

**EXECUTIVE SUMMARY
STATEMENT OF
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OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF VETERANS AFFAIRS
BEFORE
SUBCOMMITTEE ON ECONOMIC OPPORTUNITY
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
HEARING ON THE REVIEW OF SPAWAR AND VA'S
INTERAGENCY AGREEMENT**

SEPTEMBER 10, 2009

The VA Office of Inspector General conducted a review of the Interagency Agreement (IAA) between the Department of Veterans Affairs (VA), Office of Information and Technology, Office of Enterprise Development (OED), and the Space and Naval Warfare Systems Center (SPAWAR). Our findings are outlined in our report dated June 4, 2009, *Review of Interagency Agreement between the Department of Veterans Affairs (VA) and the Department of the Navy, Space and Naval Warfare System Center (SPAWAR)*.

The IAA was entered into on November 5, 2007, under the authority of the Economy Act to provide Government employee and contractor technical support for analysis, planning, program review and engineering services for Information Management/Information Technology initiatives. We found that VA had obligated \$66 million under the IAA and that there are additional projects to be awarded that will add an additional \$73 million in funding. We concluded that neither VA nor SPAWAR has complied with the terms and conditions of the IAA. The Statements of Work and Independent Government Cost Estimates were developed by or on behalf of SPAWAR. We also found that 87 percent of the level of work performed under the IAA was performed by SPAWAR contractors and subcontractors. OED was not involved in the award or administration of those contracts and did not know who was performing the work, how many people were involved, or where they were located. We concluded that OED had relinquished its oversight role of financial performance and work performed under the IAA to SPAWAR. We suggested that VA re-evaluate the IAA and determine whether it is in the best interest of VA to continue obtaining services through this type of agreement, and if it determined to continue to procure services in this manner, we made a number of suggestions to be incorporated in any future IAAs.

The results of our review of the IAA were further supported by our report on the failure of the Replacement Scheduling Activity Development project, *Review of Award and Administration of Task Orders Issued by the Department of Veterans Affairs for the Replacement Scheduling Application Development Program (RSA)*, issued on August 26, 2009.

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Introduction

Madam Chairwoman and Members of the Subcommittee, thank you for this opportunity to testify on our report dated June 4, 2009, *Review of Interagency Agreement between the Department of Veterans Affairs (VA) and the Department of the Navy, Space and Naval Warfare System Center (SPAWAR)*. I will present the major findings and conclusions of our review of the administration of the IAA, as well as related findings in a report issued on August 26, 2009, *Review of Award and Administration of Task Orders Issued by the Department of Veterans Affairs for the Replacement Scheduling Application Development Program (RSA)*. I am accompanied by Mr. Michael B. Grivnovics, Director, Office of Inspector General Office of Contract Review.

Background

The IAA was entered into on November 5, 2007, under the authority of the Economy Act. The stated purpose of the agreement was to provide “government employee and contractor technical support for analysis, planning, program review and engineering services for Information Management/Information Technology (IM/IT) initiatives.” The IAA itself does not include specific tasks or a pricing structure. It is an overarching agreement that identifies eight general tasks that SPAWAR can perform on behalf of the Office of Enterprise Development (OED) in the Office of Information & Technology (OI&T), establishes the process for VA to order services, and sets forth the responsibilities of each party to the agreement. The eight general tasks that SPAWAR can perform under the IAA are:

- Application Development Assessment
- Program Management and Training & Mentoring
- Workforce Competency

- Service Oriented Architecture
- Program/Project Management
- Information Assurance
- Development and Management of Secure Infrastructure
- IM/IT Project Engineering Assistance

Notwithstanding the fact that the IAA does not contain specific tasks or requirements, when it was executed, VA obligated and transferred \$2.5 million to SPAWAR. At the time of our review 22 amendments supporting 30 projects were issued against the IAA with a total estimated value of \$66 million and another 26 projects were in the pipeline valued at \$73 million. Each amendment contained funding and requirements and was accompanied by a Statement of Work (SOW) that included an Independent Government Cost Estimate (IGCE).

