



Office of Inspector General

AUDIT OF VA PROCUREMENT INITIATIVES FOR COMPUTER HARDWARE, SOFTWARE, AND SERVICES (PCHS/PAIRS) AND SELECTED INFORMATION TECHNOLOGY INVESTMENTS

VA addressed the most significant lessons learned from past information technology contracts with the award of PCHS. Efforts are needed to reevaluate PAIRS acquisition strategy and to assure VA meets the intent of the Clinger-Cohen Act.

Report No. 8D2-E01-002

Date: January 22, 1998

Office of Inspector General
Washington DC 20420



**DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420**

Memorandum to:

**Acting Assistant Secretary for Management (004)
Under Secretary for Health (10)**

Audit of: VA Procurement Initiatives for Computer Hardware, Software, and Services (PCHS/PAIRS) and Selected Information Technology Investments

1. The purpose of the audit was to review the Department of Veterans Affairs (VA) acquisition initiatives for the procurement of computer hardware and software (PCHS) and the procurement of automated information resources solutions (PAIRS). These acquisition initiatives are to be the principal nationwide, non-mandatory sources for acquiring information technology (IT) equipment and services for the Department and can be used by other Federal agencies. The audit focused on: (i) identifying opportunities to enhance the procurement process by assessing related acquisition risks, (ii) reviewing the Department's actions taken relative to the Clinger-Cohen Act of 1996 on IT purchases, and (iii) assessing whether these IT procurements met the needs of Department users.
2. The Department started planning for the replacement of the Nationwide Office Automation for the VA (NOAVA) contract in August 1994. The PCHS acquisition initiative culminated in the award of two competitive contracts in January 1997. The PCHS contract is valued at \$1.5 billion over 5 years and is expected to meet VA's national needs for acquiring computer hardware, software, and peripheral equipment. The PAIRS procurement is valued at \$875 million and is expected to provide a broad range of computer services including providing for the Veterans Health Administration's (VHA) major infrastructure replacement initiative. The PCHS/PAIRS initiatives were planned to run in parallel and be awarded within 90 days of each other. Although PCHS contracts have been awarded, the PAIRS acquisition initiative has experienced significant delays and no contract awards have been made.
3. Our audit found that acquisition risks associated with the PCHS procurement were effectively addressed by the Department's procurement planning actions. We reviewed the decisions and actions taken during the award of the PCHS contract and determined that contracting officials addressed most lessons learned from past Department IT contracts and took actions which compared favorably with best practices in the industry.

PCHS procurement actions and decisions were well documented and supported. We also found that early contract administration activities by contracting officials showed that they took timely action to disallow contractor credit card use charges which had the potential to accumulate as a significant cost of doing business with one of the PCHS contractors.

4. Our audit identified opportunities for the Department to enhance its IT contracting initiatives and help address and meet IT performance expectations included in the Clinger-Cohen Act. Key issue areas requiring the Department's attention include the following:

- Use of National IT Contracts -- The expected use of the PCHS/PAIRS acquisition initiatives is diminishing because of the proliferation of Blanket Purchase Agreements (BPA) and user preferences for alternative IT sources. The Department did not have the PCHS/PAIRS contracts ready to replace the NOAVA contract when it ended in March 1996. Program officials incorrectly assumed that the NOAVA contract could be extended until the PCHS/PAIRS procurements were in place. As a result, significant IT buys occurred as VA users pursued other buying mechanisms to meet their needs. Some users including the Veterans Benefits Administration (VBA) and the National Cemetery Service (NCS) continue to buy from other sources although the PCHS contracts have been awarded. In addition, some VHA field facility procurement staffs are awarding BPAs for acquiring similar PCHS/PAIRS products and to obtain PAIRS-type services. The Department needs to evaluate the new risks and benefits being introduced by the use of BPAs and to assess the need to control the proliferation of them to avoid duplication of acquisition resources expended in making IT purchases. VA also needs to strengthen its management controls to ensure the acquisition approval process results in effective and efficient acquisition of IT resources and the Department can take timely advantage of the rapid advances in the IT industry.
- VHA's Major IT Initiative for Clinical Workstation Replacements -- VA needs to ensure that VHA's Clinical Workstation Replacement Project is included in the new capital investment review process. This review process is intended to help ensure that IT projects are being implemented at acceptable costs, within reasonable and expected time frames, and are contributing to improvements in mission performance. VHA's project initiative to transition from dumb terminals (low-end text based terminals) to PC workstation technology represents a significant capital investment valued between \$700 to \$800 million. The size of this replacement project warrants ensuring an appropriate level of oversight because of business and technical risks that have the potential to impact such a project.

- IT Performance Expectations -- The Clinger-Cohen Act of 1996 requires Federal agencies to focus more on the results achieved through IT investment while streamlining the Federal IT procurement process. The Act requires agency heads to design and develop a process for maximizing the value and assessing and managing the risk of an agency's IT acquisitions. The Department is taking certain actions to comply with the Act, such as: (i) appointing a Department Chief Information Officer and (ii) developing an IT Strategic Plan and IT Portfolio. However, VA also needs to address the performance expectations for reducing its annual cost of operating and maintaining IT pursuant to Section 5132 of the Act. Based on an expected 5 percent annual decrease in IT costs over the next 5 years, the Department needs to reduce IT costs by \$22 million a year and by \$101 million over 5 years.
- IT Hardware Requirements -- At the time of PCHS award, vendors' product offerings were competitively priced, included product warranties, and met identified user needs. A significant portion of the Department's user needs identified in the PCHS requirements analysis dealt with replacing dumb terminals at VHA facilities. VHA officials advised that during the planning for the procurement, dumb terminals were to be replaced by the PCHS basic desktop system. However, ordering information we reviewed showed that facilities were replacing dumb terminals with more costly advanced systems rather than more economical desktop systems. Given this buying trend, the Department could potentially spend an additional \$36 million for its replacement of dumb terminals. VA needs to ensure that purchases to replace dumb terminals are not unnecessarily upgraded beyond original project requirements while ensuring its stated requirements result in the acquisition of current technology.
- Planning PAIRS Procurement Strategy -- The Department needs to revise the PAIRS requirements analysis to establish a realistic estimate of cost, schedule, and performance goals for the PAIRS procurement. During the audit, we issued an Interim Survey Advisory Letter to Department program officials that recommended removing the non-recurring project requirements from the PAIRS procurement that had already been expended for VHA's infrastructure project. This change in project scope would more accurately reflect the projected PAIRS contract requirements.
- Contracting Officer Technical Representative (COTR) Training -- The PCHS/PAIRS COTR has not received formal training in COTR duties. The COTR is expected to have significant technical and administrative responsibilities associated with these procurements. Formal COTR training would help ensure that these procurement initiatives are managed effectively. In addition, the COTR's duties and authority need to be designated in writing.

5. The report contains recommendations to enhance the PCHS/PAIRS procurement initiatives and help the Department address and meet the intent of the Clinger-Cohen Act. Action on these recommendations can help assure that IT resources are effectively used and user IT needs are efficiently met. The Acting Assistant Secretary for Management and the Under Secretary for Health concurred with the report recommendations directed to them and provided appropriate implementation actions. The Under Secretary for Health agreed with the monetary benefits figure discussed in the report concerning replacement of dumb terminals at VHA facilities. The Acting Assistant Secretary for Management provided an alternative monetary benefits figure concerning implementation of IT performance expectations required by the Clinger-Cohen Act. Based on the Acting Assistant Secretary's input, we revised the monetary benefits figure presented in the report. We consider the report resolved and will follow up on planned actions until they are completed.

Original signed by

MICHAEL G. SULLIVAN
Assistant Inspector General
for Auditing

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Acting Assistant Secretary for Management (004)

Under Secretary for Health (10)i

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RESULTS AND RECOMMENDATIONS

1. The Use of National Information Technology Contracts is Diminishing

Audit results showed that the acquisition risks associated with the PCHS procurement were effectively addressed by the Department's procurement planning and actions. We compared the decisions and actions taken during the award of the PCHS contract and determined that contracting officials addressed most lessons learned from past Department information technology (IT) contracts and took actions which compared favorably with best practices in the industry. (*A summary identifying the merits of the Department actions and decisions compared to best practices and lessons learned on the PCHS acquisition initiative is in Appendix III on pages 27-35.*) We found that PCHS procurement actions were well documented and supported. Procurement officials took timely action to disallow contractor credit card use charges which had the potential to accumulate as a significant cost of doing business with one of the contractors.

The most significant changes to the PCHS procurement strategy were decisions to establish PCHS as a non-mandatory source of supply, to separate equipment and services into two procurement initiatives, and to take actions which could ensure that competitive influences exist over IT product prices throughout the life of the contract. Because the PCHS contract is non-mandatory, the risks to the Department of higher prices, paying for poor contractor performance, and acquiring outdated technology are reduced.

Our results found that the benefits of establishing and maintaining national procurements for IT hardware, software, and services are diminished because of simplified buying vehicles such as Blanket Purchase Agreements¹ (BPA) and Department users buying from existing IT contracts and preferred sources. Use of PCHS as a procurement vehicle has been further reduced because Department users, including major administrations such as the Veterans Benefits Administration (VBA) and the National Cemetery Service (NCS), continue to acquire other similar brand name products from existing IT contracts and other sources. User product preferences create strong buying incentives and VBA, NCS, and some Veterans Health Administration (VHA) field facilities have continued to use existing contracts and acquire brand name products because of their investment and satisfaction with IT products available on those contract vehicles. We found that actual PCHS expenditures during the period March to June 1997 were significantly lower than the planned expenditures on the PCHS initiative. The Department needs to address the new risks, such as paying higher prices, and benefits introduced by the use of BPAs. VA should also evaluate the need for controls over the proliferation of these agreements to avoid duplication of acquisition resources used to acquire IT supplies and services.

¹ A blanket purchase agreement is a simplified method of filling anticipated repetitive needs for supplies or services by establishing "charge accounts" with qualified sources of supply.

Procurement officials also advised that some Department field elements are using the PCHS product prices as targets to negotiate better product prices with the IT suppliers of their choice. BPA agreements are fast, easy to use, flexible, require no minimum guarantees, and have the potential to provide competitive prices for IT requirements. As a result, the Department has opportunities to expedite acquisition of critical Department IT resources, and streamline slow, costly procurement processes by reassessing its future acquisition strategies regarding the use of indefinite-delivery, indefinite quantity (IDIQ) contracts like PCHS/PAIRS as its principal means of acquiring IT supplies and services.

Using a broader range of procurement vehicles has the potential to serve Department needs effectively. Office of Information Resources Management (OIRM) program officials recently began an assessment of the cost effectiveness of the pricing and value of personal computer hardware and software acquired from sources other than PCHS.

The Proliferation of BPAs Provides Department Users With an Alternative Source for Acquiring IT Resources

The audit found that the use of national IT procurements such as PCHS/PAIRS is being diminished by users in all three of VA's major operating agencies through their actions to buy from other procurement mechanisms, such as BPAs and other existing contracts. BPAs and other contracts are being used to acquire hardware and software in lieu of PCHS. BPAs are also supporting Department user needs to acquire IT support services because the PAIRS initiative has experienced delays and has not yet been awarded. Program officials were able to identify four national BPAs awarded by local VA facility procurement officials which were offering nationwide service to VA users of up to \$100 million in orders. In addition, OIRM officials identified about \$7 million in PC hardware and software purchases against sources other than PCHS. Procurement officials acknowledged the emergence of BPAs, but do not have complete information on the number of BPAs awarded Departmentwide.

