



Department of Veterans Affairs Office of Inspector General

Evaluation of Veterans Benefits Administration Vocational Rehabilitation and Employment (VR&E) Contracts

The existing VR&E contracts needed to be replaced and regional office contract management and oversight strengthened.

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

TO: Under Secretary for Benefits (20A11)

SUBJECT: Evaluation of Veterans Benefits Administration Vocational Rehabilitation and Employment (VR&E) Contracts

1. The Department of Veterans Affairs (VA) Office of Inspector General (OIG) completed an evaluation of the award and administration of Veterans Benefits Administration (VBA) Vocational Rehabilitation & Employment (VR&E) contracts. We conducted the evaluation at the request of the VR&E Task Force¹ which was concerned about the adequacy of the contracting process and pricing information. The purposes of the evaluation were to determine the reasonableness of the prices paid, and to identify opportunities to enhance contract administration and better utilize VA resources.

2. Between June and August 2002, VA awarded 241 individual firm fixed-price contracts that provided veterans access to assessments, rehabilitation, training, and employment services in each of VBA's Regional Office (RO) Service Delivery Networks (SDNs), including overseas locations. VA awarded these contracts for the period October 1, 2002, through September 30, 2003, and four one-year options. Each contract guaranteed the vendors a minimum of \$500 and provided a maximum value of \$3 million. The maximum value of the 241 contracts totaled \$723 million; however, management estimated that only about \$45 million will be expended over the life of these contracts based on first year actual expenditures.

3. We identified significant vulnerabilities upon evaluating the pre-award and award phases of VA's contracting process. Consequently, VA is at risk of paying excessive prices on all of the 241 VR&E contracts. To illustrate:

- There was no evidence that VA conducted price reasonableness determinations to ensure the best prices had been obtained.

¹ In May 2003, the Secretary of Veterans Affairs established a Task Force to conduct an independent review of the VR&E program. In March 2004, the Task Force issued its report to the Secretary on "*The Vocational Rehabilitation and Employment Program for the 21st Century Veteran.*"

- Key clauses and references designed to protect the interest of the Government were not included in contract specifications and the Statement of Work (SOW). In addition, information contained in the contract specifications and SOW was vague and subject to multiple interpretations.
- VA did not adequately document contract award actions and decisions.
- Technical evaluations and assessments were incomplete.

4. Based on these vulnerabilities, we are concerned that the 241 VR&E contracts may not be reasonably priced. This conclusion is also supported by significant price increases (from 23 to 314 percent) for similar services included in VR&E contracts provided by some of the same contractors on the prior contracts.

5. In response to our findings, the Contracting Officer (CO) conducted market research to determine the reasonableness of prices charged for VR&E services. Based on the research completed, the CO concluded that "...the current prices are in line with, if not lower, than commercially competitive rates." However, the CO's price reasonableness conclusion did not adequately address the significant increase in prices charged on current contracts compared with prior contracts for similar services. A comparison of the contract specifications/statements of work on prior and current VR&E contracts does not clearly show a basis for increased prices.

6. The CO's contacts with several VR&E Officers confirmed that at least 25 contractors have offered voluntary price reductions. Additional contractors are expected to come forward and offer price reductions. Based on the price reductions VA has received, contracting costs could be reduced by as much as 15 percent. Based on a 15 percent reduction in contract costs, VA's estimated \$45 million² in actual expenditures expected over the potential 5-year term of the VR&E contracts could be reduced by an estimated \$6.8 million.

7. In our view, the results of the CO's market research clearly shows that VA needed to conduct price reasonableness determinations prior to contract award to ensure the best prices were obtained. VA is now benefiting from lower contract prices voluntarily offered by some contractors. VA needs to determine the appropriate strategy to address the lack of assurance of price reasonableness involving the other VR&E contracts. Additionally, we identified contract administration³ deficiencies that showed a lack of effective RO VR&E contract management and assurance of contractor performance.

² During the first year of the VR&E contracts, VA spent approximately \$10 million. Based on the first year's level of expenditures, the CO now estimates that the total expenditures over the life of these contracts will be approximately \$45 million. This level of contract expenditures is significantly less than the original estimated \$723 million. As discussed in the report, we found that VA's technical review of the Request for Proposal concluded that both the contract minimum and maximum order amounts were questionable, but were not changed prior to the award of the 241 contracts.