OED is responsible for oversight of the IAA. One of the major reasons cited for the need for the IAA was that OI&T did not have personnel who possessed adequate skills to develop and manage IT projects, including cost controls and writing SOWs to obtain the services needed for enterprise development. The only way to obtain the services of Government personnel from another agency to provide VA with assistance in these areas was through an IAA.

The general process for issuing amendments to order services is delineated in the IAA. The IAA requires VA to prepare a Task Initiation Form (TIF) to include the principal participants, period of performance, and description of tasks and high level deliverables. The TIF is to be accompanied by a SOW with a designated VA point of contact. The SOW is required to include a detailed description of deliverables to be produced by SPAWAR, a delivery schedule, major milestones, performance measurement parameters, acceptance criteria, estimated total cost, and security requirements. The IAA states that the development of the TIF and the SOW is VA's opportunity to shape and define the project.

The IAA also sets forth the process for modification of a task order identified in the TIF and accompanying SOW. The formal stage of this process is required to be accomplished and documented through the use of a Project Change Request (PCR) to the existing SOW. A PCR or modified SOW is required to change information contained within the original SOW including changes to taskings and cost estimates. Although there were changes to the projects, no PCRs were prepared by VA.

The stated purpose of the IAA was to obtain the services needed for project development and, at the same time, train and mentor VA personnel in program development and management. However, the IAA states that once the TIF has been accepted, the resulting project management and execution is within the exclusive control of SPAWAR, which is inconsistent with the intent to train and mentor VA personnel to manage these programs.

Results of Review

We identified significant problems with the manner in which the IAA has been administered by both VA and SPAWAR. These include the failure to adhere to one of the basic purposes of the IAA, which was to obtain the services of Government personnel to provide VA personnel with the training and mentoring needed to develop the expertise needed to design and manage IT enterprise development. We found that very little training or mentoring was being conducted. We also found that the TIFs, SOWs, and IGCEs that were to be developed by VA were developed by or on behalf of SPAWAR, not by VA. In addition, we identified deficiencies in the oversight of the IAA and amendments thereto by OED, the Office of General Counsel (OGC), and the Office of Acquisition, Logistics & Construction (OAL&C). We found that there were no cost controls in place within VA and that actions by SPAWAR may have increased costs to VA. We concluded that OED had essentially abdicated its program responsibilities to SPAWAR.

Our finding that OED was not in control of the work being done by SPAWAR and SPAWAR contractors was highlighted by the fact that we could not have a meeting with VA employees without having a SPAWAR contractor present to respond to questions or provide documents. At times, we could not distinguish between VA personnel and SPAWAR contractors. This led us to conclude that the contractors may be improperly providing personal services to VA.

This conclusion was further supported by the fact that throughout our review we had difficulty in obtaining basic IAA documents from OED. These documents included SOWs, TIFs, listing of VA project managers, performance documents, and deliverables. We first directed our request for documents to the Chief of Staff, OED, who was listed as the program manager and point of contact for the IAA. The Chief of Staff referred us to the Director, Acquisitions Division, Program Administration Office in OED, who could not provide the documents we requested. Due to delays in obtaining documents, we discussed our concerns with the Deputy Chief Information Officer, OED, who in turn referred us back to the Director, Acquisitions Division. Ultimately the documents we requested were provided by SPAWAR, not VA.

The inability to obtain documents and other information needed for our review directly from VA required us to conduct an onsite review at SPAWAR, Charleston, South Carolina. For example, most of the services provided under the amendments to the IAA were performed by SPAWAR contractors. VA did not have copies of the task orders awarded by SPAWAR to these contractors or the SOWs that should have been included in the task orders. In addition, we were told that VA was not involved at any level in the negotiation, award, or administration of these task orders. As a result, we had to go to SPAWAR to obtain information relating to these task orders.

Insufficient VA Oversight

Although each Amendment to the IAA went through a legal and technical review before award, we found that the reviews conducted by OGC and OAL&C were insufficient. OI&T officials stated they relied on the legal and technical reviews conducted by OGC and OAL&C. Our review determined that each level of review relied on the previous levels of review, all of which were inadequate.

