



Department of Veterans Affairs Office of Inspector General

Review of VA Implementation of the Zegato Electronic Travel Service

VA needs to ensure timely migration to an approved GSA E-Travel service. Lapses in management led to user dissatisfaction with VA's E-Travel implementation initiative.

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Executive Summary

Introduction

The Department of Veterans Affairs (VA) Office of Inspector General (OIG) conducted a review of VA's implementation of the Zegato electronic travel (E-Travel) service. The purpose of the review was to determine whether VA's efforts to implement an E-Travel service would meet the Department's requirements and user needs, and to review whether acquisition regulations were followed appropriately.

This E-Travel initiative is expected to integrate the travel support needs of the Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), National Cemetery Administration (NCA), and VA staff offices. Prior to this initiative, VA had three different travel systems. Each system had its own functional, technical, and support staff, but none of the three systems were fully automated. VA has supplemented Federal travel guidance from the Joint Financial Management Improvement Program (JFMIP) and the Federal Travel Regulations (FTR) with specific policies and processes, all of which affect the Department's E-Travel service. E-Travel is one of the President's E-Government initiatives.

In September 1999, VA contracted for a travel process improvement study that concluded the Department's travel cost of \$67 per transaction could decrease to about \$30 per transaction by adopting an E-Travel service. VA began its E-Travel efforts in 2001 in response to prior travel system deficiencies and changing travel requirements, and with hopes of streamlining operations and attaining the potential cost savings identified in the Department's travel process improvement study. The Department's 5-year budget estimate for the E-Travel service was \$16.6 million.

VA's Office of Management (OM), Office of Financial Systems (OFS) was responsible for carrying out project management activities associated with the Department's E-Travel initiative. OM's Office of Acquisitions and Materiel Management (OA&MM) was responsible for preparing the E-Travel solicitations, contract awards, and contract administration.

The E-Travel service that the Department was working to implement was called Zegato Travel Service. It is provided by Zegato Solutions, Inc. (Zegato). VA awarded Zegato a purchase order for an E-Travel pilot test in January 2002, then extended its pilot test in April 2003 for 2 months by awarding a sole source contract. In May 2003, VA awarded Zegato an implementation contract to fulfill the Department's nationwide E-Travel needs.

This project was not meeting VA's requirements and user needs effectively. VA's E-Travel initiative duplicates GSA's efforts to provide E-Travel services that all Federal agencies must use. Project managers did not effectively manage implementation of the

Zegato E-Travel service and key project monitoring and reporting controls were never established. We also found questionable acquisition support actions warranting management attention. In addition, there was a high level of user dissatisfaction with VA's E-Travel initiative.

VA Needs to Ensure Timely Migration to an Approved E-Travel Service

VA's E-Travel service duplicates GSA's E-Travel service that all Federal agencies are required to use. The Office of Management and Budget (OMB) mandated Federal agencies use GSA's E-Travel service, and we have not identified adequate justification for VA to continue with development of its unique E-Travel service.

Although GSA's E-Travel services were not available when VA began its project, GSA's service is now mandated by the FTR for use by all Federal agencies. Project managers knew as early as July 2002 that VA would have to migrate to GSA's E-Travel service. Also, in November 2003, the OMB directed Federal agencies to review all planned Information Technology (IT) initiatives in excess of \$2 million to ensure projects do not duplicate the President's E-Government initiatives. The Department should have terminated its E-Travel initiative in November 2003 when OMB directed all Federal agencies not to duplicate E-Government initiatives.

- VA's current contract with Zegato is a more expensive option when compared to the price information provided by GSA for their available E-Travel service options. In addition, GSA's E-Travel options offer some additional benefits compared to the Zegato service. VA can still save about \$7.4 million by canceling its Zegato service and promptly migrating to a GSA E-Travel service.
- The Department needs to complete migration to the GSA E-Travel service by September 30, 2006, to comply with the FTR.

Lapses in Project Management Led to Implementation Problems

VA did not effectively manage implementation of the Zegato E-Travel service, and key project management monitoring and reporting controls were never established. For example, project managers:

- Relied on a pilot test that was too limited to identify significant functionality problems that subsequently emerged during implementation.
- Extended the pilot project without adequate justification and review.
- Accelerated nationwide implementation of the Zegato E-Travel service despite receiving potential system failure indicators from the results of a load test.

- Did not use a steering committee or risk management team as prescribed in project plans to monitor and report project results.

In summary, VA proceeded with nationwide implementation efforts without reasonable assurance that the Zegato service could meet all JFMIP and VA requirements, and without resolving significant test problems. This project was inadequately planned and managed. Many of these problems persisted after months of implementation efforts began. Lapses in project management contributed to a failed implementation, schedule delays, cost escalation, and substantial user frustration.

VA Contracting Actions Did Not Protect the Interest of the Government

The Contracting Officer's (CO) actions during the course of the acquisition of the VA's E-Travel service did not protect the interest of the Government and did not promote full and open competition. Further, the acquisition procedures used were not commensurate with the project risks. These conditions occurred because the CO:

- Did not have an adequate acquisition plan. Consequently, the CO proceeded with an acquisition strategy that limited competition and essentially locked VA into using the Zegato service without information or assurance that it would meet VA's needs and performance requirements, or what the total project cost would be.
- Made separate awards for the pilot test and issued sole source contract extensions and, in doing so the VA Acquisition Regulation (VAAR) threshold for obtaining technical and legal reviews did not apply, even though the VA's 5-year budgeted cost for the project exceeded \$16 million. Also, the CO did not ensure the awards were legally and technically sound, and the sole source extension was made without adequate justification.
- Obtained only the minimally required number of price proposals (two) for the pilot test, in spite of the large scale of the overall E-Travel project. In contrast, GSA leveraged competition obtaining price proposals from nine vendors for their acquisition of E-Travel services.
- Did not issue Requests for Proposals (RFP) for the pilot test and implementation phases of this project. An RFP is a critical element of a successful acquisition, as it clearly defines the tasks to be performed by both the contractor and the Government, and the products and services to be delivered.
- Issued modifications to the pilot test award which were cardinal changes (beyond the scope of the awarded contract) and ratifications (approving unauthorized commitments). This resulted in unexplained cost escalation and inappropriately added work that was outside of the scope of the award.

- Did not verify Zegato’s financial capability prior to issuing the pilot test award or submit a Record of Performance Review to VA’s Office of Small and Disadvantaged Business Utilization – a record needed to certify that a small or disadvantaged business is suitable to perform the contract.
- Did not obtain a Certificate of Competency from the Small Business Administration (SBA) after some financial concerns regarding the vendor were identified. The CO requested the Certificate after the award. SBA declined to issue a Certificate of Competency because the VA contract was already awarded. Contract and performance risks would have been reduced significantly had the Certificate of Competency been obtained prior to award.
- Modified the pilot test award to include work unrelated to the project. We also identified another modification added to the implementation contract that project managers said was outside the scope of their Memorandum of Understanding with GSA. This modification was an interagency agreement essentially franchising E-Travel services. We question the appropriateness of VA’s franchising efforts when VA has yet to fully implement the Zegato service and has not effectively ensured the service can meet our users’ needs and requirements, and because it conflicts with GSA’s mandated E-Travel service for use by all Federal agencies.
- Did not conduct an adequate price analysis of the contractors’ pilot test proposals, and the project manager’s Government cost estimate was not prepared independently. We found almost no comparable basis between Zegato’s offer and the other competing vendor’s pilot test proposal. As a result, the CO and the project management team should not have proceeded to award without ensuring price reasonableness.

Consequently, VA lacked reasonable assurance of price reasonableness.

- There was also unmanaged growth (cost escalation) of pilot test costs. Within months of the award, the order was amended without adequate justification increasing costs from \$54,182 to \$520,747; meanwhile, the pilot performance schedule slipped from 3 to 13 months.
- Modifications valued at \$140,901 lacked documentation to explain why test costs increased and were identified as “recurring invoices”. The modifications were issued because Zegato presented invoices to VA that were unexpected and unplanned.

A High Level of User Dissatisfaction with Zegato Services is Evident

Users were not adequately involved in project planning and the Zegato E-Travel service is not effectively meeting their needs. We surveyed users and results confirmed that a

high level of user dissatisfaction with Zegato's services persists. VA users identified concerns regarding the service's ease of use, functionality, and ability to access the service. In addition,

- Users complained of excessive time to process travel vouchers, lack of flexibility to accommodate travel changes, and inaccurate expense calculations.
- One of the pilot test facilities withdrew from testing, citing dissatisfaction with service functionality.
- VA officials performing travel functions identified significant concerns relating to implementation efforts because the service was not meeting their needs and was not user friendly.

As a result of user complaints, VA granted 60 facilities waivers from using the Zegato E-Travel service during implementation.

Recommendations

We recommended that the prior Acting Assistant Secretary for Management discontinue current E-Travel service implementation efforts and take the following actions:

- Initiate timely actions to migrate a GSA mandated E-Travel service. Also, ensure that a feasibility study of available GSA E-Travel services is performed to assess each service's life-cycle costs, performance, and ability to best satisfy VA requirements and needs.
- Establish and utilize a steering committee and a risk management team to ensure the success of all future actions associated with acquiring an E-Travel service.
- For future information system acquisitions, ensure that pilots are fully tested and issues are addressed prior to nationwide implementation.
- Ensure supervisory controls and internal quality review procedures are implemented over acquisition planning, contract award actions, and related contract administration.
- Ensure all appropriate contract award data is reported accurately and timely in the Federal Procurement Data System (FPDS).
- Ensure technical and legal reviews of all active contracts with Zegato are performed and take actions to protect VA's financial, performance, and contractual interests.

- Ensure all future acquisitions supporting a major project, such as this E-Travel project, require technical and legal reviews, regardless of the dollar threshold applicable to any individual award action.
- Ensure an assessment of the performance and warrant authority of the CO responsible for the Zegato contracts is performed and enforce internal control procedures to ensure that future work performed meets all requirements of law, executive orders, and regulations.
- Develop and use customer satisfaction surveys on an ongoing basis in order to identify and address new user-experienced problems in E-Travel services.
- Ensure a representative body of VA users and stakeholders are identified and involved in future E-Travel project planning and testing.

The report recommends that VA initiate timely actions to migrate to an approved General Services Administration (GSA) E-Travel service options. The Department concurred with the report's recommendations. The comments received from the Chief Management Officer were responsive to the recommendations. VA initiated actions needed to strengthen the current contract, reduce contract costs, and implemented actions to effect a timely migration to one of GSA's approved E-Travel service options. We consider the recommendations resolved and implementation will be addressed as part of our follow-up process.

(original signed by:)

MICHAEL L. STALEY
Assistant Inspector General
for Auditing

Results and Recommendations

VA Needs to Ensure Timely Migration to an Approved GSA's E-Travel Service Option

Summary

VA's E-Travel service duplicates GSA's E-Travel service that all Federal agencies are required to use. E-Travel is one of the President's E-Government initiatives. GSA's E-Travel services were not available when VA began its project; however, GSA's service is now mandated by the FTR for use by all Federal agencies. In addition, project managers knew as early as July 2002 that VA would have to migrate to GSA's E-Travel service. OMB has mandated Federal agencies use GSA's E-Travel service, and we have not identified adequate justification for VA to continue with development of its unique E-Travel service. VA needs to complete migration to the Governmentwide E-Travel service offered by GSA by September 30, 2006, to comply with the FTR.¹

Results

VA Needs to Ensure Timely Migration to an Approved GSA E-Travel Service. In July 2002, when VA was in the early stages of its E-Travel pilot testing, GSA announced its Governmentwide E-Travel initiative and the intent to require all agencies to use GSA's web-based, end-to-end travel management system by the end of 2003. As a result, in December 2002, VA and GSA prepared a Memorandum of Understanding (MOU) for participation in the E-Travel initiative. The MOU stated that VA would adopt and deploy GSA's E-Travel service if it reasonably equals or exceeds the Department's current approach in terms of performance and cost.

In November 2003, OMB directed Federal agencies to review all planned IT acquisitions in excess of \$2 million to ensure they do not duplicate E-Government initiatives. OMB identified GSA's E-Travel as one of 24 E-Government initiatives under internal efficiency and effectiveness (<http://egov.gsa.gov>). GSA issued a final rule in December 2003 amending the FTR to require Federal agencies to use GSA's E-Travel service. The final rule² requires Federal agencies to fully migrate to full agency-wide use of one of GSA's vendors by September 30, 2006.

¹ Federal Register, Volume 68, No. 245, dated December 22, 2003, contains amendments to FTR 301 effective January 21, 2004, which requires Federal agencies to use the Governmentwide E-Travel service. Agencies must implement the Governmentwide E-Travel service by December 1, 2004, and complete migration for full agency-wide use by September 30, 2006.

² The ruling also states that GSA may grant an exception to the required use of its E-Travel service if the agency presents an analysis proving that it has an alternative solution that is in the best interest of the Government and the taxpayer.

On March 18, 2004, the Assistant Secretary for Information and Technology issued a memorandum to the Department's Under Secretaries, Assistant Secretaries, and other key officials stating that all IT acquisitions (planned and existing) that exceed \$2 million, must not duplicate any of the 24 Federal E-Government initiatives.

We compared the prices in the current VA contract with Zegato to the average prices of the three GSA vendors. GSA presented price information for its available E-Travel services showing its E-Travel services are more cost effective than VA's current E-Travel service. VA's contract with Zegato was a more expensive option in comparison to the GSA options. In addition, use of GSA service options offer additional benefits. We estimate that by initiating timely actions to migrate to a GSA E-Travel service, VA can avoid about \$7.4 million over a 10-year period.³ In fact, actions initiated to renegotiate the current contract provisions have helped the Department achieve some of the potential savings we identified and to ensure the future price reasonableness of E-Travel services. In addition, there are other potential benefits associated with selecting one of the recently available GSA E-Travel service vendors, such as:

- GSA validated that their E-Travel services meet Federal requirements⁴ and has also ensured that its E-Travel services were positioned to meet emerging standards, such as E-Authentication⁵ and Federal Enterprise Architecture (FEA).⁶
- Unlike VA's contractual arrangement with Zegato, GSA prices are fixed as ceiling prices for the next 10 years, which protects Federal agencies against inflation and provides opportunities to negotiate lower pricing arrangements with the vendors.
- GSA's service agreements with its E-Travel vendors include disincentives associated with failure of data integrity, reporting, and security.
- In terms of resources and technical expertise, GSA's Electronic Data Systems (EDS) E-Travel service is more stable, robust, and less risky than VA's current Zegato E-Travel service. In addition, EDS has a software escrow provision to protect its ability to continue E-Travel services should Zegato discontinue services. This provision potentially minimizes performance and cost risks.

