

Inspector General

United States
Department of Defense



Contracting Improvements Still Needed in DoD's
FY 2011 Purchases Made Through the
Department of Veterans Affairs

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Acronyms

FAR

Federal Acquisition Regulation

IG

Inspector General

OIG

Office of Inspector General

VA

Department of Veterans Affairs



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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December 7, 2012

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY


SUBJECT: Contracting Improvements Still Needed in DoD's FY 2011 Purchases Made
Through the Department of Veterans Affairs
(Report No. DODIG-2013-028)

We are providing this report for your review and comment. DoD contracting officials generally complied with policies and procedures when issuing direct interagency acquisition orders through the Department of Veterans Affairs. However, DoD contracting officials did not make price reasonableness determinations for 131 open market products, valued at \$5.3 million; request price reductions for 6 orders, valued at \$2.7 million; support best procurement approach determinations for 4 orders, valued at \$9.1 million; de-obligate unused funds of \$293,625; or seek a refund of \$44,952 for products not delivered. We considered comments from the Office of the Surgeon General, Department of the Army and the Office of the Assistant Secretary of the Air Force, Procurement Transformation Division when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Comments from the Office of the Surgeon General, Department of the Army, and the Office of the Assistant Secretary of the Air Force, Procurement Transformation Division were responsive. We did not receive comments from the Commander, Naval Medical Logistics Command. In response to the final report, we request that the Commander provide comments on Recommendations 2, 4a, and 4b by January 7, 2013. If you disagree with the potential monetary benefits, specify the amount at issue.

If possible, send a Microsoft Word (doc) file and portable document format (.pdf) file containing your comments to audacm@dodig.mil. Comments provided to the report must be marked and portion-marked, as appropriate, in accordance with DoD Manual 5200.01. Portable document format (.pdf) copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9077 (DSN 664-9077).


Jacqueline L. Wicecarver
Assistant Inspector General
Acquisition and Contract Management



Results in Brief: Contracting Improvements Still Needed in DoD's FY 2011 Purchases Made Through the Department of Veterans Affairs

What We Did

The National Defense Authorization Act for FY 2008 requires the DoD Office of Inspector General and the Department of Veterans Affairs (VA) Office of Inspector General to review procedures for DoD interagency purchases made through VA. We reviewed 20 direct interagency acquisitions, valued at \$13.7 million, to determine whether DoD and VA improved their interagency purchasing practices since our last audit, Report No. D-2009-043, "FY 2007 DoD Purchases Made Through the U.S. Department of Veterans Affairs," January 21, 2009.

What We Found

DoD contracting officials generally complied with policies and procedures when issuing direct interagency acquisitions through VA. Specifically, DoD contracting officers defined requirements and used funds appropriately when awarding contract orders on all 20 direct interagency acquisitions, competed 5 orders, justified 13 sole-source orders, and documented receipt of products for 18 orders. However, DoD contracting officers did not:

- de-obligate unused funds of \$293,625 for one order and obtain a refund of \$44,952 on another order for products not delivered because the contracting officer did not track funds and items delivered properly. See Appendix E for a summary of potential monetary benefits;
- determine whether the prices paid for 131 open market products (products not on vendors VA Federal supply schedules), valued at \$5.3 million, on 5 orders were fair and reasonable because they relied on information in vendor quotes and pricelists without verifying that the products were on the vendors VA Federal supply schedules;

- request price reductions for 6 orders, valued at \$2.7 million, because the vendor did not provide discounts in the past or contracting officials were not aware that they were required to seek price reductions; and
- support best procurement approach determinations for 4 orders, valued at \$9.1 million.

As a result, DoD might not have always received the best value when using VA for direct interagency acquisitions.

What We Recommend

We recommend the Director, U.S. Army Medical Research Acquisition Activity; the Director, North Atlantic Regional Contracting Office; the Commander, Naval Medical Logistics Command; the Director of Contracting, 502 Contracting Squadron; and the Commander, 802 Contracting Squadron, provide refresher training to their contracting officers that focuses on the problems in this report. We recommend the North Atlantic Regional Contract Office contracting officer de-obligate funds in the amount of \$293,625. We recommend the U.S. Army Medical Research Acquisition Activity contracting officer seek a refund of \$44,952 for products not delivered.

Management Comments and Our Response

The Chief of Staff, Office of the Surgeon General, Department of the Army, and the Deputy Chief, Installation and Sourcing Division, Office of the Assistant Secretary of the Air Force, Procurement Transformation Division, agreed with the recommendations, and the comments were responsive. The Commander, Naval Medical Logistics Command, did not comment on a draft of this report. Please see the recommendations table on the back of this page.

Recommendations Table

| Management | Recommendations Requiring Comment | No Additional Comments Required |
|-----------------------------------------------------------|----------------------------------------------|--------------------------------------------|
| Director, U.S. Army Medical Research Acquisition Activity | | 2, 3, 4a, 4b |
| Director, North Atlantic Regional Contracting Office | | 1, 2, 4a, 4b |
| Commander, Naval Medical Logistics Command | 2, 4a, 4b | |
| Director of Contracting, 502 Contracting Squadron | | 2, 4a, 4b |
| Commander, 802 Contracting Squadron | | 2, 4a, 4b |

Please provide comments by January 7, 2013.

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Introduction

Objectives

The initial audit objective was to determine whether Department of Defense (DoD) and the Department of Veterans Affairs (VA) improved their interagency purchasing practices since our last report, Report No. D-2009-043, “FY 2007 DoD Purchases Made Through the U.S. Department of Veterans Affairs,” January 21, 2009. In addition, we examined the policies, procedures, and internal controls to determine whether DoD had a legitimate need to use VA, whether DoD clearly defined its requirements, whether DoD interagency contracting practices adhered to Federal and DoD regulations, and whether VA and DoD properly used and tracked funds. We also determined whether VA officials complied with Federal and Defense procurement requirements.

In May 2008, the VA Office of the Deputy Assistant Secretary for Acquisition and Logistics issued a memorandum terminating its support for assisted interagency acquisitions made on behalf of the Office of the Air Force Surgeon General effective May 2009. VA determined it could not continue the service as it had become increasingly difficult to hire and retain qualified contracting personnel. VA also stated that it must use existing resources to meet its own requirements.

Initially, our announced objective was to determine whether DoD and VA improved their interagency purchasing practices since our last report. However, after issuing the announcement letter and meeting with VA Office of Inspector General (OIG) personnel, we identified two VA assisted acquisitions, totaling \$40,625, during FY 2011. VA OIG then reviewed the two acquisitions and found that VA completed only one acquisition on DoD’s behalf in FY 2011. Specifically, VA’s National Acquisition Center awarded a delivery order for an X-Ray machine for DoD at a cost of \$38,000. The VA OIG determined the VA National Acquisition Center had effective policies, procedures, and management controls in place to ensure the contracting officer complied with Defense procurement requirements when placing the delivery order for the X-Ray machine.

