



Major Management Challenges Identified by the OIG

The Department’s Office of Inspector General (OIG), an independent entity, evaluates VA’s programs and operations. The OIG submitted the following update of the most serious management challenges facing VA.

We reviewed the OIG’s report and provided responses, which are integrated within the OIG’s report. Our responses include the following for each challenge area:

- **Estimated resolution timeframe (fiscal year)** to resolve the challenge
- **Responsible Agency Official** for each challenge area
- **Completed 2012 milestones** in response to the challenges identified by the OIG

VA is committed to addressing its major management challenges. Using the OIG’s perspective as a catalyst, we will take whatever steps are necessary to help improve services to our Nation’s Veterans. We welcome and appreciate the OIG’s perspective on how the Department can improve its operations to better serve America’s Veterans.

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Department of Veterans Affairs

Memorandum

Date: July 11, 2012

From: Inspector General (50)

Subj: 2012 Performance and Accountability Report

To: Secretary of Veterans Affairs (00)

1. Please see the attached Office of Inspector General (OIG) update regarding VA's most serious management challenges for inclusion in the 2012 Performance and Accountability Report (PAR). Our staff worked with VA staff to arrange publication of the full OIG report on major management challenges in the PAR.
2. OIG is submitting this statement to the Department pursuant to Section 3516 of Title 31, United States Code. The law states that the Department may comment on, but may not modify, the OIG statement. Please ensure the Department provides all suggested changes to OIG for review prior to incorporation into the PAR.
3. On behalf of all OIG staff, I am appreciative of the level of support and cooperation we have received from the Department as we work to improve VA. We especially appreciate the support you and the Deputy Secretary have exhibited as we work together to address the major challenges facing VA. We look forward to working with both of you to complete the implementation of key OIG recommendations in the future.

A handwritten signature in cursive script that reads "George J. Opfer".

GEORGE J. OPFER

Attachment



**Department of Veterans Affairs
Office of Inspector General
Washington, DC 20420**

FOREWORD

Our Nation depends on VA to care for the men and women who have sacrificed so much to protect our freedoms. These service members made a commitment to protect this Nation, and VA must continue to honor its commitment to care for these heroes and their dependents—in a manner that is as effective and efficient as possible. VA health care and benefits delivery must be provided in a way that dually meets the needs of today's and yesterday's Veterans. It is vital that VA health care and benefits delivery work in tandem with support services like financial management, procurement practices, and information management to be capable and useful to the Veterans who turn to VA for the benefits they have earned.

Office of Inspector General (OIG) audits, inspections, investigations, and reviews recommend improvements in VA programs and operations, and act to deter criminal activity, waste, fraud, and abuse in order to help VA become the best-managed service delivery organization in Government. Each year, pursuant to Section 3516 of Title 31, United States Code, OIG provides VA with an update summarizing the most serious management and performance challenges identified by OIG work and other relevant Government reports, as well as an assessment of the Department's progress in addressing those challenges.

This report contains the updated summation of major management challenges organized by the five OIG strategic goals—health care delivery, benefits processing, financial management, procurement practices, and information management—with assessments of VA's progress on implementing OIG recommendations.

OIG will continue to work with VA to address these identified issues and to ensure that the Department will provide the best possible service to the Nation's Veterans and their dependents.

A handwritten signature in cursive script that reads "George J. Opfer".

GEORGE J. OPFER
Inspector General



OIG CHALLENGE #1: HEALTH CARE DELIVERY -Strategic Overview-

For many years, the Veterans Health Administration (VHA) has been a national leader in the quality of care provided to patients when compared with other major U.S. health care providers. VHA's use of the electronic medical record, its National Patient Safety Program, and its commitment to use data to improve the quality of care has sustained VHA's quality of care performance. VHA's decision to provide the public access to extensive data sets on [quality outcomes and process measures](#) is a further step forward as a national leader in the delivery of health care. Additionally, VHA's action to determine each hospital's ability to handle complex surgical cases, assign a [rating](#) classification, and then limit the procedures that can be performed at each class of facility is further evidence of its groundbreaking efforts to maintain and improve the quality of care that Veterans receive.

However, VHA faces particular challenges in managing its health care activities. The effectiveness of clinical care, budgeting, planning, and resource allocation are negatively affected due to the continued yearly uncertainty of the number of patients who will seek care from VA. Over the past 7 years, OIG has invested about 40 percent of its resources in overseeing the health care issues impacting our Nation's Veterans and has conducted reviews at all VA Medical Centers (VAMCs) as well as national inspections and audits, issue-specific Hotline reviews, and criminal investigations. The following sub-challenges highlight the major issues facing VHA today.

OIG Sub-Challenge #1A: Quality of Care

VHA faces increased challenges in meeting the mental health needs of today's returning war Veterans. The high incidence of Post-Traumatic Stress Disorder (PTSD), depression, substance abuse, and military sexual trauma (MST) among today's Veterans challenge VHA to provide one standard of care across the country. This is especially impacted by the increase in the number of women Veterans. Although VHA has a high compliance with the goal of providing these at-risk Veterans with suicide safety plans, VHA is challenged to improve that coordination of care between VHA medical facilities, civilian and military facilities and providers for at-risk Veterans. Deficits in the coordination of care for these high-risk patients may result in patient deaths.

VHA has demonstrated the ability to deliver a high quality of patient care as determined by standard measures of population health. However, OIG continues to note excessive variation in the quality of care delivered. With the increasing number of Veterans receiving care at community-based outpatient clinics (CBOCs), VA faces challenges in delivering quality care at CBOCs that are often distant from their parent facilities.

While CBOCs expand Veterans' access to care, they require increased oversight by VHA. An OIG audit of CBOC management oversight found that VHA lacks the means to evaluate CBOC performance at the national, regional, and local levels; ensure parent facilities provide adequate CBOC oversight; and identify health care gaps at VA and contractor-operated CBOCs. In addition, VHA lacks the management controls needed to ensure CBOCs provide Veterans consistent quality care, because the CBOC Primary Care Management Module (PCMM) data, which VHA uses to make budgetary and resource management decisions, is inaccurate. Inaccurate PCMM data and problems in the completion of



traumatic brain injury (TBI) and MST screenings at CBOCs demonstrate the need for VHA to establish CBOC-specific monitors to evaluate systemic problems and deviations from VHA's one standard of care. To address this challenge, VHA is in the process of taking action to improve the accuracy of PCMM data, monitor TBI and MST screenings, and establish a comprehensive CBOC performance monitoring system.

An additional ongoing challenge relates to reusable medical equipment (RME). VHA recognizes the importance of safe and consistent RME practices, but it continues to face problems despite efforts to comply fully with proper reprocessing procedures. After identifying poor compliance with RME procedures at several hospitals, OIG notes issues with maintaining compliance with RME directives. Veterans seeking care at a VA facility should have assurance that any equipment they come in contact with will be properly cleaned and, if necessary, sterilized within specifications promulgated by bodies advising on such processes. To do otherwise, at a minimum, exposes patients to unnecessary and unacceptable risk of infection.

VA's Program Response
Estimated Resolution Timeframe: 2014
Responsible Agency Official: Under Secretary for Health

Completed 2012 Milestones

In 2012, VHA approved a plan to expand the number of VA staff located at Military Treatment Facilities (MTF) to transition health care of recovering Servicemembers from the Department of Defense (DoD) to the VA. VA Liaisons for Healthcare (VA Liaison), either licensed social workers or registered nurses, are strategically placed in MTFs with concentrations of recovering Servicemembers returning from Iraq and Afghanistan. VA now has 33 VA Liaisons for Healthcare stationed at 18 MTFs and plans to expand to 43 VA Liaisons at 21 MTFs in early late 2012. The VA Liaisons coordinate health care as Servicemembers transition from MTFs to VA health care facilities closest to their homes or the most appropriate locations for the specialized services their medical conditions require.

As of June 30, 2012, 91% of Servicemembers who were referred to VA Liaisons to transition their health care from MTFs to VA had appointments scheduled at the receiving VAMC or CBOC prior to leaving MTFs.

Coordination of care among VHA, civilian, and military facilities for at-risk Veterans is enhanced by a highly functioning team providing oversight of the health care. Patient-Aligned Care Teams (PACT) have been designed to provide this high level of team-based care that can coordinate an integrated treatment plan to be implemented in diverse settings. A well trained interdisciplinary team is the cornerstone of PACT care, typically including a nurse care manager, social workers, dietitians, clinical pharmacists, as well as mental health, rehabilitation and telehealth specialists. The PACT initiative, launched in 2010, has completed the initial education and training phase with the conclusion of an Institute for Healthcare Improvement style national collaborative, and is now entering phase II of the training which includes a focus on personalized patient-centered, team-based care that thoroughly integrates all VHA transformation initiatives to optimize coordination of care across all sites. This training phase, begun in 2012, will accelerate in 2013 and complete all training in 2014. Included in this initiative is a well-defined focus on the special needs and concerns experienced by the returning combat Veteran. It is



anticipated that this uniform training effort for all PACTs will reduce unwanted variation and enhance the overall standard of care for all at-risk Veterans.

The methodology for collection of data used for monitoring clinical care, including care provided in CBOCs, has been restructured. These data were previously reviewed only as CBOC contract care vs. non-contract care and were not part of the quality performance review of parent VAMCs and Veterans Integrated Service Networks (VISN). This changed in 2012 when CBOC data were included in the overall performance of the parent facility and rolled into the VISN quality data. Because the data are now part of the overall data of the parent facility, the parent facility must ensure the clinical quality at the CBOCs is maintained in order for the VISNs to successfully meet their clinical performance metrics.

In addition to the data being a portion of the overall data for the parent facility, VHA recognizes the importance of looking at the data independently from the parent VAMC by reviewing size and whether the site is contracted or VA staffed. A separate report about just CBOC quality of care is prepared and reviewed.

The Deputy Under Secretary for Health Operations and Management (DUSHOM) has quarterly reviews with each VISN Director. These reviews focus on the measures in performance plans, key initiatives (such as access and mental health), and quality of care. CBOC data are a portion of the VISN quality reviews. A CBOC is considered part of its parent facility for clinical care issues and oversight. The VISNs and parent facilities are held accountable for the quality and safety of the Veterans within their CBOCs.

To emphasize the importance of sterile processing of reusable medical equipment (RME), VHA revised its sterile processing inspection system to use inspection tools that includes questions specific to the requirement that standard operating procedures (SOP) be current and consistent with manufacturers' instructions, and that these SOPs are located in reprocessing areas. Inspection results show excellent compliance. Also, the One Source document database contract has been extended through September 30, 2012. Starting in March 2012, VHA began its International Standardization Organization (ISO) 9001 Implementation at 7 pilot sites. This provides the sustainable, repeatable framework to reduce variation and ensure standardization of reprocessing of RME.

OIG Sub-Challenge #1B: Access to Care

As mentioned in Sub-Challenge 1A, Veterans' access to VA mental health care is a major challenge for VHA. Here the focus is on the particular challenges of providing timely access to mental health services, reducing wait times for services and ensuring the availability of providers. With the increase in the number of Veterans needing care, VA contracts care to private physicians and medical facilities where the challenge is both in ensuring the standard of care provided, and also verifying fees charged to VA by non-VA providers.

OIG reviews, including an April 2012 report, *Review of Veterans' Access to Mental Health Care*, indicate VHA does not have a reliable and accurate method of determining whether they are providing patients timely access to mental health care services. VHA did not provide first-time patients with timely mental health evaluations, and existing patients often waited more than 14 days past their desired date of care



for their treatment appointment. Using the same data VHA used to calculate the 95 percent success rate shown in the FY 2011 PAR, OIG selected a statistical sample of completed evaluations to determine the starting and ending points of the elapsed day calculation. OIG calculated the number of days between initial contact in mental health and the full mental health evaluation. The analysis projected that VHA provided only 49 percent (approximately 184,000) of their evaluations within 14 days. On average, for the remaining patients, it took VHA about 50 days to provide them with their full evaluations. As a result, performance measures used to report patients' access to mental health care do not depict the true picture of a patient's waiting time to see a mental health provider.

OIG reported concerns with VHA's calculated wait time data in the *Audit of VHA's Outpatient Scheduling Procedures* and *Audit of VHA's Outpatient Wait Times*. During both audits, OIG found that schedulers were entering an incorrect desired date. VHA needs a reliable set of performance measures and consistent scheduling practices to accurately determine whether they are providing patients timely access to mental health services. Given VHA's inability to correct this long-standing problem, VHA also needs to reassess their training, competency, and oversight methods and develop appropriate controls to collect reliable and accurate appointment data.

Furthermore, VHA needs to strengthen the management of rural health care funding to ensure that rural health projects meet VHA's Office of Rural Health's (ORH's) goals of improving access and quality of care for rural Veterans. ORH was created in February 2007 to conduct rural health research and develop policies and programs to improve health care and services for approximately 3.3 million rural Veterans. Men and women from geographically rural areas make up a disproportionate share of Servicemembers and comprise about one-third of all Operation Enduring Freedom, Operation Iraqi Freedom, and Operation New Dawn (OEF/OIF/OND) enrolled Veterans.

In April 2011, OIG reported that VHA needed to improve the management of rural health funding, finding that ORH did not adequately manage the use of rural health funds for fee care and their rural health project selection process. Additionally, ORH did not monitor project obligations and performance measures. The cause was a lack of financial controls, the absence of policies and procedures to ensure staff followed management directives, and inadequate communication with key stakeholders. Also, ORH lacked a project monitoring system, procedures to monitor performance measures, and a process to assess rural health needs. As a result, OIG determined that VHA lacked reasonable assurance that ORH's use of \$273.3 million of the \$533 million in funding received during FYs 2009 and 2010 improved access and quality of care for Veterans residing in rural areas. To address this challenge, VHA must identify high-impact projects during the formulation of the program's annual budget requests and strengthen its future proposal selection process. Completing these actions will improve VHA's accounting of funds and measuring of the rural health program's impact on the health care of rural Veterans and their families.

As reported last year, the Veterans Benefits Administration (VBA) relies on VHA medical facilities to perform compensation and pension (C&P) medical examinations to determine the degree of disability or provide a medical opinion as to whether a disability is related to the Veteran's military service. A 2010 OIG audit found that VA medical facilities do not consistently commit sufficient resources to ensure Veterans receive timely C&P medical examinations. This occurred because VHA has not established procedures to identify and monitor resources needed to conduct C&P medical examinations and to



ensure resources are appropriately planned for, allocated, and strategically placed to meet examination demand. VHA's ability to complete C&P examinations in a timely and efficient manner is of extreme importance due to VBA's claims processing backlog. Due to the insufficient resources committed to the C&P medical examination program, many Veterans do not receive timely C&P medical examinations. VHA is taking steps to capture workload data and analyze staffing models and is also developing standards on the amount of time that should be allotted when scheduling appointments for each examination.

