



**Department of Veterans Affairs
Office of Inspector General**

**Audit of VA Purchases Made on Behalf of
the Department of Defense**

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Executive Summary

Introduction

The Office of Inspector General (OIG) conducted an audit to evaluate the effectiveness of internal controls over purchases made by VA contracting activities on behalf of the Department of Defense (DoD). The objective of the audit was to determine whether VA contracting activities had effective policies, procedures, and internal controls in place to ensure that VA contracting officers complied with defense procurement requirements when making purchases on behalf of DoD.

Background

The audit was mandated by Public Law 109–364, the John Warner National Defense Authorization Act for Fiscal Year (FY) 2007, Section 817, “Internal Controls for Procurements on Behalf of the Department of Defense by Certain Non-Defense Agencies.” The Act directed the Inspectors General for DoD and VA to review the procurement policies, procedures, and internal controls applicable to procurements made by VA on behalf of DoD and determine whether VA is compliant with defense procurement requirements. As a general rule, defense procurement requirements can be found in the Federal Acquisition Regulation (FAR) and the Defense Federal Acquisition Regulation Supplement (DFARS) to the FAR.

Because two agencies are involved, VA purchases made on behalf of DoD are more complex than purchases made for VA activities. For each purchase, the DoD customer submits a procurement package, which includes a description of the good or service to be purchased, market research, and vendor quotes, to a VA contracting activity. When appropriate, DoD customers also submit performance work statements or statements of work and quality assurance surveillance plans, independent Government cost estimates, and justifications for limiting competition with their procurement packages. VA contracting officers review the procurement packages to ensure that they are complete. The contracting officers are ultimately responsible for ensuring that the purchases comply with defense procurement requirements.

Six VA contracting activities purchased goods and services for DoD during FY 2006. Five of the six contracting activities fall under the jurisdiction of the VA Office of Acquisition and Logistics (OA&L). These five contracting activities accounted for 98 percent of the purchases made on behalf of DoD during FY 2006. The Information Technology Acquisition Center (ITAC), Austin, TX, which is a franchise fund operation aligned under the VA Office of Information and Technology (OI&T), awarded the remaining 2 percent of the purchases made on behalf of DoD. According to logs provided by the six contracting activities, VA processed 1,554 contract actions valued at approximately \$317 million during FY 2006 on behalf of DoD.

To determine whether VA contracting officers complied with defense procurement requirements when making purchases on behalf of DoD, we reviewed a nonstatistical sample of 107 contract actions valued at approximately \$79.5 million at 5 of the 6 VA contracting activities that purchased goods and services for DoD during FY 2006. We assessed compliance with defense procurement requirements found in the FAR and DFARS by reviewing the documentation included in contract files. We also reviewed the policies and procedures used by the VA contracting activities to complete the contract actions and interviewed contracting officers and their supervisors.

Results

In general, VA contracting activities had effective policies, procedures, and management controls in place to ensure that contracting officers complied with defense procurement requirements when making purchases on behalf of DoD. However, we found instances of noncompliance with procedural and documentation requirements, which increased the risk that DoD did not receive contracted goods and services on terms that were the most advantageous to the Government. Contracting officers did not always:

- Ensure that noncompetitive acquisitions were adequately justified.
- Obtain offers from at least three contractors or prepare written justifications explaining why they did not meet the competition requirements when making purchases costing more than \$100,000 from Federal Supply Schedule (FSS) contractors.
- Seek price reductions for orders exceeding the maximum order threshold when ordering goods or services from FSS contractors.
- Ensure that price reasonableness determinations were adequately documented in contract files.
- Ensure that contracts for services included quality assurance surveillance plans.
- Designate contracting officer representatives (CORs) in writing before contract performance began.
- Stay within their warrant authority limitations when purchasing goods and services for DoD.

These deficiencies occurred primarily because contracting officers overlooked procurement requirements or in some cases did not completely understand the requirements. VA contracting activity personnel also told us that they had not received training that focused on interagency contracting and DoD procurement requirements. In addition, OA&L, OI&T, and the contracting activities did not perform any quality assurance reviews during FY 2006 to assess compliance with DoD procurement requirements, and VA did not have a process for monitoring interagency acquisition programs.

