



# **Department of Veterans Affairs Office of Inspector General**

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## **Audit of FY 2007 VA Purchases Made on Behalf of the Department of Defense**

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## Contents

	Page
<b>Executive Summary</b> .....	i
<b>Introduction</b> .....	1
Purpose.....	1
Background.....	1
Scope and Methodology .....	3
<b>Results and Conclusions</b> .....	5
Compliance with Defense Procurement Requirements Increased, but Issues Remain ...	5
<b>Appendixes</b>	
A. Sampling Methodology.....	11
B. Assistant Secretary for Management Comments .....	15
C. OIG Contact and Staff Acknowledgments.....	18
D. Report Distribution .....	19

## Executive Summary

### Introduction

This report presents the results of our second audit of VA purchases made on behalf of the Department of Defense (DoD). The Office of Inspector General (OIG) conducted this audit to evaluate the effectiveness of internal controls over purchases made by VA contracting activities on behalf of DoD. The objective of the audit was to determine whether VA contracting activities had effective policies, procedures, and management controls in place to ensure that VA contracting officers complied with Defense procurement requirements when making purchases on behalf of DoD. As a general rule, Defense procurement requirements can be found in the Federal Acquisition Regulation (FAR) and the Defense Federal Acquisition Regulation Supplement (DFARS) to the FAR.

### Background

This audit was mandated by Public Law 109–364, the John Warner National Defense Authorization Act for Fiscal Year (FY) 2007, Section 817, “Internal Controls for Procurements on Behalf of the Department of Defense by Certain Non-Defense Agencies.” The Act directed the Inspectors General for DoD and VA to review the procurement policies, procedures, and internal controls applicable to procurements made by VA on behalf of DoD and determine whether VA is compliant with Defense procurement requirements.

The Act required a second audit if the initial assessment disclosed that VA was not in compliance. Our initial audit, *Audit of VA Purchases Made on Behalf of the Department of Defense* (Report No. 06–03540–34, November 19, 2007), concluded that VA contracting officers did not always comply with Defense procurement requirements when purchasing goods and services for DoD.

Five VA contracting activities made purchases on behalf of DoD during FY 2007. At the time of our audit, four of the five contracting activities fell under the jurisdiction of the VA Office of Acquisition and Logistics (OA&L), which is within the Office of Management. These four contracting activities accounted for 96 percent of the purchases made on behalf of DoD during FY 2007. The Information Technology Acquisition Center (ITAC), Austin, TX, a franchise fund operation aligned under the VA Office of Information and Technology (OI&T) awarded the remaining 4 percent of the purchases made on behalf of DoD. According to logs provided by the five contracting activities, VA processed 740 contracts valued at approximately \$168 million for DoD during FY 2007. Subsequent to the issuance of our draft report, the Assistant Secretary for Management informed the audit team that ITAC is being realigned from OI&T to the Office of Management.

To determine whether VA contracting officers complied with Defense procurement requirements when making purchases on behalf of DoD, we reviewed a statistical sample of 70 purchases valued at approximately \$45 million at the 5 VA contracting activities that purchased goods and services for DoD during FY 2007. We assessed compliance with Defense procurement requirements found in the FAR and DFARS by reviewing the documentation included in contract files. We also reviewed the policies and procedures used by the VA contracting activities to complete the contract actions and interviewed contracting officers and their supervisors.

## Results

VA contracting activities generally increased their compliance rates with Defense procurement requirements when making purchases on behalf of DoD since our audit of FY 2006 procurements. Although we found increased rates of compliance, we again identified instances of noncompliance in FY 2007 procurement actions, which increased the risk that DoD did not receive contracted goods and services on terms that were the most advantageous to the Government. For example, contracting officers did not always:

- Ensure that noncompetitive acquisitions were adequately justified.
- Obtain offers from at least three contractors or prepare written justifications explaining why they did not meet the competition requirements when making purchases costing more than \$100,000 from Federal Supply Schedule (FSS) contractors.
- Seek price reductions for orders exceeding the maximum order threshold when ordering goods or services from FSS contractors.
- Ensure that price reasonableness determinations were adequately documented in contract files.
- Ensure that contracts for services included quality assurance surveillance plans (QASPs).
- Designate contracting officer representatives (CORs) in writing before contract performance began.
- Stay within their warrant authority limitations when purchasing goods and services for DoD.

