

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Veterans Health Administration

*Audit of
Non-Purchase Card
Micro-Purchases*

August 9, 2013
12-01860-237

ACRONYMS AND ABBREVIATIONS

FAR	Federal Acquisition Regulation
FMS	Financial Management System
FSC	Financial Service Center
OIG	Office of Inspector General
P&LO	Procurement and Logistics Office
VA	Veterans Affairs
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network

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Report Highlights: Audit of VHA's Non-Purchase Card Micro-Purchases

Why We Did This Audit

During FY 2012, the Veterans Health Administration (VHA) spent about \$3 billion on micro-purchases of \$3,000 or less for supplies and services. VA's Purchase Card Program allows VHA to streamline the procurement process and earn rebates from purchase card use. We conducted this audit to evaluate whether opportunities exist for VA medical facilities to increase purchasing efficiency and cost-effectiveness by increasing purchase card use for micro-purchases.

What We Found

Although VHA has increased purchase card use over the past 5 years, opportunities still exist for VHA to achieve significant procurement savings. We estimated VHA could decrease procurement-processing costs by about \$20 million and receive additional rebates of about \$4 million annually by maximizing purchase card use for micro-purchases.

VHA did not identify the universe of micro-purchases and establish yearly goals for using purchase cards. Additionally, VHA did not implement mechanisms to ensure purchase card use and establish policies and procedures requiring the Veterans Integrated Service Networks (VISNs) to perform oversight of non-purchase card micro-purchases. As a result, VHA could miss opportunities to achieve procurement savings ranging from approximately \$102 to \$133 million over the next 5 years with a point estimate of \$120 million.

What We Recommend

We recommend the Under Secretary for Health collaborate with the VA Office of

Management to establish policies and procedures to regularly identify and evaluate the universe of micro-purchases and establish annual and long-term strategic goals to increase the percentage of VA medical facility purchase card micro-purchases.

Additionally, we recommend the Under Secretary collaborate with the VA Office of Management to implement mechanisms to ensure purchasers and approvers adequately consider purchase card use for micro-purchases—including requiring VISNs to perform oversight of non-purchase card micro-purchases.

Agency Comments

The Under Secretary for Health concurred with our findings and recommendations, and plans to complete all corrective actions by December 31, 2013. We consider these actions acceptable and will follow up on their implementation.

Handwritten signature of Linda A. Halliday in blue ink.

LINDA A. HALLIDAY
Assistant Inspector General
for Audits and Evaluations

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INTRODUCTION

Objective

This audit evaluated whether opportunities exist for VA medical facilities to increase purchasing efficiency and cost-effectiveness by increasing use of purchase cards for micro-purchases. We initiated this audit in response to an allegation made through the VA Office of Inspector General (OIG) Hotline in May 2011. The complainant alleged that one medical facility within a Veterans Health Administration (VHA), Veterans Integrated Service Network (VISN) missed rebate opportunities by not using purchase cards to the maximum extent possible. We expanded the scope of our audit work to determine if this was a VHA systemic issue.

Purchase Card Program and Rebates

The General Services Administration's SmartPay2 program provides purchase cards to Federal agencies through contracts negotiated with contractor banks (Citibank, JPMorgan Chase & Co., and U.S. Bank). Purchase cards provide Federal agencies with a purchase and payment tool that implements simplified acquisition procedures, which streamline the procurement process by quickly ordering and paying for supplies and services. Another key benefit of purchase card use is obtaining rebates from contractor banks that represent about 2 percent of the dollar amount of transactions. During FY 2012, VHA spent about 3 billion on micro-purchases of \$3,000 or less for supplies and services. As a result, VHA earned and received over \$65 million in rebates.

Micro-Purchases

The Federal Acquisition Regulation (FAR) defines a micro-purchase as an acquisition of supplies or services using simplified acquisition procedures, where the aggregate amount does not exceed \$3,000. FAR establishes a lower micro-purchase threshold of \$2,500 for acquisitions of services subject to the Service Contract Act and \$2,000 for construction-related acquisitions subject to the Davis-Bacon Act.

Responsible Program Offices

VA's Office of Finance provides VA-wide purchase card policy and procedures. VA's Office of Acquisition and Logistics is responsible for developing and assessing compliance with procurement policy and procedures. VHA's Procurement and Logistics Office (P&LO) is responsible for implementation of VHA's Purchase Card Program's management controls and oversight.

Other Information

- Appendix A details the audit scope and methodology.
- Appendix B shows the statistical sampling methodology used in this audit.