The Assistant Secretary for Management is implementing several initiatives in response to our prior *Audit of VA Acquisitions for Other Government Agencies* (Report No. 04-03178-139, May 5, 2006). These initiatives include:

- Developing specialized training for OA&L contracting officers who are making procurements for other Government agencies.
- Implementing quality assurance controls, including conducting program reviews of all OA&L contracting offices.

These actions should improve compliance with defense procurement requirements in the future and reduce the risk of VA acquiring goods and services for DoD on terms that are not advantageous to the Government. At the time of our audit, the initiatives had not been fully implemented.

Conclusion

Policies, procedures, and management controls in place at VA contracting activities ensured that VA contracting officers complied with defense procurement requirements most of the time when making purchases on behalf of DoD. Although we found instances of noncompliance with procedural and documentation requirements, the degree of noncompliance was not to such an extent that the overall interests of DoD were at risk.

Recommendations

To further improve compliance with defense procurement requirements, we recommended that the Assistant Secretary for Management take action to:

- Establish a mechanism to ensure that OA&L contracting officers who make purchases for DoD receive periodic refresher training on interagency contracting and DoD procurement requirements.
- Ensure that OA&L contracting activities develop tools and procedures such as checklists that will assist contracting officers in complying with defense procurement requirements when purchasing goods and services on behalf of DoD and establish quality assurance programs to assess compliance.
- Establish a methodology for monitoring OA&L compliance with defense procurement requirements and for taking corrective actions when compliance deficiencies are identified.

We made similar recommendations to the Assistant Secretary for Information and Technology.

Assistant Secretary for Management Comments

The Assistant Secretary for Management agreed with the findings and recommendations of the report and provided acceptable implementation plans for the recommendations addressed to him. He stated that refresher training had been provided to all OA&L contracting activities by March 2007 and that OA&L will provide refresher training on interagency contracting and DoD procurement requirements on an annual basis. In addition, OA&L has developed checklists and other tools to be used by the contracting activities supporting DoD, and OA&L will conduct compliance reviews biannually. (See Appendix A, pages 13–15, for the full text of the Assistant Secretary’s comments.)

Assistant Secretary for Information and Technology Comments

The Assistant Secretary for Information and Technology agreed with the findings and recommendations of the report and planned to take corrective actions before executing any FY 2008 contracts. He stated that the ITAC will provide periodic refresher training on interagency contracting and defense procurement requirements to contracting specialists who are making purchases for DoD, modify the existing contract file checklist to address the DFARS, and include VA purchases made on behalf of DoD in annual quality assurance reviews. In addition, copies of the DFARS will be distributed to contracting officers executing contract actions for DoD, and senior contracting officers will review DoD contracts prior to award and take corrective actions if deficiencies are identified. (See Appendix B, pages 16–18, for the full text of the Assistant Secretary’s comments.)

Office of Inspector General Comments

We consider these planned actions acceptable, and we will follow up on their implementation.

(original signed by:)
BELINDA J. FINN
Assistant Inspector General
for Auditing

Introduction

Purpose

The purpose of our audit was to evaluate the effectiveness of internal controls over purchases made by VA contracting activities on behalf of DoD. The audit objective was to determine whether VA contracting activities had effective policies, procedures, and internal controls in place to ensure that VA contracting officers complied with defense procurement requirements when making purchases on behalf of DoD.

Background

This audit was mandated by Public Law 109–364, the John Warner National Defense Authorization Act for FY 2007, Section 817, “Internal Controls for Procurements on Behalf of the Department of Defense by Certain Non-Defense Agencies.” The Act directed the Inspectors General for DoD and VA to review the procurement policies, procedures, and internal controls applicable to procurements made by VA on behalf of DoD and determine whether VA is:

- Compliant with defense procurement requirements.
- Not compliant with defense procurement requirements, but has a program or initiative in place to significantly improve compliance.
- Neither of the above.
- Not compliant with defense procurement requirements to such an extent that the interests of DoD are at risk.

