



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

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**Audit of  
Veterans Health Administration's  
Government Purchase Card Practices**

**To Report Suspected Wrongdoing in VA Programs and Operations  
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## Executive Summary

### Introduction

The Office of Inspector General (OIG) conducted an audit to evaluate the effectiveness of controls over Veterans Health Administration's (VHA) government purchase card practices. The objective of the audit was to determine if controls over VA medical facility practices prevented or detected questionable, improper, and potentially fraudulent purchase card transactions. In addition, the audit included an assessment of the price reasonableness of selected transactions.

### Background

**Federal Government Purchase Card Program.** Since 1989, the General Services Administration (GSA) has administered the Federal government's SmartPay® Government Purchase Card Program. The Government Purchase Card Program was created as a way for agencies to streamline Federal acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. Federal Acquisition Regulation (FAR) designates the purchase card as the preferred method for micro-purchases. FAR defines a micro-purchase as any purchase under \$3,000. (Before September 28, 2006, the micro-purchase threshold was \$2,500.) Agencies may also use purchase cards to make payments under established contracts.

In Fiscal Year (FY) 2007, VHA made 3.9 million purchase card transactions totaling \$2.3 billion and received purchase card rebates totaling \$38.0 million from the bank that issues VHA's purchase cards.

**VHA Government Purchase Card Controls.** VA's Office of Management, VHA's Prosthetics and Clinical Logistics Office (P&CLO), Veterans Integrated Service Networks (VISNs), and medical facilities had established controls over government purchase card practices. The following key controls were implemented to help prevent or detect questionable, improper, and potentially fraudulent purchase card transactions.

- Policies requiring cardholders to verify receipt of goods and services, reconcile transaction charges, and maintain supporting documentation showing purchases are for official government use.
- Policies requiring approving officials to monitor purchase card use by completing an Approving Official Checklist, certifying cardholder reconciliations, and ensuring cardholders comply with Federal, VA, and local acquisition regulations.
- Policies requiring VA medical facility Government Purchase Card Program Coordinators (Coordinators) to review facility compliance with policies and procedures and train cardholders and approving officials.

- Policies requiring facility directors to certify purchase card accounting records and ensure program officials perform purchase card duties.

**Prior OIG Evaluation of VA Government Purchase Card Program.** Our 2004 report *Evaluation of the Department of Veterans Affairs Government Purchase Card Program* (Report No. 02-01481-135, April 26, 2004) recommended that VA strengthen controls and improve oversight by requiring facilities to conduct quarterly focused reviews of their Government Purchase Card Program and approving officials to use checklists to monitor cardholders' use of purchase cards. The report also recommended that VA update Directive 4080 "Government Purchase Card Procedures" to include span of control criteria for approving officials and periodically conduct focus audits of questionable transactions identified through data mining.

## Results

VHA purchase card controls were generally effective at preventing or detecting questionable, improper, and potentially fraudulent medical facility purchases. All 707 transactions reviewed were purchases of goods or services for valid medical facility needs. In addition, for the purchases where cardholder documentation was sufficient to assess price reasonableness, we determined that purchases were reasonably priced. For 126 of the 707 transactions reviewed, we were unable to assess purchase price reasonableness because cardholder documentation was inadequate. VHA needed to ensure cardholders maintain documentation supporting purchases and medical facilities monitor compliance with policies addressing OIG reported deficiencies.

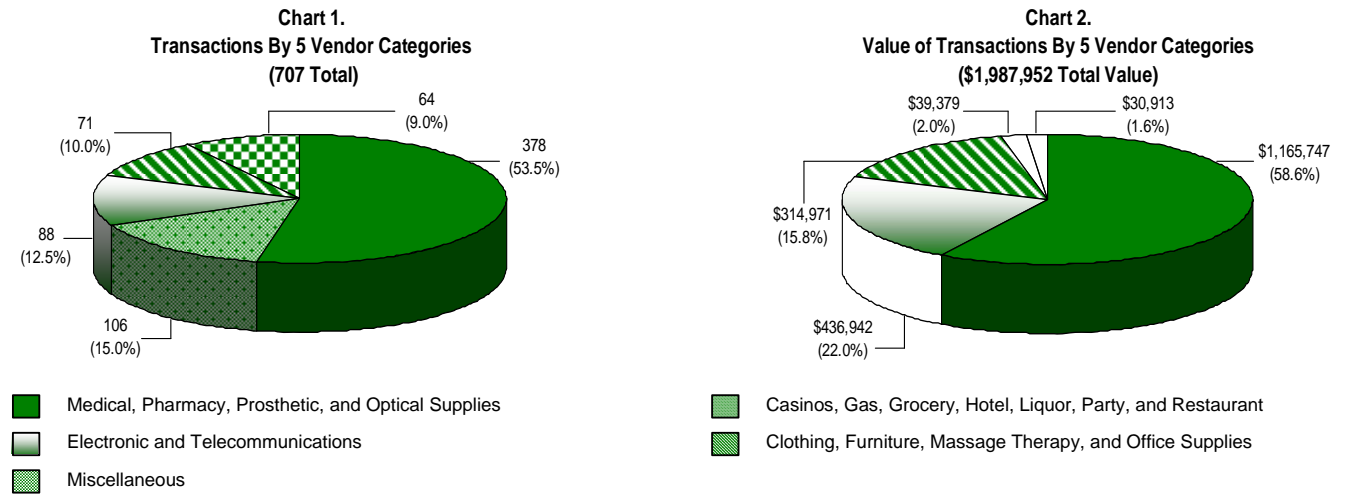
The audit evaluated the effectiveness of controls for the 2-year period July 2006–June 2008 and included a review of 707 purchase card transactions valued at \$1,987,952 made by 11 medical facilities during the 15-month period July 2006–September 2007. Of the 707 transactions, we selected 118 valued at \$115,110 using statistical sampling to test controls and 589 valued at \$1,872,842 using data mining to identify questionable transactions. Therefore, the 707 transactions were not representative of VHA-wide transactions.

We classified the 707 transactions into five vendor categories. Two of the categories: medical, pharmacy, prosthetics and optical supplies; and miscellaneous (such as credentialing, medical publication, and training vendors) included transactions that were less likely to be inappropriate because the vendors typically sell goods or services needed by medical facilities. These two categories represented 442 (62.5 percent) of the 707 transactions and \$1,196,660 (60.2 percent) of the \$1,987,952 value of transactions.

The other three categories included transactions that initially appeared questionable because the vendors typically sell goods or services used for non-VHA purposes. These categories were casinos, gas stations, grocery stores, hotels, liquor stores, party stores, and restaurants; clothing, furniture, massage therapy, and office supply stores; and electronic stores and telecommunication companies. These three categories represented

265 (37.5 percent) of the 707 transactions and \$791,292 (39.8 percent) of the total \$1,987,952.

Charts 1 and 2 show the distribution of the 707 transactions and the \$1,987,952 value of the transactions among the five vendor categories. The slices of each pie show the number and value of transactions for each of the five categories.



