

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Department of Veterans Affairs

*Audit of
ADVANCE and the
Corporate Senior Executive
Management Office Human
Capital Programs*

August 2, 2012
11-02433-220

ACRONYMS AND ABBREVIATIONS

CSEMO	Corporate Senior Executive Management Office
FAR	Federal Acquisition Regulation
GSA	General Services Administration
OIG	Office of Inspector General
OPM	Office of Personnel Management
ROI	Return on Investment
VALU	Veterans Affairs Learning University
VBA	Veterans Benefits Administration

To Report Suspected Wrongdoing in VA Programs and Operations:

Telephone: 1-800-488-8244

E-Mail: yaoighotline@va.gov

(Hotline Information: <http://www.va.gov/oig/contacts/hotline.asp>)



Report Highlights: Audit of VA's ADVANCE and the CSEMO Human Capital Programs

Why We Did This Audit

The Chairman of the Senate Committee on Veterans' Affairs asked us to assess how effectively VA manages its ADVANCE human capital program, including CSEMO. Funding for ADVANCE totaled about \$864 million from FY 2010 through FY 2012.

What We Found

VA achieved many of its program goals. Since FY 2010, it met its annual employee training goals by training over 135,000 employees. However, VA needs to strengthen its management of interagency agreements with the Office of Personnel Management (OPM) and improve its measures to more accurately assess program impact. These weaknesses occurred because VA deployed ADVANCE rapidly and did not establish adequate controls over interagency agreement costs and terms.

As a result, VA lacks reasonable assurance it effectively spent program funds during FYs 2010 and 2011 and that its spending plans for FY 2012 will achieve the intended impact on VA's workforce. Because VA did not evaluate the reasonableness of interagency agreement service fees, we estimated OPM's 4.5 percent standardized service fee during FY 2011 cost VA an additional \$2.5 million—although some unavailable data limited our ability to conduct a full review of several interagency agreements.

What We Recommended

We recommended the Assistant Secretary for Human Resources and Administration assess whether its relationship with OPM is in VA's best interest and improve the ADVANCE program by developing processes to collect and monitor contractor costs as well as timely and complete information on interagency agreement terms and improve program impact measures.

Agency Comments

Although the Assistant Secretary for Human Resources and Administration disagreed with certain aspects of our report, he concurred with the recommendations and provided plans to implement the recommendations. Appendix D includes the full text of the Assistant Secretary's comments.

OIG Comments

VA needs to improve its management over interagency agreements and develop improved program outcome measures. We believe our estimates of service fee overpayments are reasonable and conservative based upon the data available at the time of our review.

A handwritten signature in blue ink that reads "Linda A. Halliday".

LINDA A. HALLIDAY
Assistant Inspector General
for Audits and Evaluations

TABLE OF CONTENTS

Introduction.....	1
Results and Recommendations	2
Finding VA Needs To Improve ADVANCE Program Management.....	2
Appendix A Background	12
Appendix B Scope and Methodology.....	14
Appendix C Potential Monetary Benefits in Accordance With Inspector General Act Amendments	18
Appendix D Assistant Secretary for Human Resources and Administration Comments.....	19
Appendix E Office of Inspector General Contact and Staff Acknowledgments.....	30
Appendix F Report Distribution	31

INTRODUCTION

Objective

The VA Office of Inspector General (OIG) conducted this audit to assess how effectively VA manages its ADVANCE human capital programs, including the Corporate Senior Executive Management Office (CSEMO). We conducted this audit at the request of the Chairman of the Senate Committee on Veterans' Affairs.

VA's Human Capital Investment Plan

As part of the Secretary's initiative to transform VA into a 21st century organization, VA's Human Capital Investment Plan was branded as ADVANCE and launched in FY 2010 as an agency-wide effort to build and sustain VA's succession and workforce planning. VA's Office of Human Resources and Administration manages the ADVANCE program, which provides services including:



- Veterans' employment
- Recruitment and retention services
- Labor management
- Employee compensation and safety
- Workforce development and training

VA reorganized and funded several of its training academies under ADVANCE, including VA's Learning University (VALU). VA established CSEMO to centralize the recruitment, selection, training, development, and management of its senior executive service workforce. CSEMO reports to VA's Chief of Staff.

ADVANCE Budget

Funding for ADVANCE from FY 2010 through FY 2012 totaled a reported \$864 million. CSEMO was funded through ADVANCE at about \$32 million through FY 2012. The ADVANCE budget is made up of interdepartmental fund transfers from each VA administration and several staff offices. For example, the Veterans Health Administration, VA's largest administration, provided about \$813 million (94 percent) of the total budget funding ADVANCE from FY 2010 through FY 2012.