As disclosed in our initial audit report, these deficiencies occurred primarily because contracting officers simply overlooked procurement requirements.

VA is transitioning out of the business of purchasing goods and services for DoD. According to the Deputy Assistant Secretary for Acquisition and Logistics, all VA contracting activities will discontinue making purchases on behalf of DoD by May 21, 2009. The contracting activities will continue to support existing DoD contracts until contract expiration, termination, or transfer to another agency. As a result, we expect the contractual risk associated with these activities to lessen significantly after May 2009.

## **Conclusion**

Although VA contracting activities generally increased compliance rates with Defense procurement requirements since our first audit, we identified instances of noncompliance similar to the noncompliance issues reported in our earlier report. However, VA is transitioning out of the business of purchasing goods and services for DoD. Consequently, our recommendations focus on ongoing contract administration issues and achieving a smooth and orderly transition from the business of performing interagency contracting services for DoD.

## **Recommendations**

1. We recommended that the Assistant Secretary for Management ensure that OA&L contracting officers obtain QASPs with measurable performance standards and systematic methodologies for assessing contractor performance for all service contracts until the contracts have expired, are terminated, or transferred to another agency.
2. We recommended that the Assistant Secretary for Management ensure that OA&L contracting officers have CORs designated for all service contracts until the contracts have expired, are terminated, or transferred to another agency.
3. We recommended that the Assistant Secretary for Management, in conjunction with DoD, develop a sound and reasonable transition plan for terminating the use of VA contracting services to minimize disruption to DoD customers and employees to the maximum extent possible.

## **Assistant Secretary for Management Comments**

The Assistant Secretary for Management agreed with our findings and recommendations and provided acceptable implementation plans (See Appendix B, pages 15-17, for the full text of the Assistant Secretary's comments.) In response to the recommendations, the Assistant Secretary reported that contracting officers at the five contracting activities that made purchases for DoD during FY 2007 will obtain quality assurance surveillance plans for all service contracts by December 31, 2008. The contracting officers will also designate CORs for all service contracts by October 31, 2008. In addition, the Assistant Secretary reported that VA contracting officers, in conjunction with DoD, will develop transition plans for terminating the use of VA contracting services by

December 31, 2008. We will follow up on the implementation of planned corrective actions until the transition from the use of VA contracting services by DoD is complete. As of October 1, 2008, the OA & L will be realigned under the newly established Office of Acquisition, Logistics and Construction (OALC). Our recommendations will be implemented by the OALC.

*(original signed by:)*

BELINDA J. FINN  
Assistant Inspector General  
for Auditing

## Introduction

### Purpose

The purpose of our audit was to evaluate the effectiveness of internal controls over purchases made by VA contracting activities on behalf of DoD. The objective of the audit was to determine whether VA contracting activities had effective policies, procedures, and management controls in place to ensure that VA contracting officers complied with Defense procurement requirements when making purchases on behalf of DoD. In general, Defense procurement requirements are FAR and DFARS requirements that DoD customers and contracting activities must comply with when making their own purchases.

### Background

This audit was mandated by Public Law 109–364, the John Warner National Defense Authorization Act for FY 2007, Section 817, “Internal Controls for Procurements on Behalf of the Department of Defense by Certain Non-Defense Agencies.” The Act directed the Inspectors General for DoD and VA to review the procurement policies, procedures, and internal controls applicable to procurements made by VA on behalf of DoD and determine whether VA is:

- Compliant with Defense procurement requirements.
- Not compliant with Defense procurement requirements, but has a program or initiative in place to significantly improve compliance.
- Neither of the above.
- Not compliant with Defense procurement requirements to such an extent that the interests of DoD are at risk.

The Act required a second audit if the initial assessment disclosed that VA was not in compliance. Our initial audit, which was performed from September 2007 to April 2007, concluded that VA contracting officers did not always comply with Defense procurement requirements when purchasing goods and services for DoD.

**Growth of Interagency Acquisition Programs.** According to a Government Accountability Office (GAO) report, *High Risk Series: An Update* (Report No. GAO-05-207, January 2005), Federal agencies have been making a major shift in the way they procure many goods and services. Agencies are making greater use of existing contracts already awarded by other agencies, which leverages the Government’s buying power and provides a simplified method for purchasing commonly used goods and services. This change is the result of various legislative reforms that allowed Federal agencies to streamline the acquisition process, operate more businesslike, and offer



increasing types of services to other agencies on a reimbursable basis. However, interagency contracting creates a more complex contracting environment in which accountability is not always clearly established and it is not always evident who is responsible for such critical functions as describing requirements, negotiating terms, and providing contract oversight. Because of the challenges associated with administering these contracts, GAO has designated interagency contracting as a high-risk area.

