December 2011. The eight initiatives are described in Appendix A.

RESULTS AND RECOMMENDATIONS

Finding **VHA Overstated Savings Under the OMB Acquisition Savings Initiative**

VHA overstated \$710 million (65 percent) of the \$1.1 billion of total savings VA reported under the OMB initiative. Specifically, VHA included \$562 million in savings that were not consistent with the intent of the OMB initiative. VHA also included \$19 million in duplicate transactions, and \$129 million in savings that lacked sufficient supporting documentation.

This overstatement occurred because VA and VHA did not provide complete guidance and did not implement adequate oversight controls to ensure reported savings were valid and accurate. In addition, VHA used an interpretation of allowable savings that contradicted OMB guidance for this initiative.

As a result, VHA did not achieve its \$721 million savings goal, and more importantly, VA did not achieve its \$1.5 billion savings objective. Because VA overstated their savings under this initiative, VHA program funding could be at risk if OMB relies on this inaccurate information to determine future funding.

OMB Guidance

OMB provided guidance to agencies to review contracts and acquisition practices existing prior to FY 2010 and develop a plan to reduce FY 2008 contract spending by 10.5 percent by the end of FY 2011. Agencies were to accomplish their planned reduction in contract spending in FYs 2010 and 2011 by eliminating inefficient contracts, improving contractor performance, and improving the performance of acquisition activities. Agencies were required to report planned savings and actual savings realized from actions taken during FYs 2010 and 2011 to OMB. Agencies were to report actual savings as the difference between:

- The amount an agency had already contracted to spend to procure goods and services and the amount the agency expects to spend after implementing savings strategies
- The amount an agency spends based on existing acquisition practices and the amount the agency expects to spend after improving the effectiveness of their acquisition practices

Savings Not Reportable Under the OMB Initiative

VHA included \$562 million in savings not reportable under OMB guidance. VHA incorrectly reported \$337 million in savings for contracts for repricing of non-VA provider claims and \$182 million in savings for contracts for the purchase of prosthetics and other assistive devices. In addition, VHA

incorrectly reported \$43 million in savings for contracts for a regional procurement entity that leverages VHA buying power on behalf of a number of VISNs and VA medical centers.

In order to report actual savings as achieved on an existing contract, OMB required agencies to take specific actions during FY 2010 or FY 2011, such as negotiating more favorable pricing, improving contractor performance and implementing effective acquisition practices. The \$562 million was not reportable because VHA did not take new actions on these contracts since FY 2008.

Duplicate Transactions

VHA counted 183 transactions twice resulting in a \$19 million overstatement in reported savings. The Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government describes the need for controls over information processing and the accurate recording of transactions and events. For example, one VISN counted savings of \$1 million twice on a contract to renovate a facility, which resulted in improperly reporting \$2 million in contract savings.

Lack of Supporting Documentation

VHA lacked documentation to support \$129 million in reported savings. GAO's Standards for Internal Control in the Federal Government states that all transactions and other significant events need to be clearly documented, and the documentation should be readily available for review. VHA lacked documentation supporting reported savings associated with contracts for pharmaceutical purchases, VISN claims analysis services, Bring Back Contracting-Army Corps of Engineers (Bring Back Contracting)—and VISN consolidated contracting activities. VHA's reported savings that lacked supporting documentation are shown in the following Table 1.

Table 1

Reported Savings Lacking Supporting Documentation (in Millions)			
National and Regional Contracts	FY 2010	FY 2011	Total
Pharmacy Benefit Management	\$36	\$71	\$107
VISN Claims Analysis Services	11	0	11
Bring Back Contracting	7	1	8
VISN Consolidated Contracting	1	2	3
Total	\$55	\$74	\$129

Source: OIG analysis of data provided by VHA

Reasons for Reporting of Inaccurate and Unsupported Savings

VHA reported inaccurate and unsupported savings to VA because of incomplete guidance to implement the initiative. Guidance issued did not sufficiently explain to acquisition offices how to determine, substantiate, and report savings under the OMB initiative. VHA also used an interpretation of allowable savings that contradicted OMB guidance for this initiative.