RESULTS AND RECOMMENDATIONS

Finding **VA Medical Facilities Can Achieve Significant Procurement Savings**

VA medical facilities missed opportunities to maximize purchase card use for micro-purchases to achieve significant procurement savings. We estimate VHA could have used purchase cards to make almost 279,000 (38 percent) of 729,000 non-purchase card micro-purchases of supplies and services during the period of April 1, 2011, through March 31, 2012. For these purchases, VHA missed opportunities to decrease procurement-processing costs by about \$20 million and obtain additional rebates of about \$4 million.

This occurred because VHA did not:

- Identify the universe of purchase card micro-purchases and non-purchase card micro-purchases.
- Establish annual goals for using purchase cards for micro-purchases.
- Implement a mechanism to ensure purchasers and approvers adequately consider purchase card use for micro-purchases.
- Establish policies and procedures requiring VISNs to perform oversight of non-purchase card micro-purchases.

As a result, we projected that by decreasing transaction-processing costs and earning additional rebates, VHA could achieve procurement savings ranging from \$20.4 to \$26.6 million annually, and \$102 to \$133 million over the next 5 years with a point estimate of \$120 million.

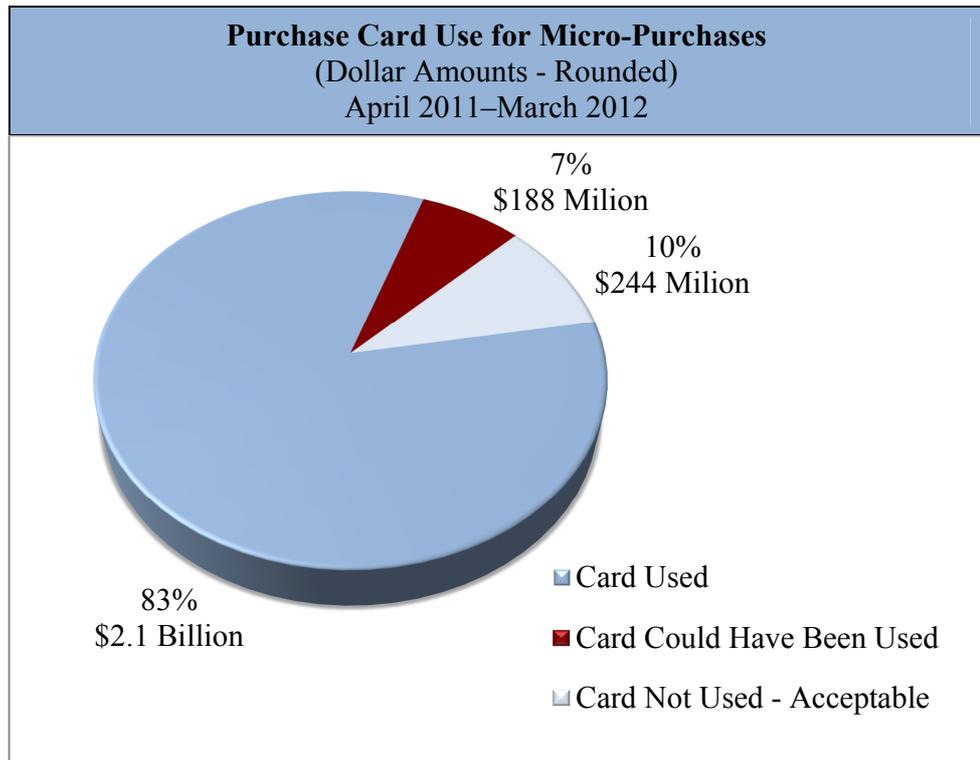
Opportunities to Decrease Processing Costs

By not maximizing purchase card use for micro-purchases, VHA missed opportunities to decrease procurement-processing costs by about \$20 million annually. Purchase card use increases overall purchasing efficiency by eliminating steps from the procurement process when compared with traditional purchase order procurement.

During April 1, 2011, through March 31, 2012, VA medical facilities used purchase cards to pay for just over \$2.1 billion of about \$2.6 billion total micro-purchases. We estimated VA medical facilities had acceptable reasons for not using purchase cards for \$244 million of the remaining \$432 million of micro-purchases. These transactions included payments to vendors who did not accept purchase cards and payments to veterans for tort claims and pharmacy copayments.

We also estimated medical facilities could have used purchase cards for purchases totaling approximately \$188 million annually. This would have increased purchase card micro-purchases to just over \$2.3 billion of the \$2.6 billion total micro-purchases. Figure 1 shows the dollar amounts and percentages of micro-purchases where VHA used, could not have used, and could have used purchase cards.