For example, we noted that Determinations and Findings (D&F) required by Federal Acquisition Regulations were not adequately addressed as part of the IAA process. OAL&C was unable to provide documentation to support statements that use of an interagency acquisition is in the best interest of the Government and the supplies or services could not be obtained as conveniently or economically by contracting directly with a private source.

OGC performed legal sufficiency reviews of the IAA, including the D&F, and all amendments issued under the IAA. There is no evidence that OGC questioned the applicability of the November 2007 D&F that supported use of a \$2.5 million agreement or the additional \$64 million in funding. In addition, the OGC attorney who performed the reviews of the proposed amendments stated the legal sufficiency review included determining whether the proposed amendment was within the general scope of the IAA and that funding was available. A review of the SOW accompanying the proposed amendments was not included in OGC's review. Even with this limited review, OGC did not identify that Amendments 10 and 19 contained requirements that were outside the scope of the IAA.

Another example of the lack of oversight is that the financial reports prepared by SPAWAR were submitted to the Director of OED's Acquisition Division, but were not forwarded to OED program managers for analysis and were not maintained by OED. There is no evidence that shows program managers used SPAWAR financial or other reports to monitor costs or performance. In fact, we found no evidence that anyone in VA monitored costs or performance. OED was unaware of how many individuals were providing services under the IAA, how many were Federal employees versus contract employees, where they were working, who they were working for, or whether they actually worked the number of hours claimed in billings to SPAWAR.

This lack of oversight resulted in the excess funding of \$664,200 on Amendments 1, 2, and 3. Although there were three separate amendments, Amendments 2 and 3 were essentially modifications of Amendment 1. In this case neither VA nor SPAWAR identified the discrepancy in funding.

Also, neither party complied with the terms of the IAA that required such changes to the scope of work being performed under an amendment be done through a PCR, not another amendment to

the IAA. Additionally, OED personnel informed us that SPAWAR had begun work on the long-term GI Bill solution without official authorization. Costs for the work were being charged against an existing Amendment, despite the fact that the work was outside the scope of the work authorized under the Amendment.

SOWs and IGCEs not developed by VA

Although the IAA states that the development of the TIF and the SOW is VA's responsibility and opportunity to shape and define the project, neither OED personnel nor SPAWAR representatives were able to definitively state who prepared the SOWs and both claimed it was a "collaborative" effort. Our review indicated that most TIFs and SOWs, including the IGCEs contained in each SOW, were prepared by or on behalf of SPAWAR. VA personnel could not provide documentation to show that VA participated or "collaborated" in writing the SOW and in one instance, we were told the SOW was prepared by a SPAWAR contractor. Discussions with OED disclosed that, at most, OED only prepared Section 8 of the SOW that identifies the task requirements, which we found to be very general in nature. No one was able to provide any documentation showing that VA personnel prepared the IGCEs. Although collaboration between OED and SPAWAR to achieve a final SOW is within the terms and conditions of the IAA, as the customer, VA had responsibility under the IAA for serving as the lead on writing all SOWs.

Inadequate SOWs and IGCEs

We determined that the SOWs and IGCEs were inadequate. The SOWs were very broad and general in nature and few of them included major milestones that serve to indicate the level of progress required by the terms and conditions of the IAA. Examples of the inadequacies we identified in the SOWs and IGCEs include:

- SOWs did not include the number of personnel, qualifications, or hours needed to complete the project.
- SOWs provided to us by VA and those provided by SPAWAR for the same amendments were inconsistent with each other.
- Table of contents was inconsistent with the tasks identified in the SOW.
- Costs associated with deliverables were not included in the SOWs.
- Deliverables were to be provided on an "as requested" basis.
- IGCEs were at a summary level only. No breakdowns of hours or labor categories by task were included in the IGCEs.
- Costs identified for specific tasks in the IGCEs did not support the corresponding task.