³ Contract administration actions are conducted to ensure the Government receives the services for which it contracted. Depending on the type and complexity of the contract, administrative actions will require varying levels of performance monitoring. These efforts are often vital to the achievement of contract objectives.

Some VR&E staff responsible for contract administration lacked adequate training and necessary contracting warrants. For example, our review of five contracts administered at the Washington, DC RO (WRO) SDN identified the following deficiencies:

- Employees did not include contract terms, conditions, and specifications in task order files.
- There were inadequate justifications for selection of higher priced contractors to perform work.
- Actions were not taken to follow up on VR&E internal quality assurance review deficiencies.
- Employees did not have adequate internal controls to monitor the contract payment process.

These findings are similar to the VR&E Task Force results, which concluded that improvements were needed in contract management and oversight. During the course of the evaluation, we coordinated our review effort with the VR&E Task Force and provided them the details of our findings.

8. This report recommends that the existing VR&E contracts be replaced and RO contract management and oversight strengthened. (See page 10 for the recommendation.) You provided responsive comments that address the recommendations with acceptable implementation plans. (See Appendix B on pages 13-16 for the full text of the Under Secretary for Benefits comments.) We will follow up on the planned actions until they are completed. Contract award and administration issues associated with the Office of Acquisition and Materiel Management (OA&MM) will be addressed as part of an ongoing program review.

(original signed by:)

MICHAEL L. STALEY
Assistant Inspector General
for Auditing

Results of Evaluation

Introduction

The VBA VR&E Project Manager (PM) has overall responsibility for administering VR&E contracts and also serves as the Contracting Officer Technical Representative (COTR). VA's OA&MM is responsible for the pre-award and award process. The CO is located in OA&MM's Acquisition Operations Service located in VA Central Office (VACO). The VR&E Regional Officers serve as Assistant COTRs and PMs for the contracts in their SDNs.

Scope of Work

We completed an evaluation of VBA's national acquisition strategy Request for Proposal (RFP) and contract award process involving the provision of VR&E contract services to veterans. VA has 241 contracts in place that nationally provide veteran access to assessment, rehabilitation, training, and employment services in each of VBA's RO SDNs, including overseas areas. We reviewed pre-contract and contract award files maintained by OA&MM in VACO and five contract/task order files for VR&E contracts administered by the WRO.

We obtained information on contract administration from the VR&E PM, located in VBA Headquarters. This individual is also the national COTR. We obtained contract award information from the current CO assigned responsibility for the VR&E contracts, which is located in OA&MM in VACO. We also obtained VR&E contract administration and payment related information from responsible WRO VR&E program officials. We briefed responsible VR&E and OA&MM officials during the evaluation to advise them of our findings and identify areas needing corrective action.

We also coordinated our evaluation effort with the VR&E Task Force that was appointed by the Secretary to conduct an independent review of the VR&E program. The VR&E Task Force requested the OIG evaluation due to its concerns about the adequacy of the contracting process and pricing information.

The evaluation was done in accordance with generally accepted government auditing standards for staff qualifications, independence, and due professional care; field work standards for planning, supervision, and evidence; and reporting standards for performance audits.

Results

Based on the VR&E contract award and administration deficiencies identified, VA is at risk for paying excessive prices with inadequate assurance of contractor performance.

Determination of Price Reasonableness

The CO did not conduct price reasonableness determinations for the 241 VR&E contracts that were awarded. Federal Acquisition Regulation (FAR) 15.305 “Proposal Evaluation,” and FAR 15.403-1 “Prohibition on Obtaining Cost or Pricing Data,” prescribes that competitive pricing on fixed-price contracts generally establishes price reasonableness and that price or cost analysis is not necessary. However, these criteria did not apply. In this case, the contractors that bid on the VR&E contracts were not competing against each other on price, but on the availability of services in certain geographic areas. As a result, the CO should have determined price reasonableness to protect the interest of the Government.