Growth of Interagency Acquisition Programs. According to a Government Accountability Office (GAO) report, *High Risk Series: An Update* (Report No. GAO-05-207, January 2005), Federal agencies have been making a major shift in the way they procure many goods and services. Agencies are making greater use of existing contracts already awarded by other agencies, which leverages the Government’s buying power and provides a simplified method for purchasing commonly used goods and services. This change is the result of various legislative reforms that allowed Federal agencies to streamline the acquisition process, operate more businesslike, and offer increasing types of services to other agencies on a reimbursable basis. However, interagency contracting creates a more complex contracting environment in which accountability is not always clearly established because it is not always evident who is responsible for such critical functions as describing requirements, negotiating terms, and providing contract oversight. Because of the challenges associated with these contracts, GAO has designated interagency contracting as a high-risk area.

Implementation of VA Acquisition Programs for DoD. On July 7, 1995, VA and the U.S. Air Force entered into an agreement that allowed VA to provide contracting services for purchasing medical goods and services needed by the Air Force Medical Service (AFMS). During the first year, VA reportedly made purchases for DoD totaling \$11 million, and the value of VA purchases for DoD has grown significantly since then. According to logs obtained from VA contracting activities, VA processed 1,554 contract actions to purchase goods and services valued at approximately \$317 million for DoD during FY 2006.

Six VA contracting activities made purchases on behalf of DoD during FY 2006, with the Air Force accounting for the greatest volume of the workload. OA&L oversees five of the six contracting activities:

- Austin Acquisition Office (AAO), Austin, TX.
- Denver Acquisition and Logistics Center (DALC), Denver, CO.
- Joint Venture Acquisition Center (JVAC), Austin, TX.
- VA Special Services (VASS), Fort Detrick, MD.
- National Acquisition Center (NAC), Hines, IL.

During FY 2006, these five contracting activities awarded 98 percent of the purchases made by VA on behalf of DoD, with VASS alone accounting for 78 percent of the purchases. OA&L contracting activities made these purchases operating under a March 31, 2005, Memorandum of Agreement between VA and the Office of the Air Force Surgeon General. The contracting activities made most of the purchases using the authority of Title 38, United States Code, Section 8111, which allows DoD and VA to enter into agreements and contracts for sharing health care resources.

The ITAC, which is a franchise fund operation aligned under OI&T, awarded the remaining 2 percent of the purchases made on behalf of DoD. The ITAC entered into separate interagency agreements with its customers, using Title 31, United States Code, Section 501, to purchase information technology-related goods and services via the VA franchise fund.

Defense Procurement Requirements. The Federal Acquisition Regulations System provides a uniform set of policies and procedures for executive agencies to follow when acquiring goods and services. It consists of the FAR, which is the primary document, and agency acquisition regulations that implement or supplement the FAR. Defense procurement requirements can be found in the FAR and the DFARS, which supplements the FAR.

DoD Customer and VA Contracting Activity Responsibilities. The VASS and AFMS jointly developed a handbook for AFMS customers. Although written for AFMS

customers, the handbook provides a practical explanation of DoD customer and VA contracting activity responsibilities.

Customers submit a procurement package to a VA contracting activity for each purchase. The procurement package must provide a description of the good or service to be purchased, to include the required delivery date for a good or the period of performance for a service. Customers include a Military Interdepartmental Purchase Request (DD Form 448), market research, and vendor quotes in each procurement package. If the purchase is for a service, the procurement package should also include a performance work statement or statement of work and a quality assurance surveillance plan. When applicable, the customer also submits an independent Government cost estimate, a letter of urgency, and a justification for other than full and open competition.

VA contracting officers review the procurement packages to ensure that they are complete. The contracting officers also work with DoD customers to refine performance work statements and statements of work, develop formal acquisition plans when required, and develop evaluation factors that will be used to review contractor proposals.

Prior Audit. We conducted an audit of FYs 2003 and 2004 interagency acquisitions to determine whether VA acquisitions for other Government agencies were done effectively, efficiently, and in accordance with applicable laws and regulations (*Audit of VA Acquisitions for Other Government Agencies*, Report No. 04-03178-139, May 5, 2006). As part of that audit, we reported that OA&L contracting officers often did not comply with acquisition regulations and policies.

The Assistant Secretary for Management is implementing several initiatives in response to our prior audit. These initiatives include:

- Developing specialized training for OA&L contracting officers who are making procurements for other Government agencies.
- Implementing quality assurance controls, including conducting program reviews of all OA&L contracting offices.

At the time of our current audit, the initiatives had not been fully implemented.