³ VA's E-Travel Capital Investment Application (see page 4) reported a 10-year life-cycle for E-Travel.

⁴ In GSA's E-Travel service solicitation, vendor services are required to conform with over 20 Government directives published by GSA, OMB, the Government Accountability Office (GAO), the National Archives and Records Administration, the National Institute of Standards and Technology (NIST), and other Federal Agencies. Areas of compliance include: Security, Fiscal and Financial Procedures, Travel Regulations, Records Administration, and Implementing Section 508 of the Rehabilitation Act. (Section 508 requires that Federal agencies' electronic and IT is accessible to people with disabilities.)

⁵ The E-Authentication E-Gov initiative will focus on meeting the authentication business needs of E-Gov initiatives by building the necessary infrastructure to support common processes and systems for Governmentwide use.

⁶ The FEA is being constructed through a series of inter-related reference models, designed to provide transformational opportunities regarding the delivery of Government services to citizens, and facilitate cross-agency analysis and the identification of duplicative investments, gaps, and opportunities for collaboration within and across Federal agencies.

Conclusion

VA's needs to ensure timely migration effort to an approved GSA E-Travel service option. The GSA E-Travel services are more cost effective than Zegato, and offer additional benefits.

For More Information

See Appendix C, Exhibit 1 on page 34 for comparison of VA and GSA pricing of available E-Travel services and how monetary benefits can be achieved by migrating to GSA's service.

Recommendation 1

We recommended that the prior Acting Assistant Secretary for Management take the following action:

Initiate timely actions to migrate to one of the GSA's mandated E-Travel services. Also, ensure that a feasibility study of available GSA E-Travel services is performed to assess each service's life-cycle costs, performance, and ability to best satisfy VA requirements and needs.

Chief Management Officer Comments

The Chief Management Officer agreed with the recommendation and the Department took action to migrate to one of the GSA services. VA awarded its initial task order to acquire one of the GSA's approved E-Travel services in January 2005.

Implementation Plan

The Chief Management Officer's comments address the report recommendations. The Department has initiated actions to migrate to one of GSA's E-Travel services.

Office of Inspector General Comments

The implementation plans are acceptable. Completion of the planned milestones needed to ensure VA's migration to one of the E-Travel services offered by GSA is expected to be completed in FY 2006. In our view, the actions initiated to effect a timely migration to a GSA service will benefit the Department in obtaining the best value E-Travel service available in the future. We will continue to follow up on planned actions until they are completed.

Lapses in Project Management Led to Implementation Problems with Zegato

Summary

Project managers did not make effective use of the oversight mechanisms that VA planned to use for the management of this acquisition. For example:

- A steering committee was not used to monitor achievement of, or deviation from, project goals. This committee is generally responsible for ensuring that corrective actions to address specific risk concerns were carried out during implementation.
- A risk management team was not implemented to assess risks and develop appropriate action plans. This team is generally responsible for development and review of risk variance information and other reports of risk.

Project managers also relied on a pilot test that was too limited to identify functionality problems and then extended the pilot test without adequate justification or review. Additionally, project managers accelerated implementation of the E-Travel service despite receiving potential system failure indicators from the results of a load test. As a result, VA proceeded with a nationwide implementation without fully testing the service and without resolving functionality issues.

These lapses in project management contributed to implementation problems, schedule delays, escalating costs, and substantial user dissatisfaction. For example, due to performance and functionality problems, VA had to grant waivers to 60 facilities, which allowed them to opt out of using the Zegato E-Travel service.

The Financial Services Center (FSC), which was delegated responsibility for managing the implementation phase of the Zegato E-Travel service by OFM officials, halted the implementation of the service in November 2003 in order to address Zegato performance and functionality problems.

Results

VA Did Not Make Effective Use of Oversight Mechanisms. At the beginning of the E-Travel project, OM's Office of Financial Operations prepared a Capital Investment Application,⁷ dated October 24, 2001, to justify the need for the acquisition of a VA-wide

⁷ This document contains the E-Travel proposal that includes: 1) investment size; 2) cost benefit analysis; 3) travel system requirements; 4) project plan; and 5) other information. The Capital Investment Application is part of VA's capital investment methodology to provide reference for planning, preparing, evaluating, and prioritizing capital investments. It is submitted to the Capital Investment Board. VA's methodology is intended to facilitate compliance with Government laws, in particular, the Government Performance and Results Act and the Clinger-Cohen Act.

E-Travel service. The Capital Investment Application included a description of a comprehensive project management system that VA planned to use in managing this project. The Capital Investment Application stated, “The E-Travel solution will employ a performance-based management system to ensure that the proposed goals and objectives are achieved and that schedule and cost deviations are identified and mitigated on an ongoing basis throughout the project.” Two of the key components of the performance-based management system were the steering committee and the risk management team.

- **Steering Committee.** The Capital Investment Application stated that a steering committee would be responsible for monitoring project schedule, cost, and performance objectives. According to the Capital Investment Application, the project manager reported to the steering committee, which was to be comprised of VA, VHA, VBA, and NCS Chief Financial Officers and Chief Information Officers. The steering committee was responsible for periodically reviewing the project schedule and budget, and to make final determinations on scope, schedule, or budget changes. More importantly, the committee was responsible for ensuring that corrective actions to address specific risk concerns were carried out during implementation. However, VA did not use a steering committee, independent of the project management team, to monitor the E-Travel project. Project performance monitoring was not effective because the project management team⁸ was not held accountable to a steering committee. Proper oversight did not occur as planned.
- **Risk Management Team.** Plans were designed so that risk management team members would develop and review risk variance information and other reports of risk during a structured forum that meets every 2 weeks throughout the life of the project. Any risk that could potentially cause at least an overall 10 percent increase in cost, schedule, or impact the attainment of project goals and functional requirements would be reviewed. VA did not implement the risk management team described in its Capital Investment Application for this project. Although a risk management team was mentioned in the project files, we found no evidence that an organized collection of information or reporting mechanisms were in place to assess and mitigate risks. Additionally, OFS officials stated that the project manager was responsible for managing risks. Adequate risk management did not occur as planned.

Project Managers Extended the Pilot Test Without Adequate Justification and Review. The pilot test was originally planned to run for 2 months, as described in VA’s Capital Investment Application, while the purchase order with Zegato scheduled the pilot test for 3 months. However, project managers made several amendments to the purchase order that extended the Zegato pilot test from the 3 months to 14 months. Due to this

⁸ Zegato project management activities were performed by OM’s Office of Financial Systems - Electronic Business Solutions/E-Travel Service.

significant schedule change, a cost increase of over \$450,000 resulted. Although significant changes in scope in terms of both cost and schedule occurred, we did not find adequate justification for these changes in scope in either the project or contract files.

The project managers' decision to extend the pilot test was not reviewed since there was no steering committee or risk management team. In addition, this decision was not adequately documented in the project files. Documentation needed to show the justification for the decision, the risk management team's assessment of the risks associated with the decision, and the steering committee's approval of the decision.

Project Managers Relied on a Pilot Test That Was Too Limited. OMB issued guidance on October 26, 1996, that cautioned agencies not to proceed with information system development efforts without ensuring that fully tested pilots were conducted. The pilot test of the Zegato E-Travel service began in January 2002. VA contracted with a consulting firm, Runzheimer International, Ltd. (Runzheimer), in February 2002 to review the results of the pilot test and determine whether Zegato complied with 139 JFMIP and Department travel system requirements. The consultant divided the requirements into two separate categories based on who would be responsible for validating the test requirements (i.e. users' validation of requirements and technical experts' validation of the more technical requirements). Of the 139 requirements, Runzheimer concluded 68 requirements could be validated by Zegato E-Travel service users and the remaining 71 required technical expertise. Runzheimer reported their findings in March 2003.

- **Requirements Validated by Users.** Runzheimer interviewed 103 VA employees at 17 facilities who participated in the pilot test of the Zegato E-Travel service to validate requirements. Of the 68 user-validated requirements, Zegato users identified 10 areas where the service was not in compliance with JFMIP and VA requirements. However, some of the key system functions were turned off during the pilot test, causing the users to conclude that the service could not meet the requirements without actually testing the system. Thus, test conditions were not appropriate for proper validation.

Runzheimer recommended that VA test the 10 unmet JFMIP and VA requirements in order to pinpoint the root cause of these inconsistencies and resolve them as a follow-up to the pilot test. However, instead of relying on a hands-on test of the service, the project management team relied on a presentation made by Zegato and concluded that the service met the 10 JFMIP and VA requirements. Our review of FSC's list of outstanding system requirements as of December 2003 (9 months after Runzheimer reported these problems) identified 7 of the 10 original user validated requirements still had not been met.

- **Requirements Validated by Technical Experts.** Runzheimer concluded that all 71 of the items reviewed by technical experts were in compliance with JFMIP and

VA requirements. This conclusion was based on the project management team's assertion to Runzheimer that it had determined that the service was in compliance with all of the items. However, the project management team did not maintain supporting documentation showing how the 71 requirements were evaluated or the basis for compliance decisions. Our review showed that 17 of the 71 requirements validated by technical experts remained unmet as of December 2003. As a result, we concluded that the project management team did not adequately evaluate these items.

Project Managers Ignored Load Test Failure Indicators. Zegato contracted with Keynote Systems, Inc. (Keynote), to perform a system load test. On September 12, 2003, Keynote reported that the load test⁹ identified server failures and recommended further investigation. In addition, the load test did not include testing of the booking engine (reservation system).

Based on the results of the load test, the project management team should have questioned whether the Zegato service could actually handle 50,000 concurrent users. Although the load test report concluded that the web site was able to handle the anticipated growth in load level while maintaining an acceptable response time and user satisfaction, the details of the report raised several red flags. For example, the report showed that 1 out of every 6 users during a 30-minute test period encountered failed sessions when the load was increased to 250 concurrent users. Similarly, the report showed that there were 272 server failures during that same time period. These failures occurred without including a test of the booking engine.

The project management team incorrectly concluded that the Zegato service met one of the requirements validated by technical experts. One of the project management team's assertions to Runzheimer was that the load test demonstrated that the service could handle 50,000 annual users. However, the Runzheimer report was published in March 2003, while the load test was not completed until September 2003. Therefore, we concluded that the project management team did not have sufficient basis for making a definitive conclusion in March 2003.

The Project Management Team Rushed Implementation Without Fully Testing Zegato. VA began a phased-in method of implementation of the Zegato E-Travel service in May 2003. In October 2003, the project management team decided to accelerate implementation of the Zegato E-Travel service despite the fact that the load test raised concerns. However, the project management team did not adequately plan for an accelerated implementation.

⁹ Test performed to determine how many concurrent users the E-Travel system could manage without a significant loss in system performance.

The project management team did not anticipate several service support problems. For example, project managers did not ensure that adequate internal controls were in place to ensure data reliability. Consequently, effective procedures were not in place to correct errors caused by local administrators entering credit card data and accounting information into travelers' profiles. This resulted in expense reports not being processed in a timely manner because the data was rejected when the Zegato E-Travel service interfaced with VA Financial Management System.

Similarly, project managers did not adequately assess the effect an accelerated implementation would have on help desk support services. As a result, help desk support services were overwhelmed, which further increased users' frustrations. Due to significant performance and functionality problems, VA allowed 60 facilities to opt out of using the Zegato service and eventually had to halt implementation of the Zegato service in February 2004 until these issues could be resolved.

Conclusion

Project managers did not make effective use of planned oversight mechanisms. VA relied on an E-Travel pilot test that was too limited and ignored system failure indicators discovered during a load test. Additionally, VA went from a phased-in method of implementation to a full implementation without adequate testing.

For More Information

See Appendix C, Exhibit 2 on page 35 for identification of critical project milestones where significant schedule slippage occurred.

See Appendix C, Exhibit 3 on page 35 to identify the 24 unmet JFMIP and VA requirements.

Recommendation 2

We recommended that the prior Assistant Secretary for Management take the following actions:

- a. Establish and utilize a steering committee and a risk management team to ensure the success of all future actions associated with acquiring an E-Travel service.
- b. For future information system acquisitions, ensure that pilots are fully tested and issues are addressed prior to nationwide implementation.

Chief Management Officer Comments

The Chief Management Officer agreed with the recommendations and took acceptable corrective actions.

Implementation Plan

The Department established a steering committee and a risk management team to ensure the success of all future actions associated with acquiring a Department-wide E-Travel service.

Office of Inspector General Comments

The actions taken by the Department met the intent of the recommendations and are considered acceptable.

Contracting Actions Did Not Adequately Safeguard VA's Interests

Summary

The CO did not have an acquisition plan¹⁰ to implement procurement of an E-Travel service. In addition, the CO proceeded with an acquisition strategy that limited competition and essentially locked VA into using the Zegato E-Travel service. In the absence of a formal acquisition plan, the acquisition strategy VA followed did not consider the project as a whole. Therefore, award vehicles better suited to the scale of the overall project were not used. Moreover, the CO's actions during the course of the acquisition of the Zegato E-Travel service did not promote full and open competition. This occurred because the CO:

- Did not issue Request for Proposals (RFP) for the pilot test and implementation phases of the acquisition.
- Did not conduct an adequate price analysis when the contractors' proposals for the pilot test were received. Consequently, VA did not develop an adequate basis upon which to ensure price reasonableness.
- Issued modifications to the pilot test which were cardinal changes and ratifications.
- Used a sole source contract to extend the pilot test without adequate justification.