As a result, this audit covers only direct interagency acquisitions. Since VA’s most significant involvement in direct interagency acquisitions consisted of managing the indefinite-delivery contract (which DoD requesting activities placed orders under), we did not examine whether VA tracked funds or whether VA officials complied with Federal and Defense procurement requirements.

See Appendix A for a discussion of the scope and methodology. See Appendix B for prior coverage related to the objectives.

Legislation and Congressional Report Requirement

We performed this audit pursuant to Public Law 110-181, “The National Defense Authorization Act for Fiscal Year 2008,” section 801, “Internal controls for procurements on behalf of the Department of Defense by certain non-Defense agencies,” January 28, 2008. Section 801 requires the following Inspector General (IG) reviews:

- (a) Inspectors General Reviews and Determinations.—
 - (1) In General.—For each covered non-defense agency, the Inspector General of the Department of Defense and the Inspector General of such covered non-defense agency shall, not later than the date specified in paragraph (2), jointly—
 - (A) review—
 - (i) the procurement policies, procedures, and internal controls of such covered non-defense agency that are applicable to the procurement of property and services on behalf of the Department by such covered non-defense agency; and
 - (ii) the administration of such policies, procedures, and internal controls; and
 - (B) determine in writing whether such covered non-defense agency is or is not compliant with defense procurement requirements.
 - (2) Deadline for Reviews and Determinations.—The reviews and determinations required by paragraph (1) shall take place as follows:
 - (A) In the case of the General Services Administration, by not later than March 15, 2010.
 - (B) In the case of each of the Department of the Treasury, the Department of the Interior, and the National Aeronautics and Space Administration, by not later than March 15, 2011.
 - (C) In the case of each of the Department of Veterans Affairs and the National Institutes of Health, by not later than March 15, 2012.

In March 2012, we provided the preliminary results of our audit to the U.S. House Committee on Armed Services and the U.S. Senate Armed Services Committee.

Background

Interagency acquisitions are commonly conducted through indefinite-delivery contracts, such as task and delivery-order contracts. The indefinite-delivery contracts used most frequently to support interagency acquisitions are Federal supply schedules, Government-wide acquisition contracts, and multiagency contracts. There are two types of interagency acquisitions: direct and assisted. In a direct interagency acquisition, the requesting agency places an order against the servicing agency’s indefinite-delivery contract. The servicing agency manages the indefinite-delivery contract but does not participate in the placement of an order. In an assisted acquisition, the servicing agency and requesting agency enter into an interagency agreement where the servicing agency performs acquisition activities on the requesting agency’s behalf. The servicing agency is responsible for awarding a contract, task order, or delivery order and for appointing a contracting officer’s representative.

Direct Interagency Acquisitions Reviewed

We reviewed 20 orders, valued at \$13.7 million.¹ Nineteen orders, valued at \$12.9 million, were VA Federal supply schedule orders, and one order, valued at \$744,372, was a non-VA Federal supply schedule order that a DoD contracting officer awarded from an existing VA indefinite-delivery, indefinite-quantity contract. Appendix C identifies the 20 orders we reviewed. Appendix D identifies the DoD contracting offices where the specific problems occurred. We reviewed the eight areas shown in Table 1.

Table 1. Areas Reviewed

| Areas Reviewed | Number of Direct Interagency Acquisitions Reviewed |
|---------------------------|----------------------------------------------------|
| Defined Requirements | 20 |
| Use of Funds | 20 |
| Competition | 5 ¹ |
| Sole-Source | 14 ¹ |
| Receipt of Goods | 20 |
| Price Reasonableness | 20 |
| Price Reductions | 16 ² |
| Best Procurement Approach | 5 ³ |

¹We did not include the non-VA Federal supply schedule order in the competition or sole source figures because competition occurred when VA contracting officials competitively awarded indefinite-delivery, indefinite-quantity contract VA101049A3P0154 to one contractor. Therefore, competition on individual orders was not applicable.

²DoD contracting officers were required to seek price reductions for 16 orders. For 11 of the orders placed before May 16, 2011, the requirement was based on maximum order level dollar thresholds in accordance with Federal Acquisition Regulation 8.405-1, "Ordering procedures for supplies, and services not requiring a statement of work." For five of the orders, the requirement was based on the simplified acquisition threshold (currently \$150,000), in accordance with Federal Acquisition Regulation 8.405-4, "Price Reductions."

³DoD contracting officers were required to make best procurement approach determinations for five VA Federal supply schedule orders in accordance with FAR 17.502-1, "General," procedures because the orders were individually valued in excess of \$500,000.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses related to direct interagency acquisitions of products that DoD contracting officers made from VA Federal supply schedules. Specifically, controls were not in place to verify that DoD contracting officers made price reasonableness determinations, requested price reductions, or supported best procurement approach determinations in

¹ Number rounded.

accordance with Federal Acquisition Regulation (FAR) procedures. We will provide a copy of the report to the senior official(s) responsible for internal controls in the offices of the Under Secretary of Defense for Acquisition, Technology and Logistics; the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; the Director, U.S. Army Medical Research Acquisition Activity; the Director, North Atlantic Regional Contracting Office; the Commander, Naval Medical Logistics Command; the Director, 502 Contracting Squadron; and the Commander, 802 Contracting Squadron.

Finding. DoD Generally Complied With Policies and Procedures for Direct Interagency Acquisitions, but Improvement Is Needed

DoD contracting officials generally complied with policies and procedures for 20 direct interagency acquisitions, valued at \$13.7 million, that they awarded as orders under VA contracts. Specifically, in accordance with the FAR, DoD contracting officers defined requirements and used funds appropriately when awarding and competing orders, justifying sole-source orders, and documenting receipt of products. However, DoD contracting officers did not:

- de-obligate unused funds of \$293,625 from one order. This occurred because the contracting officer did not track funds properly.
- determine whether the prices paid for 131 products, valued at \$5.3 million, purchased through five VA Federal supply schedule orders, valued at \$6.7 million, were fair and reasonable. This occurred because DoD contracting officers relied on information in vendor quotes and pricelists without verifying that the products were on the vendors VA Federal supply schedules;
- seek a refund of \$44,952 for 10 products, valued at \$13,728, that were not received under one VA Federal supply schedule order and 16 other products received under the same VA Federal supply schedule order that were different and cost \$31,224 less than the products ordered. The contracting officer was unaware that this situation occurred and is in the process of conducting a review of this issue;
- request price reductions for 6 VA Federal supply schedule orders, valued at \$2.7 million. DoD contracting officials provided different reasons why they did not request price reductions when required. Specifically, two contracting officials did not request price reductions because the vendor stated previously that it did not provide discounts from its schedule prices; two contracting officials were not aware that they were required to seek a price reduction; one contracting official did not request a price reduction because the order was a sole source acquisition; and one did not request a price reduction because the vendor quote gave discounts as compared to its published pricing.
- support best procurement approach determinations for 4 VA Federal supply schedule orders, valued at \$9.1 million. A DoD contracting officer for three of the VA Federal supply schedule orders could not explain why she did not follow FAR procedures for making best procurement approach determinations. The other DoD contracting officer was unaware that the FAR procedures for best

procurement approach determinations were different for direct and assisted interagency acquisitions.