Scope and Methodology

We reviewed 107 of the 1,554 contract actions that VA contracting activities processed on behalf of DoD during FY 2006. These contract actions, valued at approximately \$79.5 million, were processed at five of the six VA contracting activities that purchased goods and services for DoD. When contract actions reflected events subsequent to the initial award of the contract, we also reviewed the contract files for the base years to determine whether VA contracting officers complied with defense procurement requirements related to competition, pricing, and warrant authorities. We used a nonstatistical sample to achieve a representative mix of contract actions based on the following factors:

- Costs, weighted toward higher dollar values.
- Types of contract actions.
- Contracting officers.
- Goods and services.
- Customers.

The following table shows the number of contract actions processed and the number of actions that we audited at each contracting activity:

FY 2006 Contract Actions for DoD

Activity	Contract Actions Processed	Value of Contract Actions	Contract Actions Audited	Value of Contract Actions Audited
AAO	6	\$ 8,760,324	3	\$ 7,694,979
DALC	124	19,596,612	10	2,351,174
JVAC	67	130,392,760	11	13,735,419
ITAC	33	47,415,426	12	15,422,582
VASS	1,219	96,436,059	71	40,279,464
NAC	105	13,975,177	0	0
Totals	1,554	\$316,576,358	107	\$79,483,618

We interviewed contracting officers, supervisors, and senior officials at VA contracting activities and OA&L. We assessed compliance with defense procurement requirements contained in the FAR and the DFARS. We also assessed compliance with management controls contained in the VA Acquisition Regulation (VAAR) and guidance issued by OA&L.

Our review focused on documentation included in contract files and policies and procedures used by VA contracting activities to complete contract actions. For each contract action selected for review, we provided the results of our review to appropriate local VA contracting officials for their review and concurrence.

We performed the audit from September 2006 to April 2007. To address our audit objective, we did not rely on computer-processed data. Consequently, we did not assess the reliability of computer-processed data. Our assessment of internal controls focused only on those controls related to our audit objective of determining whether VA contracting activities had effective policies, procedures, and internal controls in place to ensure that VA contracting officers complied with defense procurement requirements when making purchases on behalf of DoD. Our assessment was not intended to form an opinion on the adequacy of internal controls overall, and we do not render such an opinion. We conducted the audit in accordance with generally accepted government auditing standards.

Results and Conclusions

Compliance with Defense Procurement Requirements Needs Improvement

Findings

In general, VA contracting activities had effective policies, procedures, and management controls in place to ensure that contracting officers complied with defense procurement requirements when making purchases on behalf of DoD. However, we found instances of noncompliance with procedural and documentation requirements, which increased the risk that DoD did not receive contracted goods and services on terms that were the most advantageous to the Government. Contracting officers did not always:

- Ensure that noncompetitive acquisitions were adequately justified.
- Obtain offers from at least three contractors or prepare written justifications explaining why they did not meet the competition requirements when making purchases costing more than \$100,000 from FSS contractors.
- Seek price reductions for orders exceeding the maximum order threshold when ordering goods or services from FSS contractors.
- Ensure that price reasonableness determinations were adequately documented in contract files.
- Ensure that contracts for services included quality assurance surveillance plans.
- Designate CORs in writing before contract performance began.
- Stay within their warrant authority limitations when purchasing goods and services for DoD.

These deficiencies occurred primarily because contracting officers overlooked the requirements or in some cases did not completely understand the requirements.

Noncompetitive Acquisitions Need To Be Adequately Justified. Contracting officers did not adequately justify FSS purchases made based on limited competition. FAR Subparts 8.405-1 and 8.405-2 require contracting officers to consider at least three FSS contractors when making purchases that exceed the micropurchase threshold.¹ If the purchases also exceed the maximum order threshold, contracting officers must consider additional FSS contractors. FAR Subpart 8.405-6 provides the minimum requirements

¹ A micropurchase is an acquisition made using simplified acquisition procedures. Generally, the micropurchase threshold is \$3,000. For acquisitions of construction subject to the Davis-Bacon Act, the threshold is \$2,000. For acquisitions of services subject to the Service Contract Act, the threshold is \$2,500.

contracting officers must include in written justifications when they limit competition to fewer FSS contractors than required. Competition may be limited when:

- Only one source is capable of responding due to the unique or specialized nature of the work.
- The work is a logical follow-on to an original FSS order.
- An urgent and compelling need exists, and following the normal competition procedures would result in an unacceptable delay.