**Implementation of VA Acquisition Programs for DoD.** On July 7, 1995, VA and the U.S. Air Force entered into an agreement that allowed VA to provide contracting services for purchasing medical goods and services needed by the Air Force Medical Service (AFMS). During the first year, VA reportedly made purchases for DoD totaling \$11 million, and the value of VA purchases for DoD has grown significantly since then. According to logs obtained from VA contracting activities, VA processed 740 contracts to purchase goods and services valued at approximately \$168 million for DoD during FY 2007.

Five VA contracting activities made purchases on behalf of DoD during FY 2007, with the Air Force accounting for the greatest volume of the workload. At the time of our audit, OA&L provided oversight to four of the five contracting activities:

- Austin Acquisition Service (AAS), Austin, TX.
- Denver Acquisition and Logistics Center (DALC), Denver, CO.
- Joint Venture Acquisition Center (JVAC), Austin, TX.
- VA Special Services (VASS), Fort Detrick, MD.

During FY 2007, these four contracting activities awarded 96 percent of the purchases made by VA on behalf of DoD, with VASS alone making 64 percent of the purchases. OA&L contracting activities made these purchases operating under a March 31, 2005, Memorandum of Agreement between VA and the Office of the Air Force Surgeon General. The contracting activities made most of the purchases using the authority of Title 38, United States Code, Section 8111, which allows DoD and VA to enter into agreements and contracts for sharing health care resources.

The Information Technology Acquisition Center (ITAC), Austin, TX, a franchise fund operation aligned under the Office of Information and Technology (OI&T) awarded the remaining 4 percent of the purchases made on behalf of DoD. The ITAC entered into separate interagency agreements with its customers, using Title 31, United States Code, Section 501, to purchase information technology-related goods and services via the VA franchise fund. On August 18, 2008, the Assistant Secretary for Management informed the audit team that ITAC is being realigned under the Office of Management.

## Scope and Methodology

To identify Defense procurement requirements, we reviewed applicable Federal laws and regulations (including Defense regulations) related to interagency contracting. We then obtained listings of FY 2007 contract actions related to purchases made by VA on behalf of DoD. We statistically sampled the contract actions to test whether VA contracting officers complied with Defense procurement requirements when making purchases for DoD. Our universe consisted of 228 purchases with acquisition costs greater than \$100,000 that were related to contract actions awarded by VA contracting activities on behalf of DoD during FY 2007. The 228 purchases were valued at approximately \$153 million. We sampled 70 purchases valued at approximately \$45 million. We selected our sample items from all five of the VA contracting activities that made purchases on behalf of DoD during the timeframe of our review.

Based on our sample results, we projected the instances of noncompliance for each Defense procurement requirement that we tested. Where requirements did not apply to all 70 sample purchases, we also projected the number of purchases in our universe that needed to comply with those individual requirements. For example, we found that only 28 of our 70 sample purchases required justifications for limiting competition. Therefore, we first estimated that 91 out of our universe of 228 purchases required justifications. We then estimated that 26 of the 91 purchases did not comply with the requirements for justifying the use of limited competition. (Appendix A provides a description of our sampling methodology and projected estimates.)

Although we selected our sample from FY 2007 contract actions, some of our sample items were for modifications or option years on contracts originally awarded prior to FY 2007. In those cases, we also reviewed the contract files for the base years of the contracts to determine whether contracting officers complied with Defense procurement requirements related to competition and pricing.

We interviewed contracting officers, supervisors, and senior officials at VA contracting activities and OA&L. We assessed the sampled purchases for compliance with Defense procurement requirements contained in the FAR and the DFARS. Our review focused on documentation included in contract files and policies and procedures used by VA contracting activities to complete contract actions. For each purchase selected for review, we provided the review results to appropriate local VA contracting officials for their review and concurrence.