Figure 1



Source: VA OIG statistical analysis of VA medical facilities micro-purchases

Of the \$188 million in micro-purchases, just over \$73 million were for supplies and nearly \$115 million were for services. The types of supplies included items such as medical and pharmaceutical, computers, and office equipment. The types of services included patient transportation, utilities, and employee training. Appendix C lists the categories of sampled micro-purchase transactions where the eight audited VA medical facilities could have used purchase cards.

Procurement Methods

Medical facilities have two primary methods to make micro-purchases, purchase cards and purchase orders. Purchase card use helps VA medical facilities quickly procure supplies and services to ensure veterans receive timely medical care. Additionally, using purchase cards helps VA medical facilities pay vendors and meet Prompt Payment Act requirements. Typically, processing purchase card procurements takes up to 3 days, while processing purchase order procurements can take up to 30 days. Obtaining

supplies and services by purchase card streamlines the procurement process, while using purchase orders is more complex and time consuming.

Table 1 compares the procurement processing steps for purchase cards and purchase orders.

Table 1

Procurement Methods—Comparison of Processing Steps	
Purchase Card (Average Processing Time: Up to 3 days)	Purchase Order (Average Processing Time: Up to 30 days)
<ol style="list-style-type: none"> 1. Requestor creates purchase request 2. Cardholder places order 3. VA's Financial Service Center (FSC) processes payment 	<ol style="list-style-type: none"> 1. Requestor/control point clerk creates purchase request 2. Control point official certifies request 3. Accountable officer reviews request and transmits to Acquisition and Logistics Service 4. Procurement and Logistics Service staff review request, prepare purchase order, place order, and transmit purchase order to Fiscal Service 5. Fiscal Service staff review purchase order for correct accounting, appropriate coding, and availability of funds 6. Fiscal Service staff obligate funds and process receiving report 7. Control point official certifies invoice for payment 8. FSC staff match invoice received to receiving report and process payment

Source: VA's Office of Finance, VHA's National Purchase Card Manager, and VA Medical Facility Procurement and Logistics Staff

Performing the purchase order steps is a labor-intensive process. The following example highlights the inefficient use of VA medical facility staffing resources when using a purchase order instead of a purchase card to procure supplies.

In April 2011, a VA medical facility employee from Nursing Service created a request to purchase a label maker for about \$40. After the control point official and accountable officer reviewed and certified

the request, a Procurement and Logistics employee prepared and transmitted the purchase order to Fiscal Service. Fiscal Service staff reviewed the purchase order for appropriate coding and availability of funds and obligated the funds. After the VA medical facility received the label maker and the vendor's invoice, the control point official certified the invoice for payment by the FSC. VA paid eight employees to process the purchase order and pay the invoice.

According to a 2012 Purchasing Card Benchmark Survey, the average cost to process a purchase order was \$91, more than double the \$40 cost of the label maker.¹ The survey also concluded savings from purchase card use averaged \$74 per transaction (\$91 for a purchase order compared to \$17 for a purchase card transaction). VA's Deputy Assistant Secretary for Finance and VHA's Chief Procurement and Logistics Officer agreed that the estimated savings of \$74 per transaction was reasonable. As a result, we projected VHA can reduce annual transaction-processing costs by about \$20 million annually.

Primarily, these savings represent the difference in labor costs for processing purchase card and non-purchase card transactions. By increasing purchase card use, VA medical facilities can increase productivity by shifting staff efforts from resource-intensive non-purchase card transaction-processing costs to other medical facility activities. In particular, eliminating the time contracting staff spend on processing micro-purchases is important since reportedly the Federal government, including VA, is experiencing difficulty in filling contracting specialist/officer positions in workforces.

*Regulations on
Purchase Card
Use*

Due to the inherent risks associated with using purchase cards, the Office of Management and Budget requires agencies to develop and implement sufficient controls to ensure appropriate use of purchase cards. When agencies implement effective controls, they can obtain significant benefits by maximizing the use of purchase cards. Consequently, the FAR includes the following requirements to ensure agencies obtain these benefits.

- Agencies must use simplified acquisition methods to the maximum extent practicable for all purchases of supplies or services not exceeding the simplified acquisition threshold (including purchases at or below the micro-purchase threshold of \$3,000).

¹The RPMG Research Corporation conducted the 2012 Purchasing Card Benchmark Survey from November 2011 through February 2012. The RPMG Research Corporation conducts the purchasing card survey bi-annually and the General Services Administration cites an RPMG Research Corporation study in its November 1, 1998, through November 29, 2018, Worldwide Federal Supply Service Contract for Purchase, Travel, Fleet, and Integrated Card Services with Citibank, JPMorgan Chase & Co., and U.S. Bank.