Requirements in Amendments were outside the scope of the IAA

The scope of the IAA is limited to services. However, Amendments 10 and 19 requested SPAWAR to purchase hardware and software, which is outside the scope of the IAA. In addition to not identifying this during the legal and technical reviews, the equipment purchased by SPAWAR was not in compliance with VA policy on purchasing IT equipment, which included a requirement to purchase the equipment from NASA's SEWP IV Contracts. Neither OED nor SPAWAR provided documentation that a waiver of VA policy was granted as required.

No Cost Controls

VA failed to implement any cost controls to ensure that it pays fair and reasonable prices and that the work is performed. This is evidenced by VA's failure to develop the SOWs, failure to develop IGCEs, failure to question the 10 percent program management fee charged by SPAWAR, or to be involved in any manner in how the IAA is administered. We identified a potential for increased costs in general and specifically in the areas of Program Management (PM), unclear deliverables, and higher subcontract costs.

VA was unaware of the basis for SPAWAR's 10 percent program management fee. The fee was not included in the IAA or the Amendments. Although the fee was included in the IGCEs that SPAWAR provided for each SOW, we found no evidence that anyone in VA raised any questions or concerns.

Due to the discrepancies between the tasks described in the SOWs and deliverables required by the SOWs, we concluded that the potential exists for VA to pay for deliverables not received and/or deliverables that were not necessary.

We found that 87 percent of the level of effort performed under the IAA is attributed to contractor personnel and that VA is not involved in any way in the award or administration of these contracts. In addition, prime contractors were also performing work as subcontractors which increased the cost to VA by having multiple tiers of profit or fees. We also found that SPAWAR exercised an option period of a fixed price labor hour contract before the existing contract period had expired. This resulted in increased costs to VA because it accelerated the billing of higher fixed rates for services provided by the contractor to VA than originally called for in the contract.

Review of the Failure of the Replacement Scheduling Application Development Program

The results of our review of the IAA were further supported by our recent review of the failure of the Replacement Scheduling Activity Development project (RSA). We found that around the time the decision was made to halt further development of the program, discussions began regarding SPAWAR's involvement in the future RSA development and creating a transition to a

blended VA and SPAWAR development efforts. The current RSA Program Manager recommended that the creation of a blended team, leveraging SPAWAR for core engineering, technical leadership, and additional IT providers for application development, integration, and delivery. The team was to report to the RSA Program Manager. The RSA Program Manager also recommended that a mechanism be established to fully empower SPAWAR Government employees to act on behalf of VA. We have serious concerns regarding this course of action because, if implemented, VA would further relinquish its decision making and program responsibilities to SPAWAR.

We also questioned this solution given SPAWAR's involvement in the assessments of RSA prior to the termination of the task orders to the vendor who was developing the code for the program. We identified four amendments to the IAA that identified work to be conducted on RSA. We found that VA was unable to determine exactly what work was to be performed on or relating to RSA by SPAWAR, what deliverables were required or received, or which VA personnel were monitoring or tracking the work.

We had concerns that OED was unable to provide us with copies of the work relating to RSA that SPAWAR was tasked to perform under the IAA because the work may have impacted on the decision to halt the project and terminate the task orders with the vendor who was developing the code. We noted in the records that evaluations of RSA were conducted by a "Tiger Team," which was specifically referred to in Amendment 5 of the IAA. This raised concerns whether decisions made by VA personnel were being influenced by SPAWAR contractor personnel who could ultimately benefit from the decisions.

Suggestions

To meet the original intent of the IAA and to control and monitor the progress of projects and costs under the IAA, VA needs to:

- Prepare SOWs with specific tasks, deliverables, defined delivery dates, and performance measures.
- Prepare IGCEs that provide labor hours, labor categories, and costs by task to assist in determining the reasonableness of proposed costs.
- Be involved in the award and administration of task orders to contractors who will perform the work required in the SOW.
- Require OAL&C and OGC to implement processes to improve their technical and legal reviews of the IAA, amendments or modifications thereto, and the SOWs.
- Require program managers to certify that monthly progress and financial reports have been reviewed and approved.

- Provide appropriate training to VA personnel to learn to develop SOWs and monitor contract performance.

Madam Chairwoman, thank you for the opportunity to appear before the Subcommittee. We would be pleased to answer any questions that you or Members of the Subcommittee may have.