OIRM officials also advised that the emergence of BPAs and other contract vehicles has the potential to overstate the Department's IT buying requirements and duplicate their acquisition efforts. This duplication adds unnecessary administrative and overhead costs to the acquisition process.

Conclusion

VA Needs to Reassess the Need for National IT Contracts

The audit found that the need for national IT procurements such as PCHS/PAIRS is being diminished by users in all three of VA's major operating agencies through their actions to buy from other procurement mechanisms, such as BPAs and other existing contracts.

For More Information

- *A summary of best practices and lessons learned on the PCHS acquisition initiative is in Appendix III on pages 27-35.*

Recommendation 1

We recommend that the Assistant Secretary for Management reassess the need and benefits of using national IT contracts, given the availability and use of other procurement mechanisms by the Department's organizational elements.

Acting Assistant Secretary for Management Comments

We concur. The Acting Assistant Secretary for Management commented that "The Office of Management constantly assesses appropriate contract vehicles for IT needs, and is cognizant of the IT contracting approaches that are presently in competition with each other in VA." The Acting Assistant Secretary also commented that "The Office of Management remains steadfastly committed to PCHS as the best approach for PC acquisitions; however, the Office of Management is always willing to reassess procurement alternatives as circumstances warrant."

(See Appendix IX on page 52 for the Acting Assistant Secretary's comments.)

Office of Inspector General Comments

The Acting Assistant Secretary's comments are acceptable and responsive to the recommendation. We consider this report issue resolved.

2. The Department Needs to Ensure That Major Information Technology Investments Are Evaluated Within the Capital Investment Review Process

The Department needs to ensure that major projects such as VHA's Clinical Workstation Replacement initiative are subject to the new capital IT investment review process. This review process is intended to help ensure that IT projects are being implemented at acceptable costs, within reasonable and expected time frames, and are contributing to improvements in mission performance. This project replacement initiative represents a significant IT investment to the Department of approximately \$700 to \$800 million. However, our review found that decentralized buying by local facilities could fragment purchases to the point that visibility of the overall cost for the initiative would fall below the Department's threshold for capital investment review. This project replacement initiative should be included under the new capital IT investment process to assure appropriate oversight and monitoring.

Department Level Visibility and Evaluation Needed Over Major IT Investments

The Department's new capital investment review process is based on specific IT expenditure thresholds for the Fiscal Year (FY) 1999 budget. *(Details on the capital investment review process are in Appendix VI on pages 41-42.)* As a result of decentralizing equipment purchases and the normal phasing of replacement efforts to accommodate budgetary constraints, VHA's Clinical Workstation Replacement initiative has the potential to fall below the established threshold for capital investment review and, thereby, not receive an appropriate degree of oversight.

The Department is developing an IT Portfolio that will contain a ranking of VA's IT investments and a performance measurement/performance management strategy. We could not confirm that VHA's Clinical Workstation Replacement initiative will be included in the Department's IT Portfolio since the portfolio had not been completed and was not available for review during the audit. The need for including this project in the Department's IT Portfolio is also supported by the fact that VHA is not tracking it as a national project. Purchasing actions have been decentralized to local facilities and VHA's Project Manager is not tracking information on costs and performance enhancements associated with this replacement initiative. Given the significance of this IT investment and the current lack of VHA oversight this project should be included in the Department's IT Portfolio and tracked as part of the new capital investment review process.

Conclusion

The Department Needs to Ensure it Evaluates and Tracks the Clinical Workstation Replacement Initiative in its New Capital IT Investment Review Process

This project replacement initiative should be included under the new capital IT investment review process to assure appropriate oversight and monitoring of a significant Department IT project investment.

For More Information

- *Details on the Department's new capital investment review process is in Appendix VI on pages 41-42.*

Recommendation 2

We recommend that the Assistant Secretary for Management ensure that VHA's decentralized Clinical Workstation Replacement initiative is subject to the new capital IT investment review process.

Acting Assistant Secretary for Management Comments

We concur.

Implementation Plan

The Acting Assistant Secretary for Management indicated that VHA's clinical workstation initiative will be subject to the capital investment review process starting with the FY 2000 budget cycle.

(See Appendix IX on page 52 for the Acting Assistant Secretary's comments.)

Office of Inspector General Comments

The Acting Assistant Secretary's comments and implementation actions are acceptable and responsive to the recommendation. We consider this report issue resolved and will follow up on planned actions until they are completed.

3. VA Needs to Address the Performance Expectations of the Clinger-Cohen Act

VA's Chief Information Officer (CIO) established the Department's CIO program and each of the Department's administrations (VHA, VBA, and NCS) have established administrative level CIO positions to assist in carrying out responsibilities under the Clinger-Cohen Act. The CIO then established a CIO Council to provide a corporate forum to govern the Department's IT and management activities. Our review found that the CIO Council held meetings between January 1996 and February 1997 and discussed the IT performance expectations included in the Clinger-Cohen requirements. However, we found that key performance expectations included in the Act were not addressed. Section 5132 of the Clinger-Cohen Act states... "It is the sense of Congress that, during the next five-year period beginning with 1996, executive agencies should achieve each year at least a 5-percent decrease in the cost (in constant fiscal year 1996 dollars) that is incurred by the agency for operating and maintaining information technology and each year a 5-percent increase in the efficiency of the agency operations, by reason of improvement in information resources management by the agency." (*Additional information on the Clinger-Cohen Act is in Appendix VII on pages 43-48.*)

The Council interpreted these words in the Clinger-Cohen Act to be non-directive language and felt that this section would be relegated to footnote status in the Executive Order implementing the law. However, Executive order 13011 directed VA to implement the "relevant" provisions of the Act, which includes the performance expectations for efficiency. This provision of the Act is not addressed in the Department's IT Strategic Planning Document or the IT Strategic Plan.

Clinger-Cohen Act Establishes Requirements for IT Performance Efficiency

The Clinger-Cohen Act of 1996 established requirements that the Department's CIO monitor the performance of agency IT programs, evaluate the performance of those programs on the basis of applicable performance measures, and advise the agency head regarding whether to continue, modify, or terminate the program or project. The Department needs to develop a strategy to ensure that the key performance expectations in the Act are addressed. This strategy could help provide the Department with additional opportunities to reprogram funds or invest in IT that meets priority needs effectively. Annually, the Department needs to achieve at least a 5-percent decrease in the cost (in constant fiscal year 1996 dollars) that is incurred for operating and maintaining IT, in addition to a 5-percent increase in the efficiency of agency operations. VA's actual IT obligations for 1996 were \$919 million, which exceeded planned obligations of \$854 million by \$65 million. In accordance with the Act, a 5-percent decrease in costs using

FY 1996 as a base year equates to approximately \$22 million. Projecting a \$22 million² annual decrease in IT expenditures (based on net present value) over the 5-year period specified in the Act results in a potential total reduction in costs of operating and maintaining IT to the Department of \$101 million.

Conclusion

The Department Needs to Address the IT Performance Expectations of the Clinger-Cohen Act

The Department needs to address the performance expectations of the Clinger-Cohen Act which could result in future IT operating efficiencies.

For More Information

- *Additional information on the Clinger-Cohen Act is in Appendix VII on pages 43-48.*

Recommendation 3

We recommend that the Assistant Secretary for Management ensure that the Department addresses the performance expectations included in Section 5132 of the Clinger-Cohen Act.

Acting Assistant Secretary for Management Comments

The Acting Assistant Secretary for Management concurred with the recommendation and provided an alternative monetary benefits figure concerning implementation of IT performance expectations required by the Clinger-Cohen Act which we accepted. The Acting Assistant Secretary commented that “The Office of Management is aware of the requirement in the Clinger-Cohen Act, and will explore methods of implementing this in concert with other elements of VA.”

(See Appendix IX on page 53 for the Acting Assistant Secretary’s comments.)

Office of Inspector General Comments

The Acting Assistant Secretary’s comments are acceptable and responsive to the recommendation. We consider this report issue resolved and will follow up on planned actions until they are completed.

² See Appendix IX on page 55 for specific details supporting the Department’s calculation of monetary benefits.

In response to this report issue, the Acting Assistant Secretary provided an alternative monetary benefits figure which we accepted. Our calculation was based on a decrease in costs associated with the Department's total IT obligations. The Acting Assistant Secretary's calculation is based on a reduction in costs associated only with operation and maintenance of IT and excludes IT costs associated with capital investments. The Clinger-Cohen Act does not specifically identify what IT cost elements should be included to calculate the required annual cost reductions. We had used the entire annual IT budget to calculate the potential impact of the Act's provision to the Department. At the time of the audit, the CIO Council had taken a position that this element of the Clinger-Cohen Act was non-directive. As a result, this provision of the Act is not addressed in the Department's IT Strategic Planning Document or the IT Strategic Plan. In response to our findings, the Acting Assistant Secretary's comments indicate that this issue will now be addressed as part of the IT budget process. The report finding was revised to reflect the methodology used by the Acting Assistant Secretary for calculating the potential cost impact of the performance efficiencies required by the Clinger-Cohen Act. In the absence of any specific criteria, we accept this methodology which provides a more conservative estimate of the required IT cost reductions associated with the Clinger-Cohen Act.

4. VHA's Clinical Workstation Replacement Effort Needs to Ensure the Economic Replacement of Dumb Terminals

The audit found that the current replacement of dumb terminal workstations³ is resulting in higher than expected costs to the Department because VHA is buying advanced workstations instead of the basic workstation configuration planned for the replacement of dumb terminals. VHA estimated that over the next 5-year period dumb terminals would be replaced at an estimated cost of approximately \$700 to \$800 million. Ordering information on the PCHS contracts for the first 4 months of the contract showed that users purchased advanced workstations instead of basic workstations which were planned as the replacement for the dumb terminals. Advanced workstation systems represented 81 percent of the purchases identified in the PCHS contractor ordering records during that period. As a result, we see the development of a purchasing trend that has the potential to result in excessive costs to the Department.

Basic Economical Workstations Were to be Used for Replacement of Dumb Terminals

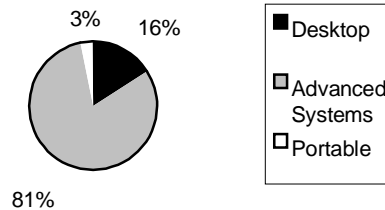
The requirements analysis for the PCHS procurement initiative included a requirement to replace 120,000 to 150,000 dumb terminal workstations at VHA facilities. These dumb terminals were to be replaced with a basic economical desktop workstation configuration offered in the PCHS solicitation. The PCHS solicitation required offerers to include basic desktops and advanced workstation systems in addition to portable computers. We were advised by staff at the Birmingham Information Resource Management Field Office, who were members of the PCHS procurement technical evaluation team, that the PCHS basic desktop workstation was planned to meet the requirements for the replacement of dumb terminals.

PCHS Orders Reflect User Preference to Purchase Advanced Workstations

Our review of monthly reports prepared and delivered to the contracting officer by two PCHS contractors through June 20, 1997 showed that users preferred purchasing advanced systems to replace dumb terminals. On the following page is a summary of one of the PCHS contractor's cumulative purchasing data we reviewed that showed the preference for purchasing advanced workstations.