- Purchase cards are the preferred method to purchase and pay for micro-purchases.
- Agencies must encourage purchase card use in greater amounts for purchases against established contracts.

In addition to the FAR, VHA policy requires the following purchase card actions.

- Purchase cards must be used for procurements where vendors accept purchase card payments.
- Warranted individuals must aggressively promote the use of purchase cards as the payment method for all contract purchases.

***Opportunities
to Increase
Rebates***

By not maximizing purchase card use for micro-purchases, VHA missed opportunities to obtain estimated annual rebates of almost \$4 million. VA executives have recognized rebates and other benefits related to purchase card use and have emphasized purchase card use to procure supplies and services. For example, in a 2010 memorandum to key VA officials regarding enhanced use of purchase cards, the then Acting Assistant Secretary for Management specifically emphasized using purchase cards to pay for common items, such as office supplies, mail, rent, and utilities. During FY 2012, VHA spent about \$3 billion on micro-purchases of \$3,000 or less for supplies and services.

Over the last 5 FYs, VHA's reported rebates increased 51 percent from about \$43 million in FY 2008 to just over \$65 million in FY 2012. The Office of Management and Budget requires agencies to return rebates to the appropriation or account from which they were expended. The eight sampled VA medical facilities returned rebates to the proper accounts for use in veterans' programs. Although VHA has increased the amount of rebates earned through increased purchase card use over the past 5 years, opportunities still exist for VHA to earn additional rebates and achieve significant procurement savings. We estimated increased VA medical facility purchase card use for micro-purchases would provide VHA additional rebates of about \$4 million annually.

***Reasons
Purchase
Cards Not
Used***

VA medical facilities did not maximize purchase card use when making micro-purchases because VHA did not identify the micro-purchase universe and establish sufficient goals for using purchase cards for micro-purchases. In addition, VHA did not establish a mechanism to ensure sufficient consideration of purchase card use or policies and procedures requiring VISNs to perform oversight of non-purchase card micro-purchases.

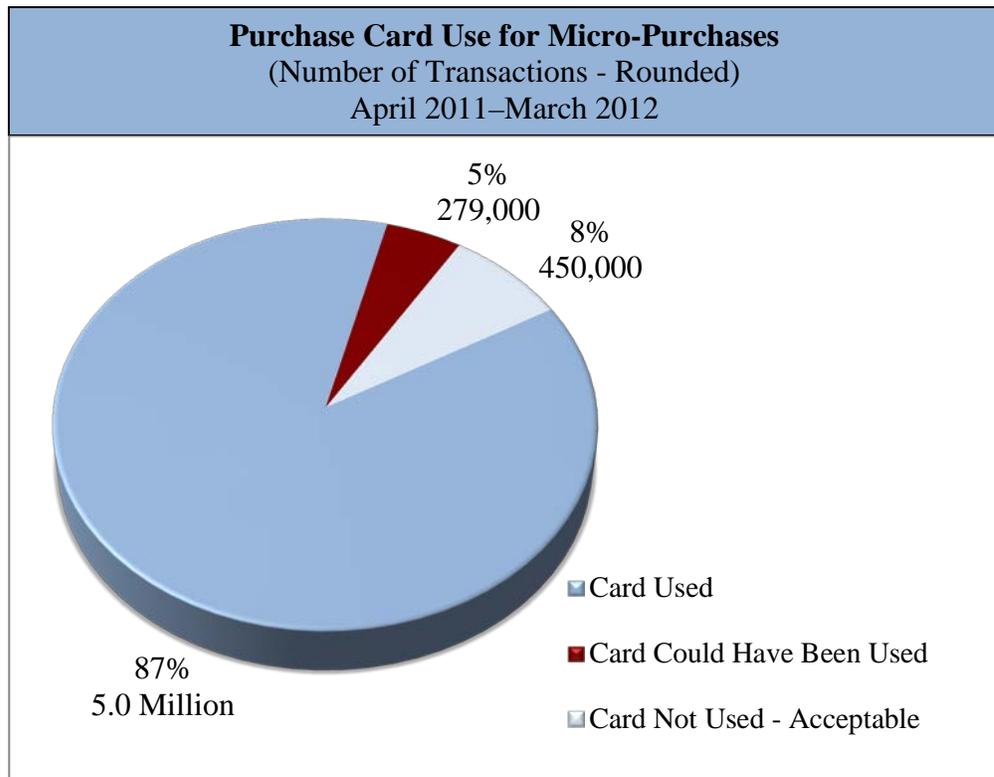
***Micro-Purchase
Universe***

P&LO did not identify the entire VHA-wide universe of non-purchase card or purchase card micro-purchases. In addition, none of the eight medical facilities identified the universe for their facilities. To assess medical

facilities compliance with VHA requirements to maximize purchase card use for micro-purchases, VHA must regularly identify the universe and determine the percent that are non-purchase card purchases.