Because a determination of price reasonableness was not completed, we concluded that there is little assurance that the 241 VR&E contracts awarded are reasonably priced. This conclusion is supported by the fact that our comparison of prices for services provided by four contractors on the current and prior VR&E contracts for the WRO showed significant price increases. While the four contractors offered similar services on the prior and current contracts, the price of the services provided on the current contracts increased significantly from about 23 to 314 percent as reflected in the following schedule:

Summary of VR&E Contract Price Increases

Contractor A			Contractor B			Contractor C			Contractor D		
Prior Price	Current Award Price	% Increase	Prior Price	Current Award Price	% Increase	Prior Price	Current Award Price	% Increase	Prior Price	Current Award Price	% Increase
\$435	\$1,800	+313.8	\$201	\$620	+208.5	\$205	\$375	+82.9	\$305	\$374	+22.6

While the scope of our review was limited to four contracts, the significance of the price increases identified raises concerns about the reasonableness of prices on the remaining 237 contracts not reviewed.

We are also concerned about the reasonableness of contract prices given the significance of the voluntary price reductions received from some VR&E contractors. Voluntary price reductions have been received from at least 25 contractors nationally, with price reductions expected from additional contractors. Based on the price reductions received thus far, the CO estimates that contracting costs could be reduced by as much as 15 percent.

Our review of the price reductions already offered by 25 contractors identified significant reductions in individual contract service prices. As an example, one contractor offered a price reduction from \$1,800 to \$600 for the provision of VR&E placement services (\$1,200 lower). Another contractor offered a price reduction from \$1,500 to \$500 to provide VR&E placement services (\$1,000 lower). Several other examples of contractor price reductions for selected VR&E services ranged from \$100-300 per service.

The extent of the contractor price reduction offers indicates a lack of assurance of price reasonableness on the existing 241 contracts. Based on a 15 percent reduction in contract costs, VA's estimated \$45 million in expenditures expected over the potential 5-year term of the existing 241 VR&E contracts could be reduced by an estimated \$6.8 million (\$45 million x 15 percent = \$6,750,000).

Contract Specifications/SOW

We found that the RFP contract specifications and the SOW covering the 241 VR&E contracts were not clear and concise, and did not provide adequate descriptions of the services to be provided. As a result, the contracts are subject to varying degrees of interpretation, and VA may not have adequate assurance that contractors are providing the level of services desired.

Our review of documentation supporting VA's technical and legal review identified the following weaknesses and deficiencies with the VR&E contract specifications.

- The technical review concluded that the specifications for the VR&E contracts were not clear, concise or accurate, included questionable contract minimum and maximum order amounts, improperly included VR&E's quality assurance policies and procedures, and questioned the accuracy of the information provided by the then CO. Also cited were 25 pages of consolidated questions and answers included in two amendments to the RFP as significant indications that the specifications were confusing to prospective bidders. Since approximately 90 percent of the bidding contractors had earlier VR&E contracts, the volume and nature of the questions indicates contractors did not have a clear understanding of what the VR&E contracts required and how to price their proposals for the services they were offering.
- The legal review identified numerous redundancies and lack of clarity and confusion involving contract specifications. Contract terms were used incorrectly and there was a need to reorganize and streamline the contract specifications to clarify what is or is not within the contract scope.

We did not find documentation in the contract files that the CO took action to address the technical and legal issues identified. As a result, deficiencies identified with the RFP specifications such as the questionable contract minimum and maximum order amounts were included in the awarded contracts.

We did identify a model RFP for VR&E contracts developed by the VA San Diego VR&E Regional Officer (SDRO), but it was not used to award the current VR&E contracts. These specifications included specific contract requirements that could have resolved the conditions identified with the current VR&E contracts. In our view, inclusion of these requirements would have provided VA with a better opportunity to effectively manage, oversee, and assure contractor performance. The following key areas were noted:

- There was specific information pertaining to VR&E's expectations of its contractors referencing specific Codes of Federal Regulations, Public Law, VR&E policies and procedures, and specific instructions on how to report to VA the results of services provided to veterans. The RFP for the current VR&E contracts included a very general description of services to be provided. Also, the format and requirements of written evaluation reports were not detailed.
- The RFP model required contractors to submit cost and price information supporting contractor prices so that the data could be analyzed by staff to assess the reasonableness of the proposed prices. The RFP on the current VR&E contracts did not require contractors to submit cost and pricing data. By not requiring contractors to submit cost information supporting prices offered, the price reasonableness can not be determined.
- The RFP model included the Veterans Affairs Acquisition Regulation (VAAR) clause entitled "Indemnification and Medical Liability Insurance," that specifically required contractors to maintain professional liability insurance by a responsible carrier of not less than \$1 million per specialty, per occurrence for the contract term. It also required contractors to provide written evidence of insurance to the CO for the company and its health care providers who will perform under the contract, prior to the contract award. The RFP on the current VR&E contracts include an outdated 1984 version of the clause that requires contractors to maintain liability insurance. However, it did not require evidence to be furnished to VR&E, did not specify a dollar amount, and did not refer to the contractor health care workers who provide contract services.
- The RFP model "requires" the contractor proposal to include copies of licenses and/or professional certificates of staff that are to work for the contractor under the VR&E contract, and that copies of staff degrees and transcripts be attached to the contractors' technical proposal. The RFP on the current VR&E contracts provided that contractors "may" include such data in their proposals.
- Under the caption "Past Performance and Experience," the RFP model required contractors to identify problems encountered on the contract and the corrective actions taken, if any. It also provided for quality oversight. Contractors would be contacted to determine the quality of service rendered, timeliness of performance, past performance, and customer satisfaction information obtained from other sources to be

considered as part of the overall award process. The RFP on the current VR&E contracts required contractors to provide past work histories. This information was to be evaluated as part of technical evaluation process. However, the RFP did not include a requirement that contractors disclose prior problems or state that the information will be verified.

VA needs to consider including the above discussed SDRO contract specifications in any new VR&E contracts that are awarded. This will more clearly define contract requirements and help better ensure price reasonableness.

Documentation of Award Actions and Decisions

OA&MM employees did not comply with OA&MM Information Letter (IL) 90-00-2, dated June 20, 2000, Part 6 “Contract Administration Review.” The IL provides that contract files are to be complete, uniform, neatly organized, and adequately documented, numbered, indexed, and tabbed to permit reconstruction of actions taken without having to obtain additional information from other sources.

We found that the pre-award and award documentation was maintained in several binders and folders containing unbound documents that were not indexed or labeled, and individual contract files were missing a copy of the basic contract. The following key deficiencies were identified:

- A master contract file was not set up.
- Minutes of pre- or post-award meetings were missing.
- There was no evidence of Price Negotiation Memorandums.
- Required socioeconomic data was missing for all 241 VR&E contracts.
- Technical reviews of most contractor proposals were not in files.
- Training documents and certificates of contracting personnel administering task orders were not in the files.

During the course of the audit, a new CO was assigned and took action to assemble a master contract file.

We also found that legal and technical review documentation was missing from the VR&E pre-award contract files. VAAR 801.602-70 “Legal/Technical Review Requirements to be Met Prior to Contract Execution,” prescribes that indefinite quantity contracts, where expenditures can reasonably be expected to exceed \$250,000 or more over the life of the contract, are subject to legal and technical review before contracts are awarded. Based on the award value of the VR&E contracts, a legal and technical review was required.

Legal and technical reviews ensure that solicitations/contracts conform to applicable laws, regulations, established policies and procedures, and that specifications meet end user needs. These reviews are important to ensure that VA contracts are properly awarded in compliance with applicable laws and regulations, and are in VA's best interests.

We found that almost all contractor technical evaluations were missing from the official contract files maintained by OA&MM. FAR 15.305 "Proposal Evaluation," provides that the relative strengths, deficiencies, and risks supporting evaluations shall be documented in the contract file. We were advised by the CO that contractor proposals were subjected to technical evaluations by teams of VR&E staff. Our review of four technical evaluations in the contract file found that all of them had deficiencies. For example, multiple scoring changes were not justified. Evaluations were not signed, dated, and lacked company names. As a result, adequate documentation was not available to assess the overall evaluation process or confirm the accuracy and reasonableness of contractor ratings.

