



Highlights of [GAO-08-976](#), a report to the Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs, House of Representatives

VETERANS HEALTH ADMINISTRATION

Improvements Needed in Design of Controls over Miscellaneous Obligations

Why GAO Did This Study

The Veterans Health Administration (VHA) has been using miscellaneous obligations for over 60 years to record estimates of obligations to be incurred at a later time. The large percentage of procurements recorded as miscellaneous obligations in fiscal year 2007 raised questions about whether proper controls were in place over the authorization and use of billions of dollars.

GAO was asked to review (1) how VHA used miscellaneous obligations during fiscal year 2007, and (2) whether Department of Veterans Affairs (VA) policies and procedures were designed to provide adequate controls over their authorization and use. GAO obtained and analyzed available VHA data on miscellaneous obligations, reviewed VA policies and procedures, and reviewed a nongeneralizable sample of 42 miscellaneous obligations at three case study locations.

What GAO Recommends

GAO makes four recommendations to the Secretary of Veterans Affairs to modify its policies and procedures, in conjunction with VA's Office of General Counsel, to better ensure adequate oversight of miscellaneous obligations by contracting officials, segregation of duties throughout the process, and sufficient supporting documentation for miscellaneous obligations. VA concurred with the recommendations and identified specific actions it will take to implement them.

To view the full product, including the scope and methodology, click on [GAO-08-976](#). For more information, contact Kay L. Daly at (202) 512-9095 or dalykl@gao.gov.

What GAO Found

VHA recorded over \$6.9 billion of miscellaneous obligations for the procurement of mission-related goods and services in fiscal year 2007. According to VHA officials, miscellaneous obligations were used to facilitate payment for goods and services when the quantities and delivery dates are not known. According to VHA data, almost \$3.8 billion (55.1 percent) of VHA's miscellaneous obligations was for fee-based medical services for veterans and another \$1.4 billion (20.4 percent) was for drugs and medicines. The remainder funded, among other things, state homes for the care of disabled veterans, transportation of veterans to and from medical centers for treatment, and logistical support and facility maintenance for VHA medical centers nationwide.

GAO's *Standards for Internal Control in the Federal Government* states that agency management is responsible for developing detailed policies and procedures for internal control suitable for their agency's operations. However, VA policies and procedures were not designed to provide adequate controls over the authorization and use of miscellaneous obligations with respect to oversight by contracting officials, segregation of duties, and supporting documentation for the obligation of funds. Collectively, these control design flaws increase the risk of fraud, waste, and abuse (including employees converting government assets to their own use without detection). These control design flaws were confirmed in our case studies at VHA Medical centers in Pittsburgh, Pennsylvania; Cheyenne, Wyoming; and Kansas City, Missouri.

Summary of Control Design Deficiencies at Three Case Study Locations

Station	Number of obligations reviewed	No documented approval by contracting officials	Inadequate segregation of duties	Inadequate supporting documentation		
				Incomplete purpose description	Blank vendor field	Blank contract field
Pittsburgh	14	14	9	3	6	3
Cheyenne	11	11	11	1	6	4
Kansas City	17	17	10	4	8	9
Total	42	42	30	8	20	16

Source: GAO analysis of VHA data.

In May 2008, VHA issued revised guidance on required procedures for authorizing and using miscellaneous obligations. GAO reviewed the revised guidance and found that while it offered some improvement, it did not fully address the specific control design flaws GAO identified. Furthermore, according to VA officials, VA's policies governing miscellaneous obligations have not been subject to legal review by VA's Office of General Counsel. Such a review is essential to ensure that policies and procedures comply with applicable federal appropriations law and internal control standards.