In addition, the handbook for AFMS customers provides specific guidance on how to prepare justifications for limiting competition and lists some examples of limited competition that are difficult to justify. For example, the handbook states that it is difficult to justify “urgency for furniture” and “sole source for furniture.” Although the customer is responsible for preparing the justification, the contracting officer is ultimately responsible for approving the justification. Our sample of 107 purchases included 18 contract actions that were not competed. Of those 18 purchases, 6 (33 percent) either did not have a written justification for limiting competition (3 purchases) or contained an inadequate justification (3 purchases) to support the decision made. For example:

A contracting officer purchased furniture valued at \$287,236 from an FSS contractor. The contracting officer did not consider any other contractors, and the contract file did not include an adequate justification for limiting competition. The justification in the contract file did not include a description or any indication of what items were actually being purchased. Similarly, the justification did not describe the market research that was conducted (or a statement that explained why market research was not conducted) and did not include a determination that the order represented the best value for the Government.

When we discussed the justification with the contracting officer, he stated that customer satisfaction was one of the factors for the liberal interpretation and acceptance of the requestor’s justification. However, customer satisfaction is not a valid reason for limiting competition.

More Competition Is Needed for FSS Purchases Over \$100,000. Contracting officers did not always fully comply with the competition requirements for FSS purchases over \$100,000. DFARS Subpart 208.405.70 implements Section 803 of the National Defense Authorization Act for FY 2002. Before acquiring goods or services costing more than \$100,000 from FSS contractors, the subpart provides that notice must be provided to all FSS contractors offering the required goods or services, or to as many contractors as practicable, to ensure that offers are received from at least three contractors. If three offers are not received, the contracting officer must prepare a written justification explaining why. Our sample of contract actions included 54 FSS purchases valued at

more than \$100,000. Although the contracting officers met the competition requirements contained in FAR Subparts 8.405-1 and 8.405-2, they did not obtain offers from at least 3 contractors or prepare written justifications explaining why 3 or more offers could not be obtained for 6 (11 percent) of the 54 purchases. For example:

A contracting officer purchased information technology services valued at \$444,184 from a schedule contractor. Although the contracting officer sent requests for quotation to four schedule contractors who offered the required services, only one contractor submitted an offer. The contracting officer did not seek additional offers or prepare a written justification that explained why the competition requirements were not met. The contracting activity agreed and stated that this was a lesson learned. In June 2006, the Head of the Contracting Activity issued guidance to the contracting staff that reminded them that they must comply with Section 803 requirements when making interagency acquisitions for DoD.

Price Reductions Need To Be Requested. Contracting officers did not seek price reductions when FSS purchases exceeded the maximum order threshold. FAR Subpart 8.405 requires contracting officers to seek price reductions for orders exceeding the maximum order threshold when purchasing goods or services from an FSS contract. Maximum order thresholds have been established for each FSS contract. These thresholds represent the point where, given the dollar value of the potential purchase, the ordering activity must seek a price reduction. Our review showed that contracting officers did not seek price reductions for 9 (38 percent) of 24 purchases that exceeded the maximum order threshold. For example:

A contracting officer placed an order valued at \$4,029,411 for heating, ventilation, and air conditioning repairs with a schedule contractor. Although the maximum order threshold for this contract was \$200,000, the contracting officer did not ask the contractor for a price reduction, missing the opportunity to obtain a more favorable price.

Price Reasonableness Determinations Need To Be Included in Contract Files. Contracting officers did not ensure that price reasonableness determinations were documented in contract files. In general, price reasonableness determinations are not required when contracting officers order goods and services from FSS contractors because the U.S. General Services Administration has already determined that the prices are fair and reasonable. However, when purchasing services requiring statements of work, FAR Subpart 8.405-2(d) requires contracting officers to include price reasonableness determinations in the contract files that consider the level of effort and mix of labor contained in the proposals submitted by the FSS contractors. In addition, FAR Subpart 15.406-3 requires contracting officers to include price reasonableness determinations in price negotiation memorandums for both goods and services that are not purchased from FSS contracts. Our sample of contract actions included 67 purchases

of goods and services that required price reasonableness determinations. We found that price reasonableness determinations were missing or did not consider the level of effort and mix of labor proposed to perform specific tasks for 5 (7 percent) of the 67 purchases. For example:

A contracting officer awarded a contract with a total value of \$783,656 to a schedule contractor for the services of two financial healthcare system consultants. Although the schedule listed six different consultant and subject matter expert positions at hourly rates ranging from \$48 to \$146, the contracting officer did not include in the contract file a price reasonableness determination that considered the level of effort and mix of labor that was included in the contractor's proposal.