Additionally, the CO and supervisors did not exercise controls to protect VA interests. For example, the CO did not verify Zegato's financial capability prior to awarding Zegato the pilot test. We found that Zegato experienced financial management problems with the IRS that potentially increase performance risks associated with continuing a long-term contractual relationship with this vendor.¹¹ Other shortfalls in controls over the Zegato contracts were found, and we concluded that controls over E-Travel acquisition planning and contract management need improvement.

¹⁰ A plan addressing all technical, business, management and other significant considerations that will control an acquisition (see FAR Part 7.105).

¹¹ On December 30, 2003, the IRS filed a \$209,367 tax lien against Zegato Solutions in Prince Georges County Circuit Court (Maryland). As a result, VA placed payments to Zegato Solutions on hold. VA began the tax lien hold on payments to Zegato Solutions on April 23, 2004. The amount of the lien was set at \$203,080.95.

Results

The CO Did Not Have an Acquisition Plan. The CO did not have an acquisition plan to implement procurement of an E-Travel service. Acquisition planning is the process by which the efforts of all personnel responsible for an acquisition are coordinated and integrated through a comprehensive plan for fulfilling the agency need in a timely manner and at a reasonable cost. The project management team included an acquisition strategy in the Capital Investment Application for the E-Travel service that it did not follow.

The strategy presented in the Capital Investment Application was two-pronged beginning with a pilot test, followed by a separate acquisition for nationwide implementation. The strategy stated that VA would issue a competitive bid RFP for the pilot test and another competitive bid RFP for nationwide implementation. However, the CO did not follow this strategy. The acquisition plan should have complied with the acquisition strategy presented in the Capital Investment Application for the project. Adherence to that plan would have prevented many problems discussed below.

The Acquisition Strategy VA Followed Did Not Consider The Project As a Whole; Therefore, Award Vehicles Better Suited to the Scale of the Overall Project Were Not Used. In spite of VA's 5-year budget estimate for the E-Travel service of \$16.6 million, the CO applied simplified acquisition procedures (usually applied to procurements under \$100,000) and used a purchase order to procure E-Travel pilot test services from Zegato. In addition, because of the award dollar thresholds the CO made for the pilot test and sole source contract extensions, VA did not perform technical and legal reviews.

The Pilot Test Award Did Not Achieve Adequate Competition. COs are required to promote full and open competition to the maximum extent possible so that all responsible contractors are allowed to compete. However, the CO's actions during the acquisition of VA's E-Travel service did not promote full and open competition. This occurred because the CO:

- Did not issue RFPs for the pilot test and implementation phases of the acquisition.
- Did not conduct an adequate price analysis when the contractors' proposals for the pilot test were received. Consequently, VA lacked an adequate basis upon which to ensure price reasonableness of this major initiative.

Acquisition Occurred Without Requests For Proposal. An RFP is a critical element of a successful acquisition. The RFP should clearly and comprehensively describe the tasks to be performed by both the contractor and the Government, and the products and services to be delivered. It should also describe inspection and acceptance procedures, and the evaluation factors that will be used to select a winning contractor. Although the

acquisition strategy called for a separate RFP for both the pilot test and the implementation phases of the acquisition, the CO did not issue an RFP for either phase.

Because the CO used GSA's Federal Supply Service (FSS)¹² for Zegato's E-Travel service, the CO did not issue an RFP to the public for the implementation contract. The CO and project management team chose to select Zegato from FSS. Under normal circumstances, placing an order against the FSS without an RFP is acceptable. However, for this major¹³ initiative, we contend that this acquisition strategy unfairly limited competition. According to FAR 8.404, before placing orders against FSS, agencies should consider at least three FSS or Multiple Award Contract schedule¹⁴ contractors.

The CO issued a request for information (RFI)¹⁵ in June 2001 to conduct market research for the E-Travel project. Market research is frequently done to collect and analyze information about capabilities within the market to satisfy agency needs. The RFI stated that vendors would be invited to on-site interviews to demonstrate their abilities to meet travel system requirements. An evaluation panel of 18 VA technical experts evaluated the 5 vendors chosen for on-site interviews. Based on the vendors' demonstrations, VA asked two of the vendors to submit cost proposals for a pilot test. However, there was no mention in the RFI that a contract award of any type would be made at the conclusion of the market research process. The RFI did not advise the vendor community that this was a business opportunity and that an award would be made at the end of the research process; an RFI is not required to do so.

In addition, OA&MM did not notify the public about the pending acquisition of an E-Travel service. The RFI VA used only informed the public about the market research effort. Therefore, if a vendor did not participate in the market research endeavor, there was no means available for that vendor to be considered for the E-Travel contract. VA did not re-advertise the project or solicit a request for proposal. As a result, potential contractors for VA's E-Travel award did not have an opportunity to submit a proposal, because VA selected a vendor based on a market research survey without ever issuing a new solicitation.

On November 16, 2001, the CO sent pricing proposal instructions to the two competing vendors. The instructions stated that vendors should submit cost proposal for alpha and beta testing in accordance with items listed as VA Cost Proposal Requirements.

¹² Zegato offers its service under GSA contract no. GS-35F-0701M, Schedule 70 - General Purpose Commercial Information Technology Equipment, Software, and Services - Item 132-50: Classroom Training and Item 132-52: Electronic Commerce Services.

¹³ OMB Circular A-11, Section 300 defines Major IT Investment as an "... investment is for financial management and spends more that \$500,000..."

¹⁴ A schedule in the FSS system that contains prices for comparable supplies or services being offered by more than one supplier.

¹⁵ An RFI is used when the Government does not presently intend to award a contract but needs to obtain price, delivery, other market information, or capabilities for planning purposes. Responses to these notices are not offers and cannot be accepted by the Government to form a binding contract.

Zegato was the successful bidder; however, the contract files contained no indication that VA questioned why some of the requirements were not bid on by Zegato or why the Zegato bid was far below VA’s project cost estimate. In fact, we found that Zegato submitted a bid without pricing some of VA requirements.

Costs for the pilot test also increased through change orders (modifications). There was a lack of documentation in the contract files indicating why Zegato was allowed to continue and who was involved in the decision-making process. The E-Travel pilot test project eventually cost VA \$641,658, inclusive of all modifications and the sole source contract extension. We concluded the growth was excessive and documentation was inadequate to support the changes to the contract.

Inadequate Price Analysis. COs are responsible for using price analysis techniques to ensure that fair and reasonable prices are obtained. Acceptable price analysis techniques include comparing offers with one another, with independently developed Government estimates, or with published price lists. VA received two offers for the pilot test. Here is a comparison of those offers:

VA Cost Proposal Requirements	VA Cost Estimate	Competing Vendor Cost Proposal	Zegato Cost Proposal
Pilot licenses/subscription fees	\$44,668.00	\$44,668.00	\$0.00
Program management/planning	17,321.00	62,736.00	0.00
Software installation and set-up	18,266.00	95,647.00	2,485.00
Training	10,987.00	43,772.00	11,696.00
Interface and network validation	20,642.00	57,317.00	0.00
System documentation	3,163.00	6,397.00	7,601.00
Proof of concept	16,740.00	77,084.00	32,400.00
Totals	\$131,787.00	\$387,621.00	\$54,182.00

Zegato’s proposal did not include costs for license and subscription fees; program management and planning; and interface and network validation. Moreover, there was a wide variance between the two cost proposals on several line items. For example, the competing vendor bid \$95,647 for software and installation set-up, while Zegato bid \$2,485. Nonetheless, the contract files contained no evidence that the CO questioned why Zegato did not bid on three of the line items or that the CO did a comparison of the two proposals.

The project manager prepared the independent Government cost estimate, but used the price in the competing vendor's cost proposal for pilot licenses/subscription fees (\$44,668) to modify the estimate shown in the table above. As a result, we concluded the Government cost estimate was not independently formulated. Due to limited competition in the pilot test award and subsequent awards, price reasonableness was not ensured.

Pilot Test Modifications Extended Work Beyond the Scope of Original Contract. A cardinal change is a change beyond the scope of the contract and cannot be ordered by the CO. The modifications to the original purchase order increased the pilot test performance schedule from 3 to 14 months, while increasing the costs from about \$54,000 to over \$520,000. In determining whether a change is beyond the scope of the contract, courts of law compare the total work performed by the contractor with the work called for by the original contract. Work lies within the scope of contract if it can fairly and reasonably be regarded as within the contemplation of the parties when the contract was entered into or if it is essentially the same work that the parties bargained for when the contract was awarded. Case law shows that changes to the length of a contract and increases in the number of sites can be considered cardinal changes depending on circumstances of the specific case.

VA originally issued a purchase order to contract with Zegato for a pilot test. In contrast, the CO's modifications to the original pilot test contract resulted in a contract for E-Travel services, which was clearly not negotiated at the beginning of the pilot test. Instead of modifying the contract, the CO should have issued a solicitation.

A ratification is the approval of an unauthorized commitment by an authorized official. An unauthorized commitment is an agreement that is not binding solely because the Government representative who made it lacked the authority to enter into that agreement on behalf of the Government. The CO for VA's E-Travel service issued four modifications totaling about \$300,000 that ratified unauthorized commitments. For example, one modification extended the end of the pilot test performance period from December 31, 2002, to March 31, 2003, at a cost of about \$159,000. However, the funding approval for this modification was not obtained until April 1, 2003, well after the extension began. As a result, VA's interests were not adequately protected because the contractor performed work that was not contractually authorized.

We concluded that the contracting actions that allowed the pilot test to increase in length from 3 to 14 months, while increasing the costs from about \$54,000 to over \$520,000, included cardinal changes and modifications. In fact, some modifications were issued because Zegato presented invoices to VA.

The Sole Source Contract to Extend the Pilot Test Phase Was Not Adequately Justified. FAR 6.301(c) states that contracting without providing for full and open competition shall not be justified on the basis of (1) a lack of advance planning by the requiring activity, or (2) concerns related to the amount of funds available. FAR

8.404(a)(2) states that orders placed under a FSS contract are not exempt from the development of acquisition plans.

On March 19, 2003, VA issued its E-Travel implementation solicitation. On March 21, 2003, VA withdrew the solicitation out of apparent deference to GSA's solicitation, but re-issued the E-Travel solicitation on April 15, 2003. By then, the pilot test award costs increased from \$54,000 and 3 months to \$520,747 and 14 months, and had 8 modifications issued. OA&MM was reluctant to push the legal limits with another pilot test extension period. VA awarded a sole source¹⁶ award, effective April 1, 2003, to continue services for the E-Travel pilot test.

Because the initial pilot test award was made through a purchase order under simplified acquisition procedures, we question how OA&MM officials could justify a sole source contract to extend Zegato's performance. VA indicated that the sole source task order was placed against a GSA Award Schedule, using the procedures in FAR 8.4. We recognize the procedures established for Federal Supply Schedule (FSS) satisfy the requirement for full and open competition, however we found no evidence in the files indicating the CO matched the vendor's prices to the vendor's GSA contract prices and some items purchased were not on the FSS schedules. The Comptroller General has ruled that once an agency determines the use of FSS procedures to meet their needs, a contractor's proposal under this method must provide that all goods and services will be rendered to the Government in accordance with valid FSS terms, conditions, and pricing.

The CO did not ensure that sole source contracts were issued in accordance with FAR provisions or properly review the sole source contract to ensure it was legally and technically sound. This resulted in creating a situation where Zegato was the only vendor that could continue supporting a small group of VA employees who were using the pilot test system on a live basis, and thus decisions were made to continue pilot test services pending VA's issuance of an implementation contract.

We determined that the sole source justification that totaled \$120,910, covering a 2-month period, occurred because VA project management officials did not adequately plan the pilot test's requirements. Also, FAR 8.404(a)(2) states that orders placed under a FSS contract are not exempt from the development of acquisition plans. The CO told us it was an "oversight" that she did not have an acquisition plan. We concluded that the sole source award was not adequately planned or justified.

Some of VA's E-Travel Contract Provision Costs Are Excessive. VA used a firm fixed price contract with Zegato that guaranteed Zegato would process a minimum of 120,000 transactions (equal to a full-year's work load) at a cost of \$21 per transaction

¹⁶ A sole source acquisition means a contract for the purchase of supplies or services that is entered into, or proposed to be entered into, by an agency after soliciting and negotiating with only one source. A sole source award is usually given to a vendor when it is the only source known to be able to perform the contract, or is the one source among others that, for justifiable reason, is found to be most advantageous for the purpose of the contract award.

during the base year of the implementation contract awarded in May 2003.¹⁷ Despite the guarantee, VA agreed to a phased-in method of implementation of the Zegato E-Travel service, which assured that the Department would not be able to meet the transaction guarantee. This situation worsened when project managers decided to halt implementation.

We estimated that VA would be able to process about 26,000 vouchers by the end of May 2004, leaving a potential shortfall of 84,000 vouchers guaranteed for payment.¹⁸ Therefore, VA's cost could be as high as \$1.8 million for the unused transactions without receiving any benefit or value. As a result, VA's interests were not adequately protected. VA should have either negotiated a contract without a transaction guarantee or negotiated a transaction guarantee that went into effect only when the service was fully implemented. In an effort to mitigate the potential payment for up to \$1.8 million for unused services, VA negotiated an extension of the base year to September 30, 2004.

The CO and Supervisors Did Not Exercise Controls to Protect VA Interests. Controls over contract management needed improvement. Here are some examples of the weaknesses we observed during the course of our review:

- The CO did not verify Zegato's financial viability prior to awarding Zegato the pilot test award. Based on our review of Zegato's prior performance, we obtained information that showed that the same owners did business operating under the name, Aldmyr Systems, Inc. (Aldmyr Systems). Aldmyr Systems changed their name to Zegato Solutions, Inc. in January 2001, retaining the same business address. Aldmyr Systems had a history of financial problems. In addition, we found that Zegato recently experienced a financial management problem with the Internal Revenue Service (IRS) that potentially increased performance risks associated with continuing a long-term contractual relationship with this vendor.
- The CO did not submit a Record of Performance Review (Form 90-2268) to VA's Office of Small and Disadvantaged Business Utilization (OSDBU) prior to contract award in order to certify that a small or disadvantaged business was suitable to perform the contract.
- The CO did not consult with VA's General Counsel to clarify issues relative to protecting the Department's contractual interests on any issues relating to these contracts.
- The E-Travel implementation statement of work stated that all contract personnel shall have a background investigation. However, VA did not ensure background

¹⁷ In November 2003, VA renegotiated the guarantee to 110,000 temporary duty travel vouchers at a cost of \$21 per transaction and 10,000 local travel vouchers at a cost of \$5.25 per transaction.