In collaboration with FSC and VHA P&LO staff, we identified a universe of over 5.7 million micro-purchase transactions from April 2011 through March 2012. The universe included approximately 5.0 million purchase card transactions. Of the remaining 729,000 transactions, we estimated approximately 450,000 (62 percent) had acceptable reasons for not using purchase cards. Medical facilities could have used purchase cards for the remaining 279,000 (38 percent) transactions. This would have increased purchase card transactions to just over 5.3 million of the 5.7 million total micro-purchase transactions. The percentage of non-purchase card transactions the eight sampled VA medical facilities could have made with the purchase card ranged from 14 to 59 percent. Figure 2 shows the number of transactions and percentages of micro-purchases where VHA used, could not have used, and could have used purchase cards.

Figure 2



Source: VA OIG statistical analysis of VA medical facilities' micro-purchases

Purchase Card Use Goals

VHA did not establish goals for medical facility use of purchase cards for micro-purchases. VA's strategic plan requires program managers to establish goals that provide adequate program performance measurements. For the Purchase Card Program, performance goals need to be consistent with FAR and VHA requirements to maximize purchase card use for micro-purchases. VA's strategic plan also requires managers to compare

program performance with established goals and, as appropriate, take actions to help achieve performance goals.

VA's then Acting Assistant Secretary for Management's memorandum regarding the enhanced use of purchase cards established a goal for VA to increase purchase card spending by 8 percent from FY 2010 to 2011. While this goal was a commendable step in the right direction, VHA did not set goals beyond FY 2011. VHA needs to establish annual and long-term strategic goals for the percentage of micro-purchases medical facilities procure with purchase cards.

*Mechanism
Needed for
Considering
Purchase Card
Use*

VHA needs to establish a mechanism to ensure medical facility purchase cardholders consistently consider purchase card use when procuring supplies and services at or below \$3,000. VHA policy stipulates that purchase cards are the preferred simplified acquisition method for micro-purchases, and medical facilities must ensure cardholders comply with policies and regulations to avoid splitting purchases to circumvent the \$3,000 micro-purchase limit.

*Non-Purchase
Card Micro-
Purchases
Oversight*

VISN oversight of non-purchase card micro-purchases was insufficient and contributed to medical facilities not maximizing purchase card use for micro-purchases. VHA policy requires each VISN's Head of Contracting Activity to review monthly samples of purchase card transactions to verify compliance with FAR and VHA policies. When performing these reviews, VHA policy require heads of Contracting Activities to evaluate transactions to ensure medical facility compliance in areas such as maintaining appropriate documentation, purchasing items for official use, and paying reasonable prices for items.

While VISN monthly reviews provide oversight of purchase card transactions, they do not provide oversight of non-purchase card micro-purchase transactions. VHA needs to revise policies to include non-purchase card micro-purchase transactions in samples selected for monthly reviews. In addition, VHA policies need to include requirements to evaluate sampled non-purchase card micro-purchases to identify opportunities to increase medical facility use of purchase cards and help achieve established purchase card use goals.

*Effect of Not
Using
Purchase
Cards*

VA medical facilities did not always maximize purchase card use for micro-purchases and VHA missed opportunities to achieve procurement savings. As a result, we projected that by decreasing transaction-processing costs and earning additional rebates, VHA could achieve procurement savings ranging from \$20.4 to \$26.6 million annually and \$102 to \$133 million over the next 5 years, with a point estimate of \$120 million.

Conclusion

By maximizing the use of purchase cards for micro-purchases, VHA can increase purchasing efficiency and cost-effectiveness. These improvements

will help VHA address challenges to create a more efficient, effective, and coordinated acquisition program to ensure VHA protects taxpayers' interest when procuring supplies and services. VA cannot afford to miss opportunities to reduce transaction-processing costs and generate rebate revenue. Medical facilities can use these savings to help improve programs that provide care for our Nation's veterans.

Recommendations

1. We recommended the Under Secretary for Health collaborate with the VA Office of Management to establish policies and procedures to regularly identify and evaluate the universe of micro-purchases and non-purchase card micro-purchases to monitor the level of Veterans Health Administration use of purchase cards.
2. We recommended the Under Secretary for Health establish annual and long-term strategic goals to increase the percentage of VA medical facility micro-purchases made with purchase cards.
3. We recommended the Under Secretary for Health implement mechanisms to ensure purchasers and approvers adequately consider purchase card use for micro-purchases.
4. We recommended the Under Secretary for Health modify policies and procedures requiring Veterans Integrated Service Networks to perform oversight of non-purchase card micro-purchases that identifies opportunities for increased use of purchase cards.