Quality Assurance Surveillance Plans Need To Be Obtained. Contracting officers did not obtain quality assurance surveillance plans for service contracts. FAR Subpart 37.601 states that performance-based contracts for services shall include performance standards and the method of assessing contractor performance against those standards. FAR Subpart 46.103 states that, for service contracts, contracting offices are responsible for obtaining quality assurance surveillance plans from the activities requesting the services. The quality assurance surveillance plan provides a systematic and structured method for the COR to evaluate services that contractors are required to furnish. Of 57 service contracts reviewed, 23 (40 percent) did not have quality assurance surveillance plans or include measurable performance standards and a systematic methodology for assessing contractor performance against those standards. For example:

A contracting officer awarded a task order valued at \$2.3 million for information technology services related to network, desktop personal computers, web hosting, and digital communications support. The contract did not include a quality assurance surveillance plan or a systematic methodology for assessing contractor performance.

A quality assurance surveillance plan is needed because it provides the foundation for a comprehensive and systematic method of monitoring contractor performance and the standards against which surveillance efforts can be measured. The lack of a quality assurance surveillance plan or a systematic methodology for assessing contractor performance subjects the Government to greater risk that the contractor may not perform the requested services in accordance with the terms of the contract.

CORs Need To Be Designated. Contracting officers did not designate CORs prior to the beginning of contract performance. DFARS Subpart 201.602-2 requires contracting officers to designate CORs in writing before contract performance begins for all contract actions for services that are awarded by a DoD component or any other Federal agency on behalf of DoD. Our review showed that 22 (39 percent) of 57 purchases of services did not have COR designation letters (17 purchases) or had designation letters that were

prepared after the contract actions were awarded (5 purchases). Four of the five designation letters were prepared between 1 and 3 months after the contracts were awarded. The remaining designation letter was prepared after the contractor had completed performance.

Purchases Need To Be Within Contracting Officers' Warrant Authorities. Contracting officers exceeded their warrant authorities when making purchases on behalf of DoD. FAR Part 1.603-3 requires that contracting officers be appointed in writing on certificates of appointment. The certificates of appointment state the limitations of the contracting officers' authority. VAAR Subpart 801.690 describes the VA Contracting Officer Certification Program, which ensures that VA contracting officers have appropriate training and experience for the acquisitions they are allowed to award under their warrant authorities. Higher warrant authority levels require contracting officers to obtain more extensive training and experience. Our review showed that contracting officers exceeded their warrant authorities on 6 (6 percent) of the 107 contract actions reviewed. For example:

A contracting officer signed a modification valued at \$6.2 million for an option year on a contract for medical coding. However, the contracting officer's warrant authority limitation was \$5 million. The contracting officer was acting as the chief of the contracting activity at the time she signed the modification. No other contracting officer, other than the chief of the activity, had warrant authority exceeding \$5 million. In the absence of the chief of the contracting activity, the contracting officer should have referred the modification to a higher level supervisor with the appropriate warrant authority.

Management Needs To Place More Emphasis on Defense Procurement Requirements. When we asked contracting officers and their supervisors why these deficiencies occurred, the most common reason given was that the contracting officers simply overlooked the requirements. In some cases, the contracting officers did not completely understand the requirements. However, we identified several causes that contributed to the deficiencies. For example, contracting officers who were making purchases on behalf of DoD had not received training that focused on interagency contracting and DoD procurement requirements. In addition, OA&L, OI&T, and the contracting activities did not perform quality assurance reviews during FY 2006 to assess compliance with DoD procurement requirements, and VA did not have an ongoing process for monitoring interagency acquisition programs.