Additionally, these reporting errors occurred because of insufficient oversight, which includes review procedures, to ensure the integrity of reported savings. VA and VHA share responsibility for the inaccurate reporting of savings under OMB's initiative. While VA and VHA had only 90 days to respond to OMB with an acquisition savings plan, this time constraint did not absolve VA or VHA from implementing the fundamental controls needed to ensure the reporting of accurate acquisition savings.

Incomplete Guidance

Another tenant of the *Standards for Internal Control in the Federal Government* is the importance of control activities, such as policies and procedures, to ensure management takes action to address risks. Effective controls should be an integral part of the Department's planning, implementing, and achieving effective results. Review procedures to detect errors, omissions and unsupported savings, and holding staff accountable for properly implementing effective control procedures, among other things, represented important control activities that VA and VHA needed to implement for this initiative.

VA provided incomplete guidance to implement the initiative within the Department. VA guidance issued in September 2009 did not address oversight procedures for collecting, substantiating, and reporting acquisition savings. VA's guidance also did not address the need to document reported savings until October 2010, a year into the initiative.

VHA also did not provide complete guidance to its VISNs and VA medical centers, such as what constituted savings under the initiative and approved methods for calculating savings. In addition, VHA did not provide guidance on establishing:

- Controls to ensure managers and staff used appropriate methods to collect, substantiate, and report savings
- Oversight procedures to ensure the reported savings were reliable, accurate, and reportable under OMB guidance
- Methods to ensure source information and savings calculations were retained

Incorrect Interpretation of OMB Guidance

VHA officials incorrectly believed that savings resulting from exercising an option to continue a contract (that is, exercising an option year) awarded in FY 2008 or earlier without taking any other actions was reportable under the OMB initiative. However, OMB confirmed that only exercising an option to

continue a contract under its pre-existing terms with no other actions would result in savings not reportable under this particular initiative. While exercising an option to continue contracts negotiated in FY 2008 and earlier may produce savings, these savings did not represent benefits reportable under the OMB initiative.

Inadequate Oversight

VA's Acquisition Savings Plan stated VA would implement a comprehensive monitoring process to ensure the plan's success. However, neither VA nor VHA implemented adequate oversight controls over the reported savings of OMB's initiative. Although VA provided oversight and direction for the OMB initiative, the Department's efforts were ineffective in providing reasonable assurance that reported savings were valid and accurate.

VHA also did not provide adequate oversight, which includes review procedures, to ensure reported savings were valid, accurate, and reportable under OMB guidance. Although in August 2011, VHA reviewed and certified reported savings for FY 2010 and identified \$12 million in adjustments to reported savings, they did not identify any of the issues addressed in this report.

Impact of Inaccurate Reporting of Cost Savings

As a result of VHA inaccurately reporting \$710 million, VHA did not achieve their \$721 million savings goal, and more importantly, VA did not achieve its \$1.5 billion savings goal. OMB may also use VA's inaccurately reported savings to determine future funding of VHA program requirements.

Conclusion

Although this initiative ended in FY 2011, current and future congressional concerns over Federal budget deficits will likely lead to similar cost-savings initiatives. VA needs to develop adequate guidance and strengthen oversight procedures to ensure VA can effectively respond to any future savings initiatives.

Recommendation

We recommend the VA Executive in Charge, Office of Management, and Chief Financial Officer develop and implement procedures that establishes appropriate controls to ensure VA more effectively responds to future savings reforms and initiatives.

Management Comments and OIG Response

The VA Executive in Charge, Office of Management, and Chief Financial Officer agreed with the finding and recommendation and plans to issue a memorandum by December 31, 2012, directing Department Administrations and Staff Offices to appoint a senior official who will certify all savings claimed to be accurate and in accordance with guidelines established by the Office of Management and Budget for each savings reform or initiative. We consider this planned action acceptable, and will follow up on its implementation. Appendix C contains the full text of their response.

The Office of Acquisition, Logistics and Construction (OALC) also provided comments to our draft report. Their comments were considered, but not included in this report since no recommendation was made to that office. We did concur with their comment that OMB's guidance was broad. Further, we were pleased that OALC agreed to work with the Office of Management in developing effective controls to ensure VA more accurately responds to future savings reforms and initiatives.