Management Comments and OIG Response

The Under Secretary for Health agreed with our findings and recommendations. VHA plans to address our recommendations by December 31, 2013. The Under Secretary for Health did not agree with our estimated \$120 million potential monetary benefits. The Under Secretary stated the categories of micro-purchase transactions listed in the report could be purchased using other VHA methods of payment and may not have been candidates for purchase using purchase cards. Additionally, the Under Secretary requested the VA OIG publish the range of potential monetary benefits in the audit report.

The Under Secretary's comments and action plans were responsive to the OIG's draft report. In regard to the Under Secretary's comment that transactions may not have been candidates for using purchase cards, we only included transactions where VA medical facilities could have used purchase cards when estimating potential monetary benefits. As requested by the Under Secretary, we revised the audit report to include the \$102 to \$133 million range of potential monetary benefits VHA could achieve over the next 5 years. Appendix E provides the full text of the Under Secretary's comments.

Appendix A Scope and Methodology

Scope

We conducted our audit from April 2012 through May 2013. The audit focused on VHA's procurement methods for approximately 729,000 non-purchase card micro-purchases (transactions up to \$3,000) made during the period April 1, 2011, through March 31, 2012. These micro-purchases included procurements with Financial Management System (FMS) transaction codes identified by VA's FSC as having the potential for using purchase cards.

We audited a statistical sample of 530 non-purchase card micro-purchases selected from a universe of approximately 729,000 non-purchase card micro-purchases. We based the sample selection on FMS transaction codes at eight statistically sampled VA medical facilities. Appendix B provides details on the statistical sampling methodology and projections. Table 2 lists the eight medical facilities we visited from May through November 2012.

Table 2

Locations of Selected VA Medical Facilities		
VISN	Facility	Location
8	Orlando VA Medical Center	Orlando, FL
11	John D. Dingell VA Medical Center	Detroit, MI
12	Edward Hines Jr. VA Hospital	Hines, IL
15	St. Louis Health Care System	St. Louis, MO
18	Phoenix VA Health Care System	Phoenix, AZ
19	Cheyenne VA Medical Center	Cheyenne, WY
20	Portland VA Medical Center	Portland, OR
21	San Francisco VA Medical Center	San Francisco, CA

Source: VA OIG random sample selection performed in consultation with statistician for Office of Audits and Evaluations

Methodology

To accomplish the audit objectives, we reviewed applicable laws and VA and VHA regulations, policies, procedures, handbooks, and guidelines related to procurement methods. We also interviewed officials from VA's Office of Management and Chief Financial Officer, Office of Financial Business Operations, FSC, National Acquisition Center, and VHA's P&LO.

In addition, we interviewed procurement managers, purchase card coordinators, contracting officers, and staff who participated in the procurement process for the sampled purchases at the eight medical facilities we visited. We also interviewed VISN representatives responsible for the visited sites. For each of the 530 sampled non-purchase card micro-purchases, we reviewed purchase orders, contracts, available

procurement reports, and invoices. When appropriate, we also contacted the vendor to determine if they accepted the Government purchase card.

***Fraud
Assessment***

We assessed the risk of fraud, violations of legal and regulatory requirements, and abuse. In order to identify potentially fraudulent non-purchase card procurements, we conducted specific audit steps to validate invoice prices, and assess appropriate authorization and certification of receipt of supplies and services. In addition, we exercised due diligence in staying alert to any indications of fraud and abuse. We did not identify any instances of fraud or abuse during the audit.

Data Reliability

We used computer-processed data from FMS for our analysis of non-purchase card micro-purchases made during the period April 1, 2011, through March 31, 2012. To test the reliability of this data, we compared the computer-processed data with hardcopy documentation, such as vendor invoices. We determined FMS data was sufficiently reliable for the audit objectives.

***Government
Standards***

Our assessment of internal controls focused on those controls related 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 B Statistical Sampling Methodology

Approach To evaluate whether opportunities exist for VA medical facilities to increase purchasing efficiency and cost-effectiveness, we reviewed a representative sample of non-purchase card micro-purchase transactions. We used statistical sampling to quantify the extent of procurements that facilities could have made with a purchase card and to project potential savings.