We also reviewed other contract file documentation such as proposal scoring summaries and technical evaluations that we found as part of the WRO VR&E contract files. This review disclosed the following problems with the contractor technical evaluation process:

- A company was allowed to add the provision of VR&E services in the WRO SDN two weeks after its original contract award became effective (October 1, 2002). The contractor sent a fax to the then CO listing prices for VR&E services to be provided for the WRO SDN. The then CO accepted the contractor's offer, but there is no documentation in the contract file justifying the CO's action. Since the CO's action was taken after the VR&E contract awards, the contractor's proposal was not subjected to a technical evaluation and should not have been accepted.
- Two contractors that submitted proposals for the WRO SDN were not awarded contracts even though their proposals received technical scores higher than the five proposals that resulted in contract awards. The five accepted proposals received technical evaluations scores of between 53 and 58. The two contractors not awarded contracts received higher technical scores of 66 and 69 respectively. However, there is no documentation in the contract file to indicate why the two contractors with higher rated proposals were not awarded contracts. We believe that the above situation occurred because a competitive range determination was not accomplished as part of the award process. FAR 15.306 "Exchanges With Offerors After Receipt of Proposals," provides that agencies shall evaluate all proposals, and establish the "competitive range" of all the most highly rated proposals to continue with contract negotiations. Without a competitive range determination, there is little criteria to objectively determine whether proposals are in VA's best interests, resulting in less assurance in the integrity of the evaluation/award process.

Technical/Evaluative Assessment Actions

We found that a business clearance review was not performed. Paragraph 3 (b) “Procedures” of IL 90-00-2 requires that a business clearance review be performed if a contract exceeds \$5 million. These reviews are completed to ensure that contract file documentation includes the successful bid/offer and bid abstract, rational for contract awards, price negotiation memorandum for negotiated offers, source selection plan, and justifications and approvals in accordance with VAAR. In our view, a business clearance review should have been performed since the individual 241 VR&E contracts were awarded as part of a national acquisition strategy. While the potential value of each contract was estimated at \$3 million and not \$5 million, the aggregate value of all 241 contracts was estimated at \$723 million. To adequately protect VA’s interests on this significant procurement initiative, a business clearance review should have been completed.

We also found that there was no schedule for contract administrative reviews. Paragraph 3 “Contract Administrative Review” of IL 90-00-2 requires technical reviews of contract files to ensure that contract administration is performed in accordance with applicable laws and regulations, and established policies and procedures. No such reviews have been undertaken or planned, resulting in less assurance of effective contract administration.

We found that prices were not evaluated as part of the VR&E technical/evaluation process. FAR 15.304 “Source Selection – Evaluation Factors and Significant Sub-factors,” states that price or cost to the Government shall be evaluated in every source selection. In addition, Section VIII of the VR&E RFP’s “Instructions to Offerors - Commercial Items,” and Par. 52.212-2 “Evaluation” prescribes that “price” is one of four factors to be used to evaluate offers. However, price evaluations were not considered in the award process as required.

Contract Administration

Our review of five VR&E contracts covering the WRO SDN identified the following contract administration related areas that needed improvement: (1) contract task order file documentation, (2) selection of contractors to perform services, (3) follow up on quality assurance reviews, and (4) contract payment process controls.

Contract Task Order File Documentation. We found that the task order files for each of the five WRO VR&E contracts did not contain a complete copy of the respective contracts. None of the five WRO task order files contained complete copies of the contract terms, conditions, and specifications. Each of the task order files only included an unsigned copy of page one of the respective contracts, including contractor proposals. The basic contract documents including the contract terms, conditions, and specifications were missing. Effective contract administration can be compromised if contract

documents are not available for reference and use in ensuring that contract terms and conditions are met.

Selection of Contractors to Perform Services. We found that WRO VR&E counselors were not selecting the lowest priced contractors available to provide services. The reason/justification for using higher priced contractors was not documented. We reviewed 90 individual invoices where three WRO VR&E contractors offered different prices for the same services. In 61 of 90 (68 percent) cases reviewed, higher priced contractors were selected to perform the needed VR&E services. However, the case management files we reviewed did not provide a justification supporting the selections. Had the lowest priced contractor been selected for all 61 cases, VA could have saved an average of 42 percent, for a total of \$8,218.

During our discussion with WRO VR&E counselors, we were advised that their selections were based on their knowledge of the quality of the contractors' work, not the cost of the services requested. In our view, the basis for selection of higher priced contractors needs to be adequately documented as part of the contract administration process. If lower priced contractors can not provide acceptable services, then this information needs to be documented and provided to VR&E contracting officials for appropriate quality assurance determinations. If their services are acceptable, then the selection of lower priced contractors should be encouraged to provide for more cost effective use of VA resources.