Appendix A Background

Presidential Memorandum

In March 2009, the President issued a memorandum requiring Federal agencies to eliminate waste and maximize the value achieved from contracts. The President directed OMB to provide Government-wide guidance to assist agencies in reducing contract spending, which reached \$500 billion in FY 2008.

OMB Guidance

In July 2009, OMB issued Memorandum M-09-25, Improving Government Acquisition, which provided guidance to agencies on reviewing existing contracts and acquisition practices to meet the President's goal. The Administration set a net annual savings target of \$40 billion through better acquisition and acquisition-related program practices during FYs 2010 and 2011. This memorandum indicated that agencies could achieve savings by:

- Ending contracts that do not meet program needs or projects that are no longer needed
- Recruiting new talent and building the skills of the acquisition workforce to negotiate more favorably priced contracts and manage contract costs more effectively
- Developing more strategic acquisition approaches to leverage buying power and achieve the best value for the taxpayer
- Increasing the use of technology to improve contract management
- Reengineering ineffective business processes and practices

Agencies subject to the Chief Financial Officers Act were also required to submit acquisition savings plans to OMB by November 2, 2009.

VA Acquisition Savings Plan

VA submitted their Acquisition Savings Plan to OMB in November 2009. The plan established a 2-year goal of \$958 million in savings for FYs 2010 and 2011. VA also pledged to develop a comprehensive monitoring process to ensure the plan's success. By the end of January 2011, VA revised the November 2009 plan to increase their projected savings goals to \$1.5 billion. The departmental goals and reported savings are presented on the following Table 2.

Table 2

VA Acquisition Goals and Reported Savings (in Millions)		
VA Reporting Elements	Goal	Reported
Veterans Health Administration	\$721	\$1,097
VA Office of Acquisition, Logistics and Construction	581	758
VA Office of Information and Technology	137	145
National Cemetery Administration	16	32
VA Office of Management	3	1
Veterans Benefit Administration	0	0
Total	\$1,458	\$2,033

Source: Data reported by VA to OMB

**VHA
Acquisition
Savings
Initiatives**

VHA was assigned \$721 million of VA's \$1.458 billion (or approximately \$1.5 billion) goal. VHA planned to implement eight savings initiatives to achieve the \$721 million savings goal. The following provides a brief description of VHA's eight savings initiatives.

- **Consolidated Contracting**—Savings resulting from the increased use of national contracts, regional contracts such as the Western States Network Consortium, and VISN consolidated contracts
- **Increased Competition**—Savings resulting from competing contracts that were previously awarded as sole-source (no bid) contracts
- **Bring Back Contracting**—Canceling contracts or reducing contract administrative costs paid to the Army Corps of Engineers by using VHA's in-house contracting resources
- **Reverse Auction Utilities**—Leveraging savings for utilities through the General Services Administration's utilities contracts
- **Medical and Surgical Product Data Bank**—Leveraging of contract spending for medical and surgical supplies through joint Department of Defense and VA contracting
- **Reduce Contracts**—Canceling contracts or reducing contract administrative costs by using in-house contracting activity
- **Property Reutilization**—Reutilizing excess equipment rather than purchasing new equipment
- **Prime Vendor**—Cost avoidance through better inventory management and price concessions

***VA Oversight
of Acquisition
Savings Plan***

In a January 2010 memorandum, the OALC established a reporting and tracking process to meet acquisitions savings goals under this initiative. In March 2011, the OALC issued a memorandum requiring reporting activities to conduct a review of savings reported for FY 2010 and certify that the savings amounts and methodology were accurate. This memorandum also required that any recalculation of savings must include an explanation of the difference and the rationale for recalculation. In March 2011, the OALC provided additional instructions reminding VHA to ensure calculations were reasonable, accurate, and supportable.

***Ongoing
Government-wide
Acquisition
Initiative***

In September 2011, OMB issued a memorandum implementing section 865(b)(2) of the National Defense Authorization Act for FY 2009 (Public Law 110-417). The memorandum provides guidance to implement acquisition reforms when establishing or renewing Government-wide contracts, multi-agency contracts, Blanket Purchase Agreements, and agency contracts.