As a result, DoD might not have always received the best value when using the VA for direct interagency acquisitions.

Requirements Defined

DoD contracting officials defined requirements for the 20 orders, valued at \$13.7 million, in accordance with FAR 17.503, “Ordering procedures.” The procedures require that orders placed with another Government agency should include a description of the supplies or services required, delivery requirements, and a fund citation. Each of the 20 orders included this information. Appendix C identifies the products and services purchased under the 20 orders.

Funds Used Appropriately

DoD used funds appropriately when awarding the 20 orders in accordance with applicable laws and DoD regulations. According to section 1502(a), title 31, United States Code (31 U.S.C. § 1502[a]), appropriations are available for the bona fide needs of an appropriation’s period of availability. The bona fide needs rule states:

[t]he balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with section 1501 of this title. However, the appropriation or fund is not available for expenditure for a period beyond the period otherwise authorized by law.

Specifically, DoD contracting officers used the correct appropriations that were available for use when they awarded the orders, and the orders included delivery dates and periods of performance that were within the fund’s periods of availability.

Orders Adequately Competed

DoD contracting officers competed five VA Federal supply schedule orders, valued at \$2.7 million, in accordance with FAR 8.405-1, “Ordering procedures for supplies, and services not requiring a statement of work.” Three of the five orders involved multiple offers. FAR 8.405-1(d) considers Federal supply schedule orders to be competed if the contracting officer advertises the request for quote on the General Services Administration e-Buy. The award summaries for these five orders included information that showed contracting officers advertised the request for quotes on General Services Administration e-Buy. Table 2 provides details related to the five competitive VA Federal supply schedule orders.

Table 2. Competitive VA Federal Supply Schedule Orders

| VA Federal Supply Schedule Order No. | DoD Contracting Office | Amount | Number of Offers |
|---------------------------------------------|-------------------------------|--------------------|-------------------------|
| 1) W81XWH-11-F-0015 | USAMRAA | \$176,949 | 3 |
| 2) W81XWH-11-F-0091 | USAMRAA | 273,679 | 1 |
| 3) W81XWH-11-F-0139 | USAMRAA | 224,761 | 1 |
| 4) W91YTZ-11-F-0028 | NARCO | 471,897 | 2 |
| 5) FA3047-11-F-0001 | 802 Contracting Squadron | 1,575,573 | 21 |
| Total | | \$2,722,859 | |

USAMRAA U.S. Army Medical Research Acquisition Activity

NARCO North Atlantic Regional Contracting Office

Note: Amounts are rounded.

Sole-Source Orders Justified

DoD contracting officers justified the use of sole-source acquisition procedures for 13 orders, valued at \$9.9 million. However, for one sole-source order, valued at \$265,705, a 502 Contracting Squadron contracting officer did not provide enough information in the sole-source justification to support the use of sole-source procedures. Specifically, the sole source justification stated, “market research has been performed by other federal contracting offices.” However, the justification did not identify the other Federal contracting offices or the specific market research they performed. According to FAR 8.405-6, “Limiting Sources,” each sole-source justification shall include a description of the market research conducted among schedule holders and the results or a statement of the reason market research was not conducted. We are not making a recommendation since only one sole-source award was not fully justified.

Product Receipt Documented

DoD personnel documented receipt of products or services for 18 orders.² However, for one order, valued at \$163,409, a North Atlantic Regional Contracting Office contracting officer could not provide documentation showing that a DoD official received the products purchased. This occurred because the contracting officer did not perform her duties as the responsible official for receiving products by maintaining documentation showing that DoD received the products. According to FAR 46.502, “Responsibility for Acceptance,” acceptance of supplies or services is the responsibility of the contracting officer. In addition, according to FAR 46.401, “General,” Government inspection shall be documented on an inspection or receiving report form or commercial shipping document/packing list under agency procedures.

² We did not review all the products purchased to determine whether they were received because of contract actions that were still ongoing.

For another order, valued at \$176,949, receipt documentation showed that the requiring activity did not receive the products it ordered. This issue is discussed in more detail in the price reasonableness section of this report immediately after Table 3. We are not making a recommendation on these issues since only two instances occurred.

For order W91Y TZ-11-F-0026, valued at \$744,372, receipt documentation showed that only \$450,747 was expended and completed during the order's period of performance; however, the North Atlantic Regional Contracting Office contracting officer did not modify the order to de-obligate the unused funds. This occurred because the contracting officer did not track funds properly. While this situation was not a receipt of products problem, the contracting officer should de-obligate the remaining \$293,625. See Appendix E for a summary of potential monetary benefits.

Price Reasonableness Determination Problems

DoD contracting officers did not determine whether the prices paid for 131 products, valued at \$5.3 million, purchased through 5 VA Federal supply schedule orders, valued at \$6.7 million, were fair and reasonable. FAR 8.404, "Use of Federal Supply Schedules,"

DoD contracting officers did not determine whether the prices paid for 131 products, valued at \$5.3 million, purchased through 5 VA Federal supply schedule orders, valued at \$6.7 million, were fair and reasonable.

states that price reasonableness determinations are not required for Federal supply schedule products. However, the 131 products were open market products (products not on vendors VA Federal supply schedule). FAR 8.402, "General," requires contracting officers to label the products as open market on Federal supply schedule

orders and to determine whether the open market prices are fair and reasonable. The price reasonableness determination problems occurred because the contracting officers relied on information in vendor quotes and pricelists without verifying that the products were on the vendors VA Federal supply schedules.

In two instances, vendors worded quotes that made it look like the products were on their VA Federal supply schedules. For example, one vendor's quote stated: "PRICING IS AT OR BELOW PRICES UNDER FEDERAL SUPPLY CONTRACT V797-4512A." Another misleading vendor quote included a list of products and a column titled "FSS Unit Price." Nevertheless, DoD contracting officers should have reviewed the vendor's VA Federal supply schedules to determine whether products that they ordered were on the vendor's VA Federal supply schedules or were open market products. We brought this issue to the attention of the VA OIG. A division director stated that he would forward our information to the VA OIG component that specializes in contract reviews. In addition, three DoD contracting officers agreed that DoD officials should have identified the open market products before placing the orders. Table 3 identifies the VA Federal supply schedule orders that had open market product price reasonableness determination problems.

Table 3. Open Market Product Price Reasonableness Determination Problems

| DoD VA Federal Supply Schedule Order No. | DoD Contracting Office | Number of Products | Dollar Value of Open Market Items | Total Dollar Value of Order |
|-------------------------------------------------|-------------------------------|---------------------------|------------------------------------------|------------------------------------|
| W81XWH-11-F-0122 | USAMRAA | 4 | \$94,100 | \$332,069 |
| W91Y TZ-11-F-0049 | NARCO | 2 | 76,540 | 190,470 |
| W91Y TZ-11-F-0064 | NARCO | 8 | 94,871 | 163,409 |
| W91Y TZ-11-F-0046 | NARCO | 30 | 107,035 | 243,405 |
| N62645-11-F-0012 | NMLC | 87 | 4,932,963 | 5,756,144 |
| Total | | 131 | \$5,305,509 | \$6,685,497 |

USAMRAA U.S. Army Medical Research Acquisition Activity

NARCO North Atlantic Regional Contracting Office

NMLC Naval Medical Logistics Command

Note: Amounts are rounded.