Although transactions with vendors in three of the five categories initially appeared questionable, the audit concluded that all transactions were for valid medical facility needs. For example, the photograph below shows one vendor where a medical facility made several purchases.



Our initial review of purchase card data determined that transactions with this vendor were questionable because the vendor name was Discount Gas and Liquor. However,

when we reviewed medical facility documentation for the transactions, we determined the purchases were for a valid medical facility need. The medical facility purchased gas from this vendor for shuttles that transported patients. Because the vendor was conveniently located only three blocks from the medical facility, frequent transactions with this vendor were reasonable.

Below are additional examples of transactions from the category of casinos, gas stations, grocery stores, hotels, liquor stores, party stores, and restaurants that initially appeared questionable but were for valid medical facility needs.

- *Casinos* - Lodging at a casino/hotel for veterans traveling significant distances for outpatient care at the VA Southern Nevada Healthcare System, Las Vegas, NV
- *Grocery Stores* - Food for a veteran outreach event and tablecloths for a luncheon for spinal cord therapy patients
- *Hotels* - Conference space for staff training seminars and ceremonies recognizing medical facility volunteers and veterans
- *Liquor Stores* - Purchases of wine for religious services at the medical facility chapel
- *Restaurants* - Monthly luncheons for veteran patients in a nursing home care unit and an annual lunch for medical facility volunteers
- *Party Stores* - Balloons and other party items to celebrate a veteran patient's 100<sup>th</sup> birthday

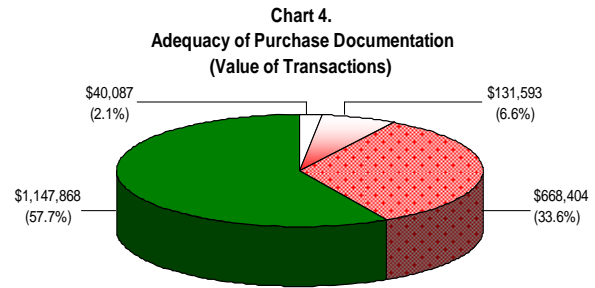
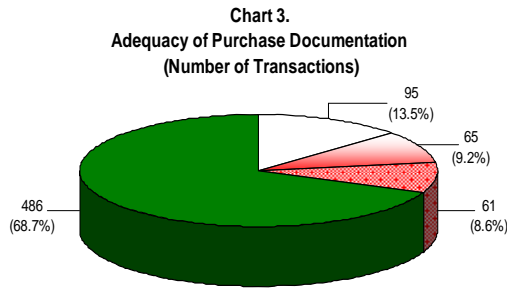
Although controls were generally effective for ensuring purchased goods and services were for valid medical facility needs, controls needed strengthening in two areas:

1. Ensuring cardholders maintain documentation supporting purchases
2. Monitoring compliance with policies addressing OIG reported deficiencies

**Ensuring Cardholders Maintain Documentation Supporting Purchases.** VHA needed to strengthen controls for ensuring cardholders maintain documentation supporting the receipt of goods or services and the price reasonableness of open-market and contract purchases. VHA policy requires cardholders to maintain purchase documentation for 6 years and 3 months. Acceptable documentation includes packing slips, receipts, and any other documents showing that goods or services were reasonably priced, received, and for official use. For contract purchases, documentation must also show that prices charged and paid were consistent with contract terms and conditions. In addition, approving officials must use VHA's Approving Official Checklist to review the adequacy of documentation for each cardholder.

As shown in Charts 3 and 4, cardholders did not maintain documentation supporting the description and quantity of goods or services received for 95 transactions totaling \$40,087 and the price reasonableness for 65 open-market transactions totaling \$131,593 and 61 transactions totaling \$668,404 that medical facilities identified as contract transactions. These three categories of inadequate documentation accounted for 221

(31.3 percent) of the 707 transactions reviewed and \$840,084 (42.3 percent) of the \$1,987,952 total value of transactions reviewed.



- Adequate Documentation
- Inadequate Documentation – Price Reasonableness, Open Market
- Inadequate Documentation – Receipt of Goods or Services
- Inadequate Documentation – Price Reasonableness, Contract

Receipt of Goods or Services. Of the 707 transactions, 612 (486 transactions with adequate documentation and the 65 open market and 61 contract transactions in the two categories of inadequate documentation - price reasonableness) totaling \$1,947,865 were supported by cardholder documentation showing medical facilities received the goods or services and were for valid VHA needs. For the remaining 95 transactions (13.4 percent) totaling \$40,087, cardholder documentation did not adequately support the receipt of goods or services. For these transactions, we performed extended audit procedures of visiting vendor facilities, interviewing vendor representatives, obtaining vendor documentation, or locating the purchased items at the medical facilities. These procedures provided reasonable assurance that these transactions purchased goods or services that were also received and for valid VHA needs.

Price Reasonableness of Purchases. Of the 707 transactions, 581 (486 transactions with adequate documentation and the 95 transactions in the category of inadequate documentation - receipt of goods or services) totaling \$1,187,955 were supported by cardholder documentation considered sufficient to determine that the medical facilities paid reasonable prices for the purchases. However, for the other 126 (17.8 percent) transactions totaling \$799,997 (40.2 percent) we were unable to assess the purchase price reasonableness because cardholder documentation was inadequate. These 126 transactions included 65 open market transactions totaling \$131,593 and 61 transactions totaling \$668,404 that medical facilities identified as contract transactions.

For the 65 open market transactions, cardholders did not maintain documentation showing that they had obtained price quotes from multiple sources or a written justification for the use of other than competitive procedures. For the remaining 61 transactions that medical facilities identified as contract transactions, cardholders did not maintain documentation or could not confirm that the prices charged by the vendor and paid by the medical facility were the correct contract prices. The documented descriptions for these transactions were insufficient to reasonably conclude that the medical facilities paid contract prices. Thus, the VHA medical facilities reviewed as part



of this audit spent \$799,997 for 126 transactions that lacked evidence to confirm price reasonableness. Without documentation to support price reasonableness, there is no way to determine if funds were expended in the most cost effective manner and represented the best use of funds. (See Appendix A, page 16)

Three issues caused the inadequate documentation. First, VHA's Approving Official Checklist did not specifically require reviews of cardholder documentation of the receipt of goods and services, open market price reasonableness, and payment of contract prices. Second, approving officials were not consistently using the checklist. Third, medical facilities did not adequately monitor compliance with policies addressing deficiencies we previously reported.

**Monitoring Compliance with Policies Addressing OIG Reported Deficiencies.** Medical facility directors were not adequately monitoring coordinators' compliance with VHA policies addressing deficiencies identified in our 2004 report. The report recommended approving officials use checklists to ensure cardholders maintain adequate documentation and facility managers conduct quarterly reviews to ensure approving officials receive proper training.

