



Highlights of [GAO-08-1056T](#), a testimony before the Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs, House of Representatives

### Why GAO Did This Study

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

GAO's testimony provides preliminary findings related to (1) how VHA used miscellaneous obligations during fiscal year 2007, and (2) whether the Department of Veterans' Affairs (VA) policies and procedures were designed to provide adequate controls over their authorization and use. GAO recently provided its related draft report to the Secretary of Veterans Affairs for review and comment and plans to issue its final report as a follow-up to this testimony. GAO obtained and analyzed available VHA data on miscellaneous obligations, reviewed VA policies and procedures, and reviewed a nongeneralizable sample of 42 miscellaneous obligations at three case study locations.

GAO's related draft report includes four recommendations to strengthen internal controls governing the authorization and use of miscellaneous obligations, in compliance with applicable federal appropriations law and internal control standards.

To view the full product, including the scope and methodology, click on [GAO-08-1056T](#). For more information, contact Kay L. Daly at (202) 512-9095 or [dalykl@gao.gov](mailto:dalykl@gao.gov).

## VETERANS HEALTH ADMINISTRATION

### Improvements Needed in Design of Controls over Miscellaneous Obligations

#### What GAO Found

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

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

**Summary of Control Design Deficiencies at Three Case Study Locations**

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

Source: GAO analysis of VHA data.

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