Appendix B Scope and Methodology

Scope

Our audit focused on VHA acquisition savings reported for FYs 2010 and 2011 under the OMB acquisitions savings initiative. We conducted our audit from August 2011 through July 2012 at VA Central Office and VISNs in Minneapolis, MN and Vancouver, WA.

Methodology

To assess VHA's implementation of VA's Acquisition Savings Plan, we reviewed laws, regulations, and policies applicable to OMB's acquisition savings initiative. To gain an understanding of VHA's process for collecting and reporting actual savings, we interviewed senior VA and VHA officials at VA Central Office.

We evaluated the guidance VA provided to VHA and the guidance VHA provided to their acquisition staff. We also assessed how the guidance:

- Defined what constituted savings and how to calculate the savings to comply with OMB requirements
- Established controls to ensure VHA acquisition staff used appropriate methods to collect, substantiate, and report savings
- Established oversight procedures to validate reported savings

We also analyzed 4,000 transactions related to contracts totaling \$1 billion of the \$1.1 billion VHA reported as consolidated contracting and increased competition savings for FYs 2010 and 2011. Our analysis included reconciling all transactions supporting the reported savings. In addition, we evaluated whether the VISNs:

- Consistently categorized savings related to consolidated contracting and increased competition initiatives
- Only included savings related to contracts that were reportable under OMB's acquisition savings initiative
- Duplicated transactions in reported savings

To determine if a VISN had an effective methodology in place for estimating, monitoring, and reporting savings, we interviewed managers and staff at VA Midwest Health Care Network, Minneapolis, MN, and Northwest Network, Vancouver, WA. At the two VISNs, we statistically selected and examined a sample of 143 transactions reported as Consolidated Contracting, Increased Competition, and Bring Back Contracting savings. We also evaluated VISN reports and other documents the VISNs used to determine, substantiate, and report savings.

Additionally, we selected and examined a statistical sample of 15 transactions reported as prosthetics and other assistive devices savings by VA Central Office.

Data Reliability

We analyzed and tested computer-generated data in multiple Excel spreadsheets VHA used to accumulate and report savings for the eight savings initiatives. The spreadsheets provided a breakout of savings VHA reported monthly by contract and fiscal year to VA.

To test the reliability of the data, we interviewed VHA officials and staff responsible for compiling the data and reconciled the information in VHA's Excel spreadsheets to savings reported to OMB. We performed basic checks, such as checking for missing information, duplicate records, and savings information that did not comply with OMB requirements. We also traced a statistical sample of 158 transactions to supporting documents, which confirmed the inclusion of savings not reportable under OMB requirements, savings that lacked sufficient supporting documentation, and savings supported by duplicate records. Despite these limitations, we believe the computer-generated data are sufficiently reliable as indicators of the general accuracy of the savings VHA reported as part of OMB's acquisition savings initiative for FYs 2010 and 2011.

**Government
Audit
Standards**

Our assessment of internal controls focused on those controls relating to our audit objectives. 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 VA Executive in Charge, Office of Management, and Chief Financial Officer Comments

Department of Veterans Affairs

Memorandum

Date: September 27, 2012

From: Executive in Charge, Office of Management and Chief Financial Officer (004)

Subj: Concurrence with Draft Report, *Audit of Savings Reported Under the Office of Management and Budget Acquisition Savings Initiative*

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

1. The Office of Management has reviewed the subject draft report and concurs with the recommendation as written. I will issue a memorandum by December 31, 2012, directing Department Administrations and Staff Offices to appoint a senior official who will certify all savings claimed to be accurate and in accordance with guidelines established by the Office of Management and Budget for each savings reform or initiative.
2. If you have any questions, please call me or have a member of your staff contact Rick Johnson at (202) 461-6683.

(original signed by:)

W. Todd Grams

Appendix D 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	Timothy J. Crowe, Director Dennis Capps Debra Cato Charles Chiarenza Hope Favreau Lee Giesbrecht Brandon Guadalupe Thomas McPherson Mark Mullery
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Appendix E Report Distribution

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This report will be available in the near future on the OIG's Web site at <http://www.va.gov/oig/publications/reports-list.asp>. This report will remain on the OIG Web site for at least 2 fiscal years.