In response to our 2004 recommendations, VHA revised policies to require approving officials' use of a checklist to review the adequacy of cardholder documentation and completion of a "Purchase Card Certification Form" when they receive initial training and when they receive refresher training once every 2 years. Coordinators must review approving official initial and refresher training by completing a "Quarterly Purchase Card Program Certification Report." In addition, the revised policies require facility directors to perform annual reviews of their government purchase card programs to ensure all participants comply with VHA purchase card policies.

During this audit, we identified 32 (45.1 percent) of 71 approving officials that were not consistently using the checklist and 40 (56.3 percent) that had not received the required training. The inconsistent use of the checklist occurred because facility directors were not adequately monitoring financial managers' and coordinators' review of approving official use of the checklist. Approving officials had not received the required training because facility directors were not ensuring coordinators, financial managers, and logistics officers accurately complete "Purchase Card Certification Reports."

## **Conclusion**

Generally, controls over VHA's government purchase card practices effectively prevented questionable, improper, and potentially fraudulent purchase card transactions. In addition, of 707 audited purchase card transactions made by 11 medical facilities, 581 (82.6 percent) totaling \$1,187,955 were considered to be reasonably priced. For the other 126 (17.4 percent) transactions totaling \$799,997, cardholders did not maintain the documentation needed to confirm price reasonableness or ensure the most efficient use of funds. Controls needed improvement to ensure cardholders maintain adequate documentation of the receipt of goods and services and price reasonableness. In addition,

controls needed strengthening to ensure medical facility compliance with policies addressing OIG reported deficiencies. VHA implementation of the following recommendations will address these control deficiencies at all medical facilities. They will also help ensure medical facilities appropriately use funds to serve the health care needs of veterans.

## **Recommendations**

1. We recommended the Under Secretary for Health revise the Approving Official Checklist to include specific questions regarding the adequacy of cardholder documentation of the receipt of goods and services, price reasonableness of open market purchases, and payment of contract prices.
2. We recommended the Under Secretary for Health provide approving officials refresher training on using the revised Approving Official Checklist to ensure cardholders maintain adequate documentation supporting purchases.
3. We recommended the Under Secretary for Health develop a monitoring mechanism for financial managers and coordinators to ensure approving officials consistently use the Approving Official Checklist.
4. We recommended the Under Secretary for Health develop a mechanism for medical facility directors to monitor review of approving official's training by coordinators and completion of "Purchase Card Certification Reports" by coordinators, financial managers, and logistics officers.

## **Under Secretary for Health Comments**

The Under Secretary for Health concurred with the audit findings, recommendations and estimated monetary benefit. The Under Secretary reported that VHA's Prosthetics and Clinical Logistics Office Purchase Card Workgroup will develop a revised Approving Official Checklist with specific questions regarding the documentation of the receipt of goods and services. The workgroup will also develop a learning module, to be used when providing approving officials refresher training, which includes training on using the revised Approving Official Checklist.

The Under Secretary also stated that the Prosthetics and Clinical Logistics Office will monitor approving official use of the checklist by requiring monthly reporting from facilities to ensure approving officials are consistently using the checklist. In addition, the Prosthetics and Clinical Logistics Office is revising VHA Handbook 1730.1, Use and Management of the Government Purchase Card Program to specify procedures to ensure facility Directors perform annual reviews of the Purchase Card Program. The Prosthetics and Clinical Logistics Office Purchase Card Manager will monitor facility directors' review of the Purchase Card Program by producing an annual status report of each Veterans Integrated Service Network for leadership review. The target for completing

these actions is October 30, 2008. (See Appendix B for the full text of the Under Secretary's comments.)

### **OIG Response**

We consider the planned actions acceptable and will follow up on their implementation.

*(original signed by:)*

**BELINDA J. FINN**  
Assistant Inspector General for Auditing

## Introduction

### Purpose

The OIG conducted an audit to evaluate the effectiveness of controls over VHA's government purchase card practices. The objective of the audit was to determine if controls over VA medical facility practices prevented or detected questionable, improper, and potentially fraudulent purchase card transactions. In addition, the audit included an assessment of the price reasonableness of selected transactions.

### Background

**Federal Government Purchase Card Program.** Since 1989, the General Services Administration (GSA) has administered the Federal government's SmartPay® Government Purchase Card Program. The Government Purchase Card Program was created as a way for agencies to streamline Federal acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. Federal Acquisition Regulation (FAR) designates the purchase card as the preferred method for micro-purchases. FAR defines a micro-purchase as any purchase under \$3,000 (before September 28, 2006, the micro-purchase threshold was \$2,500). Agencies may also use purchase cards to make payments under established contracts.

As the contract administrator of the program, GSA contracts with five different commercial banks in order to provide purchase cards to Federal employees. Citibank provides VA employees their purchase cards. In FY 2007, VHA made 3.9 million purchase card transactions totaling \$2.3 billion and received purchase card rebates totaling \$38.0 million from Citibank. GSA has also created several tools, such as Federal Supply Schedules, so cardholders can take advantage of favorable pricing for goods and services.

**Changes in VHA Purchase Card Activity.** As shown in Table 1, during the 5-year period FYs 2003–2007, VHA purchase card spending increased 43.7 percent and the number of purchase card transactions increased 25.8 percent while the number of cardholders decreased 11.2 percent.

**Table 1. VHA Purchase Card Spending, Transactions, and Cardholders  
FYs 2003–2007**

<u>FY</u>	<u>Spending (\$ in Billions)</u>	<u>Percent Change</u>	<u>Transactions (Millions)</u>	<u>Percent Change</u>	<u>Cardholders (Thousands)</u>	<u>Percent Change</u>
2003	\$1.6	–	3.1	–	13.4	–
2004	\$1.8	12.5%	3.5	12.9%	13.1	-2.2%
2005	\$1.9	5.6%	3.6	2.9%	12.6	-3.8%
2006	\$2.1	10.5%	3.7	2.8%	11.1	-11.9%
2007	\$2.3	9.5%	3.9	5.4%	11.9	7.2%
5-Year Changes	\$0.7	43.7%	0.8	25.8%	-1.5	-11.2%

Generally, purchase card spending and transactions increase as VHA's total spending increases. During the same 5-year period, VHA's total spending increased 40.7 percent from \$25.8 to \$36.3 billion. The 11.2 percent decrease in the number of cardholders is the result of VHA actions taken after our April 2004 report *Evaluation of the Department of Veterans Affairs Government Purchase Card Program* (Report No. 02-01481-135) and Government Accountability Office's (GAO) June 2004 report *Audit of VHA Purchase Cards - Internal Controls Over the Purchase Card Program Need Improvement* (GAO-04-737). Both reports made recommendations to improve controls over VHA's purchase card practices. The GAO report specifically recommended that VHA establish procedures to periodically assess whether cardholders continue to have a valid need for a purchase card.

**VHA Government Purchase Card Controls.** VA's Office of Management, VHA's P&CLO, VISNs, and medical facilities have established the following key controls to help prevent and detect questionable, improper, and potentially fraudulent purchase card transactions.