We performed the audit from November 2007 to May 2008. To address our audit objective, we did not rely on computer-processed data. Consequently, we did not assess the reliability of computer-processed data. Our assessment of internal controls focused only on those controls related to our audit objective of determining whether VA contracting activities had effective policies, procedures, and internal controls in place to ensure that VA contracting officers complied with defense procurement requirements

when making purchases on behalf of DoD. Our assessment was not intended to form an opinion on the adequacy of internal controls overall, and we do not render such an opinion.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

## Results and Conclusions

### Compliance with Defense Procurement Requirements Increased, but Issues Remain

#### Findings

VA contracting activities generally increased their compliance rates with Defense procurement requirements when making purchases on behalf of DoD since our first audit. Although we found increased rates of compliance, we again identified instances of noncompliance, which increased the risk that DoD did not receive contracted goods and services on terms that were the most advantageous to the Government. For example, contracting officers did not always:

- Ensure that noncompetitive acquisitions were adequately justified.
- Obtain offers from at least three contractors or prepare written justifications explaining why they did not meet the competition requirements when making purchases costing more than \$100,000 from FSS contractors.
- Seek price reductions for orders exceeding the maximum order threshold when ordering goods or services from FSS contractors.
- Ensure that price reasonableness determinations were adequately documented in contract files.
- Ensure that contracts for services included QASPs.
- Designate CORs in writing before contract performance began.
- Stay within their VA warrant authority limitations when purchasing goods and services for DoD.

As disclosed in our initial audit report, these deficiencies occurred primarily because contracting officers simply overlooked the requirements. VA is transitioning out of the business of purchasing goods and services for DoD. According to the Deputy Assistant Secretary for Acquisition and Logistics, all VA contracting activities will discontinue making purchases on behalf of DoD by May 21, 2009. VA contracting activities will continue to support existing DoD contracts until contract expiration, termination, or transfer to another agency.

**Noncompetitive Acquisitions Need To Be Adequately Justified.** Contracting officers did not always adequately justify decisions to limit competition. FAR Subpart 6.302 identifies circumstances permitting other than full and open competition. FAR Subparts 6.303 and 6.304 explain the written justification and approval requirements contracting officers must adhere to when they award a contract without allowing for full and open

competition. FAR Subpart 8.405-6 identifies the circumstances that permit contracting officers to restrict competition between FSS contractors. We estimated that 91 purchases<sup>1</sup> out of the universe of 228 purchases needed written justifications for limiting competition. We also estimated that 26 (29 percent) of the 91 purchases either did not have written justifications or contained inadequate justifications. For example:

A contracting officer awarded a contract valued at \$1.2 million for software maintenance on a sole source basis. Although FAR Subpart 6.304 requires the competition advocate to approve all justifications for proposed contracts valued over \$550,000 but less than \$11.5 million, the contracting officer did not get the justification approved by the competition advocate.

The Head of the Contracting Activity where this occurred agreed with our conclusion and said that he would update the contracting activity's standard operating procedures and send a reminder to the contracting staff.

**More Competition Is Needed for FSS Purchases Over \$100,000.** Contracting officers did not always fully comply with the competition requirements for FSS purchases over \$100,000. Although the contracting officers met the competition requirements contained in FAR Subparts 8.405-1 and 8.405-2 concerning how many FSS contractors must be considered, they did not obtain offers from at least 3 contractors or prepare written justifications explaining why 3 or more offers could not be obtained. DFARS Part 208.405-70 implements Section 803 of the National Defense Authorization Act for FY 2002. Before acquiring goods or services costing more than \$100,000 from FSS contractors, the subpart provides that notice must be provided to all FSS contractors offering the required goods or services, or to as many contractors as practicable, to ensure that offers are received from at least three contractors. If three offers are not received, the contracting officer must prepare a written justification explaining why. We estimated that contracting officers did not obtain offers from at least 3 contractors or prepare written justifications for 7 (6 percent) of 107 FSS purchases valued at more than \$100,000. For example:

A contracting officer purchased heating, ventilation and air conditioning repair services valued at \$1.3 million from a schedule contractor. Although the contracting officer sent requests for quotation to four schedule contractors who offered the required services, only two contractors submitted offers. The contracting officer did not seek additional offers or prepare a written justification that explained why the competition requirements were not met.

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<sup>1</sup> The estimates cited in this report are based on a statistically valid, random sample. See Appendix A for a description of the sampling methodology and confidence intervals associated with each sample estimate.