OIG continues to monitor VA's ability to complete C&P examinations in a timely and efficient manner. During FY 2011, VHA continued to face C&P examination backlogs. In at least one VISN, some VHA facilities conducted C&P examination "blitzes" during the spring of 2011. These facilities dedicated up to 80 percent of their primary care appointment schedules over the course of 3 weeks to address a backlog of C&P examinations. While VHA recently reorganized responsibility for VHA's C&P examination efforts under a new Office of Disability and Medical Assessment, report recommendations made in the OIG 2010 audit report remain open. VHA needs to implement procedures to better capture data on C&P examination workload, costs, and productivity and use this data to ensure appropriate resources are dedicated to completing C&P examinations.

VHA also faces a significant challenge in ensuring Veterans obtain needed nursing home care. In March 2011, an OIG audit of VHA's State Home Per Diem Program reported that two states were denying care to eligible Veterans and none of the eight VAMCs the OIG visited had strengthened their outreach efforts to ensure Veterans denied access to State Veterans Homes (SVHs) nursing home care obtained access to care from other VA sources. The issue resulted from VAMCs not providing SVHs information on VA nursing home care options for distribution to Veterans. VHA can address this challenge by providing fact sheets on VA nursing home care options to SVHs for distribution to eligible Veterans, identifying the SVHs that have denied eligible Veterans access to care, and developing and initiating a plan to conduct specific and targeted outreach activities.

The March 2011 audit also reported that VA medical facilities need to improve their oversight of SVHs to reduce risks of Veterans receiving inappropriate nursing home care. In addition, VAMCs did not properly document or ensure timely SVH submission of 32 percent of eligibility determinations and 55 percent of medical care approval requests for the sample of Veterans the OIG reviewed. This was the result of ineffective VHA policies and procedures, insufficient oversight, and inadequate staff training. Improvements are needed to avoid an increased risk that Veterans will not receive needed nursing home care, and SVHs will not provide appropriate medical care. By revising VHA policies and procedures, ensuring VISNs establish oversight procedures, and providing training to VAMC staff responsible for SVH oversight, VHA can reduce the risks of Veterans receiving inappropriate SVH nursing home care.

VA has undertaken the mission of ending homelessness among Veterans, but VHA continues to face difficulties in serving this population of Veterans appropriately. In many instances, VHA has provided compassionate care to a most challenging population; however, the successful provision of health care to Veterans without a fixed address and with the disease burden typical of this population will require comprehensive programs and outreach. VHA faces challenges in identifying Veteran subpopulations most susceptible to homelessness, and in placing homeless or at-risk Veterans into programs that are



demonstrated to be effective. Furthermore, the diagnosis and treatment of complex cardiac disease, gastrointestinal disorders, cancer, and substance abuse are examples of medical disorders that are a challenge to provide care for in disadvantaged areas and to homeless Veterans.

The VHA Grant and Per Diem Program is successfully assisting homeless Veterans to live independently in safe and affordable permanent housing. This program supports the Secretary's goal to eliminate homelessness for Veterans by 2015. However, OIG identified serious issues impacting the housing safety, security, and privacy issues of homeless Veterans, particularly homeless female Veterans. Further, an incomplete grant application evaluation process; a lack of program safety, security, health, and welfare standards; and an inconsistent monitoring program impacted the program's effectiveness. As a result, VHA did not ensure homeless Veterans consistently received the supportive services agreed to in approved grants. In addition, funding was not effectively aligned with program goals. Program improvements are needed to ensure access to vital support services as VA prepares to serve approximately 20,000 homeless Veterans in 2012 and thousands more in subsequent years based on a 2011 Department of Housing and Urban Development report, *The 2011 Point-in-Time Estimates of Homelessness: Supplement to the Annual Homeless Assessment Report*, estimating that 67,495 Veterans were homeless on a single night in January 2011.

VHA continues to face significant challenges in addressing the healthcare and financial vulnerabilities associated with the Non-VA Fee Care Program. The OIG issued *Audit of Veterans Health Administration's Non-VA Outpatient Fee Care Program and Alleged Mismanagement of the Fee Basis Program VA Connecticut Healthcare System West Haven, Connecticut*. OIG concluded in both reports that controls over pre-authorizing fee care services needed improvement. Yet in FY 2011, OIG substantiated an allegation that the Phoenix Health Care System (HCS) experienced an \$11.4 million budget shortfall, 20 percent of the Non-VA Fee Care Program funds for that year. HCS management did not have sufficient procedural and monitoring controls to ensure that: (1) the official designated to pre-authorize fee care thoroughly reviewed requests, (2) clinical staff conducted necessary utilization and concurrent reviews, and (3) fee staff obligated sufficient funds for fee care. As a result, the Phoenix HCS had to obtain additional funds from the National Fee Program and VISN 18 and cancel equipment purchases to cover the \$11.4 million shortfall. OIG concluded that authorization procedures and the procedures to obligate sufficient funds to ensure it could pay its commitments were so weak that the Phoenix HCS processed about \$56 million of fee claims during FY 2010 without adequate review.

VA's Program Response
Estimated Resolution Timeframe: 2013
Responsible Agency Official: Under Secretary for Health

Completed 2012 Milestones

To improve accuracy and validity of wait time measurements in ambulatory care, the Veterans Health Administration (VHA) has recently revisited the use of the "desired date" in out-patient scheduling. In 2013, VHA anticipates adopting the "agreed upon date" to replace the "desired date" in determining wait times. The "agreed upon date" is a date agreed upon by both provider and patient which is then written down and communicated directly to the scheduler as the appointment is created. This approach



promotes negotiation of a date that is both clinically relevant and patient-centered; this improved process is expected to reduce scheduling errors and enhance accuracy of wait time recording.

VHA's Office of Rural Health has made significant progress in the establishment and implementation of financial controls as well as revised review and approval processes; use of project management tracking systems, quality measures, and performance measures to assess access, quality, patient satisfaction and performance; and collection and quarterly evaluation of data to ensure oversight and accountability for funded projects.

In 2012, VHA concentrated on implementing an updated and revised handbook issued to strengthen the State Veterans Home (SVH) Per Diem Program. Efforts have concentrated on addressing roles and responsibilities, eligibility requirements for the different levels of care (i.e., nursing home, domiciliary, and adult day health care), and the processing of SVH admissions applications and per diem payment processing, to include the computation of rates and monthly invoicing processes. Audit processes and related training have also been implemented.

VHA's Office of Disability and Medical Assessment (DMA) has initiated significant improvements to ensure compensation and pension (C&P) examinations are completed in 30 days or less. As of July 30, 2012, the national timeliness average for the completion of C&P examinations was 26 days. To further enhance operations, DMA is refining the C&P unit guideline recommendations and also expects to implement a C&P examination demand forecasting model later in 2012.

VHA recognizes the value and critical piece that prevention plays in achieving the overall goal of ending Veteran homelessness and is addressing risk factors for becoming homeless by:

- Developing a universal at-risk screening tool to identify those Veterans at immediate risk for homelessness and then connecting them to both Department of Veterans Affairs (VA) and community resources that promote housing stabilization and treatment;
- Conducting collaborative research to inform VA policy and practice to ensure that VA programs are tailored to models that most effectively prevent Veterans from becoming homeless;
- Expanding the Supportive Services for Veteran Families Program funding to private non-profit organizations and consumer cooperatives to provide a range of supportive services to very low-income Veterans and their families; and
- Funding substance use disorder (SUD) clinical positions.

VHA also recognizes the importance of the safety and security of all Veterans, and especially female Veterans and families. VHA has increased attention to these areas through a review of all grant programs to ensure facilities are safe and appropriate, adaptation of grant reviews and applications to ensure Veterans are appropriately placed in programs, and concentrated training to educate staff in the field about the need to be vigilant and attentive.

VHA recognizes the need to address issues with the non-VA fee care program and this year has initiated a complete review of non-VA fee care in contracted community-based outpatient clinics (CBOC) and is upgrading the Fee Basis Claim System (FBCS) software to ensure sites are processing claims at Medicare rates.



OIG Sub-Challenge #1C: Accountability of Prosthetic Supplies in VHA Medical Facilities

From FY 2007 through FY 2011, VHA's prosthetic supply costs increased nearly 79 percent to about \$1.8 billion. Every year, VHA medical facilities process hundreds of millions of dollars of prosthetic supplies through inventories. In March 2012, OIG completed an audit of VHA's prosthetic supply inventory management. VHA medical facilities need to improve the management of prosthetic supply inventories. The audit estimated from April through October 2011, VHA medical facilities maintained inventories of nearly 93,000 prosthetic supply items with a total value of about \$70 million. Of the 93,000 items, VHA medical facilities inventories exceeded current needs for almost 43,500 items (47 percent) and were too low for nearly 10,000 items (11 percent), increasing the risk of supply shortages. As a result, VHA medical facilities spent about \$35.5 million to purchase unnecessary prosthetic supplies and increased the risk of supply expiration, theft, and supply shortages. Without adequate inventory management tools and controls and a more modern inventory system, it is difficult for VHA medical facility managers and staff to ensure proper stewardship and accountability of prosthetic inventories and the continuous availability of prosthetic supplies needed for clinical staff to provide patient care. To improve prosthetic supply inventory management, VHA needs to increase inventory system capabilities, provide sufficient staff training, strengthen oversight, and revise policies and procedures.

VA's Program Response

Estimated Resolution Timeframe: 2015

Responsible Agency Official: Under Secretary for Health

Completed 2012 Milestones

The Veterans Health Administration (VHA) acknowledges that improvements in the prosthetics inventory management are important and necessary. The following strategic action plan including timelines and milestones is in place:

- Policy and procedures to conduct and reconcile physical inventories as well as provide guidance to eliminate excess and avoid shortages of prosthetic supplies maintained in the Prosthetics Inventory Package (PIP) and the Generic Inventory Package (GIP) were issued to facilities on July 30, 2012.
- Veterans Integrated Service (VISN) Chief Logistics Officers were required to validate that physical inventories were conducted. This is 37% complete as of August 22, 2012.
- A plan to replace PIP and GIP inventory systems with a comprehensive inventory management is in development. Completion is projected for 2015 pending availability of funds awarded through the internal prioritization process of the information technology budget. Revised standardized inventory management training guides are scheduled to be distributed to VISN and field offices by November 30, 2012.
- Training curriculum and a certification program about inventory management practices and techniques is to be completed by November 30, 2012.
- A requirement that at least one prosthetic supply inventory manager from each VAMC become a Certified VA Supply Chain Manager is to be issued by November 30, 2012.
- An analysis of inventory procurement data about implantable devices is to be completed by December 30, 2012. Following that, actions are to be identified about potential strategic



sourcing opportunities via consignment agreements with completion anticipated in mid- to late-2013.

- Compliance requirements were issued to field/network offices on July 30, 2012, indicating compliance and monthly reporting requirements for performance measures related to prosthetic supply inventories.
- Cyclical reviews with reports being sent to VHA Procurement and Logistics Office are scheduled to begin October 31, 2012.

OIG CHALLENGE #2: BENEFITS PROCESSING **-Strategic Overview-**

The OIG has consistently reported the need for enhanced policies and procedures, training, oversight, quality review, and other management controls to improve the timeliness and accuracy of disability claims processing. OIG remains committed to keeping decision makers informed of longstanding and emerging problems identified through the audits, inspections, investigations, and reviews so that the Department can take timely corrective actions. While the Department has made much progress, there is still much to do to establish an effective and efficient organization.

During the 6-year period from FY 2007 through 2011, VBA's national accuracy rates for rating claims decisions remained the same or declined every year, dropping from 88 percent in FY 2006 to 83 percent in FY 2011. In FY 2012, VBA realigned its rating accuracy goal from 90 percent to 87 percent, to make a more stair-step achievable approach to reaching 98 percent accuracy in 2015. With the significant expansion of its claims workforce through current recruitment efforts and increasing receipt of claims from Veterans, VA will face additional significant challenges in meeting its goals for accuracy and consistency of benefit decisions. VBA is moving forward with plans to implement about 40 transformational initiatives to improve the accuracy and timeliness of claims processing. However, at this time, sufficient information to assess how each of these individual initiatives will contribute to meeting the Secretary's goals is unobtainable due to early implementation efforts.

OIG Sub-Challenge #2A: Effectively Managing Disability Benefits Claims Workload

In FY 2011, VBA completed 1.8 million rating and non-rating claims, resulting in an end-of-year claims inventory of 1.1 million claims, up 54 percent from FY 2010's ending inventory of almost 726,000 claims. As of May 31, 2012, VBA's rating and non-rating inventory had climbed to an unprecedented 1.28 million claims. The May 2012 inventory represents dramatic increases of 15 percent from the end of FY 2011 and 76 percent from the end of FY 2010. OIG has completed several audits and reviews to assist VBA in addressing the demands of a rapidly increasing workload. VBA introduced several initiatives to attempt to reduce disability benefits claims processing times.

In a May 2012 audit, the OIG reported that opportunities exist for VBA to improve appeals processing at VA Regional Offices (VAROs). The nationwide inventory of appeals increased over 30 percent from about 160,000 appeals in FY 2008 to about 209,000 in FY 2010. During this time, the inventory of compensation rating claims increased by 40 percent from 380,000 to 532,000 claims. OIG found VBA contributed to the growing inventory and time delays. Regional office managers did not assign enough



staff to process appeals, diverted staff from appeals processing, and did not ensure appeals staff acted on appeals promptly because compensation claims processing was their highest priority. OIG reported that *de novo* reviews will result in quicker decisions on the Veterans' appeals because decision review officers can render decisions without waiting for new evidence as required with traditional reviews. The audit showed that VARO staff did not properly record 145 appeals in Veterans Appeal Control and Locator System (VACOLS) that delayed processing for an average of 444 days. VBA had launched a pilot program, the Appeals Design Team, to try several different process changes to the appeals workflow. The pilot began in March 2012 at the Houston VARO, and VBA anticipates pilot completion in January 2013.

Processing the increased number of Veterans' compensation benefit claims has been a major challenge for VBA, as was discussed previously in Sub-Challenge 1B. Here the focus is directed specifically at process. VBA utilizes a claims brokering system with the goal to reduce claims backlogs by expediting processing and helping VAROs meet their processing timeliness targets. In 2010, OIG conducted an audit to evaluate the effectiveness of VBA's Compensation Program claims brokering. OIG reported VBA could improve the effectiveness of claims brokering by ensuring area offices consider additional factors affecting timeliness and accuracy. Nearly 171,000 brokered claims were completed during FY 2009, with an average processing time of 201 days. OIG projected the average processing time could have been reduced by 49 days if VBA had avoided the claims processing delays identified in this report. Rating Centers and Veterans Service Centers (VSC) with reported claims-processing accuracy rates completed almost 117,000 of the 171,000 brokered claims. Of the nearly 117,000 claims VBA brokered for ratings, OIG projected area offices brokered about 54,000 (46.2 percent) to facilities with lower rating accuracy rates than original offices. To address these issues, VBA needs to revise brokering policies and procedures and include timeliness and accuracy measurements in performance plans for directors of VAROs that process brokered claims. In June 2010, VBA interrupted most claims brokering to address the additional challenge of processing *Nehmer* claims. VBA officials have stated they plan to resume full-scale brokering in July 2012.