#### VA's Office of Management

- Establishes VA-wide policies requiring cardholders to comply with Federal and VA Acquisition Regulations (VAAR).
- Performs quarterly VA-wide purchase card data mining reviews and onsite reviews of purchase card practices at 9 to 12 medical facilities a year.

#### VHA's P&CLO

- Establishes VHA purchase card policies, procedures, and guidelines for training and ongoing reviews and performs quarterly audits of medical facility purchase card practices (As of July 2008, P&CLO was revising VHA Handbook 1730.1 "Use and Management of the Government Purchase Card Program").
- Monitors and analyzes Citibank purchase card data for questionable, improper, and potentially fraudulent purchases.

#### VISNs

- Coordinates Heads of Contracting Activity oversight of medical facilities purchase card practices and delegate purchase limits and warrant authority to cardholders.
- Performs onsite reviews of medical facility purchase card practices and provides training to Coordinators and Dispute Officers.

#### Medical Facilities

- Facility directors are required to certify FY purchase card accounting records and ensure program officials perform purchase card duties.
- Coordinators must review facility compliance with VHA policies and procedures, such as maintaining purchase documentation and training cardholders and approving officials.

- Dispute officers are required to coordinate and monitor disputed procurements, credits, and billing errors.
- Billing officers must review single and monthly purchase limits and certify legitimacy of procured items.
- Approving officials are required to monitor purchase card use, review documentation to ensure transactions are for official Government purposes, certify cardholder reconciliations, and ensure that cardholders follow Federal, VA, and local acquisition regulations to obtain reasonable prices.
- Cardholders are required to purchase and ensure the receipt of goods and services, reconcile transaction charges, and maintain documentation to support that purchases are for official Government use.

**Prior OIG Evaluation of VA Government Purchase Card Program.** Our 2004 report *Evaluation of the Department of Veterans Affairs Government Purchase Card Program* (Report No. 02-01481-135, April 26, 2004) recommended that VA strengthen controls and improve oversight by requiring facilities to conduct quarterly focused reviews of their Government Purchase Card Program and approving officials to use checklists to monitor cardholders' use of purchase cards. The report also recommended that VA update Directive 4080 "Government Purchase Card Policy" to include span of control criteria for approving officials and periodically conduct focus audits of questionable transactions identified through data mining.

**GAO Audits.** GAO's 2004 report *Audit of VHA Purchase Cards - Internal Controls Over the Purchase Card Program Need Improvement* (GAO-04-737, June 2004) made 36 recommendations to address VHA Government Purchase Card Program control and compliance issues. GAO recommended improvements in the segregating of duties, maintaining documentation supporting purchases, identifying and obtaining vendor discounts, and monitoring controls.

In March 2008, GAO issued a report titled *Governmentwide Purchase Cards - Actions Needed to Strengthen Internal Controls to Reduce Fraudulent, Improper, and Abusive Purchases* (GAO-08-333) that made 13 recommendations to the Office of Management and Budget (OMB) and GSA to strengthen agencies' purchase card controls. These recommendations included providing agencies guidance on how cardholders can document independent receipt and acceptance of purchased items by someone other than the cardholder and what items agencies consider sensitive and pilferable property.

## Scope and Methodology

The audit covered controls over medical facility purchase card practices during the 2-year period July 2006–June 2008. The audit did not include a review of controls over medical facility credit cards used to purchase official Government travel (Travel Cards) and to pay Fee Basis Program healthcare providers (Payment Only Cards).

To assess the effectiveness of controls over VHA's government purchase card practices, we applied the principles contained in FAR, VA, and VHA purchase card policies and procedures, and GAO's *Audit Guide: Auditing and Investigating the Internal Control of Government Purchase Card Programs* (GAO-04-87G, November 2003).

The audit included onsite reviews at VA's Office of Management in Washington, D.C. and Management Quality Assurance Service in Austin, TX and VHA's P&CLO and Chief Financial Office in Washington, D.C. At these offices, we interviewed program officials and reviewed Government Purchase Card Program policies and procedures. In addition, we evaluated Management Quality Assurance Service's data mining procedures and reviews of four medical facilities' purchase card practices.

To test controls and identify questionable, improper, and potentially fraudulent purchase card activity, we reviewed 707 purchase card transactions totaling \$1,987,952 that the following 11 medical facilities made during the 15-month period July 2006–September 2007.

1. John J. Pershing VA Medical Center, Poplar Bluff, MO
2. Marion VA Medical Center, Marion, IL
3. St. Louis VA Medical Center, St. Louis, MO
4. VA Southern Nevada Healthcare System, Las Vegas, NV
5. VA Sierra Nevada Healthcare System, Reno, NV
6. Bay Pines VA Healthcare System, Bay Pines, FL
7. Canandaigua VA Medical Center, Canandaigua, NY
8. Eureka Veterans Clinic, Eureka, CA
9. Spokane VA Medical Center, Spokane, WA
10. VA Illiana Healthcare System, Danville, IL
11. VA Health Administration Center, Denver, CO

Of the 707 transactions, we selected 118 valued at \$115,110 using statistical sampling and 589 valued at \$1,872,842 using data mining.<sup>1</sup>

**Statistical Sampling.** The 118 statistically sampled transactions were selected from a population of 79,063 purchase card transactions totaling about \$51.5 million that were made during the 1-year period July 2006–June 2007 by the first three facilities listed above. These transactions were selected using the Department of Health and Human Services OIG's RAT-STATS computer software with a confidence level of 90 percent, a desired precision rate of  $\pm 10$  percent, and an expected error rate of 10 percent. (RAT-STATS is a statistical software package that assists auditors in selecting random samples.)

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<sup>1</sup>Data mining applies a search process to a data set, analyzing for trends, relationships, and interesting associations. For instance, data mining can be used to query transaction data for characteristics that may indicate potentially improper activity.

**Data Mining.** The other 589 transactions were selected using data mining and included transactions from all 11 medical facilities during the 15-month period of July 2006–September 2007. We analyzed purchase card data and selected questionable transactions that were more likely to be improper or fraudulent. The selected transactions had one or more of the following characteristics:

- *Made with Questionable Merchants* - Merchant names that included words, such as casino, entertainment, or liquor, which indicated they were more likely to offer goods or services that were personal in nature or of a questionable government need
- *Duplicate* - Two or more transactions with the same date, dollar amount, and vendor
- *Possible Split Purchases* - Multiple transactions to the same vendor within 1 or 2 days just below the \$3,000 micro-purchase limit (\$2,500 before September 28, 2006)
- *Made on Holidays and Weekends* - Transactions made on non-business days
- *Made with Cancelled Purchase Cards* - Transactions processed after Citibank reported card cancellation dates
- *High Dollar* - Transactions with unusually high dollar amounts
- *Made by Cardholders with Situational Pressures* - Transactions made by cardholders who received a less than fully satisfactory performance rating, were reprimanded, filed a grievance, were placed on a performance improvement plan, or used less than 40 hours of leave within a year.