³ The replacement of dumb terminals involves transitioning from low-end text based terminals to PC workstation technology with Windows based data. VHA currently maintains the terminal-based Veterans Health Administration Information Systems and Technology Architecture (VISTA). This IT infrastructure (i.e. dumb terminals, low resolution screens, cable with insufficient band width, etc.) cannot support modern communications initiatives and newly available medical data. The Clinical Workstation Prototype Project evaluated the benefits of replacing existing older text based workstations with intelligent Windows workstation technology in clinical areas. In addition, VHA also recognized that the intelligent workstation technology fit other office automation and administrative requirements.

**Ratio of Units Purchased
Thru 6/20/97**



<u>System Type</u>	<u># Units</u>	<u>Purchasing Rate</u>	<u>Total Obligations</u>	<u>Average Unit Cost</u>
Desktop systems	668	15.7%	\$789,576	\$1,182
Advanced systems	3,449	81.1%	5,532,196	1,604
Portable systems	134	3.2%	241,736	1,804

We estimate that by purchasing advanced workstations in excess of requirements the Department could potentially spend an additional \$36 million for its replacement of dumb terminals. A recent VHA IT survey identified that the Department needed to replace about 105,710 dumb terminals. Based on the \$422 price difference (average unit prices: \$1,604 less \$1,182 = \$422) between the PCHS basic and the advance workstations, continued purchasing of advanced systems could escalate the dumb terminal replacement cost by about \$36 million (105,710 x \$422 x 81 percent).

VHA published minimum guidelines on the *VA Central Intranet* in August 1995 and again in August 1996 that encouraged VHA facilities to budget and purchase basic workstations as replacements for dumb terminals. The Department needs to continuously address the rapid evolution of IT hardware and ensure that current technology is acquired, but it also needs to ensure that users do not acquire IT technology in excess of actual needs and performance requirements.

Conclusion

VHA Needs to Assure That Dumb Terminals Are Replaced in an Economical Manner

Purchases for VHA's Clinical Workstation Replacement Effort should assure that dumb terminals are replaced with technology upgrades that are necessary to accomplish the project objectives.

Recommendation 4

We recommend that the Under Secretary for Health take action to ensure that purchases to replace VHA's dumb terminals are not unnecessarily upgraded from economical configurations and original project requirements with unnecessary higher performance systems.

Under Secretary for Health Comments

The Under Secretary for Health concurred with the recommendation and the estimation of monetary benefits. VHA agrees that without evidence of clear justification for purchase of the more capable workstation systems, medical facilities should be equipped with the designated capabilities of the basic desktop workstation, as previously endorsed systemwide.

Implementation Plan

A copy of this audit will be provided to all VISN Directors, who may not be fully aware of the apparent trend by most facilities to purchase top-of-the-line equipment rather than more economical models. In follow up, the Chief Network Officer will also highlight this issue during upcoming weekly conference calls with all facility top managers. The VISN Directors will be advised that all facilities carefully justify need for systems with enhanced capability prior to purchase. We will report ongoing activities and outcomes to OIG in response to upcoming requests for recommendation action updates.

(See Appendix X on page 57 for the Under Secretary's comments.)

Office of Inspector General Comments

The Under Secretary's comments and implementation plans are acceptable and responsive to the recommendation. We consider this report issue resolved and will follow up on planned actions until they are completed.

5. VA Needs to Establish a Realistic Estimate of Cost, Schedule, and Performance Goals for the PAIRS Procurement

The Department needs to redefine the stated requirements in the PAIRS procurement initiative. The PCHS/PAIRS initiatives were planned to run in parallel and be awarded within 90 days of each other. However, PAIRS has experienced significant delays and no contract awards have been made. We found that the PAIRS 1996 Requirements Analysis and Delegation of Procurement Authority approved for \$875 million includes VHA's Infrastructure Upgrade project⁴, which was estimated at \$545 million. Before Department officials could award a PAIRS contract, VHA performed a significant amount of work on the infrastructure project using other procurement vehicles. In FY 1996, officials in the Office of Information Resources Management (OIRM) approved approximately \$149 million of project related expenditures. These expenditures supported VHA's use of an interagency agreement for contractor support services with the Federal Systems Integration and Management Center (FEDSIM). At the time of our audit, another \$90 million was expected to be spent in FY 1997 before any PAIRS contracts could be awarded. The total of these expenditures represented approximately 44 percent of the entire VHA Infrastructure Upgrade project requirements. In addition, Office of Acquisition and Materiel Management (OA&MM) officials advised that certain VA field facilities had also awarded BPAs to support their PAIRS purchasing needs.

PAIRS Procurement Initiative was Suspended

The Department suspended the PAIRS procurement in September 1996 during the presolicitation phase in order to resolve acquisition strategy differences with the Small Business Administration. The Department reactivated the initiative in late June 1997. Department officials are in the process of revising the procurement and redefining the requirements to meet the Department's changing needs. On May 6, 1997 we provided an Interim Advisory Letter to Department program officials which identified the opportunity for VA to enhance the PAIRS procurement initiative by reconsidering its contract strategy to better assess alternative strategies using incremental acquisitions which emphasize specific program results.

⁴ VHA has a requirement to implement an integrated information infrastructure at its facilities to replace its fragmented legacy systems. The Infrastructure Project will implement: (i) key components recommended in VHA's Cabling Recommendation and Implementation Strategies Report, (ii) address the upgrade of the Integrated Data Communications Utility wide area network used to link all VHA facilities together, (iii) standardize electronic mail in VHA, and (iv) integrate voice, data and video in a multimedia application environment.

Department Actions to Revise PAIRS Acquisition Strategy Should Exclude VHA's Infrastructure Project Requirements That Have Already Been Addressed

Our audit found that most of the initial expenditures on VHA's Infrastructure Upgrade project were non-recurring or one time expenditures. Thus, we identified an opportunity to more accurately reflect the projected contract requirements for the PAIRS procurement initiative by removing these non-recurring project requirements that have already been expended for VHA's Infrastructure Upgrade project requirements. This opportunity was discussed in the May 1997 Interim Advisory Letter to Department program officials.

In response to the Advisory Letter, officials in OIRM are reviewing IT buys that would use other sources of supply than PAIRS. Upon assessing these results, the Department should be in a better position to measure the remaining performance requirements of PAIRS as it explores new buying techniques and other acquisition mechanisms.

Conclusion

The Department Needs to Revise the PAIRS Procurement

After significant delays, the Department has initiated actions to reactivate the PAIRS initiative. Since VHA has proceeded with its planned Infrastructure Upgrade project and has already acquired many of the requirements planned for in the PAIRS procurement, the Department should establish a realistic estimate of cost, schedule and performance goals that exclude these requirements that no longer need to be addressed.

Recommendation 5

We recommend that the Assistant Secretary for Management establish a realistic estimate of cost, schedule, and performance goals for the PAIRS initiative that excludes the VHA Infrastructure Upgrade project requirements that have already been completed.

Acting Assistant Secretary for Management Comments

We concur. The Acting Assistant Secretary for Management commented that "While the Office of Management believes the pursuit of the PAIRS program would be of benefit to the Department, there are differing views between VA organizations as to the best approach. There is no consensus to proceed with this procurement." The Acting Assistant Secretary also provided a schedule of events that will occur if the PAIRS project is restarted, and advised that "creation of performance measures will be done as part of individual task orders."

(See Appendix IX on page 54 for the Acting Assistant Secretary's comments.)

Office of Inspector General Comments

The Acting Assistant Secretary's comments are acceptable and responsive to the recommendation. We consider this report issue resolved.

6. Formal Training is Needed for the Contracting Officer's Technical Representative Assigned to PCHS/PAIRS

The Contracting Officer's Technical Representative (COTR) assigned to the PCHS/PAIRS acquisition initiatives needs formal training in COTR duties and responsibilities. Our review found that the COTR's duties and responsibilities had not been formalized in writing as required although the individual had been assigned that role. During the course of the audit, the Contracting Officer advised that COTR designations would be issued in writing. We found that the COTR did have appropriate project experience encompassing technical and contract administration issues, but had not received formal training. The COTR is expected to have significant technical and administrative responsibilities associated with these procurements. Past audit history has shown that the Department has not placed sufficient emphasis on the training of COTRs. Given the significance of the planned \$2.4 billion investment in IT expenditures for PCHS/PAIRS, formal COTR training is warranted to help ensure the effective administration of these contracts.

Conclusion

Formal Training is Needed for the COTR on the PCHS/PAIRS Procurement Initiatives

The COTR should be provided formal training which addresses the duties and responsibilities of COTRs to help ensure that these procurement initiatives are managed effectively.

Recommendation 6

We recommend that the Assistant Secretary for Management take action to assure that the COTR assigned to PCHS/PAIRS be provided with formal training in COTR duties and COTR designations are in writing.

Acting Assistant Secretary for Management Comments

The Acting Assistant Secretary for Management advised that the COTR has received the recommended formal training and has been designated the COTR in writing.

(See Appendix IX on page 54 for the Acting Assistant Secretary's comments.)

Office of Inspector General Comments

The Acting Assistant Secretary's comments and implementation actions are acceptable and responsive to the recommendation. We consider this report issue resolved.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The audit was conducted to review the Department of Veterans Affairs (VA) acquisition initiatives for the procurement of computer hardware and software (PCHS) and the procurement of automated information resources solutions (PAIRS). These acquisition initiatives are expected to be the principal sources for acquiring Information Technology (IT) hardware, software, and services throughout the Department. The audit focused on: (i) identifying opportunities to enhance the procurement process by assessing acquisition related risks, (ii) reviewing the Department's actions taken relative to the Clinger-Cohen Act of 1996 on IT purchases, and (iii) assessing whether these IT procurements met the needs of Department users.

Scope and Methodology

PCHS acquisition risks were assessed to ensure that areas of significant risk were addressed. For the PAIRS initiative, we evaluated the acquisition risks commensurate with the progress of the PAIRS procurement initiative because that initiative has experienced significant delays. Audit work in VA Central Office (VACO) involved the Offices of the Deputy Assistant Secretaries for Acquisition and Materiel Management (OA&MM) and Information Resource Management (OIRM).

During the audit, we interviewed key program and procurement officials in OA&MM and OIRM. We also met with senior managers in the Department's major IT user groups, such as the Chief Information Officers (CIO) in the Veterans Health Administration (VHA) and Veterans Benefits Administration (VBA), and managers in the Office of the National Cemetery Service (NCS). In addition, we interviewed the Director of the Office of Small and Disadvantaged Business Utilization.

Audit work included a review of the solicitation and related contract documentation to identify and assess the effectiveness of actions taken to address significant issues raised in the Department's business, technical, and legal reviews. PCHS product prices were compared to commercial market and catalog prices after award of the contracts. We also reviewed documentation such as the CIO Council's minutes and VA's IT Strategic Plan. The audit considered applicable laws and regulations, placing significant emphasis on the recent legislative changes of the Clinger-Cohen Act of 1996 and assessing the Department's actions to meet the intent of that legislation.