VA's Program Response
Estimated Resolution Timeframe: 2015
Responsible Agency Official: Under Secretary for Benefits

Completed 2012 Milestones

Despite unprecedented VBA claims production and completing over 1 million claims each year for the last two years, VA's backlog has grown. VBA has experienced an unprecedented growth in claims, nearly 48 percent more than three years ago. Included in this growth are 45 percent of the 1.6 million Veterans who have honorably served during more than a decade of war in Iraq and Afghanistan, rightfully filing claims and at unprecedented levels.

VBA allocated significant resources to processing the approximately 260,000 Agent Orange presumptive claims received, dedicating our 13 resource centers exclusively to readjudicating over 90,000 previously denied claims for the new presumptive conditions under the stipulations of the *Nehmer* court decision. As of October 1, 2012, VA awarded over \$4 billion in retroactive benefits for the three new presumptive



conditions to over 144,000 Veterans and survivors. Our prioritized focus on processing these complex claims slowed processing of other claims and contributed to a larger claims backlog, but remained the right thing to do for Vietnam Veterans.

Beginning March 1, 2012, the 13 Day-One Brokering Centers that were used exclusively for *Nehmer* workload in 2011 transitioned back to individual missions, including Benefits Delivery at Discharge and Quick Start claims support, appeals processing, and brokering support for lower-producing stations. To ensure this transition was successful, refresher training was conducted to familiarize the *Nehmer* claims processors with processing mission-specific claims.

VA's appeals process is extremely complex. Many factors affect the time it takes the agency to process an appeal. First, VA is experiencing an increase in appellate workload, commensurate with the overall increase in its benefit claims workload. Court decisions and other unforeseen changes in law can have a significant impact on this workload. Second, the record on appeal is an open record that allows claimants all-but-unlimited opportunities to submit evidence during the appeal process. Each such submission triggers development obligations for VBA and incumbent response times that must be afforded the claimant. Third, appeals processing in VBA cannot receive higher staffing levels without negatively impacting initial adjudications, which is inconsistent with VA policy regarding delivery of benefits to Veterans, their dependents, and survivors as quickly as possible. This systemic complexity makes it difficult to identify simple, easily implemented, solutions to the problems identified by the OIG. In March 2012, VBA launched an Appeals Design Team pilot at the Houston Regional Office (RO). The results of this pilot will allow VBA to conduct gap analysis, identify resource needs, and identify ways to leverage the knowledge and abilities of Decision Review Officers to streamline the appeals process.

VBA's intended effect of brokering is a faster decision for Veterans whose cases were brokered. OIG stated that claims were delayed because brokering centers and Veterans service centers maintained excessive claims inventories; however, the claims were intentionally brokered to these sites because the RO of original jurisdiction could not process them timely. VBA historical data shows that ROs facing workload and performance challenges have significantly benefited from brokering by reducing processing times and the inventory of pending claims. To address challenges with claims brokering, VBA mandated the use of specific end products for brokered work tracking and work credit. A comprehensive national brokering plan is being developed to ensure compliance with claims brokering policies and procedures aimed at improving timeliness and accuracy.

Even with unprecedented workload increases, VBA achieved nearly a 15 percent increase in output each year (from 2009 through 2011) and a 16 percent increase in 2012, when compared to 2008. VBA completed over one million disability claims in each of the past three years. VBA expects production levels to continue to increase each year through our transformational initiatives focused on people, process, and technology. As of the end of 2012, VBA has implemented a new operating model at 18 ROs, changing the way we are organized to do this work. Once fully implemented at all 56 ROs by the end of December 2013, VBA anticipates this new operating model will allow for the expedited processing of benefits claims. In addition, the Veterans Benefits Management System (VBMS) standardizes disability compensation claims processing through a web-based electronic system. VBMS will be deployed to all ROs through a phased approach with an estimated completion by the end of 2013.



OIG Sub-Challenge #2B: Improving the Quality of Claims Decisions

VARO management teams face multiple challenges in providing benefits and services to Veterans. Unlike last year's summary report, VARO staff was generally effective in processing PTSD claims. However, from the FY 2011 inspection reports, OIG identified systemic issues in providing oversight and training to staff in three areas: temporary 100 percent disability evaluations for service-connected conditions requiring surgical or specific medical treatment, TBI, and herbicide exposure-related claims. Based on these results, OIG projected VARO staff did not correctly process 30 percent of approximately 48,000 claims. These results do not represent the overall accuracy of disability claims processing at these VAROs as OIG sampled claims we considered at higher risk of processing errors.

During the period from October 2011 through June 2012, OIG inspected 14 VAROs and assessed their performance in the three areas identified above. Staff at these 14 VAROs incorrectly processed 40 percent of 1,026 disability compensation claims in these categories, resulting in nearly \$5 million in overpayments. In addition, these 14 VAROs incorrectly processed 35 percent of 232 TBI claims because VHA medical examination reports did not contain sufficient information to make an accurate determination. Further, inaccuracies resulted from staff not properly evaluating the severity of TBI-related disabilities. OIG found that VARO staff generally over-evaluated the severity of TBI-related disabilities because they did not properly interpret the medical examination reports.

OIG found that VBA needs to ensure the quality of 100 percent disability evaluations. In January 2011, OIG reported that VARO staff inconsistently processed temporary 100 percent disability evaluations. OIG projected that VARO staff did not correctly process evaluations for approximately 27,500 Veterans and that, since January 1993, VBA has paid Veterans a net \$943 million without adequate medical evidence. The review showed that VARO staff did not enter the required future medical exam date into VBA's electronic records. Entering the future medical exam date generates an automatic notification that alerts VARO staff to request a medical exam to evaluate whether the Veteran's temporary 100 percent disability evaluation should continue. Without this notification, improper payments could potentially continue for the Veteran's lifetime. OIG estimated that if VBA does not take timely corrective action, it could overpay Veterans a projected \$1.1 billion over the next 5 years. VBA generally classifies these overpayments as administrative errors and does not establish a receivable or expect the Veteran to repay the overpayment.

In response to a recommendation in the January 2011 report, the Acting Under Secretary for Benefits agreed to review all temporary 100 percent disability evaluations and ensure each had a future medical examination date entered in VBA's electronic record with a target completion date of September 30, 2011. However, VBA did not provide each VARO with a list of temporary 100 percent disability evaluations for review until early September 2011. VBA subsequently extended the deadline several times to December 31, 2011, then to March 31, 2012, and then again to September 2012. At one VARO, management erroneously reported to the Western Area office that staff had requested VA medical reexaminations to determine whether the Veterans' disabilities warranted the continued temporary 100 percent evaluations, when in fact this had not occurred. Given the financial risks associated with continuing to pay benefits in the absence of adequate medical documentation, OIG considers this a major challenge. VBA must ensure controls are in place and working to ensure staff input suspense



diaries, which alert staff when a medical re-examination is needed, into VBA's electronic system as required.

VA's Program Response
Estimated Resolution Timeframe: 2012
Responsible Agency Official: Under Secretary for Benefits

Completed 2012 Milestones

As part of the 2012 National Training Plan curriculum for VBA regional office employees, VBA created training material to ensure compliance with guidelines established regarding future examinations for the temporary 100 percent disability evaluations, traumatic brain injury, and herbicide exposure. VBA added 50 lesson plans to the Compensation Service Training Web site. These lessons are configured in a design template recognized as an educational design industry standard, written by subject matter experts, and reviewed by professional, educational curriculum experts.

In January 2012, VBA instructed regional offices that any files with temporary 100 percent disability evaluations or pending examination diaries cannot be relocated to the Records Management Center.

In May 2012, VBA completed the review of records containing temporary 100 percent evaluations for the top three disability-specific problem areas to assess current disability status and ensure a future examination date is in the Veteran's record.

In-depth system testing identified specific scenarios where future exam diary controls were either being canceled unexpectedly or not being set at all during the award generation process. A systemic diary redesign within the VETSNET Awards application and changes to the batch diary process were implemented in July 2012. Oversight of the VETSNET Awards processing function confirmed that the application problem has been corrected and the system now manages diaries correctly.

VBA is in the process of verifying that all records containing temporary 100 percent evaluations have the appropriate controls and indicators established to ensure a future examination date is in the Veteran's electronic record.

In March 2012, VBA instituted Quality Review Teams (QRT) in all regional offices to conduct in-process reviews (IPR) on claims that have not been promulgated or completed. IPRs are designed to correct deficiencies early in the claims process, including deficiencies related to the medical documentation necessary to decide a claim. QRT members provide immediate feedback and training to individual employees. VBA is also re-evaluating the efficacy of the current claim-based review process and whether an issue-based review process will result in more useful data to identify training needs.

In August 2012, the evaluation builder was embedded into the Veterans Benefits Management System – Rating (VBMS-R) which is the modernized rating application. VBMS-R is currently in use at five regional offices. This capability affords claimants the maximum benefit supportable under the law and improves consistency across the Nation.



OIG Sub-Challenge #2C: VA Regional Office Operations

VBA continues to experience challenges with ensuring its 56 VAROs comply with VA regulations and policies and deliver consistent performance of their VSC operations. OIG's Benefits Inspection Division has reported problems in ensuring VARO personnel complete thorough and timely Systematic Analysis of Operations (SAO) and accurately process claims-related mail. Half of the VAROs inspected during 2011 did not follow VBA policy to ensure SAOs were timely and complete. SAOs provide an organized means of reviewing VSC operations annually to identify existing or potential problems in claims processing and propose corrective actions. OIG reported that if VARO management had ensured staff completed thorough SAOs, they would have identified weaknesses associated with their operations and could have developed plans to correct these shortcomings. In addition, many VAROs did not always control and process mail according to VBA policy. Delays in processing claims-related mail might affect the accuracy and overall timeliness of claims processing.

VA's Program Response
Estimated Resolution Timeframe: 2015
Responsible Agency Official: Under Secretary for Benefits

Completed 2012 Milestones

VBA is constantly striving to identify new ways to improve performance at all regional offices (RO). VBA aggressively monitors regional office performance to develop specific action plans to improve identified problem areas. Oversight is provided through site visits conducted by both the Compensation and Pension and Fiduciary Services and the Area Offices. Regional office directors are held accountable for station performance through annual performance evaluations.

All VBA ROs are required to perform annual SAOs to provide a comprehensive overview of specific divisional functions as well as identify areas for improvement. Procedures and a schedule for completing SAOs are available for each VBA business line. Also, each RO director can establish additional SAOs for local operational issues.

SAOs are reviewed during both Central Office and Area Office site visits. SAO compliance is tracked and monitored closely by both parties. Throughout the year, Area Offices may also request copies of RO SAO schedules and specific completed SAOs for further review. The importance of SAOs is emphasized during the weekly Deputy Under Secretary conference call.

OIG Sub-Challenge #2D: Improving Disability Benefits Questionnaires (DBQ)

In October 2010, VA introduced Disability Benefits Questionnaires (DBQ) to reduce the claims backlog by speeding up the collection of medical evidence. DBQs replaced the C&P examination worksheets previously used and can also be filled out and submitted by a Veteran's private physician. DBQs have changed the way VA collects medical evidence to support Veterans' disability compensation claims. The



volume of disability compensation claims processed using this new method will increase significantly as VA has deployed about 80 DBQs for use.

The OIG conducted an audit in February 2012 to provide an early assessment of VA's internal controls over the use of DBQs. OIG found that the expedited rollout of the DBQ process did not provide VA sufficient time to design, evaluate, and implement adequate internal controls to prevent potential fraud. VA does not verify the authenticity of medical information submitted by Veterans and private physicians prior to awarding disability benefits, track disability-rating decisions where VARO staff used a DBQ as medical evidence, or electronically capture information contained on completed DBQs.

Further, while VBA has a quality assurance review process to verify a limited number of DBQs completed by private physicians, it is OIG's opinion that the quality assurance reviews do not provide reasonable assurance that fraudulent DBQs will be detected. Developing and implementing additional controls—as conveyed in the report—should reduce the risk of fraud, allow for greater fraud detection, and help VA identify disability compensation claims that carry an increased risk of fraud. VBA implemented new measures to review about 1,200 DBQs a year and agreed to promptly refer DBQs with questionable information or inconsistencies to OIG for further investigation.

VA's Program Response
Estimated Resolution Timeframe: 2013
Responsible Agency Official: Under Secretary for Benefits

Completed 2012 Milestones

In January 2012, VBA revised the standard operating procedures (SOP) for validation reviews of DBQs. This SOP mandates that quality assurance reviewers refer DBQs with potentially fraudulent information to the OIG Hotline Division.

In March 2012, VBA revised the DBQ internet Web site to inform Veterans and physicians that VA reserves the right to confirm the authenticity of all DBQs completed by private health-care providers.

In March 2012, VA completed business requirements for the secured electronic submission of information to the electronic portal. The development of the first phase of the DBQ Service Gateway is scheduled for completion in 2013. It will be accessible through VA's Stakeholder Enterprise Portal, which will provide a single sign-on capability and require users to be credentialed and authenticated before they can access the system.

VBA Fast Letter 12-11, Disability Benefits Questionnaire Updates, released in March 2012, instructs claims processors to append a special issue indicator to claims received with a DBQ as medical evidence. The Compensation Service site visit protocol requires that Compensation Service staff members review the Modern Awards Processing-Development application to monitor regional office compliance with this guidance.



In July 2012, VBA approved the DBQ manual changes, and the Web Automated Reference Material System (WARMS) was updated to reflect these changes. [WARMS](#) (Part III, Subpart IV, Ch 3, Section A).

OIG Sub-Challenge #2E: Improving the Management of VBA’s Fiduciary Program

VBA beneficiary funding managed by the Fiduciary Program are at risk for fraud based on program weaknesses. From April 1, 2007, to March 31, 2012, OIG conducted 142 investigations involving fiduciary fraud and arrested 84 fiduciaries and/or their associates. Two recent examples illustrate weaknesses that allowed funds to be embezzled. In the first example, a former VA fiduciary, who was also a disbarred attorney, was sentenced in September 2011 to 18 months in prison and ordered to pay \$318,899 restitution after having previously pled guilty to embezzling money over a 10-year period from the accounts of 11 incompetent Veterans. In the second example, a former VA Field Examiner and a court-appointed fiduciary were each sentenced in December 2011 to 36 months’ incarceration and ordered to pay \$889,626 for conspiring to embezzle funds from 12 Veterans over a 10-year period to support gambling at area casinos. Of particular concern in both of these cases is that the fraud continued undetected for 10 years.

VA’s Program Response
Estimated Resolution Timeframe: 2012
Responsible Agency Official: Under Secretary for Benefits

Completed 2012 Milestones

The Department of Veterans Affairs (VA) enhanced procedures to prevent and identify misuse of beneficiary funds. VA requires that fiduciaries provide detailed financial documents, including bank records, with their annual accountings. This additional information allows VA to verify reported expenditures and identify potential misuse of funds. In December 2011, VA mandated criminal background checks for proposed fiduciaries prior to appointment. These precautionary requirements serve as a misuse deterrent for fiduciaries.