¹⁸ See Appendix C, Details of Review, Exhibit 4 on page 37.

investigations were performed for Zegato's employees who have access to the Department's sensitive data systems.¹⁹

- The CO modified the implementation contract to incorporate the Federal Mediation and Conciliation Service as an authorized user of VA's E-Travel service. Project officials advised us that this action was outside the scope of the E-Travel MOU between VA and GSA.
- The CO did not report required detailed contract data to the FPDS, which is part of one of the President's E-Government initiatives. This information is important because it is a means of measuring and assessing the impact of Federal contracting on the Nation's economy and the extent to which small, veteran-owned small, service-disabled veteran-owned small, small disadvantaged, and women-owned small business concerns are sharing in Federal contracts.
- The contract files contained no evidence that the CO's work had been subjected to supervisory or internal quality control reviews.

Conclusion

VA's E-Travel contract actions with Zegato did not adequately safeguard the Department's interests. VA proceeded with an acquisition strategy that limited competition and essentially locked it into using the Zegato E-Travel service. Additionally, the CO did not consider the project as a whole and as a result, award vehicles better suited to the scale of the overall project were not used. Overall, contracting actions did not promote full and open competition or ensure price reasonableness. In summary, controls over E-Travel acquisition planning and contract management needed improvement.

For More Information

- See Appendix C, Exhibit 4 on page 37 for details on Zegato's Travel Voucher Guarantee.
- See Appendix C, Exhibit 5 on page 38 for details on the pilot test contract actions.

¹⁹ The CO did not ensure that background investigations were completed on Zegato employees who have access to sensitive VA data systems. OA&MM Information Letter 90-01-6 states: *After contract award, and prior to contract performance, the CO shall obtain from the contractor and submit to the Office of Security and Law Enforcement, the following information: (1) List of names of contractor personnel, and (2) social security numbers of contractor personnel. The Office of Security and Law Enforcement provides the necessary forms to the contractor personnel, coordinates the background investigations with OPM and provides the results of the investigations to the CO and the contractor.* Because the CO did not ensure background investigations were completed, the security of the service has been placed at risk.

- See Appendix C, Exhibit 6 on page 40 for details on the sole source award actions - extension to pilot test.
- See Appendix C, Exhibit 7 on page 41 for details on the implementation phase contract actions.
- See Appendix C, Exhibit 8 on page 42 for details on the sole source contract actions - implementation supplemental help desk services.
- See Appendix C, Exhibit 9 on page 43 for details on the contract actions - other implementation supplemental services.

Recommendation 3

We recommended that the prior Acting Assistant Secretary for Management take the following actions:

- a. Ensure supervisory controls and internal quality review procedures are implemented over acquisition planning and contract award actions and related contract administration.
- b. Ensure all appropriate contract award data is reported accurately and timely in the FPDS.
- c. Ensure technical and legal reviews of all active contracts with Zegato are performed and take actions to protect VA's financial, performance, and contractual interests.
- d. Ensure all future acquisitions supporting a major project, such as this E-Travel project, require technical and legal reviews, regardless of the dollar threshold applicable to any individual award action.
- e. Ensure an assessment of the performance and warrant authority of the CO responsible for the Zegato contracts is performed and enforce internal control procedures to ensure that future work performed meets all requirements of law, executive orders, and regulations.

Chief Management Officer Comments

The Chief Management Officer agreed with the recommendations.

Implementation Plans

The Department began taking corrective actions needed to protect VA's financial, performance, and contractual interests. We were also advised that the warrant of the CO

was suspended pending an assessment. Corrective actions taken in response to these recommendations were considered adequate.

Office of Inspector General Comments

We consider the actions taken acceptable.

A High Level of VA Users' Dissatisfaction With Zegato is Evident

Summary

VA's Capital Investment Application for E-Travel dated October 24, 2001, included improved employee morale as one of the benefits of E-Travel due to reduced administrative burden on employees. However, the results from our OIG user satisfaction survey showed that Zegato's VA registered users were dissatisfied with the Zegato E-Travel service's overall functionality, training, and communication. In addition, interviews with officials from VA Central Office (VACO) continue to identify concerns relating to implementing the Zegato E-Travel service because the service is unable to meet their needs in functionality, performance, and user friendliness.

As a result of user dissatisfaction and service implementation problems VA officials exempted 60 facilities from using the service. Further, based on the information obtained from VA staff offices and potential service users we concluded users have concerns relating to implementation of this service because the service is not user friendly and users were not adequately involved in this system development effort.

Results

We administered a survey to a sample of Zegato users to assess the levels of satisfaction of the Zegato E-Travel service's registered users in VA. We randomly sampled users to rate levels of satisfaction in the following major support areas: (1) Functionality, (2) Zegato access and speed, (3) Help services, (4) Instructions and Manuals, and (5) Training.

We received 427 responses to our survey, and 125 of these respondents opted not to use the Inquisite^{®20} survey we sent them and responded in narrative fashion only. Results are provided in the following charts and graphs. The 302 Inquisite[®] responses to our survey were identified as follows:

- 100 VACO respondents
- 166 VHA respondents
- 32 VBA respondents
- 4 respondents from unidentified VA organizations (respondents had an option to remain anonymous)

²⁰ An electronic survey administered via email.

The responses are presented here in composite ratings based on the following table:

Scale	Rating	Composite rating
5	Excellent	Positive
4	Good	Positive
3	Average	Neutral
2	Fair	Negative
1	Poor	Negative

Functionality Was a Source of Dissatisfaction For Many Users. Of the 285 users who provided an opinion on this area, 183 (64%) expressed an overall dissatisfaction with the Zegato E-Travel service’s functionality. Seventy-two users (25%) expressed satisfaction. Thirty users (11%) expressed neutral ratings.

CHART 1: VA users expressed dissatisfaction in specific functionality areas.

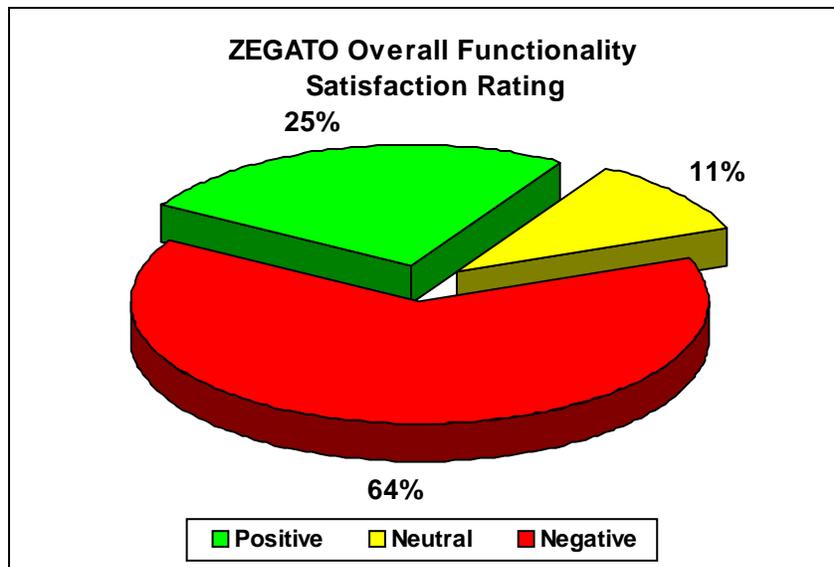


TABLE 1: VA survey respondents voiced dissatisfied with Zegato’s functionality (i.e. ease of use):

Functionality area	Percentage of users who expressed dissatisfaction ²¹
Online Booking ²²	145 of 223 (65%)
Travel Scheduling	156 of 242 (64%)
Expense Reporting	136 of 263 (51%)

TABLE 2: The following provides highlights of the comments survey respondents offered when asked about Zegato’s (1) Online booking, (2) Travel Scheduling, and (2) Expense Reporting.

Functionality Area	Selected Highlights From Survey Respondent Comments
Online Booking	<p>“The biggest issue I have is with the online booking. It is darn near impossible to change a flight once a reservation has been made. I consistently have to delete my entire travel document and start over to change my flights...Very Frustrating!”</p> <p>“Online booking of the airline is unduly cumbersome. The hotel booking is of no use at all, and most frequently doesn't include the hotel I'm interested in. It is much easier to call an agent or the hotel to book these. It is extremely cumbersome to change a flight after it has been selected. It is a real pain to have to change something after the plan has been submitted.”</p> <p>“Online Booking does not show all flights. When requesting schedules it sends the requester back to the start of the reservation process without providing information on all legs of the trip.”</p> <p>“Erroneous air fare charges -- charges more than contract fare. Erroneous contract flight data -- not listed, listed at wrong fare, etc.”</p>
Travel Scheduling	<p>“The feedback as to the travel plan is fair to very poor. I had a flight that was not booked and did not receive any notification that this had occurred until I arrived at the airport. If you book a flight there should be a confirmation that this is acceptable or not pending approval of the next official.”</p> <p>“I found it extremely unfriendly to use and it took up a lot of my time to schedule my travel.”</p> <p>“The one complaint I have about Zegato is the ability to use it to prepare travel plans when more than one destination on the same travel plan is needed. Also when there is more than one mode of travel for multiple destinations on the same travel plan. I have</p>

²¹ Percentage is based on the number of users who responded to each particular question. Not all users responded to every question we presented.

²² Online booking refers to ease of making transportation, lodging, and automobile reservations.

	not been able to figure out how to accomplish this.”
Expense Reporting	“The only thing I did with this system was to report my expenses...I found the system extremely confusing, especially for first-time users. With some coaching, however, I was able to do what I needed.”

Training Was a Source of Dissatisfaction For Many Users. Of the 192 users who provided their opinion on this area, 107 (55%) expressed an overall dissatisfaction with Zegato’s training. Forty-nine users (26%) expressed satisfaction and thirty-six users (19%) expressed neutral ratings.

CHART 2: VA users expressed dissatisfaction in specific training area.

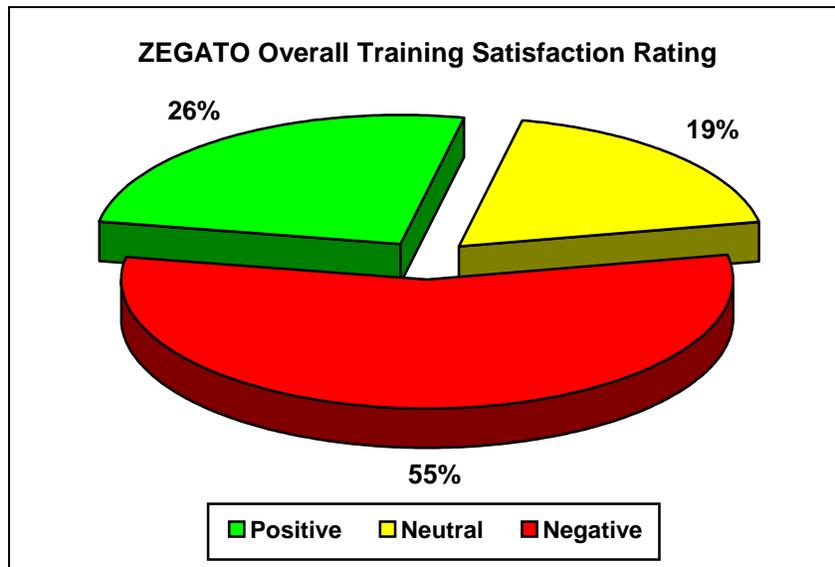


TABLE 3: VA survey respondents voiced specific dissatisfaction with the following Zegato’s training issue.

Training Area	Percentage of users who expressed dissatisfaction ²³
Content and quality of Zegato provided training	108 of 187 (58%)

²³ Percentage is based on the number of users who responded to each particular question. Not all users responded to every question we presented.

TABLE 4: *The following provides highlights of the comments survey respondents offered when asked about Zegato’s training content and quality.*

Training Area	Selected Highlights From Survey Respondent Comments
Content and quality of Zegato training	<p>“The training was a complete waste of my time; completely disorganized.”</p> <p>“Perhaps I should not have rated the training "bad," but there was no radio button for non-existent.”</p> <p>“Zegato wasn't working appropriately when we received the training. The trainer repeatedly complained about how slow the system was. I did not learn how to use Zegato after receiving the training.”</p>

Communication Was a Source of Dissatisfaction For Some Respondents. Of the 245 users who provided their opinion on this area, 80 (33%) expressed an overall dissatisfaction with Zegato’s communication. Sixty-five users (27%) expressed satisfaction. One hundred users (40%) expressed neutral ratings.

CHART 3: *VA users expressed dissatisfaction in communication areas.*

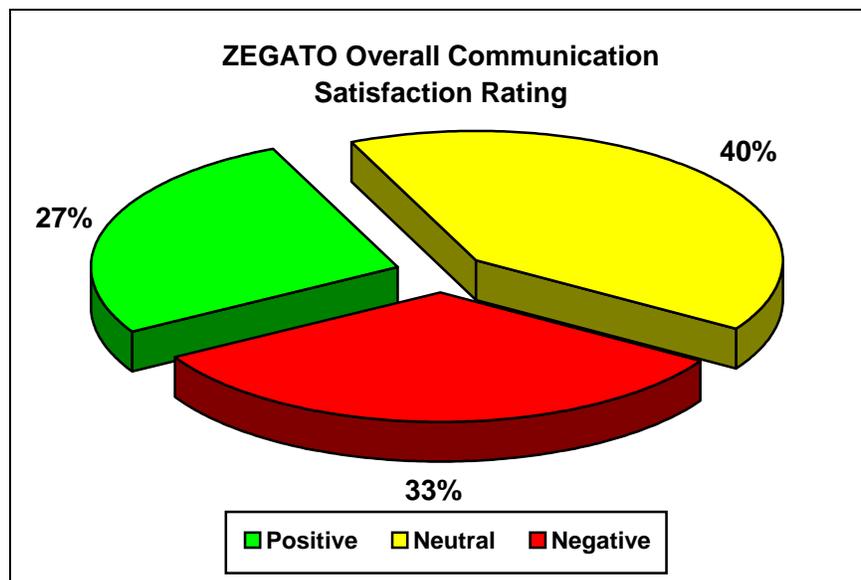


TABLE 5: Survey respondents voiced dissatisfied with Zegato’s communication.