APPENDIX I

Other legislative and regulatory requirements that we considered during the audit included:

- Paperwork Reduction Act of 1995.
- Government Performance and Results Act of 1993.
- Federal Acquisition Streamlining Act (FASA).
- Office of Management and Budget (OMB) Draft Capital Programming Guide.
- OMB Circular A-11 part 3, Planning, Budgeting, and Acquisition of Fixed Assets.
- OMB Circular A-130, Agency Information Management Planning.
- OMB Memorandum M-97-02, Funding Information Systems Investments.
- VA's (Draft) Directive 6000 IRM Framework.

Audit work benchmarked planning and implementation actions of the PCHS procurement to best business practices and lessons learned by the Department and other Federal agencies to the following:

- National Technical Information Service (NTIS) Guide: *IDIQ Contracts: Guide to Best Practices for Federal Information Processing (FIP) Resources*.
- General Services Administration's (GSA) *IDIQ and Requirements Contracts Lessons Learned* brochure.
- GSA's *Simplifying Small Computer Acquisitions*.
- GSA's *A Model Procurement Program: Successful IT Acquisition*.
- Interviews with current program staff and the previous NOAVA Contracting Officer.
- Program documentation addressing Departmental IT lessons learned.
- General Accounting Office's *Draft Assessing Risks and Returns/A Guide for Evaluating Federal Agencies' IT Investment Decision-Making*.
- OMB's *Evaluating Information Technology Investments, A Practical Guide*.

We made a field visit to the Birmingham Information Resources Management Field Office in Birmingham, Alabama, to observe the PCHS equipment acceptance and inspection testing after contract award. Interviews were conducted with key members of the procurement evaluation and testing team located in Birmingham. We met with VHA's Project Manager located in Manassas, Virginia to discuss the Clinical Workstation Replacement Initiative. We also contacted procurement officials at the Dallas VA Medical Center to discuss the use of Blanket Purchase Orders for acquisition of IT resources.

The audit was conducted in accordance with generally accepted Government Auditing Standards.

BACKGROUND

PCHS and PAIRS to Replace NOAVA Program and Meet Future Resource Needs

The Department is in the process of replacing the \$298 million mandatory source Nationwide Office Automation for the VA (NOAVA) program with two major procurement initiatives. VA has estimated that about \$2.4 billion of IT equipment and services could be acquired using the following strategic contract vehicles:

- The Procurement of Computer Hardware and Software (PCHS) acquisition, pronounced “peaches,” is valued at \$1.5 billion and provides computer hardware, software, and peripheral equipment for VA as well as serve other Federal Agencies.
- The Procurement for Automated Information Resources (PAIRS) is valued at \$875 million. The PAIRS acquisition is expected to provide services ranging from site surveys, systems analysis, software engineering, systems integration and networking.

In September 1994, Department officials developed a plan to replace NOAVA and started planning to meet VA’s future IT resource needs. Early planning decisions determined that the NOAVA contract should be split into two separate less complex non-mandatory contract mechanisms, one for acquiring IT products and the other for related support services. The Department recognized that IT was changing at a very rapid pace, and a very long-term contract such as NOAVA (10 years) may no longer be in VA’s interests. A plan outlining the milestones leading to an award was developed in November 1994. The replacement initiative planned for PCHS/PAIRS to run in parallel and be awarded within 90 days of each other in order to meet Department needs. NOAVA contract orders reached the maximum ordering limitation before the award of the PCHS/PAIRS contracts and Department users began making hardware and software purchases using alternative procurement sources.

Two PCHS Contracts Were Awarded

In January 1997, two PCHS contract awards were made. Each contract offers five categories of products: (i) standard desktop system, (ii) advanced system, (iii) portable systems, (iv) software products, and (v) peripherals. VA used a full and open contracting strategy and awarded Indefinite Delivery - Indefinite Quantity (IDIQ) contracts which included a \$1 million minimum contract guarantee for each vendor. PCHS requirements included approximately \$500 million to support other Federal agencies IT needs and contract items are commercially available and contain no special technical requirements. The contracts have a total 8-year systems life, with 5 years for ordering and 3 additional years for maintenance services.

PAIRS Procurement Experiences Significant Delays

The PAIRS procurement was planned to provide for IT services, including market research, site surveys, studies and analysis services, telecommunications, integration, pilot projects, systems design and implementation, wiring/cabling, infrastructure services, software development, support services, engineering, deinstallation, maintenance, disaster recovery, training, and program management. The level of spending anticipated for PAIRS was estimated higher than historic levels of VA spending under NOAVA and other contracts primarily due to VHA's planned implementation of the nationwide integrated information infrastructure. PAIRS included \$545 million within the total estimated \$875 million of planned requirements for the infrastructure initiative for FY 1997 through 2001.

The Department suspended work on the PAIRS procurement in September 1996. The work stoppage occurred during the presolicitation phase in order to resolve acquisition strategy differences with the Small Business Administration (SBA). On May 9, 1997 the Secretary of Veterans Affairs addressed SBA's appeal by approving the use of the Department's originally proposed full and open contract strategy. The Department restarted work on the initiative in late June 1997. Program and procurement officials are in the process of reevaluating the PAIRS procurement including redefining the requirements to meet the Department's changing needs. In the absence of a PAIRS contract, VHA sought alternative sources to acquire the IT services it needed.

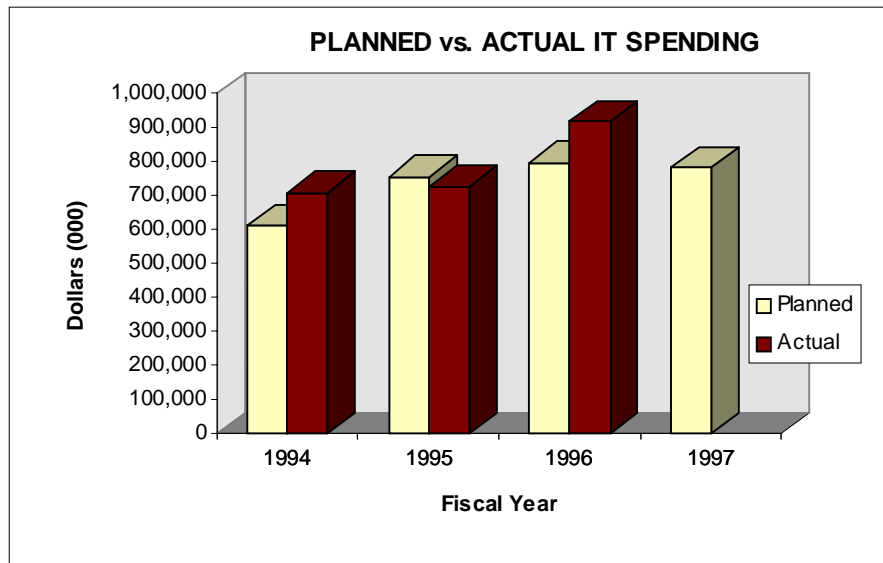
IRM Acquisition Approval Process Streamlined

The authority to contract for IT resources is vested in the Department's CIO, who may delegate all or part of that authority to VA administrations and staff offices, CIOs, or equivalent official. The Department's CIO delegated authority up to \$250,000 to each administration's CIO and their equivalents in other VA organizations.

In December 1996, OIRM removed the requirement that approval for IT acquisition projects which exceed \$250,000 be obtained when acquisitions are made using the PCHS contract, in order to expedite its current approval process. OIRM controls and justification procedures which would otherwise apply to PCHS contract offerings and delegated general authority to acquire IT resources from PCHS were removed regardless of dollar amount. Changes in the acquisition approval process apply to use of the PCHS contract(s) only. For acquisitions that are within the authority of the administrative level CIO or equivalent, the individual has the authority to establish any administration-specific processes needed to ensure that PCHS purchasing conforms to the agency's IT strategies, tactical plans, and operating budgets.

VA's Planned Versus Actual IT Spending

VA is making a significant annual investment in IT. The chart below shows the Department's planned versus actual IT spending between FY 1994 through 1996 and identifies planned IT obligations for FY 1997. Actual IT expenditures for FY 1994, 1995, and 1996 were about \$708, \$726 and \$919 million respectively. Planned obligations for FY 1997 were approximately \$782 million.



**SUMMARY OF DEPARTMENT BEST PRACTICES AND LESSONS
LEARNED ON THE PCHS ACQUISITION INITIATIVE**

BEST PRACTICES/LESSONS LEARNED	DEPARTMENT'S ACTIONS/DECISIONS TO IMPROVE PCHS INITIATIVE	MERITS ⁵ : Strength or Weakness
GENERAL CONSIDERATIONS		
<ul style="list-style-type: none"> • Avoid very large procurement. 	<ul style="list-style-type: none"> • Separated hardware, software, and peripherals from services using two procurements. 	Strength
<ul style="list-style-type: none"> • Avoid contracts which try to satisfy all Federal Information Processing (FIP) needs for an agency. 	<ul style="list-style-type: none"> • Limited product selection to three basic workstation configurations, software and peripherals. 	Strength
<ul style="list-style-type: none"> • Use IDIQ's to provide a contractual means to satisfy changing needs. 	<ul style="list-style-type: none"> • Selected IDIQ contract mechanism. 	Strength
<ul style="list-style-type: none"> • Use IDIQ's when delivery schedules can not be predetermined. 	<ul style="list-style-type: none"> • Selected IDIQ contract mechanism. 	Strength
<ul style="list-style-type: none"> • Reduce agency business risks. 	<ul style="list-style-type: none"> • Two PCHS awards were made to two vendors expected to compete for orders through use of non-mandatory contract. • Lower value of contract guarantees offered. • Use of non-mandatory contract provided opportunities to use alternative procurement sources. 	<p>Strength</p> <p>Strength</p> <p>Strength</p>

⁵ To assess related acquisition risks, the OIG compared and contrasted the decisions and actions taken by the Department leading to the award of the PCHS procurement initiative with the best practices and lessons learned from other major IT contracts. The determination of merits (strengths or weaknesses) is based on the judgmental expertise of the OIG using NTIS and GSA best practice guidelines.