Appendix A provides further discussion on the ADVANCE and CSEMO programs. Appendix B details our audit scope and methodology.

RESULTS AND RECOMMENDATIONS

Finding **VA Needs To Improve ADVANCE Program Management**

ADVANCE aligns with Federal human capital reforms by centralizing workforce training and senior executive recruitment and development. However, VA needs to strengthen its management of interagency agreements—which represents a significant portion of ADVANCE spending—and improve its assessment of program impact. Management weaknesses occurred because of:

- A rapid program deployment with limited program planning
- Inadequate monitoring of interagency agreement terms and costs
- Unreliable assessments of ADVANCE's Return On Investment (ROI)

As a result, VA lacks reasonable assurance that it effectively spent program funds during FYs 2010 and 2011 and that its spending plans for FY 2012 will achieve its intended impact on VA's workforce. Further, VA reported it did not evaluate the reasonableness of interagency agreement service fees. We estimate the Office of Personnel Management's (OPM) standardized service fee of 4.5 percent during FY 2011 cost VA an additional \$2.5 million.

Alignment With Federal Human Capital Reforms

ADVANCE aligns with OPM's Federal human capital reforms related to workforce development, recruitment and retention, leadership management, and succession planning. For example, CSEMO integrates the recruitment, hiring, and management of VA's senior executives. Targeted at VA's senior executives, CSEMO developed and launched its major initiative, the *VA Senior Executive Strategic Leadership Course*. The stated purpose of this course is to build the knowledge and skills of VA's senior executives, focusing on leadership and decision making. The VA Chief of Staff invested significant time and commitment to this initiative to convey the value of a healthy organizational culture and the importance of communication between VA's senior executives. CSEMO also provides newly appointed senior executives with a standardized array of training and career development tools, such as executive coaching, to ensure newly appointed senior executives have access to the same resources.

In October 2011, VA launched *MyCareer@VA*, an online resource that gives VA employees the opportunity to develop their skills, abilities, and competencies, as well as research career possibilities within VA. Program officials reported that engaging employees this way supports employee development and improves retention. In 2012, *MyCareer@VA* was recognized as a program that focuses on innovation in the public sector and

was awarded third place for the *Deloitte Public Sector Innovation Award for the 21st Century*.

**Interagency
Agreements
Total About
\$400 Million**

Since FY 2010, VA entered into over 50 assisted acquisition interagency agreements valued at about \$400 million with OPM to obtain goods and services to support ADVANCE and CSEMO. Assisted acquisition interagency agreements allow a servicing agency, such as OPM, to award and administer contracts for services or goods on behalf of a requesting agency, such as VA. VA entered into interagency agreements with OPM to obtain services such as:

- Leadership and project management training for employees
- Human resource program development expertise
- Information systems development

A servicing agency can charge a requesting agency for its acquisition assistance. In FY 2010, OPM assessed VA an average 3.2 percent service fee.¹ In FY 2011, VA reported that OPM charged VA a standardized service fee of 4.5 percent on almost all of its interagency agreements. Program officials reported that the standardized service fee for FY 2012 is 3.75 percent.

**Inadequate
Management
of Interagency
Agreements**

VA did not adequately manage its interagency agreements with OPM. We found VA's acquisition planning to be inadequate to justify its determination that interagency agreements with OPM represented the best procurement approach. VA also did not develop effective processes to allow it to assess the costs and terms of its interagency agreements with OPM.

**Inadequate
Planning and
Research**

Acquisition planning and market research is required by the Federal Acquisition Regulation (FAR) to promote and provide for competition as well as identify the most suitable contract type.

The FAR also requires agencies to assess whether an assisted acquisition interagency agreement represents the best procurement approach and if this method is cost effective by taking into consideration:

- The authority, experience and expertise of the servicing agency to meet the requesting agency's needs and time schedule
- Cost effectiveness by taking into account the reasonableness of agency service fees

We examined VA's determination and findings statements for the 20 interagency agreements reviewed. We found VA's assessments to

¹ See Appendix B for a detailed discussion on how we calculated the average service fee VA paid OPM in FY 2010.

determine that interagency agreements with OPM represented the best procurement approach to be inadequate.

After we concluded our audit work, program officials provided additional information regarding the extent of research during acquisition planning. VA made broad statements regarding OPM's exclusive expertise and capacity to provide needed services and goods in many of the interagency agreements reviewed. For example, VA made statements that it could find no other product that surpassed the cost, quality, experience, and time-critical response provided by OPM. Program officials also cited cost comparisons they reportedly conducted of other Federal agencies, such as the General Services Administration (GSA), concluding that OPM was the preferred choice for the immediacy of their need and offered the same services as GSA for approximately half the cost.