Communication Area	Percentage of users who expressed dissatisfaction ²⁴
Zegato’s written and online manual and instructions	95 of 246 (39%)
Clarity of Zegato’s written and online manual and instructions manual	93 of 246 (38%)

TABLE 6: The following provides highlights of the comments survey respondents offered when asked about Zegato’s training content and quality.

Communication Area	Selected Highlights From Survey Respondent Comments
Zegato’s written and online manual and instructions	<p>“The manuals don't provide enough details as to how to make some simple corrections in travel plans such as changing the dates of your travel return.”</p> <p>“What hardcopy manual? All I have ever seen is the "help" button, which has not ever been helpful in answering the questions I have.”</p> <p>“Manuals & training needs improvement, not tailored to the majority of the targeted audience, nor is the information user specific. It would help if it was more of a step by step user guide and less from a technical aspect.”</p>
Clarity of Zegato’s written and online manual and instructions	<p>“Instructions in online manuals not sufficient to allow user to perform simple functions without asking for help from local contact. Our travel clerk is spending huge amounts of time trying to help individuals input their requests into Zegato. It would be simpler for her to make reservations through live travel agents via phone.”</p> <p>“As a former author of online and written user help, Zegato's help is incomplete, disorganized, and confusing to say the least. All of the users I spoke to don't even bother with it, we all help each other through trial and error.”</p>

Help Services Was a Source of Satisfaction For Users. Of the 144 users who provided an opinion on this area, 60 (42%) expressed overall satisfaction with Zegato’s communication. Twenty-eight users (19%) expressed dissatisfaction. Fifty-six users (40%) expressed neutral ratings.

²⁴ Percentage is based on the number of users who responded to each particular question. Not all users responded to every question we presented.

CHART 4: VA users expressed satisfaction in help services areas.

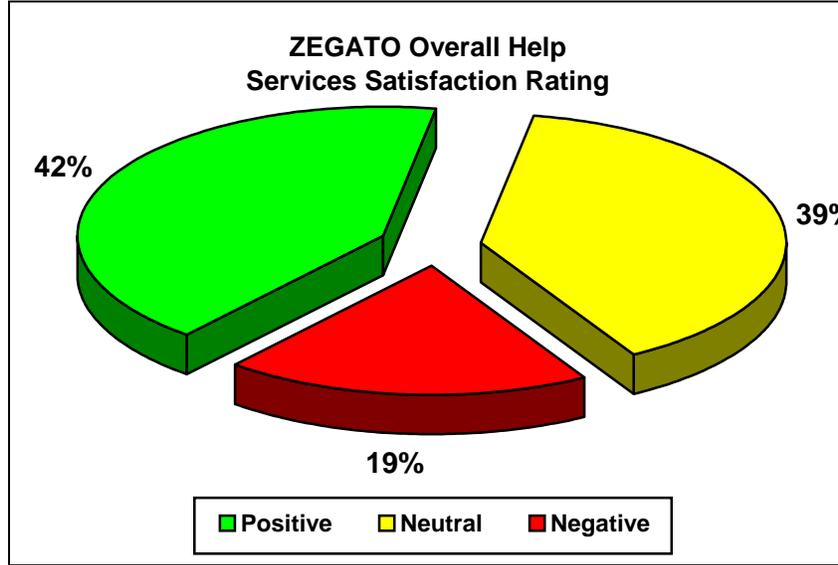


TABLE 7: Highlights the help services areas where VA users expressed both satisfaction and dissatisfaction.

Help Services Area	Percentage of VA users who expressed satisfaction ²⁵
Help desk problem resolution	56 of 140 (40%)
Professionalism and courtesy of help desk personnel	78 of 132 (59%)
Help desk technician technical knowledge and ability	61 of 128 (48%)
Help Services Area	Percentage of VA users who expressed dissatisfaction
Zegato addressing solutions to technical problems	75 of 160 (47%)

The respondents were generally satisfied with Zegato’s access, reliability, and responsiveness. Of the 291 users who provided their opinion on this area, 139 (48%)

²⁵ Percentage is based on the number of users who responded to each particular question. Not all users responded to every question we presented.

expressed satisfaction with Zegato’s access. Ninety-nine users (34%) expressed dissatisfaction. Fifty-three users (18%) expressed neutral satisfaction ratings.

CHART 5: VA users expressed satisfaction with access.

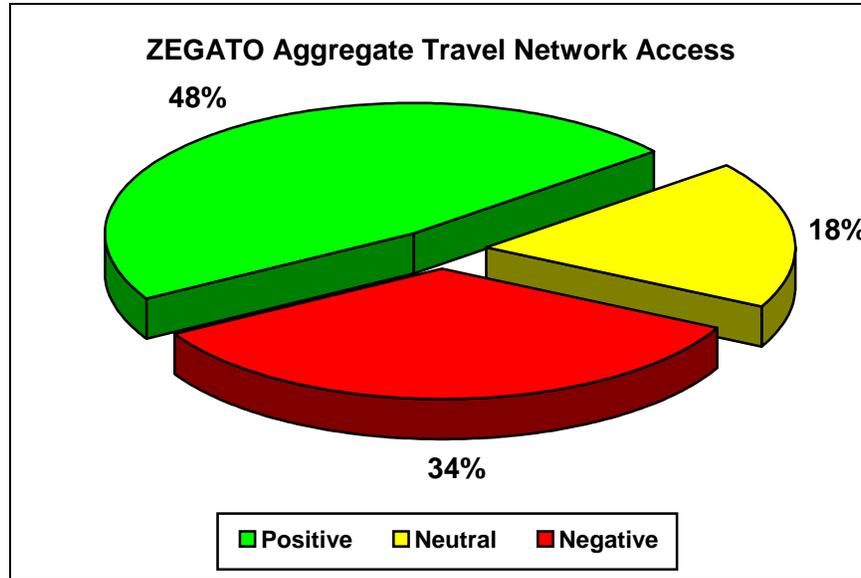


TABLE 9: Highlights specific areas where VA users expressed satisfaction and dissatisfaction.

Travel Access Network	Percentage of VA users who expressed satisfaction ²⁶
Access to Zegato travel website	168 of 291 (58%)
Internet access reliability of Zegato	131 of 280 (47%)
Travel Access Network	Percentage of VA users who expressed dissatisfaction
Travel screen responsiveness and speed	122 of 287 (43%)

²⁶ Percentage is based on the number of users who responded to each particular question. Not all users responded to every question we presented.

Conclusion

There is a high level of user dissatisfaction with Zegato's functionality, training, and communication. VA needs to ensure users are adequately involved in future E-Travel service developments and evaluations.

Recommendation 4

We recommended that the prior Acting Assistant Secretary for Management take the following actions:

- a.** Develop and use customer satisfaction surveys on an ongoing basis in order to identify and address new user-experienced problems in E-Travel services.
- b.** Ensure a representative body of VA users and stakeholders are identified and adequately involved in future E-Travel project planning and testing.

Chief Management Officer Comments

The Chief Management Officer agreed with the recommendations.

Implementation Plans

During the course of this review, the Department provided details that support their intent to ensure users are adequately involved in future E-Travel planning and support efforts.

Office of Inspector General Comments

The actions of the Department to include users in future E-Travel planning and support efforts met the intent of the recommendations and are considered acceptable. In addition, we shared the customer satisfaction survey tool used to collect information on this review with Department officials so they could facilitate the collection of future information in support of assessing user satisfaction. Implementation will be addressed as part of our follow-up process.

Appendixes

Appendix A - Background

VA began this E-Travel project in response to changing requirements, current system deficiencies, and to leverage opportunities for streamlining operations and potentially achieving significant cost savings. In May 1999, VA contracted with Hackett Consulting (now known as the AnswerThink Consulting Group) to conduct a benchmark study of the Department's financial processes. The consultant group's report, *VA Travel Process Improvement Study* (Improvement Study), issued in September 1999 concluded that improvements and cost savings opportunities existed in the Department's travel processes. That report stated that VA's travel costs were \$67 per transaction, including the Department's labor costs. The consulting group predicted that VA could decrease this cost to about \$30 per transaction with E-Travel.

Prior to VA's Zegato E-Travel initiative, the Department had three different travel systems.²⁷ Each had their own functional, technical, and support staff to operate and maintain the system. None of the systems were fully automated. In addition, some VA organizations still process travel manually. The Improvement Study recommended VA eliminate its multiple travel systems and streamline travel management to reduce processing time and to expedite reimbursements to travelers.

In 2001, VA began its E-Travel project development initiative. This project was expected to better align VA travel operations and systems with the Department's business and IT strategic plans. The goal was to establish a single travel management process for the entire VA that was capable of achieving:

- End-to-end paperless processing.
- Online services with electronic routing and e-mail notifications.
- Centralized online budget and travel information.
- Improved reporting.

VA's objectives and performance improvement targets were to:

- Reduce time spent making travel arrangements and preparing travel vouchers.
- Improve cycle time for the travel management process.
- Simplify approval process by limiting approvals to the supervisor and budget official.
- Increase dollar savings from prompt payment of travel cards and reduce delinquency rates.

²⁷ The three systems were: 1) Gelco Information Network, Inc.'s "Travel Manager", 2) Aldmyr Systems, Inc.'s (now known as Zegato Solutions) "PerDiemAzing," and 3) Veterans Health Administration's in-house "PC Travel."

VA E-Travel Budget Estimates and Transaction Processing Requirements

VA's 5-year budget estimate for the E-Travel service was \$16.6 million. This travel support system is expected to provide administrative support to all VA organizations. For the period June 2002 to June 2003, VA processed about 127,000 temporary duty travel vouchers.

VA's E-Travel Vendor

VA's current E-Travel vendor is Zegato Solutions, Inc. VA awarded Zegato a purchase order for an E-Travel pilot test in January 2002. In May 2003, VA awarded Zegato an implementation contract to fulfill the Department's nationwide E-Travel needs. Zegato is a small business located in Lanham, Md.

Project Management and Contract Support Responsibilities

Zegato project management activities were performed by OM's Office of Financial Systems - Electronic Business Solutions/E-Travel Service. Contracting activities with Zegato were performed by OA&MM's Acquisition Operations and Analysis Service. Contracting Officer's Technical Representative activities are currently performed by VA FSC Financial Operations Service in Austin, Texas.

VA's E-Travel Project Development Contracts

- **Pilot Test Contract**
 - Award Date: 1/18/02
 - Description: Contractor support for VA's E-Travel pilot test. Pilot test included licenses/subscription fees; program management and planning; software installation and setup; training; interface and network validation; and system documentation to be conducted at 5 sites with approximately 100 VA employee participants.
 - Original Award Amount: \$54,182
 - Final Award Amount after Modifications: \$520,747
- **Follow-on Sole Source Contract**
 - Award Date: 4/03/03
 - Description: To provide continuing services for the E-Travel pilot test.
 - Justification: VA wanted to continue Zegato's travel management services while the Department was preparing the solicitation for the implementation contract.
 - Original Award Amount: \$70,000
 - Final Award Amount after Modifications: \$120,910

- **Implementation Contract (Awarded via two task orders on GSA schedule contract no. GS-35F-0701M)**
 - Award Date: Both task orders were awarded 5/23/03.
 - Description: Task Order 1) Provide support services for the E-Travel management system. Provide training for 2,500 VA employees. Task Order 2) Estimate live operator surcharges (\$30,000); implementation fee (\$1,527,000); and additional services (\$156,020). Order also stated that VA will pay \$2,520,000 to process a maximum of 120,000 transactions at 21 per transaction.
 - Award Amount: Task Order 1) \$1,210,950, Task Order 2) \$1,713,020
 - Award Amount after Modifications: \$3,115,627
- **Implementation Contract Sole Source - Help Desk**
 - Awarded Date: 10/09/03
 - Description: To provide help desk services
 - Award Amount: \$342,260
- **Implementation Contract Sole Source - System Enhancements**
 - Awarded Date: 4/03/03
 - Description: To provide system enhancements (invoice traveler charge card, blanket travel, split pay, non contract airfare messages, CoreFLS).
 - Award Amount: \$511,613
- **Independent Studies Supporting Aspects of VA's E-travel Initiative**
 - Runzheimer International Ltd.
 - Award Date: 2/5/02
 - Description: VA hired Runzheimer International to review its pilot test to determine whether Zegato complied with JFMIP and the Department's requirements.
 - Award Amount: \$126,832
 - MIL Corporation
 - Award Date: 4/29/02
 - Description: Conduct: Security Test & Evaluation, Penetration Testing, Site Evaluation, Risk Assessment, Evaluate Communications Security.
 - Award Amount: \$93,682

Appendix B - Objectives, Methodology, and Scope

Objectives

The OIG conducted a review of VA's implementation of the Zegato E-Travel service. The primary objectives of this review were to (i) evaluate the effectiveness of VA's management of the Zegato E-Travel service, and (ii) to determine whether the Zegato E-Travel system meets the Department's requirements and user needs.

Methodology

Review work was planned and conducted to gain reasonable assurance that an adequate system of control exists for this project, and that the resulting output will meet the needs of VA. This review incorporated steps to validate data or confirm testimonial evidence relied upon to form conclusions.

We reviewed contract scope, schedules, funding, selected contract modifications, and change orders. The lack of a RFP for the pilot contract award hindered our efforts to determine what services VA contracted for. We reviewed the two priced proposals received by VA for performing the pilot test and examined how actions leading to the award met competition requirements.