Another price reasonableness-related problem occurred under VA Federal supply schedule order W81XWH-11-F-0015, valued at \$176,949, when a U.S. Army Medical Research Acquisition Activity contracting officer did not seek a refund for 10 products, valued at \$13,728, that were not received. Also, 16 other products received under order W81XWH-11-F-0015 were different from the product ordered and cost \$31,224 less than the products ordered (see Table 4). When we brought this issue to the attention of the contracting officer, he was unaware that this situation occurred or why the receiving activity did not inform him of this matter. The contracting officer initiated a review of this matter, and he will provide us with the results of his review when completed. The U.S. Army Medical Research Acquisition Activity contracting officer should obtain a refund of \$44,952 from the vendor for this order.

Table 4. Amount Overpaid for Products Purchased Under Order W81XWH-11-F-0015

| Product Ordered | Unit Price | Quantity | Total |
|-------------------------|-------------------|-----------------|---------------------|
| BQ 900 Slit Lamp | \$9,686.50 | 16 | \$154,984.00 |
| R900 Tonometer | \$1,372.80 | 16 | \$ 21,964.80 |
| Total | | | \$176,948.80 |
| | | | |
| Product Received | Unit Price | Quantity | Total |
| BM 900 | \$7,735.00 | 16 | \$123,760.00 |
| R900 Tonometer | \$1,372.80 | 6 | 8,236.80 |
| Total | | | \$131,996.80 |
| Amount Overpaid | | | \$44,952.00 |

Price Reductions Not Requested

DoD contracting officials did not seek price reductions for 6 VA Federal supply schedule orders, valued at \$2.7 million. For five of the orders, awarded before May 16, 2011, FAR 8.405-1 requires DoD contracting officials to seek price reductions because the values of the orders exceeded the maximum order thresholds established in the vendors VA Federal supply schedules. For the other order, awarded after May 16, 2011, FAR 8.405-4, “Price Reductions,” requires the DoD contracting official to seek a price reduction because the value of the order exceeded the simplified acquisition threshold. DoD contracting officials provided various reasons why they did not request price reductions when required, their reasons are identified in Table 5.

Table 5. Request for Price Reduction Problems

| DoD VA Federal Supply Schedule Order No. | DoD Contracting Office | Reasons Why Contracting Officials Did Not Request Price Reductions |
|-------------------------------------------------|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| W81XWH-11-F-0122 | USAMRAA | The contract specialist did not request a price reduction because the order was a sole source acquisition. |
| W91Y TZ-11-F-0064 | NARCO | The contracting officer stated that she did not request discounts because the vendor’s quote gave discounts as compared to its published pricing. |
| N62645-11-F-0022 | NMLC | The contracting officer was not aware that requests for price reductions were required. |
| N62645-11-F-0026 | NMLC | The contract specialist did not request a price reduction because the vendor previously told the command multiple times that it did not give discounts from its schedule prices. |
| N62645-11-F-0046 | NMLC | The contract specialist did not request a price reduction because the vendor previously told the command multiple times that it did not give discounts from its schedule prices. |
| FA3016-11-F-0019 | 502 Contracting Squadron | The contract specialist was not aware that requests for price reductions were required. |

USAMRAA U.S. Army Medical Research Acquisition Activity

NARCO North Atlantic Regional Contracting Office

NMLC Naval Medical Logistics Command

As of May 16, 2011, FAR 8.405-4 requires DoD contracting officials to seek price reductions for orders above the simplified acquisition threshold instead of the maximum order threshold. DoD contracting officials should request, in writing, price reductions on orders above the simplified acquisition threshold.

Best Procurement Approach Not Supported

DoD contracting officials did not support that their use of VA Federal supply schedules was the best procurement approach for four VA Federal supply schedule orders, valued at \$9.1 million. FAR 17.502-1, “General,” requires contracting officers to include an

analysis of the suitability of the other agency’s contract as part of their best procurement approach determinations. DoD contracting officers’ best procurement approach determinations did not indicate whether they reviewed the VA Federal supply schedule contracts they used to determine that the contracts were suitable for their purchases, as required by FAR 17.502-1. DoD contracting officers need to support that their use of VA contracts is the best procurement approach. Table 6 identifies the four VA Federal supply schedule orders that had best procurement approach determination problems and the reasons DoD contracting officials provided for why they did not follow FAR procedures.

Table 6. Best Procurement Approach Problems

| DoD VA Federal Supply Schedule Order No. | DoD Contracting Office | Reasons Why Best Procurement Approach Determinations Were Not Supported |
|-------------------------------------------------|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| N62645-11-F-0012 | NMLC | The contracting officer could not explain why she did not follow FAR 17.502-1(a)(2) procedures when making best procurement determinations. |
| N62645-11-F-0026 | NMLC | The contracting officer could not explain why she did not follow FAR 17.502-1(a)(2) procedures when making best procurement determinations. |
| N62645-11-F-0046 | NMLC | The contracting officer could not explain why she did not follow FAR 17.502-1(a)(2) procedures when making best procurement determinations. |
| FA3047-11-F-0001 | 802 Contracting Squadron | The contracting officer was unaware of the distinction between assisted and direct interagency acquisitions. On December 15, 2011, Chief of Contracts for the Air Force 802 Contracting Squadron issued an e-mail to contracting officials reminding them of their responsibilities for following FAR 17.502-1(a)(2) procedures. |

NMLC Naval Medical Logistics Command

Conclusion

DoD contracting officials generally complied with policies and procedures when issuing direct interagency acquisition orders through VA. Specifically, in accordance with the FAR, DoD contracting officers defined requirements and used funds appropriately when awarding contract orders on all 20 orders, competing 5 orders, justifying 13 sole-source orders, and documenting receipt of products for 18 orders. However, DoD contracting officials need to improve making price reasonableness determinations, requesting price reductions, and supporting best procurement approach determinations. As a result, DoD contracting officials might not have always received the best value when using VA for direct interagency purchases.

Recommendations, Management Comments, and Our Response

1. We recommend that the North Atlantic Regional Contracting Office contracting officer de-obligate \$293,625 from order W91Y TZ-11-F-0026.

Department of the Army Comments

The Chief of Staff, Office of the Surgeon General, Department of the Army, responding on behalf of the North Atlantic Regional Contracting Office contracting officer, agreed with the recommendation. The Chief of Staff stated that the contracting officer identified additional funds for de-obligation on order W91Y TZ-11-F-0026 and the North Atlantic Regional Contracting Office de-obligated a total of \$378,459.81 on July 23, 2012. The Chief of Staff stated that the \$378,459.81 amount included the \$293,625 noted in this report and recommendation.