We could not evaluate VA's statements because officials could not provide us with documentation to support the results of VA's cost and capacity comparisons between OPM and GSA. The FAR requires agencies to maintain contract files that include documentation supporting key acquisition decisions sufficient for an audit.

*Inadequate
Assessment of
Service Fees*

VA did not fully assess service fees associated with assisted acquisition interagency agreements with OPM. VA paid OPM an estimated \$14.4 million in interagency agreement service fees since FY 2010. The FAR, as well as guidance from the Office of Management and Budget's Office of Federal Procurement Policy, requires agencies to assess the reasonableness of service fees in determining if an interagency agreement represents the best procurement method.

Program officials reported they did not evaluate the reasonableness of OPM's service fees, including the 4.5 percent standardized service fee for FY 2011, because they thought the fees were fair. We determined that VA's standardized service fee agreement with OPM for FY 2011 was not advantageous and cost VA an additional \$2.5 million.² VA paid an average service fee of 3.2 percent in FY 2010 that was less than the standardized service fee for FY 2011.

*Inadequate
Monitoring of
Costs*

VA did not adequately monitor and account for specific program costs, such as consultant fees and contractor travel. VA did not require OPM to provide detailed invoices that include specific program costs incurred through interagency agreements. According to the Government Accountability Office's standards for internal control Federal agencies should have controls in place that allow them to reliably account for program costs. Program officials reported they would have to obtain copies of contractor invoices

² See Appendix B for a detailed discussion of how we calculated the additional costs to VA under its FY 2011 standardized service fee agreement with OPM.

from OPM and review them manually to monitor and account for specific program costs.

*Inadequate
Monitoring of
Terms*

VA also did not adequately monitor the terms of its interagency agreements, such as modifications, because its process to obtain timely copies of signed interagency agreements is ineffective. This type of monitoring would help ensure that services and goods are being provided in accordance with agreed-upon schedules and fees. Program officials reported that it took OPM as long as 6 months to provide VA with signed copies of ADVANCE-related interagency agreements.

*Reasons for
Inadequate
Management*

Program management weaknesses occurred because of a lack of effective internal controls over VA's interagency agreements with OPM. VA's processes did not ensure compliance with the FAR and guidance from the Office of Management and Budget's Office of Federal Procurement, as well as access to timely and necessary interagency agreement cost and terms information. Program officials reported that because of ADVANCE's rapid deployment internal controls were being developed and revised during the implementation phase of the program. Furthermore, program officials reported there was acceptance that only OPM could provide the needed resources and expertise through assisted acquisition interagency agreements.

*Impact of
Inadequate
Management*

As a result of VA's ineffective internal controls over its management of interagency agreements, VA may have missed opportunities for substantial savings by not fully assessing the capacity and related costs of other Federal agencies. Since FY 2010, VA entered into over 50 interagency agreements with OPM valued at about \$400 million. We estimate VA paid OPM about \$14.4 million in service fees for these interagency agreements. Without access to complete cost data, VA cannot make fully informed spending decisions for the ADVANCE program. Further, without access to complete and timely copies of signed interagency agreements, VA is also at risk of making procurements out of the scope of the terms of its agreements with OPM.

*Some Program
Goals
Achieved—
ROI Unreliable*

VA achieved many of its ADVANCE program goals. For example, since FY 2010 it met its annual employee training goal by training more than 135,000 employees each year. As of the end of FY 2011, VA trained about 354,000 employees and plans to train 135,000 employees by the end of FY 2012. CSEMO accomplished its FY 2011 goal of developing and implementing its *CSEMO Connect* web site to enhance communication and collaboration between VA's senior leadership and senior executives. VA also reported it took steps to assess the quality of its workforce training, such as instructor-led, classroom-based training and is considering expanding its assessments to include all online training.

While VA is making progress in meeting its ADVANCE program goals, we have concerns about the reliability of how it calculates the monetary value of

ADVANCE's impact. In December 2011, VA reported that ADVANCE achieved a ROI of \$604 million which exceeded VA's original investment of \$576 in the program for FYs 2010 and 2011.

Program officials report that in many instances data availability limited the extent to which VA could determine the full impact of ADVANCE programs like employee training. As a result, VA used external studies to benchmark VA's ROI. For example, ROI estimates for ADVANCE's Information Technology Academy and Acquisition Academy are based on studies that are not directly applicable to VA. VA assumed a 38 percent rate of return which is based on studies that found monetary returns on employee training ranging from 7 to 38 percent. However, some of these study results are based on training for newly hired employees in largely low wage manufacturing industries.³ We believe a more conservative estimate, such as the median or mid-point of this range (23 percent), is a more reliable way of measuring VA's training ROI.