During the 9-month period October 2007–June 2008, we reviewed the 118 statistically sampled transactions and the 589 data mined transactions by performing the following audit work. For the first five facilities listed on page 4, the audit was performed onsite. At these facilities, we interviewed coordinators; approving officials; cardholders; and dispute and billing officers. We also reviewed VISN and medical facility purchase card policies, procedures, and documentation supporting purchases, such as purchase orders, invoices, and receiving reports. For the other six facilities, we obtained and reviewed cardholder documentation supporting purchases.

To accomplish the audit objective, we used Citibank computer-generated purchase card data. To assess the reliability of this data, we compared relevant data with hardcopy purchase documentation, such as invoices and receipts. The data was sufficiently reliable for the audit objective.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.



## Results and Conclusions

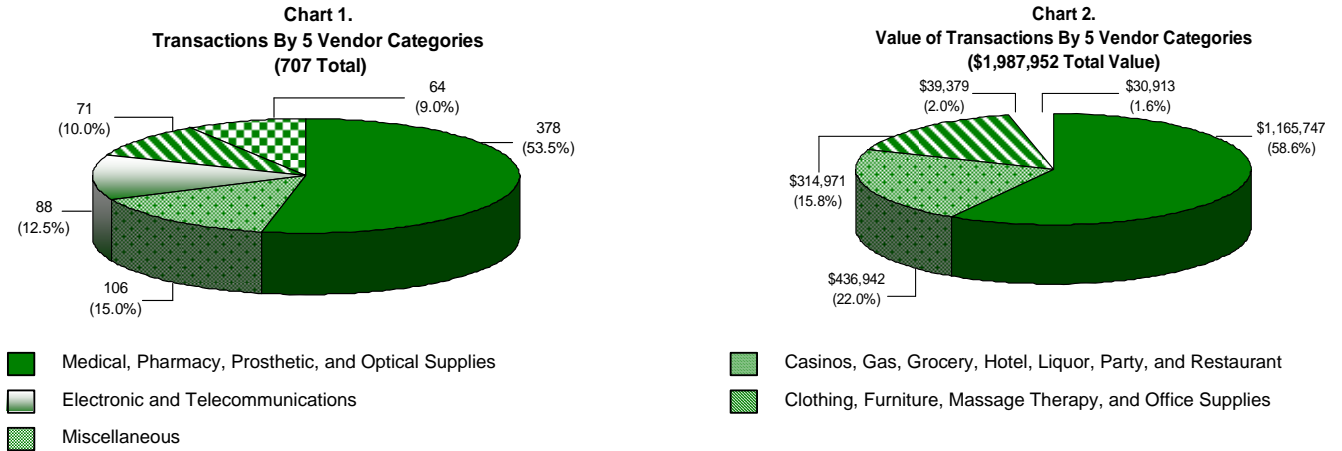
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Although transactions with vendors in three of the five categories initially appeared questionable, the audit concluded that the transactions were for valid medical facility needs. For example, the photograph below shows one vendor where a medical facility made several purchases.



Our initial review of purchase card data determined that transactions with this vendor were considered questionable because the vendor name was Discount Gas and Liquor. However, when we reviewed medical facility documentation for the transactions, we determined the purchases were for a valid medical facility need. The medical facility purchased gas from this vendor for shuttles that transported patients. Because the vendor was conveniently located only three blocks from the medical facility, frequent transactions with this vendor were reasonable.

The following purchases are additional examples of transactions from these three categories that initially appeared questionable but were for valid medical facility needs:

- *Casinos* - Lodging at a casino/hotel for veterans traveling significant distances for outpatient care at the VA Southern Nevada Healthcare System, Las Vegas, NV
- *Grocery Stores* - Food for a veteran outreach event and tablecloths for a luncheon for spinal cord therapy patients
- *Hotels* - Conference space for staff training seminars and ceremonies recognizing medical facility volunteers and veterans
- *Liquor Stores* - Purchases of wine for religious services at the medical facility chapel
- *Restaurants* - Monthly luncheons for veteran patients in a nursing home care unit and an annual lunch for medical facility volunteers
- *Party Stores* - Balloons and other party items to celebrate a veteran patient's 100<sup>th</sup> birthday

Clothing, furniture, massage, and office supply store transactions included:

- *Clothing Stores* - Jeans and shirts for Engineering Service staff work uniforms
- *Furniture Stores* - Chairs for patient waiting areas and tables for Radiology Service and the Eye Clinic
- *Massage Stores* - Heat packs and pain reliever gel for patients when they receive physical therapy
- *Office Supply Stores* - Ink and toner cartridges for Facility Management Service and calculators and scissors for the Primary Care Clinic

Electronic store and telecommunication company transactions included:

- *Electronic Stores* - Digital video disc (DVD) recorders for Medical Media Service and Human Resources, Education Department
- *Telecommunication Companies* - Cable television service for patient waiting areas at a medical facility

Although controls were generally effective for ensuring purchased goods and services were for valid medical facility needs, controls needed strengthening in two areas:

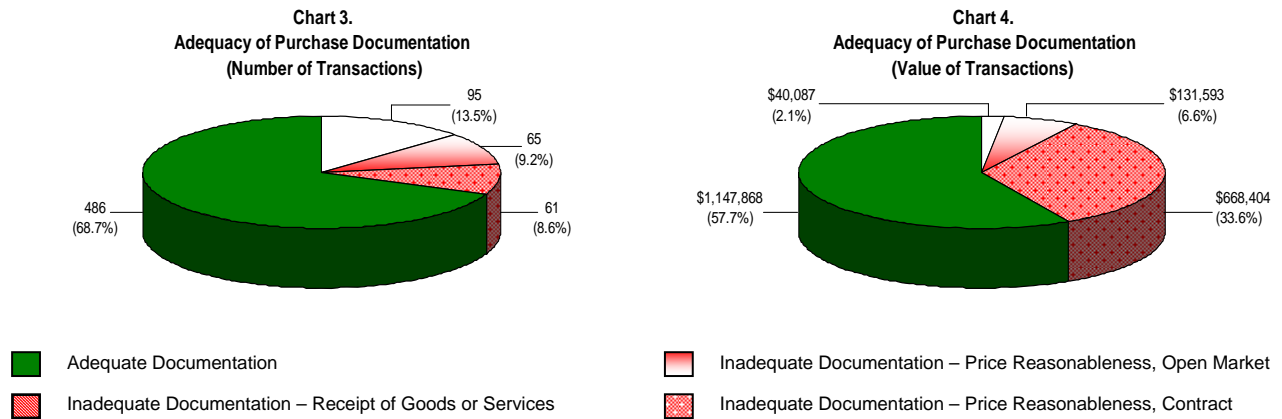
1. Ensuring cardholders maintain documentation supporting purchases
2. Monitoring compliance with policies addressing OIG reported deficiencies

### **Issue 1: Controls Needed Strengthening To Ensure Government Cardholders Maintain Documentation Supporting Purchases**

VHA needed to strengthen controls for ensuring cardholders maintain documentation supporting the receipt of goods or services and the price reasonableness of open-market and contract purchases. VHA policy requires cardholders to maintain purchase documentation for 6 years and 3 months. Acceptable documentation includes packing

slips, receipts, and any other documents showing that goods or services were reasonably priced, received, and for official use. For contract purchases, documentation must also show that contract prices were charged and paid. In addition, approving officials must use VHA's Approving Official Checklist to review the adequacy of documentation for each cardholder.