APPENDIX III

BEST PRACTICES/LESSONS LEARNED	DEPARTMENT'S ACTIONS/DECISIONS TO IMPROVE PCHS INITIATIVE	MERITS: Strength or Weakness
GENERAL CONSIDERATIONS <i>(continued)</i>		
<ul style="list-style-type: none"> • Increase the number of possible winning vendors. 	<ul style="list-style-type: none"> • Simplified the PCHS specifications and focused on purchasing off-the-shelf commercial products. 	Strength
<ul style="list-style-type: none"> • Assemble and keep a good team in place. 	<ul style="list-style-type: none"> • Formal procurement teams were established with personnel having appropriate expertise. • Program staff has the prerequisite skills and expertise. 	Strength Strength
<ul style="list-style-type: none"> • Ensure continuity of key Government personnel. 	<ul style="list-style-type: none"> • PCHS initiative had continuity of key personnel. • PAIRS initiative had three different Contracting Officers assigned prior to award. 	Strength Potential Weakness
<ul style="list-style-type: none"> • Ensure adequate resources are provided to support procurement activities and evaluation. 	<ul style="list-style-type: none"> • Adequate resources were available to facilitate procurement. 	Strength
PLANNING THE ACQUISITION		
<ul style="list-style-type: none"> • Benchmark industry and Federal procurement practices and results to most successful procurement operation. 	<ul style="list-style-type: none"> • Extensive research performed in planning procurement. • Held pre-solicitation conferences with industry to obtain feedback to identify potential problems and facilitate corrective action, if needed. 	Strength Strength

APPENDIX III

BEST PRACTICES/LESSONS LEARNED	DEPARTMENT'S ACTIONS/DECISIONS TO IMPROVE PCHS INITIATIVE	MERITS: Strength or Weakness
PLANNING THE ACQUISITION <i>(continued)</i>		
<ul style="list-style-type: none"> Develop an acquisition strategy that leads to a family of IDIQ contracts tailored for users. 	<ul style="list-style-type: none"> Split the acquisition of computer hardware and software from services. 	Strength
<ul style="list-style-type: none"> Introduce competition after award. 	<ul style="list-style-type: none"> Two competing vendors were awarded PCHS contracts. PCHS, as a non-mandatory source provides users with options to order from alternative sources. 	<p>Strength</p> <p>Strength</p>
<ul style="list-style-type: none"> Perform a requirements analysis. 	<ul style="list-style-type: none"> Requirements and alternatives analysis developed to document VA needs and to select best alternatives available. OA&MM processed call for development of Advance Procurement Plan (APP), but no plan developed. OIRM prepared an APP for the procurement, but lacks sufficient support for some of the estimated uses. 	<p>Strength</p> <p>Weakness</p> <p>Weakness</p>
<ul style="list-style-type: none"> Ensure the components, systems, and contracts work together. 	<ul style="list-style-type: none"> No special requirements for items to be a specific make or model. All specifications available commercially and can be met by many vendors. 	<p>Strength</p> <p>Strength</p>

APPENDIX III

BEST PRACTICES/LESSONS LEARNED	DEPARTMENT'S ACTIONS/DECISIONS TO IMPROVE PCHS INITIATIVE	MERITS: Strength or Weakness
PLANNING THE ACQUISITION <i>(continued)</i>		
<ul style="list-style-type: none"> • Increase user input for procurement requirements. 	<ul style="list-style-type: none"> • Users contributed to the APP and functional requirements. 	Strength
<ul style="list-style-type: none"> • Separate services that are provided as general support and service that can be used for specific technical support. 	<ul style="list-style-type: none"> • PCHS contract does not offer services. 	Not Rated
<ul style="list-style-type: none"> • Designate COTR early. 	<ul style="list-style-type: none"> • COTR was not designated in writing at the time of award. 	Weakness
<ul style="list-style-type: none"> • Provide COTR formal training in related responsibilities. 	<ul style="list-style-type: none"> • COTR lacked formal training but had similar project experience. 	Weakness
<ul style="list-style-type: none"> • Establish performance measures. 	<ul style="list-style-type: none"> • Four measures established, including technical refreshment, customer satisfaction, price performance, and trend analysis and reporting. 	Strength
DEFINING CONTRACT SCOPE		
<ul style="list-style-type: none"> • Limit the scope of the contract. 	<ul style="list-style-type: none"> • Product offering limited to commercially available items. • Number of products limited to three types of workstations. 	Strength Strength
<ul style="list-style-type: none"> • Reduce or eliminate bundling of product offerings. 	<ul style="list-style-type: none"> • Contract flexibility lets users build own platforms and select individual items desired. 	Strength
<ul style="list-style-type: none"> • Limit the number of individual needs served by a single contract. 	<ul style="list-style-type: none"> • Unique product items and special technical requirements were not included on the contract. 	Strength

APPENDIX III

BEST PRACTICES/LESSONS LEARNED	DEPARTMENT'S ACTIONS/DECISIONS TO IMPROVE PCHS INITIATIVE	MERITS: Strength or Weakness
DEFINING CONTRACT SCOPE (<i>continued</i>)		
<ul style="list-style-type: none"> • Offer PCHS as full and open competition. 	<ul style="list-style-type: none"> • PCHS concept resulted in full and open competition. • Removed mandatory source requirement and provided flexibility to users to verify prices in response to market conditions. 	<p>Strength</p> <p>Strength</p>
<ul style="list-style-type: none"> • Limit mandatory requirements wherever possible. 	<ul style="list-style-type: none"> • Established only 49 mandatory requirements in solicitation. 	<p>Strength</p>
<ul style="list-style-type: none"> • Provide for cost competitive technical refreshment. 	<ul style="list-style-type: none"> • Contract terms provided for use of technology refreshment clauses. 	<p>Strength</p>
<ul style="list-style-type: none"> • Establish contract guarantees which are reasonable and appropriate to the procurement's business risks. 	<ul style="list-style-type: none"> • VA offered a \$1 million guarantee to each PCHS vendor. 	<p>Strength</p>
<ul style="list-style-type: none"> • Determine contract maximum based on types of requirements, prior and probable ordering scenarios, the agency's business strategy, and reasonable contingencies. 	<ul style="list-style-type: none"> • Prior ordering history, current Department needs, and reasonable contingencies were considered before setting contract maximum. • Contract maximum appears reasonable in light of current business conditions and opportunities. 	<p>Strength</p> <p>Strength</p>
<ul style="list-style-type: none"> • Provide for sharing opportunities for others with similar requirements. 	<ul style="list-style-type: none"> • VA added about \$500 million in additional requirements to ensure it has the ability to take advantage of serving other Federal agencies. 	<p>Strength</p>

APPENDIX III

BEST PRACTICES/LESSONS LEARNED	DEPARTMENT'S ACTIONS/DECISIONS TO IMPROVE PCHS INITIATIVE	MERITS: Strength or Weakness
DEFINING CONTRACT SCOPE (<i>continued</i>)		
<ul style="list-style-type: none"> • Include the following contractor provided support for large contracts providing products: -- Help desks. -- Contract service centers. -- Contractor published ordering guides. 	<ul style="list-style-type: none"> • PCHS provides for help desk, contract service center support, and ordering guides. 	Strength
SETTING CONTRACT DURATION		
<ul style="list-style-type: none"> • Make contract period consistent with fluctuating market. 	<ul style="list-style-type: none"> • Contract period set at one year with four 1-year options. 	Weakness
<ul style="list-style-type: none"> • Establish normal terms including options for IDIQ contracts for FIP products at no more than three years, without supporting justification. 	<ul style="list-style-type: none"> • Contract period extended to five years. 	Weakness
SOLICITATION & PROPOSAL EVALUATION		
<ul style="list-style-type: none"> • Prepare a written plan for the conduct of the solicitation. 	<ul style="list-style-type: none"> • Written plan prepared. 	Strength
<ul style="list-style-type: none"> • Prepare a formal solicitation document. 	<ul style="list-style-type: none"> • Solicitation was prepared. 	Strength
<ul style="list-style-type: none"> • Use electronic media to the maximum. 	<ul style="list-style-type: none"> • Solicitation was made available using electronic commerce. 	Strength
<ul style="list-style-type: none"> • Designate a selection official (Contracting Officer) to be responsible for the selection process and the decision. 	<ul style="list-style-type: none"> • The Contracting Officer assigned had the appropriate authority and expertise to manage the procurement. 	Strength
<ul style="list-style-type: none"> • Define clear responsibility for evaluation activities. 	<ul style="list-style-type: none"> • Responsibility was assigned to specific teams reviewing key aspects of evaluation process. 	Strength

APPENDIX III

BEST PRACTICES/LESSONS LEARNED	DEPARTMENT'S ACTIONS/DECISIONS TO IMPROVE PCHS INITIATIVE	MERITS: Strength or Weakness
SOLICITATION & PROPOSAL EVALUATION <i>(continued)</i>		
<ul style="list-style-type: none"> Review solicitation activities on both a periodic and event-driven basis. 	<ul style="list-style-type: none"> Project Manager's review involvement was extensive. 	Strength
<ul style="list-style-type: none"> Provide an automated evaluation system for technical evaluation. 	<ul style="list-style-type: none"> VA developed in-house software to automate the technical evaluation. 	Strength
<ul style="list-style-type: none"> Justify tradeoffs between technical quality and cost of competing proposals. 	<ul style="list-style-type: none"> All offers were evaluated. Performance targets used to identify the best values. 	Strength Strength
<ul style="list-style-type: none"> Perform Inspection and Acceptance Testing immediately after award. 	<ul style="list-style-type: none"> Effectively lowered bid and proposal costs for vendors not expected to receive contract awards with minimum risks. 	Strength
CONTRACT PRICING		
<ul style="list-style-type: none"> Use a contract strategy that eliminates excessive prices. 	<ul style="list-style-type: none"> Multiple awards and other sources increase competition and stabilized prices. 	Strength
<ul style="list-style-type: none"> Use an automated cost model for solicitation evaluation purposes. 	<ul style="list-style-type: none"> An automated evaluation cost model was developed in-house and used. Price analysis work was summarized and supported with a written report. 	Strength Strength
<ul style="list-style-type: none"> Prevent buy-ins. 	<ul style="list-style-type: none"> Used independent consulting firm to perform thorough review of pricing proposals. Pricing review did examine the potential risk of buy-ins. 	Strength

APPENDIX III

BEST PRACTICES/LESSONS LEARNED	DEPARTMENT'S ACTIONS/DECISIONS TO IMPROVE PCHS INITIATIVE	MERITS: Strength or Weakness
<ul style="list-style-type: none"> Minimize commercial item price differences by avoiding non-essential special contract provisions. 	<ul style="list-style-type: none"> No special changes or modifications are being made to items, however value offered was considered. 	Strength
<ul style="list-style-type: none"> Ensure prices are complete, accurate, and materially balanced. 	<ul style="list-style-type: none"> Provided provisions for pricing adjustments in conjunction with technical refreshments. 	Strength
	<ul style="list-style-type: none"> VA built in competition between its two PCHS contractors. 	Strength
	<ul style="list-style-type: none"> Users can pursue alternative sources if PCHS contractors do not remain competitive with market price fluctuations. 	Strength
CONTRACT ADMINISTRATION		
<ul style="list-style-type: none"> Define contract administration responsibilities early in the process. 	<ul style="list-style-type: none"> Program office is in place to administer contract. 	Strength
<ul style="list-style-type: none"> Conduct on-going market research to improve effectiveness. 	<ul style="list-style-type: none"> Program office is in place to perform research. 	Potential Strength
	<ul style="list-style-type: none"> Extensive research of best practices performed. 	Strength
<ul style="list-style-type: none"> Eliminate centralized ordering bottlenecks. 	<ul style="list-style-type: none"> Ordering was decentralized to enhance timeliness. 	Not Rated
<ul style="list-style-type: none"> Reduce paperwork burden in ordering system. 	<ul style="list-style-type: none"> Electronic system incorporated into ordering process. 	Not Rated
	<ul style="list-style-type: none"> Use of Government credit cards authorized. 	Not Rated
<ul style="list-style-type: none"> Minimize delivery delays. 	<ul style="list-style-type: none"> Orders delivered directly to user/purchaser. 	Not Rated