In March 2012, VA issued policy requiring that fiduciaries provide a copy of VA-approved accountings to beneficiaries. This policy increases transparency of the fiduciary’s management of the beneficiary’s funds. VA issued guidance limiting fiduciary fees to monthly benefit payments only. Also, VA directed that fiduciary activities would no longer authorize payment of commissions based upon retroactive, lump sum, or other one-time benefit payments disbursed to a fiduciary.

In March 2012, VA consolidated fiduciary activities into six regional fiduciary hubs. The hub consolidation is expected to significantly improve VA’s timeliness of fiduciary appointments and quality of oversight.

In March 2012, VA deployed an automated field examination report generator to ensure consistency and reduce the time it takes field examiners to complete their work.



VA conducted an in-depth staffing analysis of its fiduciary activities in 2012. This analysis examined the location of beneficiaries and field examiners to develop a staffing model for the hub consolidation. As a result, VA hired 58 additional field examiners and deployed them based upon the needs of the current beneficiary population.

VA is reconciling information in the current Fiduciary Beneficiary System (FBS) database and the corporate database in preparation for the new computer system that will replace FBS. A project manager was assigned in May 2012, and a platform was identified for the redesigned FBS. The redesigned FBS will allow VA to leverage existing technology to create an interface with other VA systems, improve reporting processes to enhance workload management capabilities, integrate a report generator tool, and improve monitoring of the misuse protocol. It will greatly improve VA's ability to track beneficiary visits, fiduciaries' annual accountings, and further detect potential misuse.

VA is revising its fiduciary regulations to update and reorganize fiduciary rules consistent with current law and VA policies to prescribe fiduciary responsibilities and beneficiary rights.

These and other major initiatives led to a decrease in the misuse rate that was less than one-half of one-percent in 2012.



OIG CHALLENGE #3: FINANCIAL MANAGEMENT
-Strategic Overview-

Sound financial management not only represents the best use of limited public resources, but also the ability to collect, analyze, and report reliable data on which resource use and allocation decisions depend. OIG oversight assists VA in identifying opportunities to improve the quality and management of VA's financial information, systems, and other assets.

OIG Sub-Challenge #3A: Strengthen Financial Management and Fiscal Controls for VISN Offices

In 1995, VHA restructured its field operations from 4 medical regions to 22 VISN offices to redistribute VHA health care resources to better meet Veterans' needs, improve Veterans' access to health care, and decentralize decision-making and operations. At that time, VHA expected the VISN offices to have about 220 full-time equivalent staff and estimated that VISN operating costs would be about \$26.7 million. However, by FY 2011, the VISN offices had grown significantly in size to over 1,000 staff with expenses totaling at least \$164.9 million, a 500 percent increase above the estimated costs (\$26.7 million) at inception.

OIG's audit of the VISNs' management and fiscal operations disclosed that VHA lacked budgetary controls and reliable data to monitor VISN offices, evaluate their performance relative to operational costs, justify their organizational structures and staffing levels, and ensure the effective and efficient use of funds. The OIG determined that VHA had allowed the VISN offices to operate independently and that VHA had not established required fiscal controls because it considered the VISN offices small. However, the growth in the offices' costs and the fiscal issues identified in the VISN offices' travel, leased office space, and performance awards demonstrated that VHA needed to strengthen VISN office fiscal controls to ensure transparency and accountability in their operations and the effective and efficient use of funds. To address this challenge, VHA initiated actions to standardize and build accountability in the VISNs' organizational and management structures and to establish fiscal controls and a comprehensive financial management system. However, full implementation of these actions is expected to require a more long-term plan.

VA's Program Response
Estimated Resolution Timeframe: 2014
Responsible Agency Official: Under Secretary for Health

Completed 2012 Milestones

The Veterans Health Administration (VHA) has made steady progress to standardize and build additional accountability into its fiscal controls and financial management systems. Specific accomplishments include:

- VHA completed a revised Operating Plan, which included Veterans Integrated Service Network (VISN) Office Operating Plans, which was submitted to the Department of Veterans Affairs (VA) Office of Management on May 25, 2012.
- The first monthly VISN Office Execution Reports were submitted on June 15, 2012. Subsequent reports are due by not later than the 10th of each month



- Development of policy that provides guidance for accounting for VISN staff, centralized facility support units, and centralized purchases is expected to be completed by the end of 2012. Plans are for execution to be monitored against approved VISN Office and VISN Operating Plans and regular reports to the Office of the Deputy Under Secretary for Health for Operations and Management (DUSHOM).
- In regard to oversight of travel at VISNs, Fiscal Quality Assurance Managers met in July to prepare an audit guide and then implement random audits. Travel policy guidance is being rewritten. It is planned that VISN leadership will do random audits of 25 trips a quarter for two consecutive quarters, and periodically thereafter as deemed necessary, to ensure proper approvals, justifications, and trip purposes are documented. This process is anticipated to be in place by the end of 2012.
- VHA expects to complete and issue guidance related to VISN office lease costs and space requirements as well as implement periodic reviews of VISN space utilization by VISNs by September 30, 2012.
- A comprehensive review of performance awards will begin October 1, 2012.
- VHA is defining what constitutes core VISN staff and functions for each VISN based on the particular VISN functions and services. The definition will set the base staffing levels for a VISN. VHA will initiate reviews of VISN full time equivalent and VISN personnel and related costs. VHA's Office of Finance will develop policy to provide guidance on accounting for VISN staff and centralized facility support units. Execution will be monitored against approved VISN Office and VISN Operating Plans and compared with data reported in the Financial Management System and the Personnel and Accounting Integrated Data System to ensure accuracy and reliability during monthly reports to the DUSHOM.

OIG Sub-Challenge #3B: Strengthen Oversight of Human Capital Management and Development Programs

In 2010, VA paid nearly \$111 million in retention incentives to 16,487 employees. OIG found VHA and VA Central Office (VACO) approving officials did not adequately justify and document retention incentive awards in accordance with VA policy. VA lacked clear guidance, oversight, and training to effectively support the program. Officials did not effectively use the Personnel and Accounting Integrated Data system to generate timely review notices and did not always stop retention incentives at the end of set payment periods. Based on these findings, OIG questioned the appropriateness of 96 (80 percent) of 120 VHA incentives and 30 (79 percent) of 38 VACO incentives reviewed. These incentives totaled about \$1.06 million in FY 2010. Furthermore, OIG identified 6 of 99 statistically sampled cases where VA assigned incorrect duty stations due to inadequately trained human resources personnel and lack of supervisor verification of employee duty assignments. Consequently, VA overpaid a total of about \$106,000 in locality pay from the time the errors first occurred. If problems assigning incorrect duty stations are not fixed, OIG projected a total of \$1,355,355 in potential monetary overpayments over the next 5 years.

In addition, VA's ADVANCE program aligns with Federal human capital reforms by centralizing workforce training and senior executive recruitment and development. VA started its ADVANCE human capital program, including its Corporate Senior Executive Management Office (CSEMO), in FY 2010 as part of



the Secretary's initiative to transform VA into a 21st century organization. ADVANCE operated on an estimated budget of about \$864 million from FY 2010 through FY 2012, including about \$32 million for CSEMO. VA achieved many of its ADVANCE program goals. However, VA needs to strengthen its management of interagency agreements with the Office of Personnel Management (OPM) and improve its program measures to more accurately assess program impact. These management weaknesses occurred because VA deployed ADVANCE rapidly and did not establish adequate controls over interagency agreement costs and terms. Further, VA proceeded without fully assessing its implementation options and concluded that only OPM could provide the needed resources and expertise. As a result, VA lacks reasonable assurance that it effectively spent program funds during FYs 2010 and 2011, and that its spending plans for FY 2012 will achieve the intended impact on VA's workforce.

VA's Program Response
Estimated Resolution Timeframe: 2013

Responsible Agency Official: Assistant Secretary, Office of Human Resources and Administration

Completed 2012 Milestones

In order to better manage, and ultimately remedy, issues regarding lax monitoring of retention incentives, incorrect duty station assignments and locality pay, which the Office of Inspector General has identified, the Department of Veterans Affairs (VA) has done the following:

Senior Executive Programs:

- Corporate management of executive resources has allowed VA to improve the administration of important programs. A VA Office of Inspector General (OIG) report raised concerns about the adequacy of VA's justification and documentation of retention incentives and, based on these findings, questioned the appropriateness of many incentives paid in Veterans Health Administration and VA Central Office. Even before the report was issued, VA had begun to review executive retention incentives focused on determining if each was still warranted. The OIG report recommended, and VA conducted, a 100 percent review of executive retention incentives being paid as of the date of the report. As a result of the review, VA terminated incentives no longer needed and strengthened the justification and documentation for those that needed to be continued.
- VA has developed and implemented a very deliberate approach to considering new executive retention incentive requests. Retention incentives are a management tool which VA uses as appropriate to retain an executive whose continued service is critical to successful mission accomplishment. Each proposed incentive is documented in a manner that fully meets requirements, and is scrutinized to ensure it is appropriate and necessary. All executive incentives are reviewed and approved or disapproved by the VA Chief of Staff.

Other Programs



- Additionally, VHA also implemented training to ensure its human resources (HR) managers and officers have a solid understanding of the laws and regulations governing retention incentives, the required documentation for approval, and the requirement for annual review of all approved retention incentives.
- Conducted a presentation/training about the need for correct duty station codes and implementation of virtual duty station assignments.
- Forwarded e-mail communication to the HR community regarding the new requirements that all duty stations must be coded correctly in PAID to ensure that the correct locality pay is provided.
- Prepared and published a HR Bulletin providing instructions for accessing the updated P41-A monthly personnel data report, and working with managers and supervisors to validate the duty station.

In response to the OIG Major Management Challenge concerning the administration of VA's ADVANCE (including those of Corporate Senior Executive Management Office) human capital programs:

- The Office of Human Resource & Administration (HRA) is currently conducting the 2013 HCIP/ADVANCE (HCIP - Human Capital Investment Program) program prioritization to provide funding to those initiatives demonstrating the best possible transformational value; (This effort is facilitated by VA's Strategic Management Group (SMG)).
- Beginning in January 2012 and working in concert with Office of Personnel Management (OPM), SMG drafted Service Level Agreement (SLA) language formalizing the cyclical exchange of data and reports critical to VA operations of HCIP/ADVANCE initiatives, in accordance with the costs and terms of interagency agreements with OPM.
- Improved transparency provided through the SLA, SMG will continue to review and refine the OPM Deliverable Receipt Form process to guarantee VA receives actual services contracted for in the interagency agreement.
- SMG provided (by or before 4th quarter of 2012) additional written guidance to each HRA Program Office administering HCIP/ADVANCE initiatives to rigorously review the Deliverable Receipt Form process in relationship to the tangible and intangible goods and services contracted for.
- Retention Incentives. The Veterans Health Administration (VHA) has comprehensively reviewed its policies, procedures, and training in regard to retention incentives and taken action as needed to address concerns.
 - Senior Executive Service (SES) and SES-Equivalents (EQV). To provide oversight for all SES and SES-EQV retention incentives, VHA established a Retention Incentive Technical Review Board (RITRB) and updated guidance. A full review of all SES and SES-EQV retention incentive agreements was completed. Those retention incentives still being requested have been put in the required format with appropriate justification and the Corporate Senior Executive Management Office (CSEMO) has reviewed and processed final decisions.



- Non-SES. Written guidance directing VHA field facilities to conduct a complete review of non-SES retention incentives was issued. This guidance detailed the proper use of retention incentives with instructions for the preparation of fully documented requests for approval. The guidance also requires that all retention incentives for non-SES/SES-EQV employees be approved at the Veterans Integrated Service Network (VISN) level by a RITRB. The VISN reviews of existing retention incentives are to be completed in 2012.
- Unsupported Reviews. The 100 percent review of the 96 retention incentives considered to be unsupported has been completed. Of the 96 retention incentives reviewed, 57 have been terminated and 39 remain active and are considered appropriate and necessary in order to retain essential staff.
- Training. Training was implemented to ensure human resources (HR) managers and officers have a solid understanding of the laws and regulations governing retention incentives, the required documentation for approval, and the requirement for annual review of all approved retention incentives. HR managers will be reminded to place a follow-up code in the Personnel and Accounting Integrated Data (PAID) system for all retention incentives to ensure that annual reviews are completed as required.

OIG Sub-Challenge #3C: Strengthen Oversight to Better Leverage Capital Assets

An OIG audit of VA's use of the Enhanced-Use Lease (EUL) program revealed that program policies and procedures, oversight, and performance measures were not in place to ensure adequate project documentation, timely project development and execution, effective monitoring, and accurate cost accounting. VA had little assurance of EUL effectiveness due to inaccurate reporting on program benefits and expenses. Personnel did not always document major project decisions, resulting in a lack of transparency to ensure program integrity. Further, VA often paid to maintain capital assets longer than necessary due to delays in executing EUL arrangements. The program lacked the policies and procedures, oversight, and performance measures needed for effective EUL project management. As a result of these deficiencies, VA may not have fully realized the potential benefits of the EUL program.

VA's Program Response

Estimated Resolution Timeframe: 2013

Responsible Agency Official: Director, Office of Asset Enterprise Management

Completed 2012 Milestones

The Office of Management (OM) completed several actions in 2012 to address concerns raised in the OIG audit. To ensure EUL agreements are negotiated in line with the Department's strategic goals, OM has developed project scorecards that identify relevant strategic goals (as reflected in the FY11 VA Strategic Plan Refresh) and quantify the extent to which each EUL project under development contributes to these goals. Scorecards for all EUL projects in the formulation stage will be reviewed by senior Office of Asset Enterprise Management (OAEM) leadership on a quarterly basis; the first review occurred in June 2012. Concurrently with this review, OAEM leadership, in consultation with the EUL Concept Paper Review Committee (CPRC), reviewed all formulation- and execution-stage EUL projects to



ensure timely execution of each. Projects anticipated to exceed their lease-execution and construction-completion target timeframes (24 months and 18 months, respectively) by 12 months or more were referred to the CPRC to review and approve VA's continued pursuit. The first of these OAEM/CPRC timeliness reviews occurred in July 2012, and will continue on a quarterly basis. In an effort to further strengthen on-going oversight and monitoring of executed EUL projects, OM developed and published directive and handbook 7454, defining the post-transaction oversight and compliance process. To ensure EUL project benefits and expenses are properly calculated, classified, and monitored, OM has developed a formal methodology to be used for calculating the benefits and expenses of each EUL. This methodology is supported by new technology tools and a web-based tracking system. The new methodology revises the methods used for determining the monetary value of the revenue, cost-savings, cost-avoidance, and enhanced services provided to VA as consideration for EUL projects, as well as accounts for any expenses incurred as a result of the project to get a full picture of the benefits of the project. This enhanced and improved calculation methodology will be implemented in the FY2012 EUL Consideration Report, as well as used to review previous consideration reports to ensure program benefits were accurately reported. OM has instituted a comprehensive new records management system in order to ensure that major EUL project decisions are documented and maintained in accordance with policy. In addition, OM conducted a comprehensive inventory of its EUL files, and those of its partner organizations within VA (OGC, CFM, local facilities, etc.), to ensure all available archival documents are identified and stored pursuant to the standards and protocols of the new records management policy.