Of the 707 transactions totaling \$1,987,952, cardholders did not maintain adequate documentation for 221 (31.3 percent) transactions totaling \$840,084 (42.3 percent). As shown in Charts 3 and 4, cardholders did not maintain documentation supporting the description and quantity of goods or services received for 95 transactions totaling \$40,087 and the price reasonableness for 65 open-market transactions totaling \$131,593 and 61 transactions totaling \$668,404 that medical facilities identified as contract transactions.



**Receipt of Goods or Services.** Of the 707 transactions, 612 (486 transactions with adequate documentation and the 65 open market and 61 contract transactions in the two categories of inadequate documentation - price reasonableness) totaling \$1,947,865 were supported by cardholder documentation showing medical facilities received the goods or services and were for valid VHA needs. For the remaining 95 transactions (13.4 percent) totaling \$40,087, cardholder documentation did not adequately support the receipt of goods or services. For these transactions, we performed extended audit procedures of visiting vendor facilities, interviewing vendor representatives, obtaining vendor documentation, or locating the purchased items at the medical facilities. These procedures provided reasonable assurance that these transactions purchased goods or services that were also received and for valid VHA needs.

**Price Reasonableness of Purchases.** Of the 707 transactions, 581 (486 transactions with adequate documentation and the 95 transactions in the category of inadequate documentation - receipt of goods or services) totaling \$1,187,955 were supported by cardholder documentation considered sufficient to determine that the medical facilities paid reasonable prices for the purchases. However, for the other 126 (17.8 percent) transactions totaling \$799,997 (40.2 percent) we were unable to assess the purchase price reasonableness because cardholder documentation was inadequate. These 126

transactions included 65 open market transactions totaling \$131,593 and 61 transactions totaling \$668,404 that medical facilities identified as contract transactions.

For the 65 open market transactions, cardholders did not maintain documentation showing that they had obtained price quotes from multiple sources or a written justification for the use of other than competitive procedures. For the remaining 61 transactions that medical facilities identified as contract transactions, cardholders did not maintain documentation or could not confirm that the prices charged by the vendor and paid by the medical facility were the correct contract prices. The documented descriptions for these transactions were insufficient to reasonably conclude that the medical facilities paid contract prices. Thus, the VHA medical facilities reviewed as part of this audit spent \$799,997 for 126 transactions that lacked evidence to confirm price reasonableness. Without documentation to support price reasonableness, there is no way to determine if funds were expended in the most cost effective manner and represented the best use of funds. (See Appendix A, page 16)

**Inadequate Documentation - Receipt of Goods or Services.** For 95 (13.5 percent) of the 707 transactions, cardholders did not maintain documentation supporting the description and quantity of goods or services received. VHA policy requires cardholders to maintain documentation including packing slips, receipts, and any other documents needed to show that purchased goods or services were received and were for valid medical facility needs. For purchases that are likely to appear questionable, such as restaurant meals or clothing, additional documentation showing the name of the patient or staff member who received the good or service is also required. Examples 1 and 2 illustrate how cardholders needed to improve documentation showing the receipt of goods and services.

**Example 1** Two cardholders at one facility made 28 transactions valued at \$2,238 with a local casino/hotel for lodging of veteran patients under VHA's Hoptel Program. The Hoptel Program offers temporary lodging to eligible veterans who travel 50 miles or at least 2 hours for outpatient appointments at VHA medical facilities. The 28 transactions included lodging for cancer patients receiving chemotherapy. For these transactions, the cardholders did not maintain documentation showing that the veterans had scheduled appointments or that the clinicians had approved the veterans' participation in the Hoptel Program. In addition, the cardholder did not maintain hotel receipts confirming the veteran's overnight stay at the casino/hotel. Although we obtained the appropriate documentation from clinicians and the casino/hotel, the cardholders and approving official had not confirmed that the veterans received the purchased service.

**Example 2** Three cardholders at one facility did not maintain supporting documentation for four prosthetic transactions valued at \$11,776 to be delivered directly to veterans. Three of the purchases were vacuum-assisted closure devices and the fourth purchase was a scooter seat. Although the cardholders purchased the wound vacs at the contract price and the scooter seat for a reasonable price on

the open market, the cardholders did not have invoices or receiving reports confirming that veterans received the goods. All three cardholders stated that they had contacted the veterans to confirm they had received the goods. However, the cardholders did not document their contacts with the veterans. We contacted the veterans and confirmed that they had received the purchased goods.

**Inadequate Documentation - Price Reasonableness, Open Market.** For 65 (9.2 percent) of the 707 transactions, cardholders did not maintain adequate documentation supporting open-market price reasonableness. VHA policy states that cardholders must maintain documentation that establishes that purchased goods or services appear to be reasonably priced. In addition, FAR requires cardholders who make purchases above the micro-purchase threshold (\$2,500 before and \$3,000 on or after September 28, 2006) to promote competition to the maximum extent practicable when making such purchases. For these purchases, cardholders must consider solicitations from at least three sources and document the use of competition or provide a written justification for the use of other than competitive procedures.

Of the 65 open-market transactions with inadequate price reasonableness documentation, 53 with a total value of \$21,132 were below the micro-purchase threshold and 12 with a total value of \$110,460 were above the micro-purchase threshold. Examples 3 and 4 illustrate how cardholders needed to improve the documentation of open market price reasonableness for purchases above and below the micro-purchase threshold.

**Example 3** A cardholder purchased an intercom system for the medical facility's operating rooms and nursing stations on the open market for a cost of \$9,848, which was above the micro-purchase threshold. The cardholder had not documented any efforts to determine if the \$9,848 price was reasonable. In addition, the cardholder's approving official had not reviewed the intercom purchase using the Approving Official Checklist. If the approving official had consistently used a revised checklist that included specific questions about soliciting quotes from at least three sources, the cardholder might have identified a source offering a lower price and saved funds that the medical facility could have used for other purposes.

**Example 4** A cardholder purchased rental space at a local hotel for a volunteer award ceremony for a cost of \$2,468, which was below the micro-purchase threshold. VAAR requires that before cardholders purchase rental space, they must exhaust all efforts to secure rent-free facilities and document these efforts. If cardholders cannot obtain rent-free facilities, they must maintain documentation that establishes price reasonableness. The cardholder had not performed or documented any efforts to obtain free rental space. The cardholder did not comply with the VAAR requirement because the Approving Official Checklist did not include a specific question about documenting the price reasonableness of open market purchases.