APPENDIX III

BEST PRACTICES/LESSONS LEARNED	DEPARTMENT'S ACTIONS/DECISIONS TO IMPROVE PCHS INITIATIVE	MERITS: Strength or Weakness
<ul style="list-style-type: none"> • Spread warranty support among more than one vendor. 	<ul style="list-style-type: none"> • PCHS vendors offer 3-year warranty with on-site technical support. • Other sources available to perform warranty work. 	<p>Not Rated</p> <p>Not Rated</p>
<ul style="list-style-type: none"> • Document draft ordering procedures before releasing the solicitation. 	<ul style="list-style-type: none"> • VA placed responsibility for providing ordering system solely on the PCHS contractors. 	Potential Weakness
<ul style="list-style-type: none"> • Track orders and deliveries against all contract line items and report status. 	<ul style="list-style-type: none"> • VA will not have the ability to reconcile Government records to contractor records. 	Potential Weakness
<ul style="list-style-type: none"> • Establish follow-up procedures with users for resolving deficiencies. 	<ul style="list-style-type: none"> • Not addressed by program office. 	Potential Weakness
<ul style="list-style-type: none"> • Automate problem reporting. 	<ul style="list-style-type: none"> • Not addressed by program office. 	Potential Weakness

APPENDIX III

KEY EVENTS IN PCHS ACQUISITION INITIATIVE

August 1994	Initial planning meeting
September 1994	Establish work groups
October 1994	Examine office automation issues
February 1995	Contact other agencies to identify current practices
April 1995	Conduct requirements analysis
April 1995	Conduct alternatives analysis
September 1995	Develop business strategy
September 1995	Develop functional specifications
September 1995	Submit Agency Procurement Request (APR) to GSA
September 1995	Prepare draft Request for Comments (RFC)
September 1995	Issue RFC
October 1995	Receive Delegation of Procurement Authority (DPA) from GSA
October 1995	RFC comments due
October 1995	Evaluate RFC comments
November 1995	Prepare draft solicitation
November 1995	Issue draft solicitation for comments
December 1995	Comments due
February 1996	Evaluate comments
February 1996	NOAVA contract reaches maximum dollar amount authorized

APPENDIX IV

May 1996	Finalize solicitation
July 1996	Issued solicitation
July 1996	Amendment # 1 added solicitation regulatory provisions changes and amendments
August 1996	Amendment # 2 added changes to various functional specifications and technical tables
August 1996	Amendments # 3 added Buy-American Act definitions
August 1996	Amendment # 4 revised due dates for proposals receipt
August 1996	Amendment # 5 revised due dates and contract deviation language
September 1996	Amendment # 6 required all software be submitted on 3.5” disks
September 1996	Technical responses due
September 1996	Price responses due
November 1996	Evaluate responses
January 1997	Award contract
January 1997	Contract protest filed with GAO
February 1997	Protest dismissed by the Comptroller General of the United States
February 1997	Contract Acceptance Testing and Inspection
March 1997	PCHS ordering initiated

KEY EVENTS IN PAIRS ACQUISITION INITIATIVE

December 1995	Develop draft and functional specifications
January 1996	Issue RFC
February 1996	NOAVA contract reaches maximum dollar limitation
April 1996	Finalize Requirements & Alternatives Analysis
June 1996	Held an Industry Day to gain industry's advice on best overall acquisition strategy
July 1996	VA requests DPA
July 1996	GSA approved DPA
August 1996	Held another Industry Day to gain industry's advice on best overall acquisition strategy
August 1996	Target date to issue Request for Proposal
September 1996	Contract clearances submitted to Office of Small and Disadvantaged Business Utilization/Small Business Administration (OSDBU/SBA) to use multiple awards providing for full and open contracting with specific subcontracting goals
September 1996	SBA denies contract request; objects to contract strategy and recommends partial set-aside strategy
September 1996	Department Deputy Assistant Secretary for IRM formally disagrees with the PAIRS small business set-aside strategy
September 1996	Department Assistant Secretary for Management stops all work on PAIRS
November 1996	Representatives from SBA, OSDBU, OA&MM, OIRM and General Counsel met and OIRM offered total small business set-aside as an alternative procurement strategy

APPENDIX V

December 1996	Revised clearances submitted to OSDDBU/SBA
December 1996	OSDBU approves strategy with specified conditions
December 1996	Contract performance by small business recognized as issue
January 1997	PAIRS work re-started
April 1997	SBA appeals PAIRS full and open contracting strategy to VA Secretary
May 1997	Secretary addressed SBA's appeal by approving the use of the Department's originally proposed full and open contract strategy
June 1997	Department restarts PAIRS initiative including redefining requirements to meet changing needs

SUMMARY OF THE DEPARTMENT'S INFORMATION TECHNOLOGY STRATEGIC PLANS AND CAPITAL INVESTMENT REVIEW PROCESS

Several recent management reforms including the Clinger-Cohen Act, the Government Performance and Results Act, and the Chief Financial Officers Act have introduced requirements emphasizing the need for Federal agencies to significantly improve their management processes, including how they select and manage IT resources. In response to recent legislation, agencies need processes and information in place to help ensure that IT projects are being implemented at acceptable costs, within reasonable and expected time frames, and are contributing to improvements in mission performance.

The VA's IT strategic planning efforts provides the future framework for IT investment decisions. The Department is in the process of developing a capital investment process which builds upon the concepts and practices identified in legislation, guidance, and best practices from both industry and Government and has considered the Office of Management and Budget's (OMB) Capital Programming Guide (Draft) for developing an effective process.

The OMB Capital Programming Guide states that the capital programming process is useful for all long-term investments in capital assets. However, agencies should consider the materiality of the investment to the agency in determining the level of effort devoted to capital programming. A capital programming process involving more or less detail and review based on the size or strategic importance of proposed investments may be appropriate, particularly in large agencies. Each agency is encouraged to have an Agency Capital Plan.

This plan should include a statement of the agency strategic plans, an analysis of the portfolio of assets already owned by the agency and in procurement, the performance gap, funding, and related information. Tracking of the IT portfolio projects should be accomplished through post-implementation reviews which identify whether the asset is performing as planned and ensure continual improvement of an agency's capital management process. The guide emphasizes the importance of linking capital asset planning, funding, and management to agency Strategic Plans and Annual Performance Plans.

Development of the Department's IT Strategic Plan

In October 1996, VA awarded a task order to obtain contractor assistance to develop an IT Strategic Plan for the Department. The initial plan was completed in April 1997. This plan includes a strategic vision, an assessment of internal needs and capabilities and

APPENDIX VI

external factors, the strategic priorities, a method for selecting VA's investment portfolio, and a process for revising and updating the plan.

Actions are currently under way to develop a Department IT Portfolio, which will contain a ranking of VA IT investments and a performance measurement/performance management strategy. The Department has developed an IT strategic planning process which includes an investment decision framework.

VA's IT Strategic Planning document states that IT projects subject to capital investment review will be identified on the following specific IT thresholds for the FY 1999 budget:

VHA	\$10 million per VA Medical Center/\$25 million per Veterans Integrated Service Network
VBA	\$2 million
NCS	\$1 million
All others	\$1 million

The Department's Chief Information Officers Council accepted this process noting that IT projects subject to capital investment review will include high risk and high visibility projects, as well as those projects where the annual investment exceeds established annual thresholds for local national/Department-wide initiatives by organization. *(A summary of the Department's actions to address specific Clinger-Cohen Act requirements relating to IT investments follows in Appendix VII on pages 43-48.)*

STATUS OF VA'S EFFORTS TO IMPLEMENT SPECIFIC CLINGER-COHEN ACT REQUIREMENTS RELATING TO INFORMATION TECHNOLOGY INVESTMENTS

The Clinger-Cohen Act of 1996, was a recent law passed by Congress intended to significantly improve agency management of information systems, including acquisition of information technology (IT). The Act requires agencies to design and develop a process for maximizing the value, and assessing and managing the risk of the agency's IT acquisitions. A key goal of the Act is that agencies should have processes and information in place to help ensure that IT projects are implemented at acceptable costs, within reasonable and expected time frames, and are contributing to improvements in mission performance. The Department must also ensure that performance measures are established to support evaluating the results and benefits of IT investments. VA is in the process of taking actions to comply with the Act. The Act requires agencies to be in full compliance by 1998.

Department officials are in the initial stages of making decisions and issuing Department-wide directives to ensure compliance with the Act. Key actions to address the specific sections of the Act relating to IT investment are summarized below:

***Act Requirement, Section 5122:** Agency heads are to design and implement a process for maximizing the value and assessing and managing the risks of their IT acquisitions; the process is to provide for the selection of investments using minimum criteria on whether to undertake an investment (including quantitatively expressed projected net, risk-adjusted return on investment and specific quantitative and qualitative criteria for comparing and prioritizing alternative information systems projects) and to provide a means for senior management to obtain timely information regarding progress (at established milestones) in terms of cost, capability of the system to meet requirements, timeliness, and quality.*

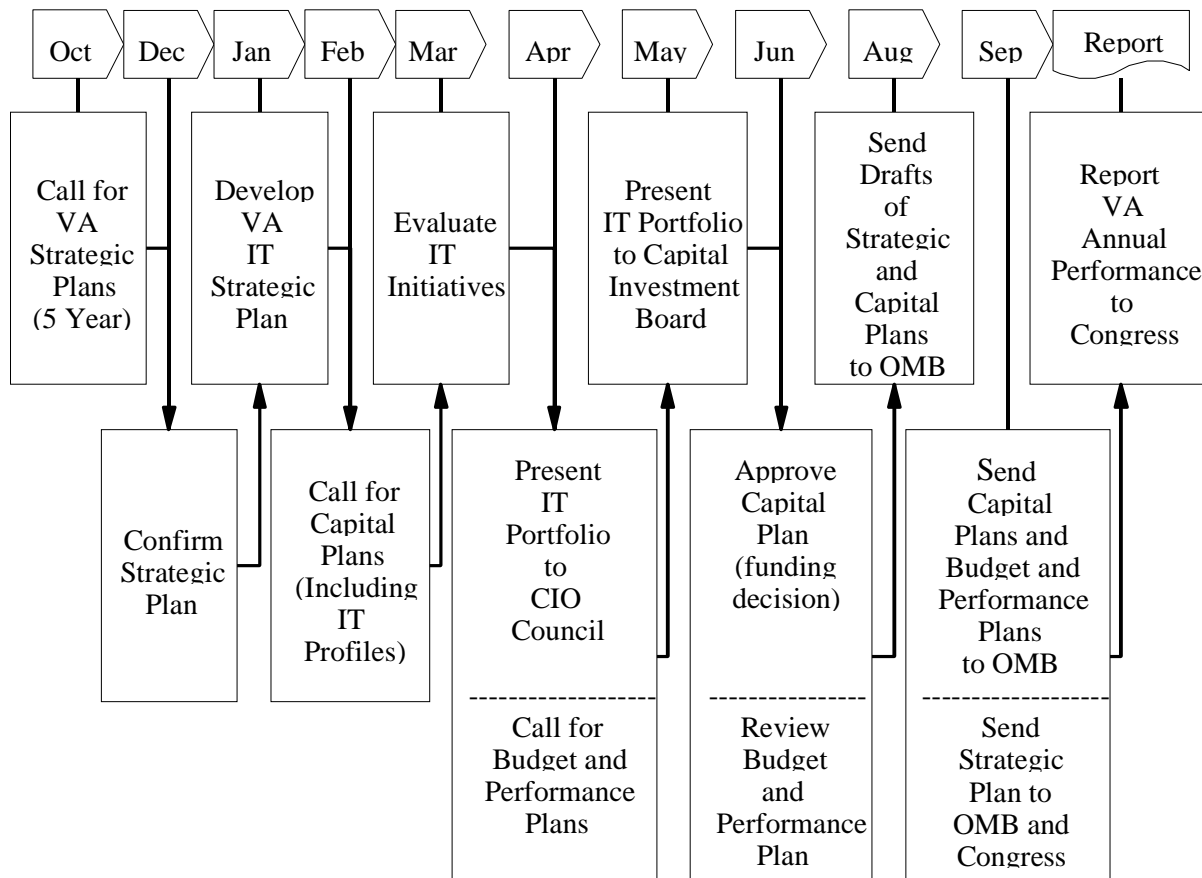
- VA issued an IT Strategic Planning document in March 1997 that provided for establishing a Department-wide direction and framework for its IT investment process. This document defines the tasks for developing the IT Strategic Plan and IT Investment Portfolio. IT thresholds (criteria) for the FY 1999 budget were established. The Department's IT portfolio is expected to provide a means for senior management to evaluate IT investments.
- The Department's CIO Council accepted the IT investment process as defined in the IT Strategic Planning Document.