OIG CHALLENGE #4: PROCUREMENT PRACTICE
-Strategic Overview-

VA operations require the efficient procurement of a broad spectrum of services, supplies, and equipment at national and local levels. OIG audits and reviews continue to identify systemic deficiencies in all phases of the procurement process to include planning, solicitation, negotiation, award, and administration. OIG attributes these deficiencies to inadequate oversight and accountability.

Recurring systemic deficiencies in the procurement process, including the failure to comply with the Federal Acquisition Regulation (FAR) and VA Acquisition Regulation (VAAR), and the lack of effective oversight increase the risk that VA may award contracts that are not in the best interests of the Department. Further, VA risks paying more than fair and reasonable prices for supplies and services and making overpayments to contractors. VA must improve its acquisition processes and oversight to ensure the efficient use of VA funds and compliance with applicable acquisition laws, rules, regulations, and policies. [Place holder] OIG comment on VA HR Conferences Report

OIG Sub-Challenge #4A: Compliance with Laws, Regulations, and Policies

For several years, OIG audits and reviews have identified VA challenges in complying with Federal and VA acquisition laws and regulations that protect the Government's interests and promote transparency in procurements. In 2009, VA made two major changes intended to strengthen its procurement process. VHA created Service Area Offices to oversee VISN contracting activities. VA also established an Integrated Oversight Process (IOP) that replaced traditional technical and legal contract reviews. OIG's audit of VHA's VISN contracts disclosed that these changes, which were made to strengthen acquisition



operations, were not effective because the new review processes were not followed consistently, and VA and VHA acquisition management did not provide adequate guidance and oversight on how to implement the IOP.

A 2011 OIG audit report on VISN contracts identified recurring systemic deficiencies associated with acquisition planning, contract award, and contract administration. A review of 89 noncompetitive VISN contracts identified deficiencies associated with the acquisition planning and award phases for 81 of the 89 contracts. A review of 83 competitive contracts identified deficiencies in these phases for 61 of the 83. Eighty-five of the 89 noncompetitive contracts reviewed, valued at \$56 million, had 1 or more contract deficiencies. VISN contracting officers could also not provide evidence that they made a determination of responsibility of prospective contractors by checking the Excluded Parties List System prior to award, as required. OIG estimated that a determination of responsibility was not made for nearly 1,290 contracts, valued at \$674 million. OIG estimated that VISN contracting staff did not perform required IOP contract reviews for about 3,000 contracts, valued at about \$1.58 billion, awarded between June 2009 and May 2010.

The Office of Information and Technology (OIT) contracted for in-depth technical reviews of VA's major information technology (IT) initiatives to ensure IT systems met VA's Enterprise Architecture standards. However, OIG determined the work the contractor performed did not meet the primary intent of the task order, which called for in-depth technical reviews of VA's major IT initiatives. OIT's decision to continue using the contractor to perform work that did not meet the primary intent of the task order resulted in ineffective and inefficient use of contract resources. As a result, OIT incurred contract costs of approximately \$1.7 million for an underutilized task order during the first and second option years. The amount could have also grown to approximately \$2.4 million if OIT had chosen to exercise the third option year of the task order—OIT did not, based on the OIG recommendations. In addition, no other organization within OIT was performing technical reviews of VA's major IT initiatives. As a result, VA's IT programs and projects may be at an increased risk of noncompliance with VA's Enterprise Architecture standards. As a result of the OIG evaluation of the secure VA-Chief Information Security Officer support services acquisition process, it was determined that VA's proposal evaluation and contract award procedures demonstrated a potential bias toward the incumbent contractor and did not promote full and open competition in accordance with the FAR.

VA's Program Response
Estimated Resolution Timeframe: 2013
Responsible Agency Official: Principal Executive Director, OALC

Completed 2012 Milestones

The VHA Procurement and Logistics Office (P&LO) has developed an internal quality compliance program to provide senior management with the ability to review field compliance with Federal and Department of Veterans Affairs (VA) acquisitions laws. In 2012, a new audit program was developed to address the implementation of various standard operating procedures (SOP), such as the integrated oversight process (IOP) SOP. A VHA internal audit team conducts the reviews, and the plan is to audit each network contract office (NCO), primary contracting office (PCO), service area office (SAO) quarterly.



As of April 2012, results from two quality assurance audits were available. These reviews will continue as directed by VHA Acquisition Quality Director and/or senior management.

The following outlines specifics about the implementation of the acquisition quality program.

- Eleven quality compliance internal audits were completed in 2012. At the completion of 2013, all VHA contracting offices will have been audited.
- The Acquisition Quality Office also implemented an internal contract review program to monitor key recurring procurement issues, such as compliance with the Integrated Oversight Information Letter. A statistical sample of contracts per each NCO and PCO is audited every quarter. In 2012, each contracting office has been audited twice to address seven key areas: (1) Electronic Contract Management System (eCMS) usage; (2) contracting officer representative (COR) delegation; (3) sole source approvals; (4) information security requirements; (5) IOP; (6) responsibility determination requirements, and (7) price reasonableness. To date over 2,000 contracting actions have been reviewed.
- The first and second quarter 2012 Green Procurement Audits were completed per the relevant Office of Management and Budget (OMB) directive.
- Five SOPs were completed or revised to assist the field with compliance of laws and regulations.
- NCO prosthetic files were audited in order to assess processes established for prosthetic purchasing.

The Office of Information and Technology (OIT) has taken the following actions:

- Technical Reviews of VA's major IT initiatives are conducted on a regular, recurring basis. These reviews, called program management reviews (PMRs), are chaired by the Deputy CIO and/or her designee. The PMR review team includes members of the architecture, strategy and design (ASD) organization, and other applicable OIT organizations.
- PMRs follow a standard, comprehensive briefing template. PMRs ensure the project/program is following PMAS guidance and the technical reference model. PMRs also ensure that the program/project is being executed according to plan, and has no issues with respect to scope, schedule, or requirements.
- The product development organization stood up a Project Management Accountability System (PMAS) Business Office to:
 1. Monitor the progress of all VA IT projects in PMAS;
 2. Develop and maintain PMAS policy and guidance;
 3. Develop tools and techniques to gather, analyze, and report on PMAS project data;
 4. Provide guidance and training on PMAS policy;
 5. Provide guidance and data quality analysis on PMAS status reporting and produce reports;
 6. Provide support to the CIO and ITPROGs, Major Initiative Leads and project managers (PMs) in the area of Red Flag, Green Flag and TechStat meetings (facilitate meetings, develop, and consult on materials, processes and procedures);
 7. Provide OMB 300B data gathering tools, reports, support and submission; and
 8. Conduct project and program assessments and PMRs, as necessary.



- The PMAS Business Office has developed a Milestone Review process. The first phase of a Milestone Review is called a “Milestone Zero Review”, which is used to transition a concept from new start to the planning state. This phase of review is used to identify and articulate a business problem or service improvement recommendation and to recommend a course of action or concept to resolve it.
 1. A “Milestone One Review” is used to transition from the planning state or paused state to the active state. This phase of review includes a comprehensive assessment of project management documents and other required documentation as specified in the PMAS Guide. This review grants or denies approval for Increment 1 activities. A System Design Document, signed by a representative of ASD, is required for a Milestone One review.
 2. Milestone reviews are currently being scheduled. Briefing papers on Milestone Zero and One Reviews are in development, as is the schedule for Milestone Reviews.
 3. Each project’s integrated project team members attend both PMRs and Milestone Reviews.

OIG Sub-Challenge #4B: Improve Oversight for VA’s VOSB and SDVOSB Programs

VA continues to experience challenges with contract awards to Veteran-owned small businesses (VOSBs) and service-disabled Veteran-owned small businesses (SDVOSBs). Forty of the 42 noncompetitive VOSB and SDVOSB contracts reviewed during the audit of VISN contracts, valued at about \$17.9 million, had one or more contract deficiencies. Price negotiation memoranda were not prepared, or were determined to be inadequate, for 22 of 42 contracts awarded to SDVOSBs, valued at \$10.5 million. OIG also disclosed that VISN contracting officers from each SAO used Public Law 109–461, “Veterans Benefits, Health Care, and Information Technology Act of 2006,” as justification to award noncompetitive contracts to VOSBs and SDVOSBs without considering competition restricted to these businesses.

These results are consistent with the findings reported in a 2011 OIG audit of VOSB and of SDVOSB programs. Sixty-eight percent of 79 VOSB and SDVOSB contracts valued at \$21.9 million had 1 or more contracting deficiencies. Contracting officers did not complete a justification for other than full and open competition prior to the award or perform and document a price reasonableness determination in a document such as the price negotiation memorandum for 30 VOSB and SDVOSB contracts, valued at \$12 million, awarded to 20 businesses.

These contracting deficiencies prompted criminal investigations of SDVOSB contract participants. To date, the investigations have resulted in the issuance of 407 subpoenas and the execution of 25 search warrants. OIG’s investigative efforts have resulted in 14 indictments, 6 convictions, and nearly 100 open investigations ongoing.

The following three examples demonstrate the types of fraud frequently committed among participants misusing the program. The first example was a referral received from the Government Accountability Office alleging that an SDVOSB was a shell company. The OIG conducted an investigation which substantiated that the owner of a non-SDVOSB approached a bedridden Vietnam War Veteran and proposed the idea of starting a joint venture using the Veteran’s service-disabled status. The OIG



determined that the Veteran performed no work for either company, had no ownership stake in the SDVOSB, and did not control the management of the company. The SDVOSB contract simply served as a pass-through for the larger company. In November 2011, a Federal grand jury indicted the company's owner on charges of wire fraud and major fraud against the United States. Both the company and the owner have been debarred from doing business with the Government.

In a second example, the OIG received allegations that a company was engaging in SDVOSB fraud and that a VA employee was accepting bribes and/or gifts from the company. OIG initiated a joint investigation with the Small Business Administration (SBA) OIG and General Services Administration (GSA) OIG. The OIG investigation determined that two individuals approached a service-disabled Veteran about setting up a construction company to compete for Government contracts under the SDVOSB Program. They gave a VA employee luxury box tickets at sporting events, as well as lunches and interest-free loans, to ensure that the company would continue to receive VA contracts. In February 2012, two individuals pled guilty to conspiracy involving the illegal payment of gratuities. In May 2012, one was sentenced to serve 2 years in prison and ordered to pay a \$50,000 fine; the second was sentenced to serve 3 years of probation and ordered to pay \$1,550,000 in restitution and fined \$60,000. In March 2012, the former VA employee pled guilty to accepting an illegal gratuity and was subsequently sentenced to 15 months in prison. The three defendants and two companies have been referred for debarment from future Government contracts.

Finally, two individuals were charged in February 2012 with conspiracy, major fraud, and false statements after an OIG investigation determined that a company owner and his son-in-law conspired to defraud VA by falsely claiming that the company was an SDVOSB. A third individual, who was a service-disabled Veteran and received payment for allowing the use of his service-disabled Veteran status, had previously pled guilty to conspiracy and major fraud. Between March 2009 and February 2012, the company was awarded five SDVOSB set-aside contracts totaling \$10.9 million. In March 2012, the three individuals and the company were suspended from doing business with the Federal government.

VA's Program Response
Estimated Resolution Timeframe: 20XX
Responsible Agency Official:

Completed 2012 Milestones

In 2012, the Center for Veterans Enterprise (CVE) reengineered the verification business processes. The new business process has been codified in a series of Standard Operating Procedures (SOP) that cover all phases of the verification process, requests for reconsideration, referrals to the Office of Inspector General (OIG) and the 8127 Debarment Committee, and the Quality Assurance plan. CVE has formalized the process for referring possible fraud cases to OIG and to the 8127 Debarment Committee. Referrals have increased substantially. CVE has also initiated a post-verification unannounced site visit program that checks on verification compliance of firms that have been verified. Visits are selected on both a risk-based and random basis. Those who are found to be ineligible are removed from the program and referred to OIG for further investigation. In FY 2012, CVE made 43 referrals to the 8127 Debarment



Committee. The 8127 Debarment Committee has debarred 8 firms and 7 individuals and there are 9 firms and 20 individuals pending a decision from the Committee.

VA has established a Subcontracting Compliance Review Program and audits selected contracts to ensure prime contractors are meeting subcontracting obligations. [OSDBU has no oversight of this program]

VHA has implemented a review strategy for active, high-dollar Veteran-owned small business (VOSB) and service-disabled Veteran-owned small business (SDVOSB) contracts to determine if Federal subcontracting performance requirements have been met, and if the requirements have not been met, to research and pursue remedies. The Service Area Office (SAO) Quality Assurance (QA) random reviews were completed in February 2012. The audits did not result in sending any subcontractor concerns to the Office of Inspector General (OIG) for further investigation. The SAO teams will continue to track any contracts that have VetBiz certification concerns.

OIG Sub-Challenge 4C: Effective Contract Administration

OIG continues to identify poor contract administration as a systemic deficiency resulting in overpayments to vendors. A 2012 review of VA's Fast Pay system concluded that inadequate segregation of supply ordering and receiving duties makes VA facility pharmacies vulnerable to fraudulent activity. OIG determined three of four VA medical facility pharmacies reviewed needed to strengthen controls to ensure an adequate segregation of duties existed. The three VA medical facility pharmacies did not segregate duties among different staff to prevent any one individual from having the ability to both order and receive non-controlled pharmacy supplies. These findings related to contract administration are consistent with other recently issued OIG reports.

For example, the OIG's audit of prosthetic limb acquisition and management practices found that VHA needs to strengthen payment controls for prosthetic limbs to minimize the risk of overpayment. OIG identified overpayments in 23 percent of all the transactions paid in FY 2010. Specifically, VHA needs to establish appropriate separation of controls within its prosthetic management practices and ensure staff follows these practices before authorizing payment. The acquisition practices reviewed at the four VISNs visited did not stress Contracting Officer's Technical Representative (COTR) responsibilities, which resulted in internal control weaknesses. VHA overpaid about \$2.2 million for prosthetic limbs in FY 2010. VA can recover the overpayments from vendors because the invoices paid exceeded the agreed upon prices per the terms in the contracts.