**Inadequate Documentation - Price Reasonableness, Contract.** For 61 (8.6 percent) of the 707 transactions, cardholders did not maintain documentation supporting the payment of contract prices. As previously discussed, VHA policy requires cardholders to maintain documentation that shows prices are reasonable. In addition, FAR requires contracting officers to ensure prices are fair and reasonable when establishing contracts to procure goods and services. While the cardholder is not responsible for ensuring the reasonableness of contract prices, the cardholder is responsible for ensuring the vendor charges and the medical facility pays prices that are consistent with contract terms and conditions. Example 5 illustrates how cardholders needed to improve documentation to show that contract prices are paid.

**Example 5** A cardholder purchased 640 patient breathing system components for 11 different unit prices for a total cost of \$65,105 from an appropriate contract source. The purchase order documented the contract number and the receiving report documented that the medical facility received the 640 components in five separate shipments. However, the cardholder did not maintain or could not provide the contract price list needed to confirm that each of the prices charged by the vendor and paid by the medical facility were the contract prices for the correct component. In addition, the approving official authorized payment of the completed order without confirming that contract prices were paid and without reviewing the purchase using the Approving Official Checklist.

**Causes of Inadequate Documentation.** Three issues caused inadequate cardholder documentation. First, VHA's Approving Official Checklist did not specifically require reviews of cardholder documentation of the receipt of goods and services, open market price reasonableness, and payment of contract prices. Second, approving officials did not consistently use the checklist. Third, VHA did not adequately monitor compliance with policies addressing deficiencies we previously reported. (See Issue 2 for a discussion of the third cause.)

The first two causes related to the Approving Official Checklist. The first cause was that the checklist did not include questions related to specific cardholder transaction documentation requirements. The checklist had two questions related to cardholder documentation.

- Have you reviewed the applicable documentation for this transaction?
- Have you reviewed all your cardholders in the last year to verify that they maintain proper documentation for purchases?

These questions were not sufficiently specific to ensure cardholders documented the receipt of goods and services, open market price reasonableness, and payment of contract prices.

The second cause was that approving officials were not consistently using the checklist to review the adequacy of cardholder documentation. Of 71 approving officials interviewed, 32 (45 percent) were not consistently using the checklist. This occurred because medical facilities did not have a monitoring mechanism for financial managers and coordinators to review approving officials use of the checklist.

If approving officials consistently and properly used the checklist to ensure compliance with documentation requirements, cardholders would maintain documentation supporting purchases. To strengthen controls, Coordinators needed to monitor approving officials' use of the checklist. Inadequate documentation caused the key control of approving official reviews to be ineffective. This ineffective control increased the risk of questionable, improper, and potentially fraudulent transactions.

## **Issue 2: Medical Facilities Needed to Monitor Compliance with Policies Addressing OIG Reported Deficiencies**

Our 2004 report *Evaluation of the Department of Veterans Affairs Government Purchase Card Program* (Report No. 02-01481-135, April 26, 2004) identified two Government Purchase Card Program control weaknesses that were also identified as control weaknesses during this audit. These control weaknesses were that cardholders did not maintain documentation supporting purchases as discussed above, and approving officials did not receive and document required training as discussed below.

To address these control weaknesses, our 2004 report recommended approving officials use checklists to ensure cardholders' maintain documentation supporting purchases and facility managers conduct quarterly reviews to provide greater assurance that coordinators properly train approving officials. In response to the recommendation on maintaining documentation supporting purchases, VHA issued "Purchase Card Approving Official Desk Reference" in April 2005. In addition, in June 2005, VHA issued a revised VHA Handbook 1730.1 "Use and Management of the Government Purchase Card Program."

The desk reference includes a checklist for use by approving officials to review the adequacy of documentation for each cardholder. In addition, VHA policy requires approving officials to use the checklist annually to confirm that cardholders maintain proper documentation for all purchases. However, because approving officials did not always use the checklist, cardholders did not maintain documentation supporting all purchases.

The revised handbook requires approving officials to complete a "Purchase Card Certification Form" after they receive initial training and refresher training once every 2 years. The handbook also requires coordinators, finance officers, and logistics officers to document their review of approving official initial and refresher training by completing a "Quarterly Purchase Card Program Certification Report." In addition, the handbook requires facility directors to perform annual reviews of their government purchase card



programs to ensure all participants comply with VHA purchase card policies, including training requirements.

Despite the requirements discussed above, 40 (56.3 percent) of 71 approving officials interviewed had not received adequate training. Of these 40 approving officials, 33 had not received refresher training once every 2 years, 5 had not received initial training, and 2 had not received either type of training. The 33 approving officials had not received refresher training for periods ranging from 2 to 6 years.

The inadequate transaction documentation and approving official training occurred because medical facilities were not monitoring compliance with policies revised to address our previously reported deficiencies. To strengthen controls for addressing these deficiencies, medical facility directors needed to monitor coordinators, financial managers, logistics officers, and approving officials' compliance with the revised policies.

## **Conclusion**

Generally, controls over VHA's government purchase card practices effectively prevented questionable, improper, and potentially fraudulent purchase card transactions. In addition, of 707 audited purchase card transactions made by 11 medical facilities, 581 (82.6 percent) totaling \$1,187,955 were considered to be reasonably priced. For the other 126 (17.4 percent) transactions totaling \$799,997, cardholders did not maintain the documentation needed to confirm price reasonableness or ensure the most efficient use of funds. Controls needed improvement to ensure cardholders maintain adequate documentation of the receipt of goods and services and price reasonableness. In addition, controls needed strengthening to ensure medical facility compliance with policies addressing OIG reported deficiencies. VHA implementation of the following recommendations will address these control deficiencies at all medical facilities. They will also help ensure medical facilities appropriately use funds to serve the health care needs of veterans.

## **Recommendations**

1. We recommended the Under Secretary for Health revise the Approving Official Checklist to include specific questions regarding the adequacy of cardholder documentation of the receipt of goods and services, price reasonableness of open market purchases, and payment of contract prices.
2. We recommended the Under Secretary for Health provide approving officials refresher training on using the revised Approving Official Checklist to ensure cardholders maintain adequate documentation supporting purchases.
3. We recommended the Under Secretary for Health develop a monitoring mechanism for financial managers and coordinators to ensure approving officials consistently use the Approving Official Checklist.

4. We recommended the Under Secretary for Health develop a mechanism for medical facility directors to monitor review of approving official's training by coordinators and completion of "Purchase Card Certification Reports" by coordinators, financial managers, and logistics officers.

### **Under Secretary for Health Comments**

The Under Secretary for Health concurred with the audit findings, recommendations and estimated monetary benefit. The Under Secretary reported that VHA's Prosthetics and Clinical Logistics Office Purchase Card Workgroup will develop a revised Approving Official Checklist with specific questions regarding the documentation of the receipt of goods and services. The workgroup will also develop a learning module, to be used when providing approving officials refresher training, which includes training on using the revised Approving Official Checklist.