Our Response

Comments from the Chief of Staff were responsive, and no further comments are required.

2. We recommend that the Director, U.S. Army Medical Research Acquisition Activity; the Director, North Atlantic Regional Contracting Office; the Commander, Naval Medical Logistics Command; the Director of Contracting, 502 Contracting Squadron; and the Commander, 802 Contracting Squadron, provide refresher training to contracting officers that focuses on problems we identified in the report and to require contracting officers to review vendors' Department of Veterans Affairs Federal supply schedules to identify open market products and make price reasonableness determinations for the open market products.

Department of the Army Comments

The Chief of Staff, Office of the Surgeon General, Department of the Army, with attached comments from the Director, U.S. Army Medical Research Acquisition Activity, agreed with the recommendation. The Chief of Staff stated that Health Care Acquisition Activity and U.S. Army Medical Research Acquisition Activity contracting officers would receive refresher training that focuses on the problems in the report, including the requirement to review vendors VA Federal supply schedules for open market products and make price reasonableness determinations for the open market products. The Army will complete the training by June 30, 2013.

Our Response

Comments from the Chief of Staff were responsive, and no further comments required.

Department of the Air Force Comments

The Deputy Chief, Installations and Sourcing Division, Assistant Secretary of the Air Force, Procurement Transformation Division, responding on behalf of the Director of Contracting, 502 Contracting Squadron, and the Commander, 802 Contracting Squadron,

agreed with the recommendation. The Deputy Chief stated that 502 Contracting Squadron provided on-the-spot correction to the problems identified in the report, which included instructing the contracting officers to ensure that fair and reasonable pricing was provided on all acquisitions. The Deputy Chief stated that the recommended refresher training was incorporated into an 802 Contracting Squadron training event held on November 15, 2012.

Our Response

Comments from the Deputy Chief were responsive, and no further comments required.

Management Comments Required

The Commander, Naval Medical Logistics Command did not comment on a draft of this report. We request Navy comments on the final report.

3. We recommend that the U.S. Army Medical Research Acquisition Activity contracting officer obtain a refund of \$44,952 from the vendor for order W81XWH-11-F-0015.

Department of the Army Comments

The Chief of Staff, Office of the Surgeon General, Department of the Army, partially agreed, stating that the contracting officer is conducting a review of the products related to order W81XWH-11-F-0015. The contracting officer anticipates completing the review by December 1, 2012, and, if appropriate, requesting a refund from the vendor.

Our Response

Comments from the Chief of Staff were responsive. As we stated in the report, the contracting officer initiated a review and agreed to provide us with results upon completion. Therefore, no further comments are required.

4. We recommend that the Director, U.S. Army Medical Research Acquisition Activity; the Director, North Atlantic Regional Contracting Office; the Commander, Naval Medical Logistics Command; the Director of Contracting, 502 Contracting Squadron; and the Commander, 802 Contracting Squadron, provide refresher training to contracting officers that focuses on problems we identified in the report and to require contracting officers to:

a. Request in writing price reductions on orders exceeding the simplified acquisition threshold.

b. Support that their use of Department of Veterans Affairs contracts is the best procurement approach.

Department of the Army Comments

The Chief of Staff, Office of the Surgeon General, Department of the Army, with attached comments from the Director, U.S. Army Medical Research Acquisition Activity,

agreed with the recommendation. The Chief of Staff stated that the Health Care Acquisition Activity and the U.S. Army Medical Research Acquisition Activity would provide refresher training to contracting officers. The training will focus on problems identified in the report and will require contracting officers to request, in writing, price reductions on orders exceeding the simplified acquisition threshold and support that use of VA contracts is the best procurement approach. The Army will complete the training by June 30, 2013.

Our Response

Comments from the Chief of Staff were responsive, and no further comments are required.

Department of the Air Force Comments

The Deputy Chief, Installations and Sourcing Division, Assistant Secretary of the Air Force, Procurement Transformation Division, agreed with the recommendation. The Deputy Chief stated that the 502 Contracting Squadron training reinforced requesting additional discounts when Federal supply schedules are used regardless of the issuing agency, and that proper acquisition planning referred to in the recommendation is part of the existing contract training at the 502 Contracting Squadron. The Deputy Chief stated that the recommended refresher training was incorporated into an 802 Contracting Squadron training event held on November 15, 2012.

Our Response

Comments from the Deputy Chief were responsive, and no further comments required.

Management Comments Required

The Commander, Naval Medical Logistics Command, did not comment on a draft of this report. We request Navy comments on the final report.

Appendix A. Scope and Methodology

We conducted this performance audit from August 2011 through September 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We performed this audit as required by Public Law 110-181, “The National Defense Authorization Act for Fiscal Year 2008,” section 801, “Internal controls for procurements on behalf of the Department of Defense by certain non-Defense agencies,” January 28, 2008.

We collected, reviewed, and analyzed documents on 20 nonstatistically sampled direct initial interagency acquisitions, valued at \$13.7 million, ordered in FY 2011 from 5 DoD contracting offices. See Sample Information section for a listing of the five contracting offices and the criteria we used to review documentation for the 20 orders. Specifically, we reviewed the orders, purchase requests, business clearance memorandums, vendor quotes, sole source acquisition justifications, VA federal supply schedules, inspection and receiving data, and invoices. We also interviewed contracting and program personnel at the five DoD contracting offices. We reviewed documentation from August 1995 through August 2012.

This audit covers only direct interagency acquisitions because VA made only two assisted acquisitions, totaling \$40,625, during FY 2011. While DoD OIG audit team involvement with VA OIG auditors was limited, we coordinated with them and they were aware of the scope of our audit.

Universe Information

The audit universe consisted of direct interagency acquisitions that DoD ordering offices awarded as orders through VA contracts between October 1, 2010, and June 30, 2011. We used the Federal Procurement Data System-Next Generation database to identify the contracts for the audit universe.

From October 1, 2010, through June 30, 2011, DoD ordering offices made 1,979 direct interagency acquisitions, valued at \$212.6 million. Of those, 1,675, totaling \$54.4 million, were valued under the simplified acquisition threshold of \$150,000. The remaining 304 interagency acquisitions, totaling \$158.2 million, were above the simplified acquisition threshold. Of those, 101 interagency acquisitions, valued at \$43.8 million, were initial orders placed during FY 2011.

Sample Information

From the 101 direct interagency acquisitions, we selected a nonstatistical sample of 20 interagency acquisitions, valued at \$13.7 million. Nineteen, valued at \$12.9 million, were VA Federal supply schedule orders and one, valued at \$744,372, was an order that a DoD contracting officer awarded from an existing non-VA Federal supply schedule indefinite-delivery contract. Seventeen orders, valued at \$10.8 million, were for

purchases of products, and three orders, valued at \$2.9 million, were for purchases of services. The following five DoD contracting offices awarded the 20 orders.

- U.S. Army Medical Research Acquisition Activity, Fort Detrick, Maryland
- North Atlantic Regional Contracting Office, Fort Belvoir, Virginia
- Naval Medical Logistics Command, Fort Detrick, Maryland
- 502 Contracting Squadron, Fort Sam Houston, Texas
- 802 Contracting Squadron, Lackland Air Force Base, Texas

We used the following criteria to perform the review.