OIG's national audit of VISN contracts also disclosed that multiple issues are negatively impacting the quality of VISNs' efforts to administer contracts. VISN contracting officers are not consistently initiating background checks for contractors having access to VA computer systems. OIG also determined that contracting officers are not consistently designating COTRs to help oversee contract administration. In addition, contracting officers and/or COTRs are not consistently monitoring contractors' performance. Lapses in monitoring a contractor's performance or taking actions to ensure that goods and services have been received increases the risk that VA may not be getting what it paid for and increases the risk of contract failure. The FAR requires that contracting officers ensure contractors comply with the terms



and conditions of the contract and safeguard the interests of the Government in its contractual relationships.

VA's Program Response
Estimated Resolution Timeframe: 2013
Responsible Agency Official: Principal Executive Director, OALC

Completed 2012 Milestones

VHA provided information about the requirements for separation of duties for ordering and receiving to the Veterans Integrated Service Network (VISN) pharmacy executives and facility chiefs of pharmacy in March 2012. A survey of the medical centers was completed in June 2012, in which all stations certified that they have adequate separation of duties in place so the person placing the order is not receiving an order they placed themselves. In addition, the VHA Budget office conducted a series of six live meetings with medical center pharmacy and fiscal staff to educate them on separation of duties and reconciliation requirements. VHA is currently conducting a survey to ensure compliance and require any facilities that have incomplete compliance to provide corrective action plans with appropriate timelines and milestones. Completion is expected by December 31, 2012.

In regard to acquisition of prosthetic limbs, VHA Procurement and Logistics Office (P&LO), as of July 2012, has created a comprehensive database and completed reviews of contracts for prosthetic limbs. Contracting staffs are developing corrective and preventive action plans to address issues of concern. The VHA Acquisition Quality staff will regularly review and monitor status of the plans to ensure actions have been implemented. Supplemental training is in progress.

To address overpayment issues, VHA is identifying potential overpayments for VISN review to determine validity of overpayment and collect confirmed overpayments. Collection activities are expected to begin September 2012 and be completed by December 2012.

To improve general VISN administration of contracts, VHA has developed an additional internal quality assurance (QA) program to review the implementation of the integrated oversight process (IOP) standard operating procedures (SOPs). A VHA Acquisition Quality Team conducts the reviews, with a plan to audit each network contract office (NCO), primary contracting office (PCO), and service area office (SAO) quarterly. As of April 2012, results from two QA audits were available. These reviews are continuing through 2012.

The following provides other specific items completed in 2012:

- VHA implemented a contracting officer representative (COR) contract review program and completed nine COR audits in 2012.
- The COR SOP included additional VHA training for VHA CORs.
- The VHA Operations Division developed a COR SharePoint site as a resource tool for CORs which includes newsletters, training information, and a COR toolkit.
<http://vawww.pclo.infoshare.va.gov/PCLO/AWI/COTRComm/default.aspx>

VHA also provided COR training via online modules on a number of subjects of interest to CORs.



OIG Sub-Challenge #4D: Improve Oversight of Procurement Activities

Effective oversight is difficult to achieve because there is no central database that captures all VA contracting and purchasing information. Although VA established the Electronic Contract Management System (eCMS) in 2007 as the required contract management tool for the Department, OIG has found that it does not capture all VA procurement information. A 2009 OIG audit revealed that eCMS is not used effectively and procurement information in eCMS is incomplete. Recent audits indicate that these deficiencies still exist.

For example, the OIG audit of VISN contracts concluded that VISN acquisition personnel were not properly and consistently using eCMS. OIG found that documentation of COTR training and invoices were most frequently missing from the system for competitive and noncompetitive contracts. OIG also identified inaccurate data in eCMS for 44 of the 172 contracts reviewed, including inaccurate classifications of goods and services purchased, obligation amounts, estimated values, and award dates.

During the OIG's nationwide audit of VHA's acquisition and management of prosthetic limbs, eCMS data reliability and system problems were identified that impacted VISN contracting personnel's ability to effectively oversee VA procurements. None of the VISNs reviewed included vendors' invoices in eCMS. As a result, OIG could not readily verify whether a COTR had reviewed vendors' invoices prior to certification to ensure they accurately reflected that goods received were in accordance with the requirements of the contract. The lack of official contract documentation in eCMS adversely affects VISN management's ability to assess the quality and administration of prosthetic limb procurements.

A 2011 OIG audit also concluded managers at VA's NAC did not ensure that staff fully utilized VA's mandatory eCMS to develop and award national contracts. This occurred because VA's Office of Acquisition, Logistics, and Construction (OALC) provided limited oversight to monitor eCMS compliance and ensure eCMS capabilities adequately supported NAC operations. In addition, OALC and NAC officials impaired visibility of VA procurement actions by not ensuring compliance with the mandatory use of eCMS.

VA's Program Response
Estimated Resolution Timeframe: 2013
Responsible Agency Official: Principal Executive Director, OALC

Completed 2012 Milestones

The Veterans Health Administration (VHA) continued with the implementation of the Acquisition Quality program:

- Eleven quality compliance internal audits were completed in FY 2012. At the completion of FY 2013, all VHA contracting offices will have been audited.
- The Acquisition Quality Office also implemented an internal contract review program to monitor key recurring procurement issues, such as compliance with Integrated Oversight Information Letter. A statistical sample of contracts per each network contract manager (NCM)/program contract



manager office is audited every quarter. In FY 2012, each contracting office has been audited twice to address seven key areas: (1) eCMS usage; (2) COR delegation; (3) sole source approvals; (4) information security requirements; (5) Integrated Oversight Process; (6) responsibility determination requirements; (7) and price reasonableness. To date, over 2,000 contracting actions have been reviewed.

- Completed 1 and 2 quarter “green procurement” audits per OMB Directive.
- Completed and/or revised five standard operating procedures to assist the field with compliance of laws and regulations.
- Audited pilot NCM prosthetic files in order to assess processes established for prosthetic purchasing.

The Office of Acquisition, Logistics, and Construction’s (OALC) National Acquisition Center (NAC) has taken the following actions: All procurements over \$3,000 are being entered into eCMS. Specific actions and controls have been developed by the National Contract Service (NCS) and Federal Supply Schedule Service (FSSS) to ensure quality control of the data entered and maintained in the system. NCS has established metrics and is tracking all new procurement actions valued at the micro-purchase level or greater to ensure they are entered into eCMS. Since FY 2011 Q2, NCS is 100% compliant for data entry. NCS also is tracking: (1) if appropriate/required attachments are in eCMS; (2) if attachments in eCMS briefcase are named in accordance with appropriate conventions; and (3) whether eCMS data values are being accurately completed. Within FSSS, a core team was formed to develop a quality assurance (QA) process involving periodic reviews of contract files to ensure completeness and accuracy pertinent to eCMS documents within electronic briefcase. Implementation of the new QA process will begin in 2013. FSSS is providing comprehensive vendor training sessions to promote more complete submission of proposals. Training will be provided via face-to-face conferences, Webinars, and other technological means. The FSSS HelpDesk Support has greatly improved because seasoned managers handle all inquiries; thus providing more timely and accurate responses.

OALC implemented an ongoing enterprise-wide audit to measure and improve the usage and adoption of the Agency’s contract writing system and to determine the level of adherence to procurement policy memorandum (PPM), “Mandatory Use of VA’s Electronic Contract Management System (eCMS),” dated June 15, 2012. A monthly dashboard was also created to monitor the results of this audit for each VA Head of Contracting Activity.

On September 29, 2011, the Veterans Health Administration (VHA) Procurement and Logistics Office (P&LO) issued a memorandum reinforcing the requirement to use the Electronic Contract Management System (eCMS) for all new procurement actions valued at \$3,000 or more. VHA P&LO has also required Service Area Office (SAO) Quality Assurance (QA) offices to complete eCMS spot checks quarterly. The VHA National eCMS Coordinator has distributed a Data Values Guide that describes in detail the values that should be entered for each data value. The eCMS Coordinator has also presented additional eCMS data value instructions via the VHA Operations Network Contracting Activity (NCA) of the Month program. The NCA of the Month program has provided additional eCMS, Contracting Officer’s Technical Representative (COTR), Acquisition Quality, and Small Business Program training to all NCAs.

Several metrics are used to track eCMS compliance such as the Integrated Funds Distribution, Control Point Activity, Accounting, and Procurement (IFCAP) module to eCMS metric. VHA added a Procurement Administrative Lead Time (PALT) metric to the VHA dashboard to further assist in the



tracking of eCMS compliance and, since April 2012 VHA P&LO has been implementing the use of the eCMS Acquisition Planning Module to assist in tracking PALT. Each SAO has been phasing in the use, and it is expected that all SAOs will have this in place by October 1, 2012. The eCMS Coordinator has also developed various reports to track eCMS usage such as a report that displays the number of solicitation and award documents created in eCMS monthly.

In 2012, a new audit program was developed to address the implementation of various standard operating procedures (SOP) such as the Integrated Oversight Process (IOP) SOP. A VHA internal audit team conducts the reviews and the plan is to audit each Network Contract Office (NCO), Primary Contracting Office (PCO), Service Area Office (SAO) quarterly. As of April 2012, results from two QA audits were available. These reviews will continue.

The following outlines specific accomplishments in the Acquisition Quality program.

- Eleven quality compliance internal audits were completed in 2012. At the completion of 2013, all VHA contracting offices will have been audited per the VHA Acquisition Quality Internal Compliance manual.
- The Acquisition Quality Office also implemented an internal contract review program to monitor key recurring procurement issues such as compliance the requirement to use eCMS for all new procurement actions valued at \$3,000 or more. In 2012, each contracting office has been audited twice to address seven key areas: eCMS usage; Contracting Office Representative (COR) delegation; sole source approvals; information security requirements; IOP; responsibility determination requirements, and price reasonableness. To date over 2,000 contracting actions have been reviewed with improvement shown in seven of the eight specific areas audited.
- Green Procurement Audits were completed in the first and second quarters of 2012 per a relevant Office of Management and Budget (OMB) directive.
- Five SOPs were completed or revised to assist the field with compliance of laws and regulations.
- The pilot NCM's Prosthetic files were audited in order to assess processes established for prosthetic purchasing.

OIG Sub-Challenge #4E: Sound IT Procurement Practices

OIG evaluated the Secure VA-Chief Information Security Officer Support Services acquisition process to determine whether the solicitation, proposal evaluation, and contract award processes were conducted in line with full and open competition requirements. In December 2011, OIG found that VA's acquisition process demonstrated a potential bias by using knowledge of VA procedures and practices as a significant selection factor without clear disclosure of its relative importance when asking for bids. As such, the technical evaluation process favored awarding the contract to the incumbent, Booz-Allen Hamilton. This was the same contractor that had provided VA's Information Assurance and Information Technology Security Services for the previous 2 years. VA awarded the contract for \$133 million, at a premium of 16 percent (\$18 million) and 22 percent (\$24 million) over two other offers.

OIG reported that the Department's failure to disclose all significant evaluation factors prevented vendors from submitting comparable proposals, placing potential contractors at a disadvantage in the bidding process. The Executive Director, OALC, neither concurred nor non-concurred with OIG



recommendations and provided no statement on his intent for future acquisitions. Therefore, OIG will evaluate VA's contract award decisions in future audits to determine if evaluation panels assess vendor proposals based solely on evaluation factors stated in the solicitations.

VA's Program Response
Estimated Resolution Timeframe: 2013
Responsible Agency Official: Principal Executive Director, OALC

The description of OIG Sub-Challenge #4E "Sound IT Procurement Practices" incorrectly notes that the Office of Acquisition, Logistics, and Construction (OALC) activity directly involved in the acquisition at issue neither non-concurred nor concurred in the OIG recommendations. OALC is on record as non-concurring with the OIG recommendations.

OALC's position with regard to the referenced procurement is that the evaluation was conducted in accordance with the solicitation and relevant GAO case law and no corrective action was required. OALC views the OIG conclusions as stemming, in large measure, from a misunderstanding of the best value FAR Part 15 environment. Specifically, OALC asserts that:

- a. The contemporaneous record of the procurement clearly contradicts the conclusion that knowledge of VA procedures was used as a significant selection factor.
- b. The categorization by the OIG of strengths and weaknesses as "VA Specific" is misleading. In most cases, the reference to VA (as well as other Federal agencies) served to demonstrate an offeror applied its methodologies in a similar, verifiable environment. This was wholly consistent with VA's evaluation plan and relevant GAO precedent. It appears that, if the word "VA" was mentioned in connection with an evaluated strength, the OIG incorrectly assumed it was the sole basis for the assessment.
- c. OIG perceived that VA penalized one offeror for the use of certain tools, but didn't penalize the incumbent for suggesting the same. However, there were distinct differences in the two proposals that OIG did not recognize. OIG focused narrowly on selection of the tools and not on the specifics of the methodology or operational relevance of the solution.
- d. OIG has stated that weaknesses were given to offerors because of their lack of specific VA knowledge, but failed to provide any examples, with the exception of one which OALC acknowledged as a minor error in the way the weakness was written.
- e. OIG stated that VA traded-off lower cost in favor of vendors' technical knowledge of VA procedures and practices in evaluating the offers. However, the contemporaneous record clearly reflects that the appropriate trade-offs were made in arriving at a best value decision.

OALC supports the best value evaluation procedures generally applied to such acquisitions, and accordingly, no milestones have been established towards addressing this sub-challenge.



OIG CHALLENGE #5: INFORMATION MANAGEMENT **-Strategic Overview-**

Information Management should enable government to better serve its citizens. The Federal government, however, has experienced difficulty in achieving productivity improvements from IT advances similar to those realized by private industry. In large part, this has been caused by poor management of large-scale IT projects. All too often, Federal IT projects run over budget, behind schedule, or fail to deliver promised functionality.

VA has consolidated the vast majority of its IT resources under the Chief Information Officer (CIO) by reorganizing the IT functions of VA's Administrations under OIT. Through the stewardship of the CIO, OIT has positioned itself to facilitate VA's transformation into a 21st century organization by focusing on five key management areas. In 2012, OIT strived to: (1) achieve customer service in all aspects of IT; (2) develop a next generation IT Security Plan; (3) manage its IT organizations with metrics that are tracked; (4) focus on product delivery using the Project Management Accountability System (PMAS); and (5) perform better financial reporting to more effectively track spending on IT projects.

However, OIG's annual Consolidated Financial Statement (CFS) and information security program audits continue to report IT security control deficiencies that place sensitive information at risk of unauthorized use and disclosure. Furthermore, OIG oversight work indicates that additional actions are needed to safeguard and effectively manage VA's information resources and data, and that VA has only made marginal progress toward eliminating the information management material weakness reported in the CFS audit and remediating major deficiencies in IT security.

OIG Sub-Challenge #5A: Development of an Effective Information Security Program and System Security Controls

OIG continues to identify major IT security deficiencies in the annual information security program audits. While VA has made progress defining policies and procedures supporting its agency-wide information security program in accordance with the Federal Information Security Management Act (FISMA), they face significant challenges in meeting the requirements of FISMA.