Follow Up on Quality Assurance Reviews. We found that VR&E Headquarters program quality assurance reviews of WRO VR&E case management files identified various counselor and contractor performance deficiencies, but there is inadequate documentation detailing the corrective actions taken to address the deficiencies identified. A September 2003 quarterly quality assurance review of 23 WRO case management files disclosed serious deficiencies in 14 (61 percent) cases related to delivery of veteran services by both VR&E counselors and contractors. Our review could not determine what corrective actions had been taken to address the deficiencies identified.

Contract Payment Process Controls. We found that VR&E contract payment invoices were paid without the required approval. Contractor invoice payments are required to be approved by the VR&E Officer or his assistant prior to processing for payment. We reviewed 407 payments involving WRO VR&E contractors and found that 25 (6 percent) were paid without the required approval. Paying invoices without required approvals can weaken the integrity of the payment process and facilitate fraud, waste, and abuse.

We found that this situation occurred because contractor invoices were submitted directly to VR&E counselors who stamped the invoices indicating appropriate services had been rendered. The invoices were then given to the voucher payment processor for payment. The processor was then supposed to bring the stamped invoice to the VR&E Officer, who in the capacity of a COTR would approve the invoices for payment. However, in some

cases, the invoices were processed without approval. After we advised the VR&E Officer of our concerns, he took immediate action to ensure that counselors submit contractor invoices directly to him for approval prior to transmittal to the voucher payment processor for payment.

We also identified a separation of duties issue concerning contractor payments because the payment processing area is not physically separate from other VR&E Offices. The WRO VR&E employee responsible for processing payments is physically located in the area where counselors obligate funds and payments are approved and authorized. The lack of physical separation between VR&E staff that obligate funds, approve and authorize payments, and process payments does not provide the internal controls necessary to limit the potential for the payment system being compromised. In response to our findings, the VR&E Officer advised that the voucher processing function would be moved to a separate location.

Potential for Contract Administration Deficiencies at All ROs. In our view, the nature of the contract administration deficiencies identified at the WRO could exist at other ROs. The 241 contracts awarded nationally have the same terms, conditions, and processing procedures. VR&E program officials we interviewed also believed that these deficiencies might exist at other ROs. Another area of concern that could be contributing to program-wide contract administration deficiencies is the lack of adequate contracting staff training and qualifications.

Our discussions with the VR&E PM, OA&MM contracting officials, and review of contract file information at the WRO determined that some VR&E employees responsible for contract administration lack adequate training and/or appropriate contract warrants. The current CO and the VR&E PM both acknowledged that additional employee training is needed and are jointly working to address current staff training deficiencies at multiple ROs. We were advised that all staff involved with VR&E contract administration responsibilities will receive the Simplified Acquisition Program and COTR Mentoring training courses offered by the Defense Acquisition University. Upon completion of this training, staff can be issued an appropriate contracting warrant with a basic contracting level “Delegation of Authority.”

Conclusion

VA is at risk of paying excessive prices on all of the existing 241 VR&E contracts with a lack of assurance of contractor performance. The contracts need to be replaced and RO contract management and oversight strengthened.

Recommendation 1

- a. We recommend that the Under Secretary for Benefits require the VR&E PM to coordinate with OA&MM to determine the appropriate strategy to address the lack of assurance of price reasonableness involving the 241 VR&E contracts. Actions need to be taken to negotiate lower prices with contractors. This should be accomplished by not exercising the next option year beginning in October 2004, and preparing a new RFP and to compete new contracts.
- b. Strengthen RO management and oversight of VR&E contracts in the following areas:
1. Require that task order files maintained by contracting staff include copies of contracts being used.
 2. Require documentation and support for selection of one contractor over another when higher prices are paid for services received.
 3. Ensure that required corrective actions are taken to address quality assurance review deficiencies that are identified. Ensure that the specific quality assurance deficiencies identified by the VR&E Headquarters program quality assurance reviews at the WRO are addressed.
 4. Ensure that adequate contract payment internal controls are in place.
 5. Ensure that contracting staff has the training, skill level, and contract warrant authority necessary to effectively perform their assigned duties.