**Price Reductions Need To Be Requested.** Contracting officers did not seek price reductions when FSS purchases exceeded the maximum order threshold. FAR Subpart 8.405 requires contracting officers to seek price reductions for orders exceeding the maximum order threshold when purchasing goods or services from an FSS contract. Maximum order thresholds have been established for each FSS contract. These thresholds represent the point where, given the dollar value of the potential purchase, the ordering activity must seek a price reduction. We estimated that contracting officers did not seek price reductions for 26 (38 percent) of 68 purchases that exceeded the maximum order threshold. For example:

A contracting officer placed an order valued over \$1 million for physical therapy services with an FSS contractor. Although the maximum order threshold for this contract was \$1 million, the contracting officer did not ask the contractor for a price reduction, missing the opportunity to obtain a more favorable price.

**Price Reasonableness Determinations Need To Be Documented in Contract Files.** Contracting officers did not ensure that price reasonableness determinations were documented in contract files. In general, price reasonableness determinations are not required when contracting officers order goods and services from FSS contractors because the U.S. General Services Administration has already determined that the prices are fair and reasonable. However, when purchasing services requiring statements of work, FAR Subpart 8.405-2(d) requires contracting officers to include price reasonableness determinations in the contract files that consider the level of effort and mix of labor contained in the proposals submitted by the FSS contractors. In addition, FAR Subpart 15.406-3 requires contracting officers to include price reasonableness determinations in price negotiation memorandums for both goods and services that are not purchased from FSS contracts. We estimated that price reasonableness determinations were missing for 13 (8 percent) of 169 purchases. We also estimated that 10 (28 percent) of 36 purchases did not have price reasonableness determinations that considered the level of effort and mix of labor proposed to perform specific tasks. For example:

A contracting officer awarded a negotiated contract valued at \$1.5 million for equipment and systems maintenance. Although FAR Subpart 15.406-3 requires the contracting officer to include a price reasonableness determination in a price negotiation memorandum, the contracting officer did not document that the price was fair and reasonable in the contract file.

**Quality Assurance Surveillance Plans Need To Be Obtained.** Contracting officers did not obtain QASPs for service contracts. FAR Subpart 37.601 states that performance-based contracts for services shall include performance standards and the method of assessing contractor performance against those standards. FAR Subpart 46.103 states that, for service contracts, contracting offices are responsible for obtaining QASPs from

the activities requesting the services. The QASP provides a systematic and structured method for the COR to evaluate services that contractors are required to furnish. We estimated that 98 (64 percent) of 153 contracts for services did not have QASPs or include measurable performance standards for assessing contractor performance against those standards. For example:

A contracting officer awarded a task order valued at \$18.4 million for information technology services. The contract did not include a QASP or a systematic methodology for assessing contractor performance.

A QASP is needed because it provides the foundation for a comprehensive and systematic method of monitoring contractor performance and the standards against which surveillance efforts can be measured. The lack of a QASP or a systematic methodology for assessing contractor performance subjects the Government to greater risk that the contractor may not perform the requested services in accordance with the terms of the contract.

**CORs Need To Be Designated.** Contracting officers did not designate CORs prior to the beginning of contract performance. DFARS Subpart 201.602-2 requires contracting officers to designate CORs in writing before contract performance begins for all contract actions for services that are awarded by a DoD component or any other Federal agency on behalf of DoD. We estimated that 36 (23 percent) of 153 purchases of services did not have COR designation letters prepared prior to the beginning of contract performance. For example:

A contracting officer awarded a contract valued at \$2.1 million for hospital aseptic management services on April 1, 2007. The contracting officer did not prepare a COR designation letter until June 13, 2007, which was more than 2 months after the beginning of contract performance. Moreover, the COR did not acknowledge receipt of the designation letter until July 18, 2007.

**Purchases Need To Be Within Contracting Officers' Warrant Authorities.** Contracting officers exceeded their warrant authorities when making purchases on behalf of DoD. FAR Subpart 1.603-3 requires that contracting officers be appointed in writing on certificates of appointment. The certificates of appointment state the limitations of the contracting officers' authority. VAAR Subpart 801.690 describes the VA Contracting Officer Certification Program, which ensures that VA contracting officers have appropriate training and experience for the acquisitions they are allowed to award under their warrant authorities. Higher warrant authority levels require contracting officers to obtain more extensive training and experience. We estimated that contracting officers exceeded their warrant authorities on 7 (3 percent) of 228 purchases. For example:

A contracting officer signed a modification valued at \$1.4 million for an option year on an FSS contract for information technology and telecommunications support. The maximum order threshold for the purchase was \$500,000. The contracting officer's warrant authority limitation was \$100,000 or the maximum order limitation for orders placed against established contracts.