OIG's 2011 FISMA audit identified significant deficiencies related to access, configuration management, change management, and service continuity controls. Improvements are needed in these key controls to prevent unauthorized access, alteration, or destruction of major application and general support systems. CFS auditors also concluded that a material weakness exists related to the implementation of VA's agency-wide information security program. Finally, VA has also identified over 15,000 system security risks and corresponding Plans of Action & Milestones (POA&Ms) that need to be remediated to improve its overall information security posture.

To improve its IT security posture, VA needs to focus its efforts to: (1) dedicate resources to aggressively remediate the significant number of unresolved POA&Ms, while addressing high risk system security deficiencies and vulnerabilities; (2) implement mechanisms to identify and remediate system security weaknesses on the Department's network infrastructure, database platforms, and web application servers across the enterprise; (3) develop and establish a system development and change control



framework that will integrate information security throughout each system's life cycle; (4) implement technological solutions to actively monitor all network segments for unauthorized system access to Department programs and operations; and (5) implement mechanisms to ensure that system contingency plans are fully tested in accordance with FISMA.

In February 2012, OIG reported that VA did not adequately protect sensitive data hosted within its STDP application. Specifically, OIG determined that more than 20 system users had inappropriate access to sensitive STDP information. Further, OIG reported that project managers did not report unauthorized access as a security event as required by VA policy. STDP project managers were not fully aware of VA's security requirements for system development and had not formalized user account management procedures. Inadequate Information Security Officer oversight contributed to weaknesses in user account management and failure to report excessive user privileges as security violations. As a result, VA lacked assurance of adequate control and protection of sensitive STDP data.

In July 2011, OIG reported that certain contractors did not comply with VA information security policies for accessing mission critical systems and networks. For instance, contractor personnel: improperly shared user accounts when accessing VA networks and systems; did not readily initiate actions to terminate accounts of separated employees; and did not obtain appropriate security clearances or complete security training for access to VA systems and networks. OIG concluded that VA has not implemented effective oversight to ensure that contractor practices comply with its information security policies and procedures. Contractor personnel also stated they were not well aware of VA's information security requirements. As a result of these deficiencies, VA sensitive data is at risk of inappropriate disclosure or misuse.

VA's Program Response

Estimated Resolution Timeframe: 2013

Responsible Agency Official: Deputy Chief Information Officer/Director, Service, Delivery, and Engineering

Completed 2012 Milestones

VA has taken significant actions towards improvement of its information security program. As part of its continuous monitoring program, VA has implemented its Visibility to the Desktop and Visibility to the Server initiatives which provide detailed inventory, configuration, and vulnerability information to enable it to prioritize and remediate security vulnerabilities. This will help reduce the risk of compromise to VA systems and data. To improve access controls, VA has reviewed and reduced the number of personnel with elevated access privileges to its systems, has enabled most of its computers with Smartcard capabilities, and has issued Personal Identity Verification (PIV) cards to its employees and contractors. In many facilities, network access can be achieved by a PIV card and Personal Identification Number (PIN) combination or with a login identification and password. Additional specialized, role based training has been put in place to improve the proficiency of its operations staff and VA personnel and contractors with access to VA information or systems have been provided with annual security awareness and privacy training to ensure that they are knowledgeable of their roles and responsibilities for protection of VA information.



In FY 2012 VA aggressively implemented its Continuous Readiness in Information Security (CRISP) Program which is the new operating model to ensure information security. Through this program, VA has either initiated or completed enterprise-wide actions addressing security management, segregation of duties, access controls, contingency planning, and configuration management. This has allowed VA to address many of its outstanding plans of actions and milestones and has resulted in significant improvement in remediation of many of the deficiencies which compromise its material weakness in information technology security controls.

The VA Network Security Operations Center continues to conduct periodic scanning of segments of the VA network to identify vulnerabilities in VA systems. VA has also developed Directive 6500, *Managing Information Security Risk* and Handbook 6500, *Risk Management Framework for VA Information Systems – Tier 3*, which will formally document and provide updated guidance on managing the risk associated with the VA's information security program. This will help to ensure that resources are spent on remediation of high risk system deficiencies and vulnerabilities.

OIG Sub-Challenge #5B: Interconnections with University Affiliates

VAMCs have numerous systems interconnections with external organizations to exchange the data needed to support a range of health care services and collaborative research studies. VA has not effectively managed its network interconnections and data exchanges with its external research and university affiliates. Despite Federal requirements, VA could not readily account for the various systems linkages and sharing arrangements. VA also could not provide an accurate inventory of the research data exchanged, where they were hosted, or their sensitivity levels. In numerous instances, the OIG identified unsecured electronic and hardcopy research data at VAMCs and co-located research facilities.

VA's data governance approach has been ineffective to ensure that research data exchanged with research partners are adequately controlled and protected throughout the data life cycle. VA and its research partners have not consistently instituted formal agreements requiring that hosting facilities implement controls commensurate with VA standards for protecting sensitive data. The responsible VHA program office's decentralized approach to research data collection and oversight at a local level has not been effective to safeguard sensitive information. Because of these issues, VA data exchanged with research partners were at risk of unauthorized access, loss, and disclosure.

VA's Program Response

Estimated Resolution Timeframe: 2013

Responsible Agency Official: Deputy Chief Information Officer/Director, Service, Delivery, and Engineering

Completed 2012 Milestones

Once VA's Enterprise Security Change Control Board (ESCCB) has established an external (university) connection through the Trusted Internet Connection (TIC), the enforcement becomes the responsibility of the Facility Chief Information Officer with oversight by the cognizant information security officer and VA's Network Security Operations Center. The connection is documented in an interconnection



agreement and memorandum of understanding and is included as part of the system security plan for the supporting Local Area Network (LAN). The security implications of the connection are evaluated by the Office of Information and Technology prior to granting authority for the LAN to operate on the VA network. This evaluation is conducted as part of the Assessment and Authorization (A&A) for the LAN.

Authorities to operate are granted consistent with VA's continuous monitoring capability. Plans of Actions and Milestones for IT deficiencies related to the connection are tracked through resolution in VA's Security Management and Reporting Tool Database.

In 2012, as part of its Continuous Readiness in Information Security (CRISP) Program, VA emphasized its commitment to protect its system and data from unauthorized access and use which included the requirement to document, evaluate, and approve external connections to the VA network. While progress has been made in this area with the implementation of CRISP, much work remains to be done.

Once the Enterprise Security Change Control Board (ESCCB) has established an external (university) connection (through the Trusted Internet Connection (TIC), the enforcement is the local responsibility of the Field Information Security Officer (with support from the Facility CIO). They are the ones on-point for a Certification and Authority (C&A) of the connection (as part of the Local Area Network (LAN) System Security Plan document in Security Management and Reporting Tool (SMART) – and there is a LAN C&A activity for every facility. They also would be on-point for an external audit (presumably the OIG scanning activity).

VHA:

This draft report is still in process. No response can be provided until the final response is signed by Assistant Secretary OI&T and USH.

OIG Sub-Challenge #5C: Successful Deployment of Encryption Software

A data breach in May 2006 initiated a heightened and immediate concern in the protection of VA Personally Identifiable Information. In August 2006, the VA Secretary mandated that all VA computers would be upgraded with enhanced data security encryption software. As a result, VA awarded a contract to Systems Made Simple for Guardian Edge encryption software. The contract—at a cost of \$2.8 million—was for 300,000 encryption licenses and 1 year of maintenance, training, and services. VA also exercised 4 option years to extend the maintenance for the entire 300,000 encryption licenses for an additional \$1.2 million for a total award of \$4 million. Finally, in April 2011, VA procured an additional 100,000 licenses for \$2.3 million, which included a 2-year extended maintenance agreement on the original 300,000 licenses procured in 2006.

However, to date, OIT has only managed to encrypt approximately 65,000 computers, 48,000 laptops, and 17,000 desktops, resulting in some 335,000 encryption licenses and related maintenance agreements going unused. Initially, OIT's inability to successfully encrypt was due to inadequate planning of the original and subsequent encryption acquisitions. Subsequently, OIT encountered compatibility issues between IT equipment and encryption software. Delays also occurred due to OIT's



transition from Windows XP to Windows 7. Currently, OIT lacks adequate IT resources to support full deployment of encryption software. OIT's inability to successfully manage the deployment of the encryption software has resulted in approximately \$5.1 million dollars in funds that OIT could have put to better use.

VA's Program Response

Estimated Resolution Timeframe: 2013

Responsible Agency Official: Deputy Chief Information Officer/Director, Service, Delivery, and Engineering

Completed 2012 milestones

- Increment 1 Initial Operating Capacity Request; Finish 3/16/2012
- Increment 2 Initial Operating Capacity first set of sites; Start 3/16/2012

OIT has encrypted all deployed laptop computers, and will be encrypting all VA desktops as part of the Windows 7 deployment. Windows 7 provides additional functionality to VA staff, and includes encryption that will meet the mandate. The national deployment of Windows 7 has been initiated and will be completed over several phases. The target date for completion of Windows 7 deployment is FY 2013.

For desktops that will not receive the Windows 7 upgrade until later project phases (pending testing of clinical applications on the new platform), OIT is formulating a plan for an interim encryption solution using the licenses procured. The issues that prevented OIT from completely implementing the encryption solution more expeditiously included both compatibility issues early, and then later, resource issues to get the product fully deployed.

OIG Sub-Challenge #5D: Strategic Management of Office of Information Technology Human Capital

OIT provides IT systems support in the provision of benefits and health care services to our Nation's Veterans. However, within the next 5 years, OIT may face a loss of over 40 percent of its leadership and technical employees, which could threaten institutional knowledge and mission-critical IT capabilities as VA moves forward in the 21st century. Given the potential loss of critical staff, OIT has not established a strategic approach to mitigate and manage its human capital. Instead, OIT has been managing its human resources in an ad hoc manner with no clear vision. Although OIT recognizes the importance of strategic human capital management, it has not made it a priority and does not have the leadership and staff in place to support implementation of an OIT human capital strategy.

OIT has not developed a strategic human capital plan, fully implemented competency models, identified competency gaps, or created strategies for closing the gaps. OIT also has not captured the data needed to assess how well contractor support supplements OIT staffing and fills competency gaps. Moreover, OIT lacks assurance that it has made cost-effective decisions regarding how it spent money on contractors. Finally, OIT has not established a mechanism to evaluate the success of its human capital initiatives. As a result, OIT has no assurance it has effectively managed its human capital resources to support VA in accomplishing its mission.



VA's Program Response
Estimated Resolution Timeframe: 2013
Responsible Agency Official: Director, IT Workforce Development

Completed 2012 Milestones

VA OIT Workforce Development ITWD is developing competency models to support the workforce development needs of the OIT population by developing and implementing technical competency models for the 2210 workforce, OIT supervisors, and for the non-technical workforce, a core model. Once the technical workforce is implemented, the focus will shift to the non-2210 workforce.

ITWD approaches competency model development using a well-defined framework that can be replicated and applied to any identified OIT competency development area. During the Phase I, ITWD begins the development process by identifying key workforce activities and existing competency information available through the IT Roadmap and other relevant sources. During Phase II, the team works to identify key stakeholders and subject matter experts who can help ascertain role-specific key activities and provide knowledge of any existing competency model information through the development and execution of an OIT Stakeholder Engagement Plan. Using a collaborative approach, the team works with key stakeholders and subject matter experts to collect and analyze relevant competency data. During the final phase, ITWD begins the actual competency model development.

On November 10, 2011, Principal Deputy Assistant Secretary, Stephen Warren, issued a Memorandum mandating that *"All employees must have a completed, supervisor approved, electronic Individual Development Plan in the VA TMS no later than 60-days after being assigned a competency model."* As noted above, all employees were assigned a competency model, either Core, Supervisory or Technical in January 2012. As depicted by the chart below, those assigned to ITWD, Information Security Officer (ISO) or Software Developer (SD & SD SQA) models have completed the majority of self-assessments; however, participation in the process remains substantially less than anticipated.

From all competency self-assessments as of July 27, 2012, the largest competency gaps revealed by employee data were in the areas Web Development/Technology (Knowledge of the principles and methods of Web technologies, tools, and delivery systems, including Web security, privacy policy practices, and user interface issues), Oral Communication (Expresses information to individuals or groups effectively, taking into account the audience & nature of the information; makes clear & convincing oral presentations; listens to others, attends to nonverbal cues, & responds appropriately) and Information Resources Strategy & Planning (Knowledge of the principles, methods & techniques of information technology (IT) assessment, planning, management, monitoring, & evaluation, such as IT baseline assessment, interagency functional analysis, contingency planning & disaster recovery). This competency gap information is reviewed monthly and is shared with OIT leadership during the OIT Internal Monthly Performance Review. ITWD will use this data to guide training development.



OIG Sub-Challenge #5E: Strengthening Information Technology Governance

A 2009 OIG audit determined that the ad hoc manner in which VA managed the realignment of its IT program from a decentralized to a centralized management structure inadvertently resulted in an environment with inconsistent management controls and inadequate oversight. Although OIG conducted this audit more than 2 years after VA centralized its IT program, senior OIT officials were still working to develop policies and procedures needed to manage IT investments effectively in a centralized environment. For example, OIT had not clearly defined the roles of IT governance boards responsible for facilitating budget oversight and IT project management.

Further, in September 2009, OIG reported that VA needed to better manage its major IT development projects, valued at that time at over \$3.4 billion, in a more disciplined and consistent manner. In general, OIG found that VA's System Development Life Cycle (SDLC) processes were adequate and comparable to Federal standards. However, OIT did not communicate, comply with, or enforce its mandatory software development requirements. OIT did not ensure that required independent milestone reviews of VA's IT projects were conducted to identify and address system development and implementation issues. OIG attributed these management lapses to OIT centralizing IT operations in an ad hoc manner, leaving little assurance that VA was making appropriate investment decisions and best use of available resources. Moreover, VA increased the risk that its IT projects would not meet cost, schedule, and performance goals, adversely affecting VA's ability to timely and adequately provide Veterans health services and benefits.

These audits demonstrated that OIT needed to implement effective centralized management controls over VA's IT investments. Specifically, OIG recommended that OIT develop and issue a directive that communicated the mandatory requirements of VA's SDLC process across the Department. OIG also recommended that OIT implement controls to conduct continuous monitoring and enforce disciplined performance and quality reviews of the major programs and projects in VA's IT investment portfolio. Although OIT concurred with recommendations and provided acceptable plans of actions, OIT's implementation of the corrective actions is still ongoing.

As of May 2012, OIT was managing all 134 active development programs and projects using PMAS. PMAS represents a major shift from the way VA historically has planned and managed IT development projects. An additional 46 projects were in the planning stage, while 30 projects were classified as new starts. However, OIT lacks the program management skills and the financial management system capabilities to fully track program costs and to implement an effective earned value management system to assist with achieving cost and performance goals. VA is challenged to ensure appropriate investment decisions are made and that annual funding decisions for VA's IT capital investment portfolio will make the best use of VA's available resources.