- FAR 17.503, “Ordering Procedures,” requires that orders be placed with another Government agency include a description of the supplies or services required, delivery requirements, and a fund citation.
- Section 1502, title 31, United States Code and DoD Financial Management Regulation, volume 2A, chapter 1, “General Information,” requires DoD contracting officers to use funds appropriately when awarding contract orders.
- FAR 8.405, “Ordering Procedures for Federal Supply Schedules,” establishes policy and procedures for competing, justifying sole-source orders issued under VA Federal supply schedule contracts, and requires contracting officers to request a price reduction.
- FAR 46.502, “Responsibility for Acceptance,” specifies who is responsible for receipt of supplies or services. We did not review all the products purchased to determine whether they were received due to contract actions that were still ongoing.
- FAR 8.404, “Use of Federal Supply Schedules,” and FAR 8.402, “General,” specifies whether price reasonableness determinations have to be made and the requirement to identify open market items.
- FAR 17.5, “Interagency Acquisitions,” requires contracting officers to include an analysis of the suitability of the other agency’s contract as part of the best procurement approach determination.

Use of Computer-Processed Data

We used the Federal Procurement Data System-Next Generation database to identify orders that DoD activities awarded between October 1, 2010, and June 30, 2011, from existing VA contracts. We also used information downloaded from the Wide Area Workflow database to obtain documentation showing when DoD personnel received products and services. To access the accuracy of computer-processed data, we verified the Federal Procurement Data System and Wide Area Workflow data against official records at visited contracting activities. We determined that data obtained through the Federal Procurement Data System and Wide Area Workflow was sufficiently reliable to accomplish our audit objectives.

Appendix B. Prior Coverage

During the last 5 years, the Government Accountability Office (GAO), the DoD OIG, the Department of the Army, and the Department of Energy Office of the Inspector General (DOE IG) issued 16 reports discussing interagency acquisitions. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/audit/reports>. Unrestricted Army reports can be accessed from .mil and gao.gov domains over the Internet at <https://www.aaa.army.mil/>. Unrestricted DOE IG reports can be accessed at <http://www.ig.energy.gov/reports.htm>.

GAO

GAO Report No. GAO-11-394T, “GAO’s 2011 High Risk Series: An Update,” February 17, 2011

GAO Report No. GAO-11-41, “NIST’s Interagency Agreements and Workload Require Management Attention,” October 20, 2010

GAO Report No. GAO-10-862T, “Contracting Strategies: Better Data and Management Needed to Leverage Value of Interagency and Enterprisewide Contracts,” June 30, 2010

GAO Report No. GAO-10-367, “Contracting Strategies: Data and Oversight Problems Hamper Opportunities to Leverage Value of Interagency and Enterprisewide Contracts,” April 29, 2010

GAO Report No. GAO-08-1063, “DoD Financial Management: Improvements Are Needed In Antideficiency Act Controls and Investigations,” September 26, 2008

DoD IG

DoD IG Report No. DODIG-2012-072, DOI OIG Report No. ER-IN-NBC-0001-2011, “A Joint Audit by the Inspectors General of U.S. Department of the Interior and U.S. Department of Defense: DoD FY 2010 Purchases Made Through the Department of the Interior,” April 13, 2012

DoD IG Report No. D-2011-021, “More DoD Oversight Needed for Purchases Made Through the Department of Energy,” December 3, 2010

DoD IG Report No. D-2011-018, “FY 2008 and FY 2009 DoD Purchases Made Through the General Services Administration,” November 30, 2010

DoD IG Report No. D-2009-064, “FY 2007 DoD Purchases Made Through the National Institutes of Health,” March 24, 2009

DoD IG Report No. D-2009-043, “FY 2007 DoD Purchases Made Through the U.S. Department of Veterans Affairs,” January 21, 2009

DoD IG Report No. D-2008-122, “Follow-up on DoD Purchases Made Through the Department of the Interior,” August 18, 2008

DoD IG Report No. D-2008-082, “Summary Report on Potential Antideficiency Act Violations Resulting From DoD Purchases Made Through Non-DoD Agencies (FY 2004 Through FY 2007),” April 25, 2008

DoD IG Report No. D-2008-066, “FY 2006 and FY 2007 DoD Purchases Made Through the Department of the Interior,” March 19, 2008

DoD IG Report No. D-2008-050, “Report on FY 2006 DoD Purchases Made Through the Department of the Treasury,” February 11, 2008

Army

U.S. Army Audit Agency Report No. A-2009-0016-FFH, “Acquisition Made Using Military Interdepartmental Purchase Requests, U.S. Army Medical Command,” November 17, 2008

DOE IG

DOE IG Report No. DOE/IG-0829, “Work for Others Performed by the Department of Energy for the Department of Defense,” October 26, 2009

Appendix C. Direct Interagency Acquisitions Reviewed

| VA Contract No. DoD Order No. | Order Value | Purchase Description | DoD Requesting Activity | Contract Type Used |
|--------------------------------------------------------------------------------|----------------|-----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| U.S. Army Medical Research Acquisition Activity, Fort Detrick, Maryland | | | | |
| 1) W81XWH-11-F-0015 | \$ 176,949 | Slit Lamp System | US Army Medical Materiel Agency 693 Neiman Street Fort Detrick, MD 21702 | Federal Supply Schedule |
| 2) W81XWH-11-F-0091 | 273,679 | Diode Laser | US Army Medical Materiel Agency 693 Neiman Street Fort Detrick, MD 21702 | Federal Supply Schedule |
| 3) W81XWH-11-F-0122 | 332,069 | Parts to rebuild Zoll Defibrillators, including batteries | US Army Medical Materiel Agency 693 Neiman Street Fort Detrick, MD 21702 | Federal Supply Schedule |
| 4) W81XWH-11-F-0139 | 224,761 | Hydrogen Peroxide/Plasma Sterilizer, Sterilizer and Cassette | Walter Reed Army Institute of Research Robert Grant Avenue, Bldg 503 Silver Spring, MD 20910 | Federal Supply Schedule |
| North Atlantic Regional Contracting Office, Fort Belvoir, Virginia | | | | |
| 5) VA101049A3P0154 W91Y TZ-11-F-0026 | \$ 744,372 | Food Service for Ireland Army Community Hospital | Ireland Army Community Hospital 289 Ireland Avenue, Bldg 851 Fort Knox, KY 40121 | VA Contract |
| 6) W91Y TZ-11-F-0028 | 471,897 | Hospital Beds | Womack Army Medical Center Bldg 2817 Reilly Road Fort Bragg, NC 28310 | Federal Supply Schedule |
| 7) W91Y TZ-11-F-0046 | 243,405 | Wireless Patient Monitoring System | Ireland Army Community Hospital 289 Ireland Avenue, Bldg 851 Fort Knox, KY 40121 | Federal Supply Schedule |
| 8) W91Y TZ-11-F-0049 | 190,470 | Video Processor (Surgical Scopes) | PR Centralized ORG and INSTL PBO W2L6 Womack Army Medical Center USA Medical Dept Activity Bldg 42817 Reilly Road Fort Bragg, NC 28310 | Federal Supply Schedule |
| 9) W91Y TZ-11-F-0064 | 163,409 | Defibrillators/Monitors | W2H8 USA MEDDAC West Point 813 West Moore Loop, Bldg 813 West Point, NY 10996 | Federal Supply Schedule |
| Naval Medical Logistics Command, Fort Detrick, Maryland | | | | |
| 10) N62645-11-F-0012 | \$ 5,756,144 | Operating Room Integration System | National Naval Medical Center Bethesda, MD 20889 | Federal Supply Schedule |