Under Secretary for Benefits Comments

The Under Secretary for Benefits provided responsive comments that address the recommended actions.

Implementation Plan

The Under Secretary stated that VBA's VR&E Service and OA&MM are discussing the best overall contracting strategy for the VR&E contracts. The Under Secretary's comments did not agree with our recommendation to not exercise the next option year on the existing contracts, beginning in October 2004. VBA will aggressively take action to address our concerns, but a year is needed to prepare a new RFP and compete new contracts. The Under Secretary stated that revamping the national acquisition strategy project to the degree we recommended requires sufficient time. The RFP for the existing 241 contracts was developed over the course of 3 years. This action needs to be completed while not disrupting services to veterans. The Under Secretary's comments

also discuss several actions being taken to address the RO contract administration issues identified. (See pages 13-16 for the full text of the Under Secretary's comments.)

Office of Inspector General Comments

We agree with the Under Secretary's plan to prepare a new RFP and compete new contracts during the next year. This will allow sufficient time to complete needed actions before the use of the current contracts is discontinued, and avoid any disruption in providing needed VR&E contracting services to veterans.

The Under Secretary's comments noted that 22 contractors had voluntarily reduced their prices. Our discussion with VR&E program officials confirmed that at least 25 have voluntarily reduced their prices as noted in the report findings.

The Under Secretary's implementation plan is acceptable. We will follow up on the planned actions until they are completed.

Monetary Benefits in Accordance with IG Act Amendments

<u>Recommendation</u>	<u>Explanation of Benefit(s)</u>	<u>Better Use of Funds</u>
1 (a)	Estimated reduced VR&E contract costs due to contractor voluntary price reductions.	<u>\$6,750,000</u>
	Total	\$6,750,000

Under Secretary for Benefits Comments

Department of Veterans Affairs

Memorandum

Date: August 16, 2004

From: Under Secretary for Benefits (20)

Subj: Draft Report: Evaluation of Veterans Benefits Administration Vocational
Rehabilitation and Employment (VR&E) Contracts—EDMS 279721

To: Assistant Inspector General for Auditing (52)

1. The attached comments are provided on the Office of Inspector General (OIG) Draft Report: Evaluation of Veterans Benefits Administration Vocational Rehabilitation and Employment (VR&E) Contracts.
2. A number of the deficiencies identified by OIG occurred during the early stages of the development of the National Acquisition Strategy. There have been numerous Contracting Officers and Project Managers since its inception and, while current holders of these positions are relatively new, they have both worked diligently to improve and address the shortcomings identified by OIG.
3. If you have any questions or need additional information, please contact Dee Fielding, VBA's OIG Liaison, at 273-7018.

(original signed by:)
Daniel L. Cooper

Attachment

**VBA's Comments to OIG's Draft Report
Evaluation of Veterans Benefits Administration Vocational
Rehabilitation and Employment (VR&E) Contracts**

Recommendation 1

- a. We recommend that the Under Secretary for Benefits require the VR&E Project Managers to coordinate with the Office of Acquisition and Materiel Management (OA&MM) on determining the appropriate strategy to address the lack of assurance of price reasonableness involving the 241 VR&E contracts. Actions need to be taken to negotiate lower prices with contractors. This should be accomplished by not exercising the next option year beginning in October 2004, and preparing a new Request for Proposal (RFP) and to compete new contracts. Terminate contracts for the convenience of the Government and prepare a new RFP for competing the contracts, if warranted.**

VBA's Vocational Rehabilitation & Employment (VR&E) Service and OA&MM are discussing the best overall contracting strategy for the National Acquisition Strategy (NAS). We continue to promote voluntary price reductions by the NAS contractors. We do not agree, however, with OIG's recommendation to not exercise the next option year beginning in October 2004. Our regional offices have a real and practical dependence on the use of private contractors and to suspend their services for even a brief time is not feasible. VR&E employees and the private contractors provide essential services to our nation's most deserving citizens, disabled veterans. Since March 2004, 22 NAS contractors voluntarily reduced their prices at the request of VR&E Officers. VBA will aggressively take action to address OIG concerns; but, we strongly feel that we need one year to prepare a new RFP and compete new contracts. The NAS initiative was developed over the course of 3 years. Revamping the NAS project to the degree OIG recommends requires sufficient time. It is of paramount importance that we implement these improvements while not disrupting services to veterans.