## **Business Transition**

VA is transitioning out of the business of purchasing goods and services for DoD. Accordingly, all VA contracting activities will discontinue making purchases on behalf of DoD by May 21, 2009. The contracting activities will continue to support existing DoD contracts until contract expiration, termination, or transfer to another agency. Consequently, we expect the contractual risk associated with these activities to lessen significantly after May 2009.

## **Conclusion**

Although VA contracting activities generally increased compliance rates with Defense procurement requirements since our first audit, we identified repeated instances of noncompliance with procedural and documentation requirements. VA is transitioning out of the business of purchasing goods and services for DoD. Consequently, our recommendations focus on ongoing contract administration issues and achieving a smooth and orderly transition out of the business of performing interagency contracting services for DoD.

## **Recommendations**

1. We recommended that the Assistant Secretary for Management ensure that OA&L contracting officers obtain QASPs with measureable performance standards and systematic methodologies for assessing contractor performance for all service contracts until the contracts have expired, are terminated, or transferred to another agency.
2. We recommended that the Assistant Secretary for Management ensure that OA&L contracting officers have CORs designated for all service contracts until the contracts have expired, are terminated, or transferred to another agency.
3. We recommended that the Assistant Secretary for Management, in conjunction with DoD, develop a sound and reasonable transition plan for terminating the use of VA contracting services to minimize disruption to DoD customers and employees to the maximum extent possible.



## **Assistant Secretary for Management Comments**

The Assistant Secretary for Management agreed with our findings and recommendations and planned to complete all corrective actions by December 31, 2008. (See Appendix B, pages 15-17, for the full text of the Assistant Secretary's comments.) The Assistant Secretary reported that contracting officers at the five contracting activities that made purchases for DoD during FY 2007 will obtain QASPs for all service contracts by December 31, 2008. The contracting officers also will designate CORs for all service contracts by October 31, 2008. In addition, the Assistant Secretary reported that contracting officers, in conjunction with DoD, will develop transition plans for terminating the use of VA contracting services by December 31, 2008. As of October 1, 2008, the OA & L will be realigned under the newly established Office of Acquisition, Logistics and Construction (OALC). Our recommendations will be implemented by the OALC.

## **Office of Inspector General Comments**

The Assistant Secretary provided an acceptable implementation plan. We will follow up on the implementation of planned corrective actions until the transition from the use of VA contracting services by DoD is complete.

## Sampling Methodology

### Universe

Our universe consisted of 228 purchases with acquisition costs greater than \$100,000 that were awarded by VA contracting activities on behalf of DoD. To be included in the universe, each purchase had to have a contract action such as an initial award or a modification completed during FY 2007. We eliminated all of the purchases below \$100,000 from our review because:

- Prior audit work did not identify systemic problems associated with lower priced purchases.
- Many Defense procurement requirements do not apply until certain cost thresholds are met.
- DoD's risk (both financial and contractual) associated with the lower priced purchases was not considered to be significant since our population represented 91 percent of the universe of goods and services purchased by VA contracting activities for DoD.

**Table 1: Universe of Purchases**

Contracting Activity	Purchases
Austin Acquisition Service	12
Denver Acquisition and Logistics Center	32
Joint Venture Acquisition Center	47
VA Special Services	114
Information Technology Acquisition Center	23
Total	228

### Sample Design

Our sampling objective was to determine rates of noncompliance related to various Defense procurement requirements. We used attribute statistical sampling to test whether VA contracting officers complied with Defense procurement requirements when making purchases for DoD. We used a systematic sampling approach with a random starting point to select a sample of 70 purchases from the universe of 228 purchases greater than \$100,000.