Scope

Overall, our review focused on areas of known high-risk within development efforts including examining project and management controls in the following areas: project management, acquisition planning, contract awards and administration, cost, service functionality, testing and security, and user acceptance. Security controls over VA employee data maintained at Zegato's off-site Information Technology Center was outside the scope of this review.

Work was performed in VACO and at VA FSC in Austin, TX. Interviews were conducted with key OM program officials, including project management team members, the CO, CO supervisors, and COTR personnel. We also interviewed GSA officials working on the Governmentwide E-Travel Service.

In addition, we interviewed officials of VHA, VBA and selected VA staff offices. We also contacted one of VA's facilities designated as a service test site for the Zegato pilot test and met with financial management and travel officials from another VA facility to address implementation issues and user needs.

Our review included examining the official purchase order and contract files for the pilot test contract, a sole source follow-on contract and the E-Travel implementation contracts awarded to Zegato. We reviewed documentation covering project planning, the contract

solicitation documents, pricing information, and other key decisions leading to the award and administration of these contracts.

OIG User Survey Methodology and Scope

To gain an understanding of user acceptance and involvement in this system development project, we surveyed a representative sample of Zegato users in VA, via an electronic survey questionnaire designed to evaluate user acceptance of the Zegato E-Travel service and support services and to determine whether the Zegato's service meets their E-Travel needs.

We randomly sampled Zegato's service users from a database provided by OM. We obtained a representative sample from five classifications of the Zegato service users:

1. Approving Official - approves travel plans and/or travel vouchers.
2. Alternative Preparer - prepares travel plans for other.
3. Administrator - establishes E-Travel service parameters and usage controls on the system.
4. Traveler - processes travel plans and expense reports for himself or herself only.
5. Travel Coordinators - receive training from Zegato and provide training to their respective units or organizations.

We used the Likert Scale²⁸ methodology to measure Zegato's service users' service satisfaction and measure their perception of service quality provided. We also provided a section to allow survey respondents to provide written comments in order to enhance satisfaction measurement. Through a series of questions, survey respondents were asked to rate the following five services and support areas:

1. Functionality - desktop travel screen environment system functionality, and reliability, and ease of use.
2. Connection/Performance - ability to connect to the web-based Zegato travel services, reliability, and performance.
3. Help Services - online and live technical assistance, availability of technical assistance, quality of help desk services, clarity of help, and response time of technical assistance.
4. Communication - availability and clarity of instructions and guidelines (i.e. online travel instructions, printed documents, and manuals).
5. Training - range of instruction, courses, content, and quality.

²⁸ The Likert Scale is a rating scale measuring the strength of agreement towards a set of statements. Often administered in the form of a questionnaire, it is used to gauge attitudes or reactions. Subjects are asked to express agreement or disagreement on a five-point scale. Each degree of agreement is given a numerical value from one to five.

Appendix C - Details of Review

Exhibit 1: Comparison of VA and GSA Cost Per E-Travel Transaction

GSA presented price information for their available E-Travel services that show their services are more cost effective than Zegato's service. The following chart provides a comparison of the pricing differences associated with VA's current contract and each available GSA E-Travel service vendor for the next 10 years:²⁹

Cost Description	VA's Current Contract Zegato	GSA Vendor Northrop Grumman Mission Systems	GSA Vendor Carlson Wagonlit Government Travel	GSA Vendor EDS Corporation ³⁰
Standard Implementation Services	\$1,527,000	\$477,946	\$90,000	\$127,339
Integration / Interface	<i>Already done in base year</i>	440,000	440,000	440,000
Training	1,360,032	<i>Included in Standard Implementation services</i>		
Supplemental	4,362,031	<i>Included in Standard Implementation services</i>		
Traditional reservations	6,401,010	4,846,579	4,518,869	5,486,288
Online / Self Service	<i>Included in transaction fees</i>	3,782,013	7,331,500	14,534,482
TDY Voucher Fees 110,000 per yr @ 21	23,100,000	16,515,125	15,856,500	13,109,305
Local Fees 10,000 per yr @ 5.25	525,000	698,125	504,375	487,675
TOTAL	37,275.073	26,759,789	28,741,244	34,185,088
Avg cost per transaction over 10 yrs.	\$31	\$22	\$24	\$28

Based on our analysis of pricing information available during the course of the review, VA's contract with Zegato is the most expensive option. In addition, GSA's service options offer additional benefits. Using the average price per transaction of the three GSA options, we estimated the difference between the current contract's 10-year costs of

²⁹ On May 26, 2004, VA informed the OIG that GSA's Vendor columns do not include all implementation and training costs normally expected of a large agency such as VA. In addition, VA's costs under the Zegato contract will change as a result of VA's successful recent renegotiation with Zegato. However, based on our observation of Zegato cost overruns, we believe the costs shown under the VA Current Contract - Zegato column are conservative, and in our opinion do not offer VA any savings over GSA.

³⁰ Zegato is a subcontractor for EDS.

\$37.2 million less the average of GSA 10-year costs of \$29.9 million is about \$7.3 million.

Exhibit 2: Details of Project Management Critical Milestones and Identification of Schedule Slippage

VA’s Capital Investment Application reported a project plan in three phases:

- **Phase One:** Pilot Test
- **Phase Two:** Pilot Test Review and Statement of Work (SOW) Preparation
- **Phase Three:** Nationwide Implementation

The following table details the considerable project schedule slippage that the Zegato project experienced:

Phase	Planned Start Date	Planned End Date	Actual Start Date	Actual End Date
Pilot Test	12/01/2002	1/31/2002	01/18/2002 ³¹	03/31/2003
Pilot Review	02/01/2002	05/31/2002	02/05/2002 ³²	03/01/2003 ³³
Nationwide Implementation	10/01/2002	9/30/2003	05/23/2003	Not Completed

Exhibit 3: Unmet E-Travel Requirements

Our review showed that 7 of the 10 user-validated JFMIP and VA requirements were still unmet as of December 2003. The 7 requirements are part of the 10 requirements that were identified in the Runzheimer report as not being met. Seventeen of the 71 technical requirements validated by technical experts have still not been met.

The following table details the E-Travel 24 requirements described above (7 user-validated and 17 technical requirements) that remained unmet as of December 2003:

No.	Criteria ID	Unmet User Validated E-Travel Requirements
1	JFMIP 24	Demonstrate the capability to set, change, and apply established limits on travel advances.
2	JFMIP 25	Demonstrate the ability for limiting the allowed advance based upon transportation methods (GTR vs. non-GTR), subsistence rates, miscellaneous expenses, and possession of a charge card.
3	JFMIP 2	Demonstrate override capability to change the order of precedence of the processing steps to handle unusual travel demands.

³¹ Zegato purchase order date.

³² Contract award date with third-party evaluator, Runzheimer.

³³ Runzheimer’s final report submission date.

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4	JFMIP 20	Calculate authorized per diem (including for non-work days, interrupted travel and reduced per diem rates) and meals and incidental expenses (M&IE) based on the temporary duty (TDY) location. - Last date of travel 75 percent of the applicable M&IE rate.
5	VA 97	Demonstrate a reservation/booking method on line with the ability to see non-contract fares as well as contract fares after hours service for all travelers.
6	JFMIP 18	Demonstrate the capability to process travel authorizations with split fiscal year funding and with multiple funding.
7	JFMIP 77	Demonstrate ability to gather and analyze usage statistics.

No.	Criteria ID	Unmet Technical E-Travel Requirements
1	VA 131	Availability of website must be 99.5%.
2	VA 104	Demonstrate the ability to place a 'NTE' on the total cost of the trip. The "Not to Exceed" capability is a VA E-Travel requirement.
3	JFMIP 14	Allow for processing various types of travel authorizations including unlimited open, limited open, and trip-by-trip.
4	JFMIP 48	Demonstrate a mechanism to assure that sponsored travel be administratively approved by the agency designated official prior to final approval of the travel authorization.
5	JFMIP 50	Demonstrate the capability to indicate the amounts and entitlements to be paid by the Government and those to be paid by the sponsoring organization, (e.g., if the Government authorizes payment of the traveler's meals and incidental expenses and the sponsoring organization is paying for the hotel and airfare (services in-kind), then this must be clearly shown on the travel authorization). The system must show estimated amounts where actual amounts are unknown.
6	JFMIP 16	Allow for the option of specific authorization or prior approved travel arrangements as required by the FTR 301-2.
7	JFMIP 4	Maintain adequate separation of duties.
8	JFMIP 10	Demonstrate an audit trail for historical data that identifies input, correction, amendment, cancellation and approval.
9	VA 80	(FMS Requirement) Applications should be able to comply with VA-wide security approach. Applications must have an open architecture design that allows plug-ins for user authorization, authentication, and encryption applications and infrastructure. These security mechanisms will address enterprise security. Public Key Infrastructure and other third party tools required to implement VA's security policy.
10	VA 100	Demonstrate the ability to issue advances to non-employees and/or employees requiring one.
11	JFMIP 27	Integrate the issuance and control of the travel advances with the travel voucher payment process to ensure that the advance is liquidated or collected prior to the issuance of a payment to the traveler; also Demonstrate the capability not to liquidate when the traveler has been authorized a "retained" travel advance in accordance with the FTR part 301-51.
12	JFMIP 5	Demonstrate controls to prevent the creation of duplicate travel documents.
13	JFMIP 67	Demonstrate travel data to GSA for oversight in accordance with the FTR part 300-70, Agency Reporting Requirements.

14	JFMIP 58	Demonstrate the capability to record sufficient airline ticket information that is essential to the airline ticket payment process so that the accounting office may review the information, verify the amount cited on the airline bill, and determine if a refund is due or reconcile other ticketing differences so that correct payment is made.
15	JFMIP 71	Demonstrate the capability to maintain rules incorporated in the travel system.
16	VA 84	(FMS) Evaluate the proven capability of the Demonstrator to keep the product current with the latest technology and the Demonstrator must responsively address the needs of VA with a long term strategy for providing continual service. The remaining issues are: <ul style="list-style-type: none"> b) 24 hours or more, on: c) Day of departure 75 percent of the applicable M&IE rate e) Locality M&IE allowances f) Locality/lodging rate (per diem) h) Air costs/destination m) Delegated Authority
17	VA 125	(JFMIP Value-Added) Demonstrate for automated maintenance of per diem rates from a central source.

Exhibit 4: Implementation Phase Travel Voucher Volume Guarantee

In an effort to mitigate the \$2 million guaranteed payments due, VA negotiated a new performance period applicable to the guarantee for the period May 31, 2004, to September 30, 2004. However, since VA planned to redeploy Zegato service to all stations using a phased-in method of implementation, we project the Department cannot meet the travel voucher minimum guarantee. Thus, we consider this guarantee a contract term that is not cost effective.

The following table details VA’s current transaction processing levels compared to the guaranteed processing levels we found in the contract’s provisions.³⁴

Zegato Temporary Duty (TDY) Vouchers Processed	
Period	Actual Expense Reports Processed
June 2003 to February 2004	16,394
OIG estimate for remaining months of base contract year, based on avg. of vouchers processed through Zegato in the period from November 2003 through February 2004.	
Period	Estimated TDY Vouchers Processed
March 2004	3,300

³⁴ On May 26, 2004, VA informed OIG that it has successfully addressed this issue. VA negotiated with Zegato to settle all outstanding one-time costs for E-Travel for the base year of the contract for \$1.2 million.

April 2004	3,300
May 2004	3,300
Estimated 12-month usage	26,000 (rounded)
Compared to Guarantee	110,000 ³⁵
Difference	84,000
Est. payments due per contract guarantee (\$21 x 84,000)³⁶	\$1,764,000

Exhibit 5: Pilot Test Phase Contract Actions

The following chart provides details of the original award actions and subsequent modifications made to the Zegato contract identified during our review of the contract files.

Date	Pilot Test Description of Work	Amount	Review Notes
01/18/02	Original Purchase Order Award for E-Travel proof of concept for Alpha and Beta sites.	\$54,182.00	(1)
03/07/02	Modification No. 1 - Include additional test pilot sites, additional transactions	19,525.80	(2)
04/17/02	Modification No. 2 - Incorporate 5 pilot test sites	79,331.31	(3)
08/08/02	Modification No. 3 - Zegato Project Manager; Zegato Help Desk; Training; Conference Presentation; System Documentation	65,700.00	(4)
10/16/02	Modification No. 4 - To cover an outstanding invoice; extend performance period	2,345.50	(5)
12/17/02	Modification No. 5 - To cover recurring invoicing; extend performance period	62,000.00	(6)
02/20/03	Modification No. 6 - To cover recurring invoicing	77,000.00	(6)
02/21/03	Modification No. 7 - To cover recurring invoicing	1,901.56	(6)
04/04/03	Modification No. 8 - Extend performance period from 12/31/02 thru 3/31/03	158,761.17	(7)

³⁵ This was originally set at 120,000 TDY vouchers but was later modified to read as 110,000 TDY and 10,000 local vouchers. However, as of March 2004, Zegato has been unable to process local vouchers.

³⁶ Zegato's \$21 fee based on expense reports completed.

	TOTAL ADJUSTED AWARD COSTS	\$520,747.34	
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Exhibit 5 Notes:

(1) The original amount of the award for \$54,182, lacked adequate support to evaluate reasonableness of pricing. The award did not include various items that were subsequently added throughout the pilot test – most of which should have been planned for prior to the award.

(2) Modification No. 1 lacked adequate support to evaluate reasonableness of pricing. The documentation showed that \$19,525.80 was for increasing the number of test transactions from 500 to 650. We also concluded the test cost per transaction for the 150 additional transactions was 130 (\$19,525 ÷ 150). We found no explanation or justification in the contact files supporting the increase in the number of transactions to be tested. The CO could not explain why these items were not included in the up-front planning. The project manager advised us that she “decided to expand the number of transactions to verify the accounting interface and to get more feedback for the report completed by Runzheimer.”

This modification also included \$11,000 to cover travel expenses for Zegato employees. It should be noted that the competing vendor did include a travel estimate (4,544) in their proposal, yet Zegato did not. Thus, we concluded this modification supports our opinion that a buy-in occurred.