APPENDIX VII

Act Requirement, Section 5122(b)(2): *The IT investment process of executive agencies is to be integrated with the processes for making budget, financial, and program management decisions.*

- VA finalized its IT Strategic Plan for FY 1999 - FY 2003 in July 1997. The plan established a process to link the high priority projects and budgets to IT strategic goals and performance objectives.
- During FY 1997 the Department initiated actions to validate the conceptual process to tie together how IT strategic planning will relate to other strategic planning and budget processes in the Department. The conceptual timeline of this process is shown in the exhibit below:

IT STRATEGIC PLANNING PROCESS



Act Requirement, Section 5123(3): *Agency heads shall ensure that performance measurements are prescribed for IT used by or to be acquired for the agency and that the performance measurements measure how well the IT supports agency programs.*

APPENDIX VII

- In August 1996, the Deputy Secretary directed Administration-level CIOs to develop business plans, with detailed milestones and realistic measurable goals for each IT investment, that are linked to Departmental and organizational objectives.
- VA released draft Directive 6000 in February 1997 to require VA officials, as part of the IT planning process, to include identifying objectives that are expressed in quantifiable and measurable form. This directive provides guidance to ensure performance measures will be outcome-oriented, significant, responsive to multiple priorities, linked to responsibility, and based on credible information.
- The Department used the data collection instruments in its 1997 Strategic Planning Document to prepare and request performance measures for all IT projects. The narrative statements describe each project, its objectives, expected benefits, risk management strategies, and budget information. The cost and performance data in the profiles should facilitate performance monitoring requirements.
- The Department is in the process of developing its IT Portfolio, which is expected to contain a ranking of VA IT investments and performance strategies. Existing and proposed projects are expected to be evaluated against performance, affordability, life cycle cost, and other applicable measurements.

Act Requirement, Section 5123(5): *Agency heads are to analyze the missions of the agency and, based on the analysis, revise the agency's mission-related and administrative processes (as appropriate) before making significant investments in IT used to support those missions.*

- VA's IT Strategic Plan describes the Department's mission as described by the Secretary's vision that VA will function as a unified Department providing world class service and presenting the Department as "One-VA" to our customers. The Plan sets a corporate direction for IT and provides a framework for IT decision-making in VA. The Department plans to use technology to unify the agency in its dealings with the public and to pursue technology integration to improve information management and ultimately improve customer service.
- VA's strategic and business plans presently address cross-serving initiatives related to the Department's mission of providing the best possible service to veterans. The Department's April 1997 progress report outlines the agency's approach and timing for assessing IT impact on mission. The Strategic Management Process must be in place before the Department can determine what new competencies will be needed relating to the introduction of new benefits over the next 6-10 years and how the customer interface will need to change to allow customer access to those benefits.

APPENDIX VII

Act Requirement, Section 5125(b)(1): *The agency CIO is responsible for providing advice and other assistance to the agency head and other senior managers to ensure that IT is acquired and information resources are managed for the agency in a manner that implements the policies and procedures of this act, consistent with the Paperwork Reduction Act, and the priorities of the agency head.*

- The Secretary appointed a CIO on August 6, 1996. The CIO who is also the Assistant Secretary for Management reports directly to the Secretary. The CIO is responsible for directing Department-level budgeting, finance, procurement, and information management.
- VA's CIO is responsible for coordinating the development of automation plans, policies, and standards and ensuring that implementation is consistent with laws and regulations including the Paperwork Reduction Act.
- The CIO chairs the Department's CIO Council formed in January 1996 to ensure that information and technology resources are managed to maximize benefits to the Department and accountability of the Department's CIO statutory requirements and the veterans VA serves.

Act Requirement, Section 5125(b)(2): *The agency CIO is responsible for developing, maintaining, and facilitating the implementation of a sound and integrated IT architecture for the agency; the architecture is an integrated framework for evolving or maintaining existing IT and acquiring new IT to achieve the agency's strategic goals and IRM goals.*

- The CIO issued the IT strategic planning guidance in March 1997 that provided a Department-wide direction and framework for IT investment decisions. The planning document defined the vision, goals, and objectives for using information technology to support VA's mission and customer service goals; identified cross-cutting issues; and proposed a strategic planning process.
- The CIO published the IT Strategic Plan FY 1999 - FY 2003 in July 1997 with its defined IT goals that provides the framework for assessing current and future IT investments.

Act Requirement, Section 5125(c)(2): *The agency CIO is to monitor the performance of IT programs of the agency, evaluate the performance of those programs on the basis of applicable performance measures, and advise the agency head regarding whether to continue, modify, or terminate the program or project.*

APPENDIX VII

- The draft VA Directive 6000 includes key points requiring monitoring, evaluating, and reviewing performance of IT programs. The post-implementation evaluation will result in a report with findings, recommendations and lessons learned, and feed the lessons learned back into the processes.
- The first round of post-implementation evaluation of IT initiatives using Act-specific performance measurements will occur in FY 1998.
- The Department's OIRM is conducting the following proactive in-process and post implementation follow-up reviews of several IT initiatives in various stages of their respective life cycle.

In-Process reviews:

Veterans Service Network

The Imaging Management System

Post Implementation Follow-up reviews:

Integrated Funds Distribution, Control Point Activity & Procurement

Burial Operations Support System

Control of Veterans Records System

Act Requirement, Section 5126: *The agency head, in consultation with the CIO and Chief Financial Officer (or comparable official) is to establish policies and procedures that (1) ensure accounting, financial, and asset management systems and other information systems are designed, developed, maintained, and used effectively to provide financial or program performance data for the agency's financial statements; (2) ensure that financial and related program performance data are provided on a reliable, consistent, and timely basis to agency financial management systems; and, (3) ensure that the financial statements support the assessment and revision of agency processes and performance measurement.*

- The Secretary designated the Chief Financial Officer (CFO) as the Department's CIO. The appointment reflected the Secretary's decision to establish clear accountability for information management resources activities in VA where financial systems represent a substantial part of the Department's information systems portfolio.
- VA draft Directive 6000 describes the responsibilities of the CIO, that includes implementing applicable Government-wide and VA information policies, principles, standards, and guidelines.
- The CFO/CIO has dual responsibility for the Department's Financial Management

APPENDIX VII

System, which is included in the Department's Strategic Plan as one of VA's mission critical IT initiatives through FY 2003.

Act Requirement, Section 5127: *The agency head shall identify in the agency's IRM major IT acquisition programs, or phase or increment of such program, that has significantly deviated from the cost, performance, or schedule goals established for the program.*

- The Department plans to use post-implementation reviews to evaluate the overall effectiveness of the agency's capital planning and acquisition process. These reviews will evaluate customer satisfaction, strategic impact and effectiveness, internal business, and innovation, and assess actual return on investment.
- Program officials will be required to document post-implementation evaluations in written reports that include findings, recommendations and lessons learned, and feed the lessons learned back into the processes.

Act Requirement, Section 5132: *It is the sense of Congress that during the next five year period beginning with 1996, executive agencies should achieve each year at least a five percent decrease in the cost (in constant fiscal year dollars) that is incurred by the agency for operating and maintaining information technology, and each year a five percent increase in the efficiency of the agency operations, by reason of improvements in information resources management by the agency. (Executive order 13011 directed VA to implement the "relevant" provisions of the Act, which included the performance expectations for efficiency.)*

- On August 6, 1996 the Deputy Secretary called for the administration-level CIOs to develop business plans, with detailed milestones and realistic measurable performance goals for each IT investment, that are linked to Departmental and organizational strategic objectives.
- The Department's CIO Council discussed IT performance expectations and determined the language of the Act to be non-directive.

MONETARY BENEFITS
IN ACCORDANCE WITH IG ACT AMENDMENTS

REPORT TITLE: Audit of VA Procurement Initiatives for Computer Hardware, Software, and Services (PCHS/PAIRS) and Selected Information Technology Investments

PROJECT NUMBER: 7D2-006

<u>Recommendation Number</u>	<u>Category/Explanation of Benefits</u>	<u>Better Use of Funds</u>	<u>Questioned Costs</u>
3	Better use of funds, by assuring that the Department addresses the performance expectations in the Clinger-Cohen Act for reduced annual IT expenditures and that VA's highest priority IT investment needs are addressed.	\$ 22 million	
4	Better use of funds, by ensuring VHA's dumb terminals are not unnecessarily upgraded to higher performance systems.	\$36 million	
Total		<u><u>\$ 58 million</u></u>	

Note: For Recommendation 3, projecting \$22 million (based on present net value) over the 5-year period specified in the Act results in a potential reduction in IT costs to the Department of \$101 million. (Details on the calculation of reduced IT costs is in Appendix IX on page 55.)

ACTING ASSISTANT SECRETARY
FOR MANAGEMENT COMMENTS

**Department of
Veterans Affairs**

Memorandum

Date: Dec. 17, 1997

From: Acting Assistant Secretary for Management (004)

Subj: Draft Report of Audit of VA Procurement Initiatives for Computer Hardware, Software and Services (PCHS/PAIRS) and Selected Information Technology Investments

To: Assistant Inspector General for Auditing (52)

1. Attached is the Office of Management's review and response to the Office of Inspector General's (OIG) Draft Report of the Audit of VA Procurement Initiatives for Computer Hardware, Software, and Services (PCHS/PAIRS) and Selected Information Technology Information Technology Investments.

2. If you have any questions or would like additional information, please call me at 273-5589, or call Ms. Nada D. Harris at 273-8855, Deputy Assistant Secretary for Information Resources Management.

Original signed by

D. Mark Catlett

Attachment

**ACTING ASSISTANT SECRETARY
FOR MANAGEMENT COMMENTS**

Attachment:
Page 1 of 3

**Office of Management
Response to OIG Draft Report of VA Procurement Initiatives for Computer
Hardware, Software and Services (PCHS/PAIRS) and Selected Information Technology Investments**

Recommendation 1: We recommend that the Assistant Secretary for Management reassess the needs and benefits of using national IT contracts, given the availability and use of other procurement mechanisms by the Department's organizational elements.