## Sample Results

Because we followed a probability procedure based on random selection, our sample is only one of a large number of samples that we might have drawn. Each sample could have provided different estimates, thus we express our confidence in the precision of our particular sample's results as a 90 percent interval. This is the interval that would contain the actual population value for 90 percent of the samples we could have drawn. We are 90 percent confident that each of the confidence intervals presented below will include the true values in the population. We projected the instances of noncompliance for each Defense procurement requirement that we tested. Where requirements did not apply to all 70 sample purchases, we also projected the number of purchases in our universe that needed to comply with those individual requirements. For example, we found that only 28 of our 70 sample purchases required justifications for limiting competition. Therefore, we first estimated that 91 out of the universe of 228 purchases required justifications. We then estimated that 26 of the 91 purchases did not comply with the requirements for justifying the use of limited competition.

**Table 2: Statistical Testing Results—Justifications for Limiting Competition**

	<b>Sample Results</b>	<b>Projected Number</b>	<b>Ninety percent confidence interval</b>	<b>Projected Percentage</b>	<b>Ninety percent confidence interval</b>
Limited Competition Purchases	28	91	69–114	100%	N/A
Inadequate Justifications	8	26	12-41	29%	14%-43%

**Table 3: Statistical Testing Results—Competition for FSS Purchases Over \$100,000**

	<b>Sample Results</b>	<b>Projected Number</b>	<b>Ninety percent confidence interval</b>	<b>Projected Percentage</b>	<b>Ninety percent confidence interval</b>
FSS Purchases Over \$100,000	33	107	85-130	100%	N/A
Inadequate Competition	2	7	2-14	6%	6%-13%

**Table 4: Statistical Testing Results—Price Reductions**

	<b>Sample Results</b>	<b>Projected Number</b>	<b>Ninety percent confidence interval</b>	<b>Projected Percentage</b>	<b>Ninety percent confidence interval</b>
Purchases Requiring Price Reductions	21	68	47–89	100%	N/A
Purchases Without Price Reductions	8	26	12–41	38%	20%-57%

**Table 5: Statistical Testing Results—Price Reasonableness Determinations**

	<b>Sample Results</b>	<b>Projected Number</b>	<b>Ninety percent confidence interval</b>	<b>Projected Percentage</b>	<b>Ninety percent confidence interval</b>
Purchases Requiring Determinations	52	169	149–189	100%	N/A
Purchases Without Determinations	4	13	4–24	8%	2%-15%
Determinations Requiring Level of Effort and Mix of Labor	11	36	19–52	100%	N/A
Determinations Missing Level of Effort and Mix of Labor	3	10	3–19	28%	8%-52%

**Appendix A**

**Table 6: Statistical Testing Results—Quality Assurance Surveillance Plans**

	<b>Sample Results</b>	<b>Projected Number</b>	<b>Ninety percent confidence interval</b>	<b>Projected Percentage</b>	<b>Ninety percent confidence interval</b>
Purchases Requiring Plans	47	153	132–175	100%	N/A
Purchases With Inadequate or Missing Plans	30	98	75–120	64%	52%-76%

**Table 7: Statistical Testing Results—COR Designations**

	<b>Sample Results</b>	<b>Projected Number</b>	<b>Ninety percent confidence interval</b>	<b>Projected Percentage</b>	<b>Ninety percent confidence interval</b>
Purchases Requiring Designations	47	153	132–175	100%	N/A
Purchases With Improper Designations	11	36	19–52	23%	13%-34%

**Table 8: Statistical Testing Results—Warrant Authorities**

	<b>Sample Results</b>	<b>Projected Number</b>	<b>Ninety percent confidence interval</b>	<b>Projected Percentage</b>	<b>Ninety percent confidence interval</b>
Purchases Reviewed	70	228	N/A	100%	N/A
Purchases Where Contracting Officers Exceeded Authorities	2	7	2–14	3%	3%-6%

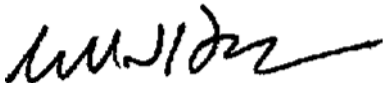
## Assistant Secretary for Management Comments

**Department of  
Veterans Affairs**

# Memorandum

Date: August 18, 2008  
From: Assistant Secretary for Management (004)  
Subj: Draft Report: Audit of FY2007 VA Purchases Made on Behalf of the Department of Defense (Project No. 2008-004560R6-0029) (WebCIMS 410053)  
To: Assistant Inspector General for Auditing (52)

1. This responds to your request for comments regarding the subject draft report. I concur with the OIG findings and recommendations. As agreed with your office, since the ITAC is being realigned from the Office of Information and Technology (OI&T) to the Office of Management, the attached comments provide management responses for all six recommendations. You will not receive a separate response from OI&T.
2. Attachment A contains our implementation plans and target completion dates. Attachment B contains our implementation memorandum to contracting officers.
3. Any questions may be directed to Efrain J. Fernandez, Associate Deputy Assistant Secretary for Acquisition, at 202-461-6901.