The Assistant Secretary for Management is implementing several initiatives to improve compliance with acquisition regulations and policies in response to our prior *Audit of VA Acquisitions for Other Government Agencies*, (Report No. 04-03178-139, May 5, 2006), which should improve compliance once fully implemented. These initiatives include:

- Developing specialized training for OA&L contracting officers who are making procurements for other Government agencies.
- Implementing quality assurance controls.
- Conducting program reviews of all OA&L contracting offices.

Conclusion

Policies, procedures, and management controls in place at VA contracting activities ensured that VA contracting officers complied with defense procurement requirements most of the time when making purchases on behalf of DoD. We found instances of noncompliance with procedural and documentation requirements, but the degree of noncompliance was not to such an extent that the overall interests of DoD were at risk.

Recommendations

1. We recommended that the Assistant Secretary for Management establish a mechanism to ensure that OA&L contracting officers who are making purchases for DoD receive periodic refresher training on interagency contracting and DoD procurement requirements.
2. We recommended that the Assistant Secretary for Information and Technology establish a mechanism to ensure that OI&T contracting officers who are making purchases for DoD receive periodic refresher training on interagency contracting and DoD procurement requirements.
3. We recommended that the Assistant Secretary for Management ensure that OA&L contracting activities develop tools and procedures such as checklists that will assist contracting officers in complying with defense procurement requirements when purchasing goods and services on behalf of DoD and establish quality assurance programs to assess compliance.
4. We recommended that the Assistant Secretary for Information and Technology ensure that the ITAC develops tools and procedures such as checklists that will assist contracting officers in complying with defense procurement requirements when purchasing goods and services on behalf of DoD and establishes a quality assurance program to assess compliance.
5. We recommended that the Assistant Secretary for Management establish a methodology for monitoring OA&L compliance with defense procurement requirements on an ongoing basis and taking corrective actions when compliance deficiencies are identified.
6. We recommended that the Assistant Secretary for Information and Technology establish a methodology for monitoring OI&T compliance with defense procurement

requirements on an ongoing basis and taking corrective actions when compliance deficiencies are identified.

Assistant Secretary for Management Comments

The Assistant Secretary for Management agreed with the findings and recommendations of the report and provided acceptable implementation plans for the recommendations addressed to him. He stated that refresher training had been provided to all OA&L contracting activities by March 2007 and that OA&L will provide refresher training on interagency contracting and DoD procurement requirements on an annual basis. In addition, OA&L has developed checklists and other tools to be used by the contracting activities supporting DoD, and OA&L will conduct compliance reviews biannually. (See Appendix A, pages 13–15, for the full text of the Assistant Secretary’s comments.)

Assistant Secretary for Information and Technology Comments

The Assistant Secretary for Information and Technology also agreed with the findings and recommendations of the report and planned to take corrective actions before executing any FY 2008 contracts. He stated that the ITAC will provide periodic refresher training on interagency contracting and defense procurement requirements to contracting specialists who are making purchases for DoD, modify an existing contract file checklist to address the DFARS, and include VA purchases made on behalf of DoD in annual quality assurance reviews. In addition, copies of the DFARS will be distributed to contracting officers executing contract actions for DoD, and senior contracting officers will review DoD contracts prior to award and take corrective actions if deficiencies are identified. (See Appendix B, pages 16–18, for the full text of the Assistant Secretary’s comments.)

Office of Inspector General Comments

We consider these planned actions acceptable, and we will follow up on their implementation.

Assistant Secretary for Management Comments

**Department of
Veterans Affairs**

Memorandum

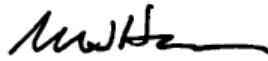
Date: **OCT 16 2007**

From: Assistant Secretary for Management (004)

Subj: Draft Report: Audit of VA Purchases Made on Behalf of the Department of Defense
(Project No. 2006-03540-R6-0233) WebCIMS 389065

To: Assistant Inspector General for Auditing (52)

1. The Office of Management has reviewed the subject draft report; I concur with the findings and recommendations. Attached is our response to the recommendations.
2. Any questions may be directed to C. Ford Heard, Director, Acquisition Resources Service, Office of Acquisition and Logistics, at 461-6877.



Robert J. Henke

Attachment

Assistant Secretary for Management Comments to Office of Inspector General's Report

The following Assistant Secretary's comments are submitted in response to the recommendations in the Office of Inspector General's report:

OIG Recommendations

Recommendation 1. We recommend that the Assistant Secretary for Management establish a mechanism to ensure that OA&L contracting officers who are making purchases for DoD receive periodic refresher training on interagency contracting and DoD procurement requirements.