Universe VA's FSC identified a VHA-wide universe of about 21 million transactions that were \$3,000 or less during April 1, 2011, through March 31, 2012. For our audit, we reduced the universe to approximately 729,000 non-purchase card transactions totaling approximately \$432 million. This universe excluded payments for expenses that were not possible for medical facilities to use purchase cards, such as work subsistence and employee advances.

Sampling Design As shown in Table 3, we used a two-stage sampling design to select a sample of 8 VA medical facilities and a total sample of 530 non-purchase card micro-purchases from a universe of 16,562 transactions.

Table 3

Sampled Transactions By Medical Facility		
Medical Facility	Transactions	Universe
John D. Dingell VA Medical Center	64	8,650
St. Louis Health Care System	85	2,821
Edward Hines Jr. VA Hospital	65	1,654
Portland VA Medical Center	71	911
San Francisco VA Medical Center	80	887
Phoenix VA Health Care System	59	636
Orlando VA Medical Center	48	507
Cheyenne VA Medical Center	58	496
Total	530	16,562

Source: VA OIG random sample selection performed in consultation with statistician for Office of Audits and Evaluations

We stratified the universe of facilities into three groups based on the total dollar amount of non-purchase card micro-purchases. We then selected samples of facilities using different random samples within each of the three strata until we obtained a sample of facilities from eight different VISNs. This sampling technique provides better precision and allows more flexibility when a sample includes a large number of errors. All facilities had a chance of selection, therefore, allowing estimates over the entire universe.

Weights

We computed sampling weights as a product of the inverse of the probability of selection at each stage of sampling. We used these weights to compute universe estimates from the sample findings.

Estimates and Margins of Error

We calculated universe estimates using weighted sample data. We used WesVar software to calculate the weighted universe estimates and associated sampling errors. WesVar employs replication methodology to calculate margins of error and confidence intervals that correctly account for the complexity of the sample design.

Margins of error and confidence intervals are indicators of the estimates' precision. If we repeated this audit with multiple samples, the confidence intervals would differ for each sample, but would include the true universe value 90 percent of the time. For example, in Table 4 we are 90 percent confident the true universe of non-purchase card micro-purchases that could have been made with a purchase card is between 241,137 and 316,688. For each estimate, we used the midpoint of the 90 percent confidence interval. Table 4 shows the audit projections and number of sampled non-purchase card micro-purchases for the attributes described in the table.

Table 4

Projections and Sampled Non-Purchase Card Micro-Purchases (Dollars in Millions) April 2011–March 2012					
Description	Estimated	Margin of Error	90% Confidence Interval		Sampled Transactions With Condition
			Lower Limit	Upper Limit	
Purchase Card Could Be Used					
Total Transactions	278,913	37,775	241,137	316,688	183
Percent	38.3%	5.2%	33.1%	43.5%	
Supplies	142,268	25,277	116,991	167,545	126
Services	136,645	33,344	103,301	169,989	57
Value	\$187.8	\$30.6	\$157.2	\$218.4	
Percent	43.5%	7.0%	36.5%	50.5%	
Purchase Card Could Not Be Used					
Total Transactions	450,083	37,775	412,308	487,859	347
Percent	61.7%	5.2%	56.5%	66.9%	
Value	\$244.3	\$35.8	\$208.5	\$280.1	
Percent	56.5%	7.0%	49.5%	63.5%	
Missed Opportunities					
Total Transactions	278,913	37,775	241,137	316,688	183
Percent	38.3%	5.2%	33.1%	43.5%	
Value	\$23.5	\$3.1	\$20.4	\$26.6	
Decrease in Costs	\$19.8	\$2.7	\$17.1	\$22.5	
Rebates	\$3.7	\$.6	\$3.1	\$4.3	

Source: VA OIG statistical analysis of VA medical facilities non-purchase card micro-purchases

Appendix C Categories of Non-Purchase Card Micro-Purchases

Table 5 lists the categories of sampled micro-purchase transactions where the eight audited VA medical facilities could have used purchase cards.