Robert J. Henke

Attachments

Attachment A

**Assistant Secretary for Management  
Response to Recommendations of the OIG Report: Audit of FY 2007 VA  
Purchases Made on Behalf of the Department of Defense**

The Assistant Secretary for Management concurs on the report recommendations and submits the following implementation plans:

**OIG Recommendations**

**Recommendation 1: We recommend that the Assistant Secretary for Management ensure that OA&L contracting officers obtain QASPs with measurable performance standards and systematic methodologies for assessing contractor performance for all service contracts until the contracts have expired, are terminated, or transferred to another agency.**

Concur

Target Completion Date: December 31, 2008

The ADAS for Acquisition will direct contracting officers at the Austin Acquisition Service, the Denver Acquisition and Logistics Center, the Joint Venture Acquisition Center, VA Special Services, and the Information Technology Acquisition Center to obtain quality assurance surveillance plans by the target date.

**Recommendation 2: We recommend that the Assistant Secretary for Management ensure that OA&L contracting officers have CORs designated for all service contracts until the contracts have expired, are terminated, or transferred to another agency.**

Concur

Target Completion Date: October 31, 2008

The ADAS for Acquisition will direct contracting officers at the Austin Acquisition Service, the Denver Acquisition and Logistics Center, the Joint Venture Acquisition Center, VA Special Services, and the Information Technology Acquisition Center to designate CORs by the target date.

**Recommendation 3: We recommend that the Assistant Secretary for Management, in conjunction with DoD, develop a sound and reasonable transition plan for terminating the use of VA contracting services to minimize disruption to DoD customers and employees to the maximum extent possible.**

Concur

Target Completion Date: December 31, 2008

The ADAS for Acquisition will direct contracting officers at the Austin Acquisition Service, the Denver Acquisition and Logistics Center, the Joint Venture Acquisition Center, VA Special Services, and the Information Technology Acquisition Center to develop transition plans with DoD by the target date.

**Department of  
Veterans Affairs**

Attachment B

# Memorandum

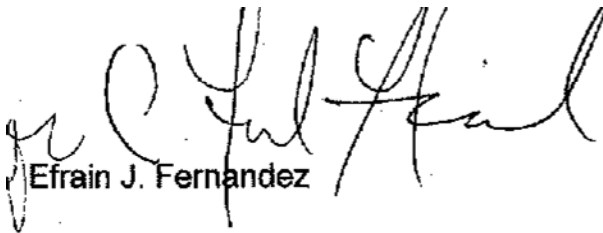
Date: August 14, 2008

From: Associate Deputy Assistant Secretary for Acquisition (049A)

Subj: Draft Report: Audit of FY2007 VA Purchases Made on Behalf of Department of Defense (Project No. 2008-004560R6-0029) WebCIMS No. 410053)

To: Contracting Officers and Supervisors at Austin Acquisition Service (AAS) (049A3G), Denver Acquisition & Logistics Center (DALC)(049A2-4), Joint Venture Acquisition Center (JVAC)(049A1-4) VA Special Services (VASS)(049A3D) and IT Acquisition Center (ITAC)(200/00D).

1. Please review the attached draft report from the OIG on VA purchases made on behalf of the Department of Defense (DoD). The Assistant Secretary for Management and Assistant Secretary for Information & Technology have concurred with the OIG recommendations.
2. Attached are implementation plans and target completion dates to address the recommendations. Please contact your DoD customers to (1) obtain quality assurance surveillance plans by the target date; (2) designate CORs by the target date; and (3), develop transition plans by the target date. Please have copies of these documents available in the appropriate contract files.
3. Please note that the DAS for OA&L has assured the OIG that we will discontinue making purchases on behalf DoD by May 21, 2009. No new work should be accepted.



Efrain J. Fernandez

**Attachments**



## OIG Contact and Staff Acknowledgments

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OIG Contact	Jehri Lawson (214) 253-3304
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Acknowledgments	William Bailey Theresa Cinciripini Michael Jacobs Kristin Nichols
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