Also, Zegato’s line item cost for interface testing to FMS and Citibank was 0 versus their competitor’s estimate of \$57,317, which supports our concerns that the CO had no comparable basis to determine price reasonableness and that VA did not receive a responsible offer from Zegato to the pilot test.

(3) Modification No. 2 lacked adequate support to evaluate reasonableness of pricing. Also, the fact that this modification exceeded 100% of the original price of the contract coupled with the fact that this task order added five additional test sites, we consider this was a cardinal change – which was a change beyond the scope of the contract. This should have resulted in a new contract competition.

The total cost of training for the five sites was \$17,431.80 (22% of the total). Documentation did not specify how many employees were actually going to be trained. Zegato’s proposal indicated a maximum of 15 participants could attend each class (15 x 5 = 75). In comparison, the total training cost included in the initial award of \$54,182 was 11,696. In view of the fact that the \$54,182 award for the entire 3-month pilot test that covered 5 sites and 500 transactions – versus \$79,331 for 5 sites covering 150 transactions, we conclude that the contract officer was negligent in not questioning these costs.

(4) Modification No. 3, per the vendor’s submission stated, “This modification includes time and material cost for the extension of the e-travel test pilot...” During the competition leading to award when the two offerors cost proposals were being evaluated for the pilot test, the competing vendor’s proposal was eliminated, in part, because their price offer was deemed to be a “time and materials³⁷” proposal. Furthermore, the initial pilot test award of 54,182 was a “firm-fixed price” contract,³⁸ which helps ensure costs are controlled, moving to a time

³⁷ A time and materials (T&M) contract is a type of contract providing for the acquisition of supplies or services on the basis of: (1) direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses and profit; and, (2) materials at cost including, if appropriate, material handling costs. FAR 16.601 states a T&M contract may be used only when it is not possible at the time of placing the contract to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence.

³⁸ A firm-fixed price contract provides for a price that is not subject to any adjustment on the basis of the contractor’s cost experience in performing the contract. This contract type places upon the contractor maximum risk and full responsibility for all costs and resulting profit or loss. It provides maximum incentive for the contractor to

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and materials pricing typically lessens controls over costs and labor efficiency. This was unfair to the competing vendor since the vendor was eliminated on this basis.

The vendor’s cost proposal for this modification totaled \$50,662, yet the task order amount was for \$65,700. We saw no evidence in the contract file explaining the \$15,038 difference. Also, Zegato’s price schedule showed the labor cost for a project manager was 250 to work an estimated 22.5 hours at a cost of \$5,625. In comparison to the original cost proposal for the \$54,182 award, the hourly rate for a project manager was 100. This hourly rate increased without justification. We saw no evidence in the contract file indicating these costs were questioned by the CO. We question the price reasonableness of this transaction.

This modification is a cardinal change because OA&MM officials acknowledged that \$8,000 included in this task order for a GSA Smartpay Conference was not directly related to any work identified in the original award and it should have been issued as a separate award.

(5) Modification No. 4 was issued to cover an outstanding invoice of \$2,345.50 and to extend the date of the Pilot test to December 30, 2002. There is no explanation in the contract files we reviewed indicating what the invoice was for and why the pilot test was being extended for an additional 3 months. This modification is the first indication of significant project schedule slippage.

(6) Modifications Nos. 5, No. 6, and No. 7 all stated they covered recurring invoices which totaled to \$140,901.56. We determined that the CO established the modifications to pay for bills (invoices) that were unexpected and unplanned. There is no explanation in the files we reviewed indicating what the invoices represented. We determined these modifications were ratifications of expenses that were unauthorized. FAR 1.602-3 states ratification means the act of approving an unauthorized commitment by an official who has the authority to do so. We determined the funds had not been authorized in advance and there were no justifications for the invoices. The CO should not have ratified these expenses.

(7) Modification No. 8 extended the pilot test performance period from 12/31/02 to 3/31/03, yet a proposal for the extension was not even submitted until 2/24/03. As of 4/1/03, funding approval had not been obtained for the extension. OA&MM management commented that funding was not approved prior to the action. This issue was not cleared through the VA’s General Counsel. We determined this was an improper contract action and the ratification by the CO was improper.

It should also be noted that \$126,000 (79%) of the \$158,761.17 represented Zegato’s labor costs that covered a 2-month period for only four people. For the 2-month period, one senior customer account specialist was paid \$60,000 (hourly rate of 187.50). The schedule of prices submitted by Zegato cites a GSA schedule contract (Zegato was placed on schedule in August 2002). We saw no evidence in the files we reviewed that the CO verified the pricing to GSA’s schedule or whether the listed costs were GSA contract costs.

Exhibit 6: Sole Source Award - Extension to Pilot Test

This contract provided a 2-month follow-on extension to the Zegato pilot test award. OA&MM management acknowledged that a separate award should have been issued for continuation of pilot test work and that the modifications “exceeded the scope in application of pricing.”

Date	Sole Source - Pilot Extension Description of Work	Amount	Review Notes
04/01/03	To provide continuing services for the E-Travel test pilot project – period of performance: one month with two option periods of	\$70,000.00	(8)

control costs and perform effectively and imposes a minimum administrative burden upon the contracting parties (FAR 16.202-1).

	one month - GSA Contract No. GS-35F-0701M		
06/18/03	Modification No. 1 – exercised the optional period for the month of May 2003	50,910.46	(9)
	TOTAL	\$120,910.46	

Exhibit 6 Notes:

- (8) We determined this contract extension was an improper procurement action and violated the provisions contained in FAR 6.301 covering “other than full and open competition.” The Project Manager informed us that four sites using Zegato requested the performance extension; yet no documentation was provided to us supporting the requests. Although we found correspondence in the sole source contract file stating that the CO was concerned about the number of contract extensions and that she planned to obtain General Counsel’s recommendations/comments; we found no documentation in the file indicating General Counsel was consulted.

The date of the task order for the sole source award was April 1, 2003, and the period of performance for the first month was April 1 to 30, 2003. However, the CO did not sign the award until April 16, 2003 and the contractor signed April 22, 2003. As a result, VA’s interests were not contractually protected for the first few weeks in April 2003 since Zegato continued to perform work without a legally binding contract that authorized them to provide their services.

Although a Price Analysis Memorandum was in the file which contained checkmarks next to line items indicating the CO performed certain analysis steps, we found no supporting documents attached to the memorandum showing the work was done. For example, although the award was placed against a GSA award schedule, using the procedures in FAR 8.4, we found no evidence in the files that the CO matched the vendor’s prices to the vendor’s GSA schedule prices.

- (9) We determined this modification was a ratification of an unauthorized commitment and was an improper procurement action. The effective date of the task order was June 18, 2003, yet the CO did not sign the modification until August 27, 2003 for work that was performed during May 2003. We saw no evidence in the file that prior approval was properly obtained by the CO for this action. VAAR 801.602-3 provides specific procedures that a CO must follow relative to a ratification issue. Per a June 18, 2003 memorandum in the contract file, the decision was made only then to increase obligated funds by 50,910.46, after the work had already been done.

Exhibit 7: Implementation Phase Contract

Date	Implementation Phase Description of Work	Amount	Review Notes
05/23/03	Training for 2,500 VA employees	\$1,210,950.00	(10)
05/23/03	Estimates live operator surcharges (2000 x \$15); Implementation Fee; Additional Services	1,713,020.80	
6/19/03	Modification No. 1 – Changed Task Order Project Manager; several administrative changes	-0-	
7/9/03	Modification No. 2 – Changed period of performance; clarification to surcharge contract line item– Zegato will charge 15 certain help desk calls from employees	-0-	(11)

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11/14/03	Modification No. 3 – Combined original 2 task orders, changed COTR & assistant COTR & other administrative changes	-0-	
12/8/03	Modification No. 4 – Changed period of performance for Zegato Customer Account specialists & Not to exceed amount estimated travel	-0-	
08/11/04	Modification No. 5 – increased not to exceed amount estimated travel	12,000.00	(12)
2/19/04	Modification No. 6 – to incorporate Federal Mediation and Conciliation Service as an authorized user of VA’s E-Travel Task Order No. 101-J37219, CLIN 0004 (Implementation) effective 2/19/04 through 5/31/05	5,000.00	(13)
4/1/04	Modification No. 7 – continue customer help desk support provided by five Zegato Sr. Customer Account Specialists, including a not to exceed amount for travel and per diem (51,640) – period of performance: April 1, 2004 to May 27, 2004	174,656.40	
TOTAL		\$3,115,627.20	

Exhibit 7 Notes:

(10) This task order stated VA will pay \$2,520,000 to process a minimum of 120,000 transactions at \$21 per transaction. However, as of March 1, 2004, due to substantial performance problems and implementation delays, only about 16,000 vouchers had been processed. We concluded that the project management team did not exercise good judgment in contractually committing VA to a costly financial obligation for services that ultimately cannot be rendered in the base year.

Although VA awarded Zegato the implementation contract citing Zegato’s GSA contract number, when we asked OA&MM officials for documentation showing that line for line costs were analyzed, OA&MM indicated a “formal technical evaluation was not conducted.” We found that the support for the review was a short memorandum prepared by the Project Manager and it did not provide details. OA&MM indicated they had a copy of GSA’s pricing schedule; however, they did not show that VA matched Zegato’s cost proposal items to GSA’s pricing schedule.

(11) This modification expanded the base performance period from 12 months to 16 months. The initial base period was June 1, 2003 through May 31, 2004. As a result, this had an impact on VA’s guarantee of 120,000 transactions, at a cost of \$2,520,000 for Zegato (which, at that time, covered a 12-month period.)

(12) We found this order was not prepared in a timely manner. The effective date on Modification No. 5 is August 11, 2003, however, the CO signed the document January 12, 2004.

(13) This modification added Federal Mediation and Conciliation Service to VA’s E-Travel contract and is considered an Interagency Agreement for E-Travel services. This contract action was improper, as the task order ending performance period of May 31, 2005 goes beyond the base year of VA’s contract with Zegato. In addition, we question the appropriateness of VA’s decision to franchise E-Travel Services to other Federal agencies when the Department has yet to implement the Zegato service after 2 years of testing for their own agency. This was outside the scope of the E-Travel MOU between GSA and VA.

Exhibit 8: Sole Source - Supplemental Help Desk Services

Date	Implementation Phase Description	Amount	Review Note
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10/9/03	Task Order Award – Order No. 101-G47103 - System Administration for Zegato; Sr. Customer Account Specialists and travel	\$342,260.00	(14)
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Exhibit 8 Note:

(14) We determined that \$38,103 of this award, covering travel for Zegato employees October 9, 2003 through December 31, 2003, was an improper ratification. The date of the order was October 9, 2003 and a CO signed it on December 19, 2003.

VAAR 801.602-3 states that a CO shall not ratify contractual commitments made by other VA personnel without prior approval. The regulation also states that the individual who made the unauthorized contractual commitment shall furnish the CO all records and documents concerning the commitment and a complete written statement of facts, including, but not limited to, a statement as to why the procurement office was not utilized. We found no evidence in the file supporting adherence to VA’s own ratification policy and General Counsel’s office was not consulted. We believe it would have been prudent for the CO to seek counsel’s advice on the inclusion of the \$38,103 amount, as well as obtaining their approval for a sole source award.

We also found the sole source justification document in the contract file was not prepared timely. The task order was signed by the CO on 12/19/03; the justification memorandum was not certified by the CO until 1/14/04.

Exhibit 9: Sole Source - Implementation Other Supplemental Services

Date	Implementation Phase Description of Work	Amount	Review Note
11/4/03	System enhancements – invoice traveler charge card; blanket travel preparation by alternate prepare; default air, hotel, rental car to split pay; deploy stronger non-contract air message; exclude invalid VA station numbers; CoreFLS interface	\$511,613.75	(15)

Exhibit 9 Note:

(15) We found that this sole source award was not submitted to the Competition Advocate³⁹ for written approval. FAR Part 6.304 requires such approval for contracts over \$500,000. Per OA&MM officials, this was an “oversight.” It is evident that the costs were not adequately negotiated and controlled for the best interests of the Department. VA officials were not proactive and did not properly supervise what work was being done in relation to what was billed to VA by Zegato. File documents show that VA officials were struggling to figure out the bills and determine whether or not payments were justified.

³⁹ A Competition Advocate is an employee of a contracting activity specifically assigned the task of challenging barriers to competition and promoting full and open competition.

Appendix D - Applicable FAR, FTR, and Other Guidance, and Key Terminology

APPLICABLE FAR, FTR, AND OTHER GUIDANCE

FAR Part 1.602-2 - COs Responsibilities

FAR Part 1.602-2 states COs are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships.

FAR Part 4.602 - Federal Procurement Data System

FAR Part 4.602 requires executive agencies to transmit this procurement information to the FPDS. FAR Subpart 4.6 – Contracting Reporting prescribes uniform reporting requirements for the FPDS. The FPDS provides a comprehensive mechanism for assembling, organizing, and presenting contract placement data for the Federal Government. Specific and required contracting data reported by Federal agencies is used as a basis for recurring and special reports to the President, the Congress, GAO, Federal executive agencies, and the general public.

FAR Part 5 - Publicizing Contract Actions

FAR Part 5, Publicizing Contract Actions, states COs must publicize proposed contract actions in order to increase competition, broaden industry participation in meeting Government requirements, and assist small business concerns, et al, in obtaining contracts and subcontracts.

FAR Part 6.301(c) - Full and Open Competition

FAR Part 6.301(c) states that contracting without providing for full and open competition shall not be justified on the basis of: (1) a lack of advance planning by the requiring activity; or (2) concerns related to the amount of funds available.

FAR Part 8.404(a)(2) - Federal Supply Schedule Acquisition Plans

FAR Part 8.404(a)(2) states that orders placed under a FSS contract are not exempt from the development of acquisition plans.