- b. Strengthen RO management and oversight of VR&E contracts in the following areas:**

1. Require that task order files maintained by contracting staff include copies of contracts being used.

During a VR&E monthly conference call, VR&E Officers were advised to ensure that copies of contracts are maintained with task orders issued. In addition, VR&E Officers were reminded of this procedure during the VR&E Training Conference held in May 2004. A directive formalizing this procedure will be issued in the near future.

Appendix B

2. Require documentation and support for selection of one contractor over another when higher prices are paid for services received.

On a monthly conference call, the Contracting Officer advised VR&E Officers of the required documentation to support source selection/best value contract determinations. This topic was also discussed during the VR&E Training Conference in May 2004. A directive formalizing this procedure will be issued in the near future.

3. Ensure that required corrective actions are taken to address quality assurance review deficiencies that are identified. Ensure that the specific quality assurance deficiencies identified by the VR&E Headquarters program quality assurance reviews at the WRO are addressed.

The Contracting Officer and Project Manager are working with the VR&E Quality Assurance and Field Survey Supervisor to develop a new Field Survey Protocol, which will assist VR&E survey teams in identifying deficient contracting practices. The new Field Survey Protocol will be implemented nationwide within the next fiscal year.

VR&E Officers will be required to submit quarterly Vocational Rehabilitation and Counseling Vendor Quality Assurance Plans. These completed plans will include a written description of the contractor's performance.

The VR&E Service will compare the plans to the initial performance-based contracts. Corrective actions will be taken for any deficiencies found during VR&E Service field surveys or quality assurance reviews. These procedures were discussed at the May 2004 VR&E Training Conference.

4. Ensure that adequate contract payment internal controls are in place.

This recommendation was primarily the result of deficiencies identified at the Washington Regional Office. To strengthen their internal controls, the Washington Regional Office implemented the following procedures for their counselors approving voucher payments:

- Review the report or deliverable for accuracy and adequacy.
- Take corrective action with the contractor if the report is inadequate.
- If the report is acceptable, stamp the invoice "Approved for Payment."
- Enter the amount approved for payment and sign the invoice.
- Submit the invoice to the VR&E Officer for final approval as the COTR.
- The VR&E Officer will sign the invoice and submit the invoice to the Voucher Processor for payment.

The voucher payment process was also a topic at the National Training Conference to ensure proper internal controls are implemented nationwide. Regional offices that transferred Chapter 31 voucher auditing to the VR&E Division will be required to reassign the function to their Finance/Support Services Divisions. In addition, VBA's Office of Resource Management is undertaking a pilot program to centralize the voucher audit function.

Page 2

5. Ensure that contracting staff has the training, skill level, and contract warrant authority necessary to effectively perform their assigned duties.

Training requirements have been disseminated to our regional offices. At least two Warrant Holders and one Contracting Officer's Technical Representative (COTR) are required at each VR&E field office. Holders of warrants must complete 40 hours of training every two years. The VR&E Service is utilizing a CD-ROM program developed by the Defense Acquisition University and a Website maintained by the Federal Acquisition Institute for this training initiative. Since our instruction letter was released to the field on February 13, 2004, VR&E personnel have completed 4,480 hours of contract training. As of July 2004, 112 VR&E personnel have qualified to receive a warrant.

At the conclusion of the COTR Website training, participants receive a Certificate of Completion, and a copy is faxed to the VR&E NAS Project Manager for recordkeeping purposes. Upon completion of the CD-ROM warrant training, participants complete a questionnaire and e-mail the answer sheet to the Project Manager for scoring. Successful participants will have warrants issued by the new Head of VBA's Contracting Activity to ensure that appropriate staff members are sufficiently trained for their administrative duties and that no overlapping of duties exists. We are in the process of designating the Head of VBA's Contracting Activity.

All VR&E Warrant Holders whose certification was two years old or older as of January 1, 2004, are required to update their training/certification. The Contracting Officer and Project Manager are already discussing the development of future COTR/warrant training similar to the customized contract training that was provided at the annual VR&E Training Conference in May 2004. OIG was previously provided a copy of the power-point presentation used at the conference.

OIG Contact and Staff Acknowledgments

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