Table 5

Categories of Micro-Purchase Transactions	
Acquisitions and Materials Management Supplies	Medical Supplies
Ambulatory Care Services and Supplies	Mental Health Services
Biomedical Supplies	Neurological Supplies
Cardiology Services and Supplies	Nursing Services and Supplies
Chaplain Supplies	Operating Room Supplies
Counseling Services	Pain Clinic Supplies
Dental Services	Pathology Lab Services and Supplies
Dermatology Supplies	Pharmacy Supplies
Educational Services	Psychiatry Supplies
Engineering Services	Radiology Services and Supplies
Environmental Management Services and Supplies	Research and Development Supplies
Facilities Management Services and Supplies	Surgery Services and Supplies
Food Services	Telephone Services
Human Resource Services	Utilities (Natural Gas, Water, and Electric Services)
Information Technology Services and Supplies	Women's Clinic Supplies

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

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs
1-4	Decreased transaction-processing costs by increasing VA medical facility purchase card use for micro-purchases over 5 years.	\$100 million	\$0
1-4	Additional purchase card rebates from increasing VA medical facility purchase card use for micro-purchases over 5 years.	\$20 million	\$0
Total:		\$120 million	\$0

Note: We calculated the \$100 million by rounding the statistically projected \$19.8 million annual decreased transaction-processing costs to \$20 million then multiplied the estimated annual savings by 5 years (\$20 million x 5 years = \$100 million). We calculated the \$20 million by rounding the statistically projected \$3.7 million additional rebates to \$4 million then multiplied the estimated annual rebates by 5 years (\$4 million x 5 years = \$20 million). Our estimate of \$120 million has 90 percent confidence interval of \$102 to \$133 million.

Appendix E Under Secretary for Health Comments

Department of Veterans Affairs

Memorandum

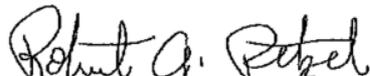
Date: July 5, 2013

From: Under Secretary for Health (10)

Subj: Office of Inspector General Draft Report, Audit of Non-Purchase Card Micro-Purchases (VAIQ 7362478)

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

1. I have reviewed the draft report and concur with all four of the report's recommendations. Attached is the action plan that establishes deadlines for addressing OIG's recommendations within one year of the expected report publication date of July 2013.
2. However, I do not concur with the Office of Inspector General's (OIG) estimate of Potential Monetary Benefits in the amount of \$120 million because the categories of micro-purchase transactions listed in the report could be purchased using other Veteran Health Administration approved methods of payment and may not have been candidates for purchase through a Government Purchase Card. Additionally, because OIG's estimation is not based on comprehensive calculation of savings across VHA but rather projected from a sample review, VHA respectfully request OIG publish the range of Potential Monetary Benefit – in other words, the lowest and highest monetary values generated by the confidence interval for the estimation.
3. Thank you for the opportunity to review the draft report. If you have any questions, please contact Karen M. Rasmussen, Director, Management Review Service (10AR) at (202) 461-6643.


Robert A. Petzel, M.D.

Attachment

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

OIG Draft Report, Audit of Non-Purchase Card Micro-Purchases (VAIQ 7362478)

Date of Draft Report: June 18, 2013

Recommendations/ Actions	Status	Completion Date
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Recommendation 1. We recommend the Under Secretary for Health collaborate with the VA Office of Management to establish policies and procedures to regularly identify and evaluate the universe of micro-purchases and non-purchase card micro-purchases to monitor the level of Veterans Health Administration use of purchase cards.

VHA Comments Concur

VHA Procurement and Logistics Office (P&LO) will generate a report that identifies all purchases below the micro-purchase threshold level for FY2012. P&LO will identify the number and amount of micro-purchases that have been obligated through VHA procurement. The two offices will establish monthly monitors of the total universe of micro-purchase thresholds and the number of micro-purchases effected through the procurement organization.

In process November 30, 2013

Recommendation 2. We recommend the Under Secretary for Health establish annual and long-term strategic goals to increase the percentage of VA medical facility micro-purchases made with purchase cards.

VHA Comments Concur

VHA P&LO, in conjunction with the VHA CFO, will establish performance targets to increase the percent of micro-purchases made with government purchase cards. Performance of Veterans Integrated Service Networks (VISN) will be reviewed on a monthly basis with VISNs.

In process December 31, 2013

Recommendation 3. We recommend the Under Secretary for Health implement mechanisms to ensure purchasers and approvers adequately consider purchase card use for micro purchases.

VHA Deputy Under Secretary for Health for Operations and Management (10N) will develop recommended policies for VISNs to perform periodic reviews of micro-purchases utilizing the government purchase card. Periodic reviews will be performed by VISN Financial Quality Assurance Managers (FQAM).

In process December 31, 2013

Recommendation 4. We recommend the Under Secretary for Health modify policies and procedures requiring Veterans Integrated Service Networks to perform oversight of

non-purchase card micro-purchases that identifies opportunities for increased use of purchase cards.

VHA Comments Concur

VHA PLO will update internal review policies to include review of non-purchase card micro-purchases. These results will be communicated to VISN Directors through the VHA Network Contract Managers on a monthly basis.

In process

December 31, 2013

Veterans Health Administration
July 2013

Appendix F 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.

Acknowledgments

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