Response: We concur. The Office of Management constantly assesses appropriate contract vehicles for IT needs, and is cognizant of the IT contracting approaches that are presently in competition with each other in VA. These approaches are (1) full and open competitive procurements; (2) Multiple Award Schedule (MAS) purchases; and (3) Blanket Purchase Agreements (BPAs) established under MAS contracts. The Office of Management believes that MAS and BPA procurements are a fact of life in Federal procurement today; however, they should not be considered a replacement for genuinely competitive instruments such as ID/IQ contracts.

Given the desire for a One-VA IT infrastructure, the potential complexities of LAN and PC software interfaces, the potential for local decisions on costly PC acquisitions and the importance of market place pricing, The Office of Management remains steadfastly committed to PCHS as the best VA approach for PC acquisitions; however, the Office of Management is always willing to "reassess" procurement alternatives as circumstances warrant.

Recommendation 2: We recommend that the Assistant Secretary for Management ensure that VHA's decentralized Clinical Workstation Replacement initiative is subject to the new capital IT investment review process.

Response: We concur. VHA's Clinical Workstation Replacement costs fell below the annual threshold of \$10,000,000 established for field facilities in the FY 1999 budget cycle. Therefore, the initiative was not subject to the Capital Investment Review Process. It is anticipated that for the FY2000 budget cycle, thresholds will include life cycle costs in addition to annual investments in order to further evaluate IT investments of significance. However, high visibility and cross-cutting initiatives can be reviewed at any time. For FY 2000 VHA's Clinical Workstation initiative will be subject to the VA Capital Investment Process.

ACTING ASSISTANT SECRETARY FOR MANAGEMENT COMMENTS

Attachment:
Page 2 of 3

Recommendation 3: We recommend that the Assistant Secretary for Management ensure that the Department addresses the performance expectations included in the Section 5132 of the Clinger-Cohen Act.

Response: The Acting Assistant Secretary for Management concurs with the recommendation, but disagrees with the methodology for computing the amounts.

The Office of Management is aware of the requirement in the Clinger-Cohen Act, and will explore methods of implementing this in concert with other elements of VA. The \$230 million savings estimated in the report assumes VA will use the entire IT budget for the “operation and maintenance of information technology.” Both this premise and the figure of \$230 million appear incorrect. Only a portion of the information technology budget is used for “operations and maintenance.” Additionally, since the five-percent reduction is required against constant FY 1996 dollars, a 3 percent adjustment for inflation was made for FY 1997 and beyond to obtain the FY 1996 value.

With these calculations, the actual reduction for FY 1997 becomes only \$22 million, and the total value (in constant FY 1996 dollars) of the savings over the period FY 1996-2000 is actually \$101 million. A spreadsheet documenting our calculations is attached.

While the Office of Management agrees with the concept of improving the efficiency of operations and maintenance, and doing it at a lower cost, consensus within the Department on the best way of achieving this has not yet occurred. It is worth noting, however, that our calculations on the attached spreadsheet indicate that VA has actually exceeded the 5 percent target for both FY 1997 and FY 1998 in the budget documentation submitted to the Office of Management and Budget early this year.

Recommendation 4: We recommend that the Under Secretary for Health take action to ensure that purchases to replace VHA’s dumb terminals are not necessarily upgraded from economical configurations and original project requirements with unnecessary higher performance systems.

Response: The Clinical Workstation Prototype was conducted to investigate the impact of replacing “dumb” terminals with workstations at VAMCs. The project provided compelling evidence that workstations can produce large and quantifiable economic benefits (Final Cost Benefits Analysis dated December 23, 1996.) Based on these results, VHA management decentralized the authority and responsibility for purchasing desktop systems to the VISNs. This was done because local personnel are in the best position to determine information processing requirements necessary to meet current and projected needs. PCHS is one vehicle used for these procurements. VHA procurement officials are directed to obtain the best values for VA in these procurements. (This response was prepared from information provided VHA’s Chief Information Officer (19))

ACTING ASSISTANT SECRETARY FOR MANAGEMENT COMMENTS

Attachment:
Page 3 of 3

Recommendation 5: We recommend that the Assistant Secretary for Management establish a realistic estimate of cost, schedule, and performance goals for the PAIRS procurement initiative that excludes the VHA Infrastructure Upgrade project requirements that have already been completed.

Response: We concur with the recommendation, however, while the Office of Management believes Pursuit of the PAIRS program would be of benefit to the Department, there are differing views between VA organizations as to the best approach. There is no consensus to proceed with this procurement.

Were the effort to recommence, however, the following, schedule of events (based upon an assumed full and open competitive acquisition strategy that leads to three contracts being awarded, and based heavily upon the use of oral presentations for best value source selection) would occur leading to contract award:

Release draft RFP to industry for comment	“Start”
Amend RFP based on industry comments	Start plus 2 months
Release official RFP	Start plus 3 months
Receipt of written proposals	Start plus 7 months
Evaluation	Start plus 8 months
Conduct oral presentations	Start plus 9 months
Contracts award	Start plus 10 months

Due to the nature of PAIRS (a contract vehicle that would provide a source of technology consulting and integration services), creation of performance measures will be done as part of individual task orders. This is because PAIRS is designed to address a wide variety of solutions, and is dependent upon the extent to which the contract vehicle is used.

If the effort is restarted, the Office of Management estimates that PAIRS would be used to the extent of \$130 million per year for five years. This includes an anticipated total cost for the VHA Infrastructure Upgrade and associated projects of approximately \$153 million. Again, the foregoing discussion will only be relevant if a decision is made to continue with the PAIRS project.

Recommendation 6: We recommend the Assistant Secretary for Management take action to assure that the COTR assigned to PCHS/PAIRS be provided with formal training in COTR duties and COTR designations are in writing.

Response: We concur. Mr. Steve Garber, the COTR assigned to PCHS/PAIRS, received the recommended training September 15-19, 1997, at a commercial classroom course entitled “Contracting Officer’s Representative.” This course was sponsored within VA by the Office of Acquisition and Materiel Management as necessary and sufficient training for COTRs. In addition, Mr. Garber was designated the COTR for PCHS by memorandum dated October 23, 1997, from the Contracting Officer, Mr. Jim Shumate.

ACTING ASSISTANT SECRETARY FOR MANAGEMENTS COMMENTS

5% Annual Reduction in IT Operations and Maintenance (O&M) Costs

Assumptions:

1. IT Budget remains constant at FY 1996 levels
2. Portion of IT budget relegated to O&M remains constant
3. Single declining balance calculation is used for years beyond FY 1996
4. Net Present Value (NPV) of years beyond FY 1996 use a 3% adjustment for inflation
5. Portion of FTE dedicated to development consistent with private industry estimates of 25%
6. Total IT Budget for successive years is the "target" from the preceding year

(All figures \$millions)						
	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	NPV of Total Savings
Total IT Budget	919	898	877	856	837	(Sum of 5% Row)
NPV of IT Budget	919	871	825	782	741	
O&M (see detail)	430	430	430	430	430	
NPV of O&M	430	417	405	392	381	
5% of O&M NPV	22	21	20	20	19	
Target for next FY	898	877	856	837	818	101

Calculation of O&M FY 1996 Base Cost

Total IT Budget: 919

Less investments:

Capital and other equipment purchases	324	
Capital and other software purchases	29	
Contractor support for investment projects	43	
Interagency support for investment projects	21	
FTE support for investment projects	72	
TOTAL	489	489

O&M: 430

FY 1997 and FY 1998 Targets, as contrasted by current Exhibit 43 estimates:

[NOTE: A positive difference indicates the amount by which the target was exceeded]

	FY 1997	FY 1998
Target (as calculated above)	898	877
Estimate (from Ex. 43)	833	874
Difference	15	3

UNDER SECRETARY FOR HEALTH COMMENTS**Department of
Veterans Affairs****Memorandum**

Date: Dec. 8, 1997

From: Under Secretary for Health (10)

Subj: OIG Draft Report: ***Audit of Procurement Initiatives for Computer Hardware, Software, and Services (PCHS/PAIRS) and Selected Information Technology Investments***

To: Assistant Inspector General for Auditing (52)

1. This audit has been reviewed by appropriate VHA program officials and there is general agreement with the findings and conclusions. VHA also concurs in the one recommendation specifically addressed to us: that the Under Secretary for Health take action to ensure that purchases to replace VHA's dumb terminals are not unnecessarily upgraded from economical configurations and original project requirements with unnecessary higher performance systems. We concur in the recommendation's estimation of monetary benefits, as well.

2. The Clinical Workstation Prototype provided compelling evidence that workstations, as opposed to the existing "dumb" terminals, can produce large and quantifiable economic benefits. When the decision was made to convert to workstations systemwide, the VISNs were given authority to oversee purchase of the new desktop systems. It was agreed that facility personnel most directly involved in use of the systems would be in the best position to verify individual information processing requirements. We share your concern that the purchasing trend seems to lean heavily towards systems with enhanced capability, since careful technical evaluation within the Department led to endorsement of a more basic unit. At the same time, however, we anticipate instances when purchase of the more capable systems is fully justified.

1. A copy of this report will be provided to all VISN Directors, since they may not be fully aware of this purchasing trend. In addition, the Chief Network Officer will discuss the findings you report during an upcoming weekly teleconference call with key facility managers. All managers will be reminded of their responsibility to assure that the most economical and practical procurements be approved and that purchases of more capable systems occur only when full justification of need is documented. The VISN Directors will continue to oversee facility compliance in this regard.

UNDER SECRETARY FOR HEALTH COMMENTS

Page Two OIG Draft Report: ***Audit of Procurement Initiatives***

4. Your findings have been useful in identifying issues that require more concerted attention, and we appreciate the opportunity to respond to this audit. If additional information or assistance is required in processing your report, please contact Paul C. Gibert, Jr., Director, Management Review and Administration, Office of Policy, Planning and Performance, at 273-8355.

Original signed by

Kenneth W. Kizer, M.D., M.P.H.

Attachment

UNDER SECRETARY FOR HEALTH COMMENTS

Action Plan in Response to OIG/GAO/MI Audits/Program Evaluations/Reviews

Name of Report: OIG Draft Report: ***Audit of Procurement Initiatives for Computer Hardware, Software, and Services (PCHS/PAIRS) and Selected Information Technology Investments***

Report Number: none

Date of Report: none

Recommendations/ Actions	Status	Completion Date
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Recommendation 4

We recommend that the Under Secretary for Health take action to ensure that purchases to replace VHA's dumb terminals are not unnecessarily upgraded from economical configurations and original project requirements with unnecessary higher performance systems.

Concur

VHA agrees that without evidence of clear justification for purchase of the more capable workstation systems, our medical facilities should be equipped with the designated capabilities of the basic desktop workstation, as previously endorsed systemwide. Authority and responsibility for purchasing desktop systems have been decentralized to the VISNs since it is our belief that local personnel are ultimately in the best position to determine individualized current and future information processing requirements. A copy of this audit will be provided to all VISN Directors, who may not be fully aware of the apparent trend by most facilities to purchase top-of-the-line equipment rather than more economical models. In followup, the Chief Network Officer will also highlight this issue during an upcoming weekly conference call with all facility top managers. The VISN Directors will be advised of their responsibility to continue to monitor this trend and to assure that all facilities carefully justify need for systems with enhanced capability prior to purchase. We will report ongoing activities and outcomes to OIG in response to upcoming requests for recommendation action updates.

Planned

January 1998 and Ongoing

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