Note: Amounts are rounded

Appendix C. Direct Interagency Acquisitions Reviewed (cont'd)

| VA Contract No. DoD Order No. | Order Value | Purchase Description | DoD Requesting Activity | Contract Type Used |
|-----------------------------------------------------------------|--------------|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| 11) N62645-11-F-0022 | \$ 264,567 | Infusion Pump | United States Naval Ship Mercy San Diego, CA 92136 | Federal Supply Schedule |
| 12) N62645-11-F-0026 | 564,289 | Telepharmacy Remote Dispensing and Verification System | Naval Hospital Camp Pendleton Camp Pendleton, CA 92055 and Family Medicine Oceanside Oceanside, CA 92054 | Federal Supply Schedule |
| 13) N62645-11-F-0046 | 1,156,821 | Telepharmacy Support | Multiple Locations (17 Medical Facilities) | Federal Supply Schedule |
| 14) N62645-11-F-0054 | 228,156 | Automated Flexible Endoscope Disinfector | Naval Hospital Camp Lejeune Camp Lejeune, NC 28547 and Naval Hospital Jacksonville Jacksonville, FL 32214 | Federal Supply Schedule |
| 15) N62645-11-F-0075 | 458,651 | High Definition Flexible Video Scope System | Multiple Locations (Five US Navy Ships) | Federal Supply Schedule |
| 16) N62645-11-F-0082 | 213,649 | Disinfectors, liquid germicide, flexible endoscopes | U.S. Naval Hospital Okinawa U.S. Naval Hospital Naples (Norfolk, VA) U.S. Naval Hospital Cherry Point (NC) | Federal Supply Schedule |
| 17) N62645-11-F-0097 | 179,589 | High Definition Flexible Videoscope Systems for the multiple hulls | U.S.S. Theodore Roosevelt (Suffolk, VA), U.S.S. San Diego (Pascagoula, MS) | Federal Supply Schedule |
| 502 Contracting Squadron, Fort Sam Houston, Texas | | | | |
| 18) FA3016-11-F-0019 | \$ 265,705 | Chemical Reagents | Medical Education and Training Campus Medical Logistics Bldg B1, Wilson Way Fort Sam Houston, TX 78234 | Federal Supply Schedule |
| 802 Contracting Squadron, Lackland Air Force Base, Texas | | | | |
| 19) FA3047-11-F-0001 | \$ 1,575,573 | Anesthesiologist and pain management services | 59 Medical Logistics Readiness Squadron/ 59 Medical Diagnostic Operations Group 2200 Bergquist Drive, Suite 1 Lackland AFB, TX 78236 | Federal Supply Schedule |
| 20) FA3047-11-F-0008 | 185,940 | Rental/Support agreement for Pyxis Connect system | Wilford Hall Medical Center 59th MLRS/SGSKM 2200 Berquist Drive, Suite 1 Lackland AFB, TX 78236 | Federal Supply Schedule |

Note: Amounts are rounded

Appendix D. Direct Interagency Acquisition Problems

| DoD Order No. | Sole Source Justification | Government Receipt | Price Reasonableness Determination | Request for Price Reduction | Best Procurement Approach Determination |
|-----------------------------------------------------------------------------------------|---------------------------|--------------------|------------------------------------|-----------------------------|-----------------------------------------|
| United States Army Medical Research Acquisition Activity, Fort Detrick, Maryland | | | | | |
| W81XWH-11-F-0015 | Not Applicable | X | X | Adequate | Not Applicable |
| W81XWH-11-F-0091 | Not Applicable | Adequate | Adequate | Not Applicable | Not Applicable |
| W81XWH-11-F-0122 | Adequate | Adequate | X | X | Not Applicable |
| W81XWH-11-F-0139 | Not Applicable | Adequate | Adequate | Adequate | Not Applicable |
| North Atlantic Regional Contracting Office, Fort Belvoir, Virginia | | | | | |
| VA101049A3P0154 W91Y TZ-11-F-0026 | Not Applicable | Adequate | Not Applicable | Not Applicable | Adequate |
| W91Y TZ-11-F-0028 | Not Applicable | Adequate | Adequate | Adequate | Not Applicable |
| W91Y TZ-11-F-0046 | Adequate | Adequate | X | Not Applicable | Not Applicable |
| W91Y TZ-11-F-0049 | Adequate | Adequate | X | Adequate | Not Applicable |
| W91Y TZ-11-F-0064 | Adequate | X | X | X | Not Applicable |
| Naval Medical Logistics Command, Fort Detrick, Maryland | | | | | |
| N62645-11-F-0012 | Adequate | Adequate | X | Adequate | X |
| N62645-11-F-0022 | Adequate | Adequate | Adequate | X | Not Applicable |
| N62645-11-F-0026 | Adequate | Adequate | Adequate | X | X |
| N62645-11-F-0046 | Adequate | Adequate | Adequate | X | X |
| N62645-11-F-0054 | Adequate | Adequate | Adequate | Adequate | Not Applicable |
| N62645-11-F-0075 | Adequate | Adequate | Adequate | Adequate | Not Applicable |
| N62645-11-F-0082 | Adequate | Adequate | Adequate | Adequate | Not Applicable |
| N62645-11-F-0097 | Adequate | Adequate | Adequate | Adequate | Not Applicable |
| 502 Contracting Squadron, Fort Sam Houston, Texas | | | | | |
| FA3016-11-F-0019 | X | Adequate | Adequate | X | Not Applicable |

Appendix D. Direct Interagency Acquisition Problems (cont'd)

| DoD Order No. | Sole Source Justification | Government Receipt | Price Reasonableness Determination | Request for Price Reduction | Best Procurement Approach Determination |
|-----------------------------------------------------------------|---------------------------|--------------------|------------------------------------|-----------------------------|-----------------------------------------|
| 802 Contracting Squadron, Lackland Air Force Base, Texas | | | | | |
| FA3047-11-F-0001 | Not Applicable | Adequate | Adequate | Adequate | X |
| FA3047-11-F-0008 | Adequate | Adequate | Adequate | Not Applicable | Not Applicable |
| Totals | 1 of 14 | 2 of 20 | 6 of 20 | 6 of 16 | 4 of 5 |

Not Applicable - indicates orders that were not reviewed because they were either:

- competitive (sole source justification column)
- associated with one VA indefinite-delivery contract (price reasonableness determination column)
- valued below dollar thresholds requiring request for price reductions and best procurement approach determinations (final two columns).