FAR Part 9.103 - Responsible Prospective Contractors Only

FAR Part 9.103 Policy states that: (a) purchases shall be made from, and contracts shall be awarded to, responsible prospective contractors only; (b) no purchase or award shall be made unless the CO makes an affirmative determination of responsibility. In the absence of information clearly indicating that the prospective contractor is responsible,

the CO shall make a determination of non-responsibility. If the prospective contractor is a small business concern, the CO shall comply with Subpart 19.6, Certificates of Competency and Determinations of Responsibility; (c) the award of a contract to a supplier based on lowest evaluated price alone can be false economy if there is subsequent default, late deliveries, or other unsatisfactory performance resulting in additional contractual or administrative costs.

FAR Part 9.104-1 - Vendor Financial Resources and Past Performance

FAR Part 9.104-1, General Standards states that to be determined responsible, a prospective contractor must: (a) have adequate financial resources to perform the contract, or the ability to obtain them; (b) be able to comply with the required or proposed delivery or performance schedule, taking into consideration all existing commercial and Governmental business commitments; (c) have a satisfactory performance record; (d) have a satisfactory record of integrity and business ethics.

FAR Part 13 - Simplified Acquisition Procedures

The methods used for making purchases of supplies not exceeding the simplified acquisition threshold are prescribed in FAR Part 13. These simplified procedures are intended to: (1) reduce administrative costs; (2) improve opportunities for small business concerns and small disadvantaged business concerns; (3) promote efficiency and economy in contracting; and (4) avoid unnecessary burdens for agencies and contractors. The maximum dollar value of an acquisition that may use Simplified Acquisition Procedures is \$100,000. The threshold was established at \$100,000 by the Federal Acquisition Streamlining Act of 1994.

FAR Part 14.408-2 - Price Reasonableness

FAR Part 14.408-2 states the CO shall determine that a prospective contractor is responsible and the prices offered are reasonable before awarding the contract.

FAR Part 19.602-1 - Certificates of Competency and Determinations of Responsibility

FAR Part 19.602-1 states that upon determining and documenting that an apparent successful small business offeror lacks certain elements of responsibility (including, but not limited to, capability, competency, capacity, credit, integrity, perseverance, tenacity, and limitations on subcontracting), CO shall: (1) withhold contract award; and (2) refer the matter to the cognizant Small Business Administration Government Contracting Area Office (Area Office) serving the area in which the headquarters of the offeror is located, in accordance with agency procedures.

FAR Part 39 - Risk Management

FAR Part 39 - Acquisition of Information Technology - discusses risk management in the context of IT procurements, suggesting that reasonable risk taking is appropriate as long as risks are controlled and mitigated.

FAR Part 39.102 - Risk Management

FAR Part 39.102 describes risk management as an organized method of identifying and measuring risk and developing, selecting, and managing options for handling relevant risks. OMB suggests three principles for managing risk when agencies procure capital assets: 1) avoiding or limiting the amount of development work; (2) making effective use of competition and financial incentives; and (3) establishing a performance-based acquisition management system that provides for accountability for program successes and failures, such as an earned value system. Appropriate risk management and mitigation techniques include prudent project management thorough acquisition planning tied to budgeting planning, continuous collection and evaluation of risk-based assessment data, prototyping prior to implementation, post-implementation, post-implementation reviews, and focusing on risks and returns using quantifiable measures.

OA&MM Information Letter 90-00-2 - Solicitation and Contract Review Procedures

Information Letter (IL) 90-00-2, Subject: Solicitation and Contract Review Procedures, became effective June 20, 2000. It states that prior to a solicitation being issued, a contract awarded, or a modification over \$100,000 be executed, that each respective file with its supporting documentation and rationale shall be reviewed and evaluated by at least one level above the CO. IL 90-00-2 states that contracting personnel are encouraged to consult with the VA's General Counsel to clarify issues at any point in the procurement process.

IL-90-00-2 also states that for FSS contracts, a preaward contract review is the process used to ensure that a proposed contract conforms to applicable laws and regulations, and established policies and procedures. The CO's rationale for determining that proposed award prices are fair and reasonable will be evaluated. The CO of record on proposed contract awards of \$500,000 or more are required to submit the complete contract file to the Acquisition Resources Service.

FTR Part 301 Amendment 2003-07 - Requires Federal Agencies to Use the Governmentwide E-Travel Service

Federal Register, Volume 68, No. 245, dated December 22, 2003 contains amendments to the FTR part 301 effective January 21, 2004, which requires Federal agencies to use the

Governmentwide E-Travel service. Agencies must complete migration for full agency-wide use by September 30, 2006.

OA&MM Information Letter 049-04-7 - Duplication of the President's E-Government Initiatives

OA&MM Information Letter (IL) 049-04-7, effective April 6, 2004, states effective immediately, appropriate acquisition and approval officials must review all planned IT acquisition projects that exceed \$2 million to ensure that they do not duplicate any of the President's E-Government initiatives.

OMB M-04-08 - Duplication of the President's E-Government Initiatives

On February 25, 2004, the OMB issued Memorandum M-04-08 for Senior Procurement Executives and Chief Information Officers stating that in November 2003 OMB directed Federal agencies to review all planned IT acquisitions in excess of \$2 million to ensure they do not duplicate E-Government initiatives. OMB identified GSA's E-Travel <http://egov.gsa.gov> as one of 24 E-Government initiatives under internal efficiency and effectiveness.

VA Memorandum - Duplication of President's E-Government Initiatives

On March 18, 2004, VA's Assistant Secretary for Information and Technology issued a memorandum to the Department's Under Secretaries, Assistant Secretaries, and other key officials stating that all IT acquisitions (planned and existing) that exceed \$2 million, must not duplicate any of the 24 Federal E-Government initiatives.

VAAR 801.602-70 - Contract Review and Concurrence

VAAR 801.602-70 states that the following categories (among others) of proposed contracts and agreements will be reviewed and concurred in by OA&MM prior to contract execution:

- Any proposed agreement that is unique, novel, or unusual.
- Contracts for IT software exceeding \$10,000.
- ADP software licensing agreements for ADP software exceeding \$10,000 (all software licensing agreements require technical review).

It also states that the following categories of proposed contractual actions require the concurrence of General Counsel:

- Contract modifications, terminations [including final decision (cure) letters], disputes and claims in excess of \$25,000 (\$50,000 for contracts awarded by the Office of Facilities Management).
- Contract modifications granting a time extension of more than 20 days.

KEY TERMINOLOGY

Acquisition Plan

Per GAO's guide entitled Information Technology: An Audit Guide for Assessing Acquisition Risks, an acquisition plan sets out what the agency will do to complete a procurement and how it will do it. The plan also specifies the type of contract that will be awarded, how the agency will select a contractor, cost, and schedule goals, milestones, significant risk areas, and contract management controls.

Capital Investment Application (Fiscal Year 2003)

This document contains the E-Travel proposal that includes 1) Investment Size, 2) Cost Benefit Analysis 3) Travel System Requirements, 4) Project Plan, and other information. The Capital Investment Application is submitted to the VA's Capital Investment Board and is part of VA's capital investment methodology to provide reference for planning, preparing, evaluating and prioritizing capital investments. VA's methodology is intended to facilitate compliance with Government laws, in particular, the Government Performance and Results Act and the Clinger-Cohen Act.

Cardinal Change

A cardinal change is a change that is beyond the scope of the contract and thus, cannot be ordered by the CO under the contract's changes clause. Cardinal changes are breaches of contract. In determining whether a change is beyond the scope of the contract, courts of law compare the total work performed by the contractor with the work called for by the original contract. Work lies within the scope of contract if it can fairly and reasonably be regarded as within the contemplation of the parties when the contract was entered into or if it is essentially the same work that parties bargained for when the contract was awarded.

Federal Procurement Data System (FPDS)

60 Executive Branch agencies report their procurement contract obligations to the FPDS. The FPDS contains about 50 data elements including agency identification, broad category of what was purchased, dollar obligation, principal place of performance, and contractor identification for procurement that exceed \$25,000. The FPDS collects summary information for approximately 17,000,000 smaller transactions.

Market Research

Generally, the purpose of market research is to collect and analyze information about capabilities within the market that can satisfy an agency's needs. It involves determining

if commercial items or non-developmental items are available, or could be modified, to meet the Government's needs.

Price Analysis

Price analysis is the process of examining and evaluating a prospective price without performing cost analysis; that is, without evaluating the separate cost elements and profit of the offeror included in that price. Price analysis may be accomplished by: (1) comparing offers with one another; (2) comparing prior proposed prices and contract prices with current proposed prices for the same or similar end items; (3) using yardsticks (dollars per pound) to highlight significant inconsistencies that warrant additional inquiry; (4) comparing offers with competitive published price lists, published market prices of commodities, similar indexes, and discount or rebate arrangements; (5) comparing proposed prices with independently developed Government estimates; or (6) comparing proposed prices with prices of the same or similar items obtained through market research. The CO is responsible for selecting and using whatever price analysis techniques will ensure a fair and reasonable prices.

Purchase Orders

Purchase orders are generally issued on a fixed-price basis for acquisition of commercial items. A purchase order does not contain the legal and technical language and clauses typically required for a bona fide contract.

Ratification

The act, by an official who has the authority to do so, of approving an unauthorized commitment. An unauthorized commitment is an agreement that is not binding solely because the Government representative who made it lacked the authority to enter into that agreement on behalf of the Government.

Request for Information

An RFI is used when the Government does not presently intend to award a contract but needs to obtain price, delivery, other market information, or capabilities for planning purposes. Responses to these notices are not offers and cannot be accepted by the Government to form a binding contract. See FAR15.201(e)

Request for Proposal

An RFP is a solicitation document used in negotiated procurements to communicate Government requirements to prospective contractors and to solicit proposals from them. RFPs must contain the information necessary to enable prospective contractors to prepare proposals properly. RFPs for competitive acquisitions shall, at a minimum, describe the:

(1) Government's requirements; and (2) anticipated terms and conditions that will apply to the contract.

Simplified Acquisition Procedures

Simplified Acquisition Procedures is the method used for making purchases of supplies not exceeding the simplified acquisition thresholds. These simplified procedures are intended to: (1) reduce administrative costs; (2) improve opportunities for small business concerns and small disadvantaged business concerns; (3) promote efficiency and economy in contracting; and (4) avoid unnecessary burdens for agencies and contractors. The maximum dollar value of an acquisition that may use Simplified Acquisition Procedures is \$100,000. The threshold was established at \$100,000 by the Federal Acquisition Streamlining Act of 1994.

Statement of Work

The SOW is the portion of a contract that describes the actual work to be done by means of: (1) specifications or other minimum requirements; (2) quantities; (3) performance dates; (4) time and place of performance of services; and (5) quality requirements. The SOW plays a key role in the solicitation because it serves as the basis for the contractor's response. It also serves as a baseline against which progress and subsequent contractual changes are measured during contract performance.

Appendix E - Monetary Benefits in Accordance with IG Act Amendments

<u>Recommendation</u>	<u>Explanation of Benefit(s)</u>	<u>Better Use of Funds</u>	<u>Questioned Costs</u>
1	Achieve cost efficiency by migrating to GSA's E-Travel service.	7,379,699.33 ⁴⁰	

⁴⁰ We estimated the difference between VA's current Zegato contract's 10-year cost of \$37.2 million less the average of GSA 10-year costs of \$29.9 million is about \$7.3 million. (See Appendix C, Details of Review, Exhibit 1 on page 34 for more information)

**Department of
Veterans Affairs**

Memorandum

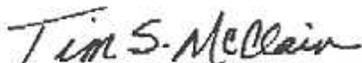
Date: March 31, 2005
From: Chief Management Officer (004)
Subj: Response to Draft OIG Review Report on VA Implementation of the Zegato Electronic Travel Service (dated July 1, 2004)
To: Assistant Inspector General for Auditing (52)

1. Attached is the Office of Management's response to the subject report. We concur with the recommendations. Based on those recommendations as well as decisions by other VA senior managers, we began our evaluation of the General Services Administration's (GSA) E-Travel vendors in order to achieve a timely migration to one of the available GSA E-Travel service options.

2. We took actions to reduce existing Zegato, Inc., contract cost provisions until migration to a new service option could be accomplished. Specifically, we initiated corrective actions to reduce costs in our current contract with Zegato. VA's costs were reduced by: (i) renegotiating the existing contract to eliminate a set fee for processing a specific level of transactions, (ii) renegotiating the per transaction processing fee for local travel vouchers to a more reasonable per transaction price, and (iii) ensuring VA can terminate the existing contract at any time without penalty. We also initiated technical and legal reviews of the existing Zegato contract to better protect VA's financial, performance, and contractual interests until migration is completed.

3. VA awarded the initial task order to a GSA E-Travel vendor on January 19, 2005. GSA worked with us to ensure all key requirements and contractual issues were met. A recently formed steering committee and risk management team will provide further implementation plans during the migration and follow-up process.

4. Please call me if you have any questions about our response.


Tim S. McClain

Attachment

Appendix G - OIG Contact and Staff Acknowledgments

OIG Contact	Linda A. Halliday, Director, Office of Audit Planning (202) 565-4501
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Acknowledgments	Timothy Bailey, Auditor Maureen Barry, Auditor Clenes Duhon, Auditor Michael Jacobs, Auditor Jehri Lawson, Project Manager Manuel Mireles, Project Manager Victoria Pilate, Statistician Stephanie Robinson, Investigator Judy Shelly, Director, Administrative Investigations Joel Snyderman, Auditor
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Appendix H - Report Distribution

VA Distribution

Office of the Secretary
Veterans Health Administration
Veterans Benefits Administration
National Cemetery Administration
Assistant Secretaries
Office of General Counsel

Non-VA Distribution

House Committee on Veterans' Affairs
House Appropriations Subcommittee on VA, HUD, and Independent Agencies
House Committee on Government Reform
Senate Committee on Veterans' Affairs
Senate Appropriations Subcommittee on VA/HUD-Independent Agencies
Senate Committee on Governmental Affairs
National Veterans Service Organizations
Government Accountability Office
Office of Management and Budget
General Services Administration (e-Government Program Management Office)

This report will be available in the near future on the OIG's Web site at <http://www.va.gov/oig/52/reports/mainlist.htm>. This report will remain on the OIG Web site for at least 2 fiscal years after it is issued.