The Under Secretary also stated that the Prosthetics and Clinical Logistics Office will monitor approving official use of the checklist by requiring monthly reporting from facilities to ensure approving officials are consistently using the checklist. In addition, the Prosthetics and Clinical Logistics Office is revising VHA Handbook 1730.1, Use and Management of the Government Purchase Card Program to specify procedures to ensure facility Directors perform annual reviews of the Purchase Card Program. The Prosthetics and Clinical Logistics Office Purchase Card Manager will monitor facility directors' review of the Purchase Card Program by producing an annual status report of each Veterans Integrated Service Network for leadership review. The target for completing these actions is October 30, 2008. (See Appendix B for the full text of the Under Secretary's comments.)

### **OIG Response**

We consider the planned actions acceptable and will follow up on their implementation.

## Monetary Benefits in Accordance with IG Act Amendments

<u>Recommendations</u>	<u>Explanation of Benefit(s)</u>	<u>Better Use of Funds</u>
1-3	Improve cardholder documentation in support of purchase card transactions by revising the Approving Official Checklist to include specific questions regarding the adequacy of cardholder documentation, providing approving officials refresher training on using the revised checklist, and developing a monitoring mechanism to ensure approving officials consistently use the checklist.	\$799,997

## Under Secretary for Health Comments

Department of  
Veterans Affairs

Memorandum

Date: **SEP 05 2008**

From: Under Secretary for Health (10)

Subj.: **OIG Draft Report, *Audit of Veterans Health Administration's Government Purchase Card Practices*, Project No. 2007-02796-R3-0149 (WebCIMS 410848)**

To: Assistant Inspector General for Audit (52)

1. I have carefully reviewed your draft report, and I concur with the findings and recommendations as well as the estimate of monetary benefit. The report accurately reflects that the Veterans Health Administration (VHA) has instituted effective purchase card controls that have generally prevented questionable, improper, and fraudulent medical facility purchases. I was also pleased with the report's finding that VHA purchase card holders are, for the large part, making transactions that are reasonably priced and using funds efficiently. At the same time, your report cites valuable opportunities for improving cardholder documentation in support of purchase card transactions, and I am committed to addressing them.

2. As your report notes, the VHA Prosthetics and Clinical Logistics Office is currently revising VHA Handbook 1730.1, *Use and Management of the Government Purchase Card Program*. The revised Handbook will address the control deficiencies identified in your report. The VHA Prosthetics and Clinical Logistics Office Purchase Card Workgroup will ensure proper implementation of the Handbook as well as the Standard Operating Procedure for the official use of purchase cards and provide appropriate oversight. I look forward to reviewing the new Handbook and providing you a copy when it becomes available.

3. Attached is VHA's complete plan of corrective action, which provides a summary of specific initiatives that appropriately address identified issues in the report. Thank you for the opportunity to review the draft report. If you have any questions, please contact Margaret M. Seleski, Director, Management Review Service (10B5) at (202) 461-8467.



Michael J. Kussman, MD, MS, MACP

Attachments

### **Under Secretary for Health Comments to Office of Inspector General's Report**

The following Under Secretary for Health comments are submitted in response to the recommendations in the Office of Inspector General's Report:

**Recommendation 1:** We recommend the Under Secretary for Health revise the Approving Official Checklist to include specific questions regarding the adequacy of cardholder documentation of the receipt of goods and services, price reasonableness of open market purchases, and payment of contract prices.

**Response:** Concur. The VHA Prosthetics and Clinical Logistics Office Purchase Card Workgroup will develop an Approval Official Checklist with specific questions regarding the documentation of the receipt of goods and services. Instructions on how to complete the Checklist will be included in the Standard Operating Procedure (SOP) for the official use of the purchase card. This SOP will require each approving official to complete the Checklist.

Target Completion Date: October 30, 2008

**Recommendation 2:** We recommend the Under Secretary for Health provide approving officials refresher training on using the revised Approving Official Checklist to ensure cardholders maintain adequate documentation supporting purchases.

**Response:** Concur. The revision of VHA Handbook 1730.1, Use and Management of the Government Purchase Card Program, paragraph 15, Responsibilities of the Approving Official, addresses this issue by specifying the procedures to ensure that each approving official and their alternate receive refresher training on purchase cards every 2 years. The Prosthetics and Clinical Logistics Office Purchase Card Workgroup will develop a learning module that includes training on using the revised Approving Official Checklist to ensure cardholders maintain adequate documentation supporting purchases.

Target Completion Date: October 30, 2008

**Under Secretary for Health Comments  
to Office of Inspector General's Report, continued**

**Recommendation 3:** We recommend the Under Secretary for Health develop a monitoring mechanism for financial managers and coordinators to ensure approving officials consistently use the Approving Official Checklist.

**Response:** Concur. The Prosthetics and Clinical Logistics Office Purchase Card Workgroup will create a Standard Operating Procedure (SOP) for the official use of purchase cards. This SOP will include an Approving Official Checklist, referencing detailed questions about the documentation of the receipt of goods and services. The Prosthetics and Clinical Logistics Office will require monthly reporting from facilities to ensure approving officials are consistently using the Checklist.

Target Completion Date: October 30, 2008

**Recommendation 4:** We recommend the Under Secretary for Health develop a mechanism for medical facility directors to monitor review of approving official's training by coordinators and completion of "Purchase Card Certification Reports" by coordinators, financial managers, and logistics officers.

**Response:** Concur. The revision of VHA Handbook 1730.1, Use and Management of the Government Purchase Card Program, paragraph 7, Responsibilities of the Facility Director, addresses this issue by specifying the procedures to ensure facility Directors perform annual reviews of the Purchase Card Program. This review will be performed by a team of knowledgeable individuals, including the Prosthetics and Clinical Logistics Office Purchase Card Manager, who will produce an annual status report of each Veterans Integrated Service Network for leadership review.

Target Completion Date: October 30, 2008

**Estimate of Monetary Benefit:** Improve cardholder documentation in support of purchase card transactions by revising the Approving Official Checklist to include specific questions regarding the adequacy of cardholder documentation,

**Under Secretary for Health Comments  
to Office of Inspector General's Report, continued**

providing approving officials refresher training on using the revised checklist, and developing a monitoring mechanism to ensure approving officials consistently use the checklist. Better Use of Funds Amount: \$799,997.

**Response:** Concur. VHA Prosthetics and Clinical Logistics Office will provide refresher training on using the revised Approving Official Checklist. The refresher training is included in the strategic plan to implement revised VHA Handbook 1730.1, Use and Management of the Government Purchase Card Program, and will address the revised checklist.

## OIG Contact and Staff Acknowledgments

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OIG Contact	Kent Wrathall (404) 929-5921
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Acknowledgments	Alvin Wiggins Willie Toomer Al Tate Felicia Stovall Leon Roberts George Patton Helen Jakimenko Nathaniel Holman Harvey Hittner Melissa Colyn Elizabeth Butler George Boyer
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