Adequate - indicates orders that have been reviewed with no problems found.

Symbol [X] - indicates orders that have been reviewed with problems found.

Appendix E. Summary of Potential Monetary Benefits

| Recommendations | Type of Benefit | Amount of Benefit | Accounts |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------|-------------------|-----------------|
| 1 | Economy and Efficiency. Funds put to better use from the FY 2011 Operation and Maintenance, Defense Health Program, appropriation. | \$293,625 | 097201120110130 |
| 3 | Economy and Efficiency. Funds put to better use from the FY 2010 Other Procurement, Army appropriation. | \$44,952 | 2102035 |

Note: Potential monetary benefits are funds put to better use or questioned costs.

Department of the Army Comments



DEPARTMENT OF THE ARMY
OFFICE OF THE SURGEON GENERAL
5109 LEESBURG PIKE
FALLS CHURCH, VA 22041-3258

DASG-IR

25 OCT 2012

MEMORANDUM FOR Department of Defense Inspector General, Acquisition and Contract Management, ATTN: [REDACTED] 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Reply to DODIG Draft Report, Contracting Improvements Still Needed in DOD's FY 2011 Purchases Made Through the Department of Veterans Affairs (Project No. D2011-D000CF-0273.000)

1. Thank for you the opportunity to review this report. Our comments are enclosed for your consideration.
2. The point of contact is [REDACTED] Internal Review and Audit Compliance Office, [REDACTED] or e-mail: [REDACTED]

FOR THE SURGEON GENERAL:

Encl


HERBERT A. COLEY
Chief of Staff

**U.S. Army Medical Command (MEDCOM) and
Office of the Surgeon General (OTSG)**

**Comments on DODIG Draft Report
Contracting Improvements Still Needed in DOD's FY 2011 Purchases
Made Through the Department of Veterans Affairs
(Project No. D2011-D000CF-0273.000)**

RECOMMENDATION 1: The North Atlantic Regional Contracting Office (NARCO) contracting officer de-obligate \$293,625 from order W91Y TZ-11-F-0026.

RESPONSE: Concur. The contracting officer identified additional funds for deobligation on order W91Y TZ-11-F-0026 and on 23 Jul 12, NARCO deobligated a total of \$378,459.81 (see attachment). This amount includes the \$293,625 noted in the report and recommendation.

RECOMMENDATION 2: The Director, U.S. Army Medical Research Acquisition Activity (USAMRAA) and the Director, NARCO provide refresher training to contracting officers that focuses on problems identified in the report and require contracting officers to review vendors' Department of Veterans Affairs Federal supply schedules to identify open market products and make price reasonableness determinations for the open market products.

RESPONSE: Concur. Refresher training will be provided to HCAA and USAMRAA contracting officers focusing on the problems in the report, including the requirement to review vendors' Department of Veterans Affairs Federal supply schedules to identify open market products and make price reasonableness determinations for the open market products. Training will be complete 30 June 2013.

RECOMMENDATION 3: USAMRAA obtain a refund of \$44,952 from the vendor for order W81XWH-11-F-0015.

RESPONSE: Partially concur. As noted in the report, the contracting officer is conducting a review of the matter related to order W81XWH-11-F-0015 and has evidence of receipt and acceptance by the office with delegated responsibility (Tobyhanna Army Depot). Review of the items reported by DODIG as not being received and substituted is ongoing. The contracting officer anticipates completing the review and, if appropriate, requesting a refund from the vendor by 1 December 2012.

Encl

Attachment is not included because it does not provide additional applicable information.

Department of the Army Comments

RECOMMENDATION 4: The Director, USAMRAA and the Director, NARCO provide refresher training to contracting officers that focuses on problems identified in the report and require contracting officers to:

- Request, in writing, price reductions on orders exceeding the simplified acquisition threshold.
- Support that use of VA contracts is the best procurement approach.

RESPONSE: Concur. HCAA and USAMRAA will provide refresher training to contracting officers focusing on problems identified in the report and will require contracting officers to request, in writing, price reductions on orders exceeding the simplified acquisition threshold and support that use of VA contracts is the best procurement approach. Training will be complete by 30 June 2013.

Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

OFFICE OF THE ASSISTANT SECRETARY

26 Oct 12

MEMORANDUM FOR DOD/IG

FROM: SAF/AQCA
1060 Defense Pentagon
Washington, DC 20330

SUBJECT: Management Comments and Statement of Actions Taken in response to Draft Report (Project No. D2011-D000CF-0273.000, Contracting Improvements Still Needed in DoD's FY 2011 Purchases Made Through the Department of Veterans Affairs)

1. The subject report has been reviewed and SAF/AQCA concurs with the findings and recommendations.
2. The following actions have been taken by the 502 CONS and 802 CONS to implement the draft report recommendations (to include the completion dates):
 - a. **Recommendation 2.** We recommend the Director, U.S. Army Medical Research Acquisition Activity; the Director, North Atlantic Regional Contracting Office; the Commander, Naval Medical Logistics Command; the Director of Contracting, 502 Contracting Squadron, and the Commander, 802 Contracting Squadron provide refresher training to contracting officers that focuses on problems we identified in the report and to require contracting officers to review vendors' Department of Veterans Affairs Federal supply schedules to identify open market products and make price reasonableness determinations for the open market products.

Management Response/Statement of Actions: Concur. 502d Contracting Squadron provided on the spot correction to this single finding in the audit. Contracting Officers were instructed to ensure pricing fair and reasonable determinations were provided on all acquisitions. Actions are considered closed for 502 CONS. Recommended refresher training will be incorporated into the next 802d Contracting Squadron training event. The expected completion date is 30 Nov 2012.
 - b. **Recommendation 4.** We recommend the Director, U.S. Army Medical Research Acquisition Activity; the Director, North Atlantic Regional Contracting Office; the Commander, Naval Medical Logistics Command; the Director of Contracting, 502 Contracting Squadron, and the Commander, 802 Contracting Squadron provide refresher training to contracting officers that focuses on problems we identified in the report and to require contracting officers to:

Department of the Air Force Comments

- A. Request in writing price reductions on orders exceeding the simplified acquisition threshold.
- B. Support that their use of Department of Veterans Affairs contracts is the best procurement approach.

Management Response/Statement of Actions: Concur. 502 CONS provided on the spot correction upon the single finding of this audit. Additionally, 502 CONS training will reinforce requesting additional discounts if any federal supply schedule is used regardless of issuing agency. Proper acquisition planning referred to in recommendation 4b is a part of existing contract training at 502 CONS. Actions are considered closed for 502 CONS. Recommended refresher training will be incorporated into the next 802d Contracting Squadron training event. The expected completion date is 30 Nov 2012.

3. Please do not hesitate to contact me at [REDACTED] with comments or questions.


BRYAN D. LAMB, Maj, USAF
Installations Support Branch



Inspector General Department of Defense