VA's Program Response
Estimated Resolution Timeframe: 2013
Responsible Agency Official: Deputy Chief Information Officer, Product Development

Completed 2012 Milestones

On October 24, 2011, VA OIT formally established the PMAS Business Office (PBO). The PBO has made significant strides toward better data capture, project review, and methodology management. The PBO defined and implemented versions of the MS0 and MS1 processes. Additional review processes identified as Milestone 2 (MS2) and Milestone 3 (MS3) are under development and were finalized at an executive participant lockdown in August. Templates for MS2 and MS3 reviews will be published by the end of Quarter 4, 2012.

The OIT Office of Enterprise Risk Management Oversight (ERMO) began conducting PMAS Compliance Reviews on May 1, 2012. The value of the PMAS Compliance Reviews is to audit projects ensuring data reliability and completeness.

PBO continues to improve reporting through the PMAS Dashboard. Analysis by PBO staff reviews whether data for funded projects are complete and defensible. Further, new enhancements to the PMAS Dashboard will include the ability to interface with multiple VA financial and contracting systems to capture project obligations and expenditures. These enhancements are expected to be completed during the next fiscal year. The contract for this work was awarded in April 2012. A Working Integrated Project Team (WIPT) composed of government and contractor subject matter experts was formed in May 2012. A priority list of activities and system interfaces to be developed has been approved.

The first operational iteration of the Artifact Centralized Repository (ACR) was developed and tested to satisfy the requirement for a centralized repository for all project artifacts. However, this project has been paused while analysis of other already deployed similar solutions may meet this need.

New PMAS requirements and system capabilities will be documented in the next release of the PMAS Guide which is scheduled release in Quarter 4, 2012 (Version 4.0).

OIG Sub-Challenge #5F: Effective Oversight of Active IT Investment Programs and Projects

VA has a longstanding history of challenges in effectively managing IT development projects. For example, the Veterans Service Network (VETSNET) program, which is VA's effort to consolidate C&P benefits processing into a single replacement system, has faced a number of cost, schedule, and performance goal challenges. In May 2009, VBA estimated the total cost of VETSNET to be more than \$308 million—more than 3 times the initial cost estimate. After more than 15 years of VBA development, including management and process improvements, VETSNET has the core functionality needed to process and pay the majority of C&P claims; however, work remains to meet the original goals for VETSNET. VETSNET's major releases were also developed with unstable functional



requirements resulting in inadequate time to fully test software changes. Consequently, major releases of VETSNET contained functions that did not operate as intended and many system defects were deferred or corrected in subsequent software releases. Further complicating matters, VBA has recently launched several high profile IT initiatives that will leverage VETSNET to make benefit payments. These overlapping IT initiatives increase the risks that VBA will experience further delays in achieving the original VETSNET goals.

Recently, VA has also had trouble establishing an effective IT project management system. A 2011 OIG audit found a great deal of work remains before VA's PMAS can be considered completely established and fully operational. PMAS was designed as a performance-based management discipline that provides incremental delivery of IT system functionality—tested and accepted by customers—within established schedule and cost criteria. However, the audit concluded that OIT instituted the PMAS concept without a roadmap identifying the tasks necessary to accomplish PMAS or adequate leadership and staff to effectively implement and manage the new methodology. Lacking such foundational elements, OIT has not instilled the discipline and accountability needed for effective management and oversight of IT development projects.

Specifically, OIT did not establish key management controls to ensure PMAS data reliability, verify project compliance, and track project costs. Also, OIT did not put in place detailed guidance on how such controls will be used within the framework of PMAS to manage and oversee IT projects. Consequently, the current PMAS framework does not provide a sound basis for future success. Until these deficiencies are addressed, VA's portfolio of IT development projects will remain susceptible to cost overruns, schedule slippages, and poor performance. To improve PMAS, VA must develop an implementation plan and assign adequate leadership and staff needed to fully execute the IT project management system. In addition, VA needs to establish controls for ensuring data reliability, verifying project compliance, and tracking costs to strengthen PMAS oversight. Finally, VA must prepare and provide users detailed guidance on using PMAS to ensure IT project success.

VA's Program Response

Estimated Resolution Timeframe: 2013

Responsible Agency Official: Deputy Chief Information Officer, Product Development

Completed 2012 Milestones

With the final conversion of C&P records from BDN in October 2012, the expected freezing of VETSNET's C&P client in early 2014, and the planned charter of Benefits Delivery Network (BDN) and Beneficiary Identification and Record Locator System (BIRLS) drawdown in early 2013, OIT is effectively lowering the future risk by reducing redundancy in similar functional systems.

BDN is funded as sustainment for 2013. The Benefits Product Support staff for BDN is primarily government FTE. VA is currently working on the Performance Work Statement, and expects to obligate it by March 2013.



Total non-pay costs for VETSNET 1996 through 2011 were \$275M. These costs reflect efforts to respond to a litany of new requirements that could not be anticipated in the VETSNET original charter. New benefits like Chapter 18 (Spina Bifida), legislative changes to benefits (including, for example, one-time lump sum Equity Compensation payments from the Filipino Veterans Equity Compensation Fund); and transformational initiatives like the Disability Evaluation System and Benefits at Discharge have provided all incredibly complex and dynamic targets for VETSNET. The cost-overruns in VETSNET that are cited by OIG should be considered in light of these unanticipated requirements, which were often costly and time-consuming to accommodate. The benefits environment does not always remain static; even the best planning cannot possibly anticipate changes that alter the benefits structure and increase the complexity of original requirements.

Within OIT, a more disciplined approach of monitoring has been established and expanded this year. In addition to Integrated Baseline Reviews (IBR) conducted by the CIO for all major programs and investments: 1) OIT conducts OMB standard TechStats for projects that miss schedule or scope objectives. OIT has instilled significant discipline, rigor, and accountability into the management and oversight of IT projects. This is evident through multiple means, among them Yellow Flags, Red Flags, TechStats, and Milestone 0, 1,2,3, and 4 reviews; 2) OIT's PMAS Business Office (PBO) conducts an automated review of all projects schedule performance weekly; and, 3) OIT's PBO conducts ad hoc surveys to determine performance trends, indicating future requirements such as resource requirements.

PMAS is supported by the PMAS Dashboard, a technical environment which houses the project data for all PMAS projects. VA is taking several significant steps to ensure the data is reliable, that projects are complying with PMAS, and that the financials are tracked. Upon initiation of PMAs, VA used a prototype tool to rapidly build a technical environment. Over time, it became evident that the temporary environment would not adequately fulfill VA's technical needs. Hence, VA is now investing in a more stable, standard, and robust technology for the PMAS environment. This environment will ensure greater data reliability, include the ability to automatically generate mechanisms for project compliance, and provide interfaces with the appropriate accounting systems to track project costs. The release of the improved PMAS dashboard will be initially available in February 2013 and updated.

Detailed guidance to ensure appropriate management and oversight of IT projects is now available to the practitioners of PMAS. PMAS is supported by several artifacts which assist the practitioners of PMAS in its implementation. The PMAS Directive will be a VA-wide policy that mandates the use of PMAS and communicates the high-level responsibilities for successful project management and IT delivery. The PMAS Guide is a much more comprehensive document that details, not only how PMAS operates, but also how the multiple PMAS management and oversight processes function and interconnect. The Integrated Project Team (IPT) Guide provides detailed guidance on the functionality of the IPT, a very specific and critical aspect of PMAS. The PMAS Guide will be updated every six months. The IPT guide will be updated periodically to adjust to changes in policy. In addition to the various artifacts, the PBO offers monthly webinars on implementing PMAS and participates in a weekly enterprise-wide conference call with the IT PMs to address any questions or issues they may have with PMAS implementation.



On August 25, 2010 OIT rescinded its Earned Value Management directive 6061. The PMAS methodology was established as the discipline for achieving cost and performance goals. Since then, PMAS has enabled VA to make dramatic improvements in delivery commitments. Future enhancements to the PMAS Dashboard will build capabilities to institute data collection for resource forecasting. The PBO awarded a contract to develop an improved Dashboard in April 2012 as planned. The increment planned for January 2013 delivery will substantially improve capital investment portfolio reporting to OMB.

OIT authorized the creation of the PBO in October 2011. The office is comprised of 18 approved positions, of which nine have been filled and three are in the process of being filled. The PBO Director is a GS-15 and there are four GS-14 Team Leads. In addition, the PBO is supported by a contractor staff of 13.

The VBA Office of Business Process Integration (OBPI) established an internal VBA governance structure for the management of IT benefits projects. The Benefits Portfolio Steering Committee (BPSC) and the Benefits Portfolio Executive Board (BPEB) consist of representatives from the seven VBA business lines and various VBA staff offices. The BPSC is the first level of internal oversight that includes Deputy/Assistant Directors and/or their representatives. The BPEB is the next higher level of governance and includes all SES-level directors from the seven business lines and staff offices as well as the VBA Chief of Staff. Topics and issues needing further discussion or concurrence are referred to a joint VBA and OIT governance board named the Transformation Joint Executive Board (TJEB), which includes the Under Secretary for Benefits and the Assistant Secretary for Information and Technology. OBPI utilizes this governance process, as well as the VBA Integration Dashboard, to track and manage schedules, funding, integration points, and risks for VBA IT initiatives.



APPENDIX

The Appendix lists selected reports pertinent to the five key challenges discussed. However, the Appendix is not intended to encompass all OIG work in an area.

OIG MAJOR MANAGEMENT CHALLENGE #1: HEALTH CARE DELIVERY

Review of Veterans' Access to Mental Health Care

4/23/2012 | 12-00900-168 | [Summary](#) |

Audit of VHA's Homeless Providers Grant and Per Diem Program

3/12/2012 | 11-00334-115 | [Summary](#) |

Audit of VHA's Prosthetics Supply Inventory Management

3/30/2012 | 11-00312-127 | [Summary](#) |

Audit of the VHA's Office of Rural Health

4/29/2011 | 10-02461-154 | [Summary](#) |

Audit of the Veterans Health Administration's Outpatient Scheduling Procedures

7/8/2005 | 04-02887-169 | [Summary](#) |

Audit of the Veterans Health Administration's Outpatient Waiting Times

9/10/2007 | 07-00616-199 | [Summary](#) |

Healthcare Inspection Alleged Mismanagement of the Fee Basis Program VA Connecticut Healthcare System, West Haven, Connecticut

6/3/2009 | 09-01219-141 | [Summary](#) |

Audit of Veterans Health Administration's Non-VA Outpatient Fee Care Program

8/3/2009 | 08-02901-185 | [Summary](#) |

Audit of the VHA's Office of Rural Health

4/29/2011 | 10-02461-154 | [Summary](#) |

Audit of VA's Efforts To Provide Timely Compensation and Pension Medical Examinations

3/17/2010 | 09-02135-107 | [Summary](#) |

OIG CHALLENGE #2: BENEFITS PROCESSING

Audit of VA Regional Offices' Appeals Management Processes

5/30/2012 | 10-03166-75 | [Summary](#) |

Audit of VA's Internal Controls Over the Use of Disability Benefits Questionnaires

2/23/2012 | 11-00733-95 | [Summary](#) |

Audit of VBA's 100 Percent Disability Evaluations

1/24/2011 | 09-03359-71 | [Summary](#) |

Audit of the Fiduciary Program's Effectiveness in Addressing Potential Misuse of Beneficiary Funds

3/31/2010 | 09-01999-120 | [Summary](#) |



OIG CHALLENGE #3: FINANCIAL MANAGEMENT

Independent Review of VA's FY11 Detailed Accounting Summary Report to the ONDCP

3/22/2012 | 12-01071-122 | [Summary](#) |

Independent Review of VA's FY 2011 Performance Summary Report to ONDCP

3/22/2012 | 12-01072-121 | [Summary](#) |

Audit of the VA's Enhanced-Use Lease Program

2/29/2012 | 11-00002-74 | [Summary](#) |

Audit of VA's Duty Station Assignments

4/19/2012 | 11-04081-142 | [Summary](#) |

Audit of VHA's Financial Management and Fiscal Controls for Veterans Integrated Service Network Offices

3/27/2012 | 10-02888-128 | [Summary](#) |

Audit of VHA's Management Control Structures for Veterans Integrated Service Network Offices

3/27/2012 | 10-02888-129 | [Summary](#) |

Review of VA's Compliance with the Improper Payments Elimination and Recovery Act

3/14/2012 | 12-00849-120 | [Summary](#) |

Review of Alleged Mismanagement of Non-VA Fee Care Funds at the Phoenix VA Health Care System

11/8/2011 | 11-02280-23 | [Summary](#) |

Audit of Retention Incentives for Veterans Health Administration and VA Central Office Employees

11/14/2011 | 10-02887-30 | [Summary](#) |

Audit of VA's Consolidated Financial Statements for Fiscal Years 2011 and 2010

11/10/2011 | 11-00343-26 | [Summary](#) |

Audit of NCA's Appropriated Operations and Maintenance Funds Oversight

6/20/2012 | 11-003060-193 | [Summary](#) |

Audit of VA's Duty Station Assignments

4/19/2012 | 11-04081-142 | [Summary](#) |

Audit of VA's ADVANCE and the Corporate Senior Executive Management Office Human Capital Development Programs

8/2/2012 | 11-02433-220 | [Summary](#) |

Audit of VBA's Liquidation Appraisal Oversight at the Cleveland and Phoenix Regional Loan Centers

9/28/2012 | 10-04045-124 | [Summary](#) |

Audit of VHA's Medical Care Collections Fund Billing of VA-Provided Care

8/30/2012 | 11-00333-254 | [Summary](#) |

Audit of VA's Savings Reported Under OMB's Acquisition Savings Initiative

9/30/2012 | 11-03217-293 | [Summary](#) |

Administrative Investigation of VA's FY 2011 HR Conferences in Orlando, FL

9/30/2012 | 12-02525-291 | [Summary](#) |



OIG CHALLENGE #4: PROCUREMENT PRACTICE

Review of VA's Controls for the Pharmaceutical Prime Vendor Fast Pay System

5/17/2012 | 12-01008-185 | [Summary](#) |

Audit of VHA Acquisition and Management of Prosthetic Limbs

3/8/2012 | 11-02254-102 | [Summary](#) |

Review of Alleged Mismanagement of Systems to Drive Performance Project

2/13/2012 | 11-02467-87 | [Summary](#) |

Review of VA's Secure VA-Chief Information Security Officer Support Services Acquisition Process

12/20/2011 | 11-01508-24 | [Summary](#) |

Audit of VHA's Veterans Integrated System Network Contracts

12/1/2011 | 10-01767-27 | [Summary](#) |

Review of Alleged Contract Irregularities in VA's Office of Information and Technology

10/13/2011 | 11-01708-02 | [Summary](#) |

OIG CHALLENGE #5: INFORMATION MANAGEMENT

VA's Federal Information Security Management Act Assessment for FY 2011

4/6/2012 | 11-00320-138 | [Summary](#) |

Review of VA's Alleged Circumvention of Security Requirements for System Certifications and Apple Mobile Devices

5/23/2012 | 12-00089-182 | [Summary](#) |