Concur **Target Completion Date:** January 31, 2008

The Office of Acquisition & Logistics (OA&L) (formerly named the Office of Acquisition & Materiel Management) completed refresher training at the identified sites in March 2007. Also, OA&L will establish a mechanism to provide annual refresher training on interagency contracting and DoD procurement requirements to applicable personnel.

Recommendation 3. We recommend that the Assistant Secretary for Management ensure that OA&L contracting activities develop tools and procedures such as checklists that will assist contracting officers in complying with defense procurement requirements when purchasing goods and services on behalf of DoD and establish quality assurance programs to assess compliance.

Concur **Target Completion Date:** October 31, 2007

OA&L has checklists and other tools that will be used by organizations supporting and performing acquisitions for DoD. These checklists are being promulgated through the Electronic Contract Management System (eCMS).

Recommendation 5. We recommend that the Assistant Secretary for Management establish a methodology for monitoring OA&L compliance with defense procurement requirements on an ongoing basis and taking corrective actions when compliance deficiencies are identified.

Concur **Target Completion Date:** January 31, 2008

OA&L completed performance reviews of each identified activity between April and July 2007. Internal reviews are conducted by supervisors on a regular basis. Additionally, compliance reviews will be conducted on a biannual basis.

Assistant Secretary for Information and Technology Comments

**Department of
Veterans Affairs**

Memorandum

Date: **SEP 11 2007**

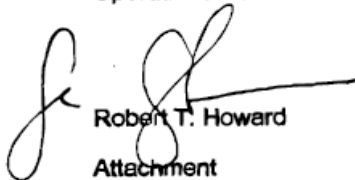
From: Assistant Secretary for Information and Technology (005)

Subj: Draft Report: Audit of VA Purchases Made on Behalf of the Department of Defense
(Project No. 2006-03540-R6-0233) WebCIMS 38E 565

To: Assistant Inspector General for Auditing (52)

1. We have reviewed the subject draft report and we concur with your findings and recommendations. Our specific responses to your recommendations are included in the attachment.

2. If you have any questions, please contact Jeff Shyshka, Deputy CIO for Enterprise Operations and Infrastructure at 559-241-6408.



Robert T. Howard
Attachment

Assistant Secretary for Information and Technology Comments to Office of Inspector General's Report

The following Assistant Secretary's comments are submitted in response to the recommendations in the Office of Inspector General's report:

OIG Recommendations

Recommendation 2. We recommend that the Assistant Secretary for Information and Technology establish a mechanism to ensure that OI&T contracting officers who are making purchases for DoD receive periodic refresher training on interagency contracting and DoD procurement requirements.

Concur **Target Completion Date:** Prior to executing any FY '08 contracts.

IT Acquisition Center (ITAC) will provide those contract specialists that are performing contract actions for DoD acquisitions periodic refresher training on interagency contracting and DoD procurement requirements.

Recommendation 4. We recommend that the Assistant Secretary for Information and Technology ensure that the ITAC develops tools and procedures such as checklists that will assist contracting officers in complying with defense procurement requirements when purchasing goods and services on behalf of DoD and establishes a quality assurance program to assess compliance.

Concur **Target Completion Date:** Prior to executing any FY '08 contracts.

ITAC will modify their existing contract file checklist by adding a section dealing with DFAR requirements. ITAC will include in its annual Quality Assurance review of contract files specific reviews on DoD actions and check against the findings to measure performance.

Recommendation 6. We recommend that the Assistant Secretary for Information and Technology establish a methodology for monitoring OI&T compliance with defense procurement requirements on an ongoing basis and taking corrective actions when compliance deficiencies are identified.

Concur **Target Completion Date:** Prior to executing any FY '08 contracts.

ITAC will purchase and distribute copies of the DFARs to each Contracting Officer executing DoD contract actions. Senior Level Contracting Officers will review DoD contracts before award for compliance and take corrective actions if deficiencies are noted.

OIG Contact and Staff Acknowledgments

OIG Contact	Michael E. Guier (214) 253-3300
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Acknowledgments	Theresa Cinciripini Curtis Hill John Houston Michael Jacobs Jehri Lawson Kristin Nichols
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