VA's ROI analysis also attributes agency benefits such as reduced employee turnover, improvements in the timeliness of the Veteran Benefits Administration's (VBA) supplemental education claims processing, and reductions in employee sick leave usage to ADVANCE training courses. We have concerns with this analysis because factors like the economy and other VA initiatives—such as VBA's hiring surge of claims processors under the American Recovery and Reinvestment Act—may also account for these benefits.

Monetary benefits may not provide the most accurate measurement of program impact. While VA is already assessing the effect of some ADVANCE training on the development of its workforce, it should expand these assessments to more fully measure program impact. For example, changes in specific aspects of employee job performance following the completion of related ADVANCE courses can provide data to evaluate whether the training had the intended effect. Broader assessments may allow VA to more accurately measure the impact of ADVANCE on key agency outcomes like improvements in VBA's claims processing timeliness.

Without improvements in how VA measures the effect of ADVANCE, VA cannot be assured that ADVANCE is achieving the intended impact on VA's workforce. In the absence of applicable benchmarks, VA should take steps to collect data that allows it to more reliably estimate the impact of its investments on key agency outcomes.

Conclusion

By aligning ADVANCE with Federal human capital reforms, VA has the opportunity to leverage program resources to maximize the benefits of its

³ Thang, N., Quang, T., and Buyens, D. (2010). The relationships between training and firm performance: A literature review. *Research and Practice in Human Resource Management*, 18(1), pages 28–45.

new corporate approach to developing its workforce. By strengthening its management controls and improving its program impact measures, VA can improve its accountability over ADVANCE program funds. These controls are critical for VA to effectively manage the risks associated with future program implementation and to strengthen its management of active interagency agreements.

- Recommendations**
1. We recommended the Assistant Secretary for Human Resources and Administration conduct and document an assessment of its current relationship with the Office of Personnel Management for acquisition assistance to determine whether it is in VA's best interest and conduct an assessment of alternatives to facilitate making sound future program decisions.
 2. We recommended the Assistant Secretary for Human Resources and Administration improve the management of ADVANCE interagency agreement costs by developing processes to collect and monitor contractor invoice data in relationship to the actual services provided.
 3. We recommended the Assistant Secretary for Human Resources and Administration improve the management of ADVANCE interagency agreement terms by developing processes to collect timely and complete information including copies of signed interagency agreements.
 4. We recommended the Assistant Secretary for Human Resources and Administration more accurately assess the effect of the ADVANCE program on VA's workforce by defining and improving its impact measures.

**Management
Comments
and OIG
Response**

The Assistant Secretary for Human Resources and Administration did not agree with certain aspects of our report, particularly as it relates to the management and oversight of interagency agreements and estimated service fee overpayments. He provided management comments to our report, which we address below. The Assistant Secretary concurred with our recommendations and provided responsive implementation plans. We will monitor VA's progress and follow up on the implementation of its plans until all proposed actions are completed. Appendix D includes the full text of the Assistant Secretary's comments.

Management Comment: The Assistant Secretary for Human Resources and Administration disagreed with our finding that VA's research to support its determination that interagency agreements with OPM represented the best procurement approach was inadequate. The Assistant Secretary stated VA conducted market research at the outset of the ADVANCE program and determined that an interagency agreement with OPM was the most effective and efficient procurement method. In addition, the Assistant Secretary noted a contracted study conducted in 2012 concluded interagency agreements with OPM are in VA's best interest.

OIG Response: The FAR requires agencies—prior to entering into an interagency agreement—to assess if an interagency agreement is the best procurement method. This assessment should include an evaluation of the servicing agency's capacity to provide services and cost reasonableness, including service fees.

We were provided no documentation to demonstrate that VA considered the reasonableness of service fees as part of its best procurement approach determination prior to entering into interagency agreements with OPM. While VA officials reported they thought OPM's service fees were reasonable, they could not provide us with sufficient documentation to demonstrate that a cost assessment was conducted as part of the best procurement approach determination. We made numerous requests to VA to provide us with supporting documentation during the course of this audit.

The Assistant Secretary cited a 2012 MITRE study that concluded VA is receiving favorable service fee treatment from OPM in relation to other federal agencies. We note this study was issued about two years after VA entered into its first interagency agreements with OPM. Best procurement method assessments should be conducted prior to entering into interagency agreements as opposed to well after these interagency agreements were signed and agency funds were committed. Furthermore, we were only provided with excerpts of this study and as a result could not evaluate the methodology supporting these results.

Management Comment: The Assistant Secretary disagreed with our finding that VA's standardized service fee agreement with OPM for FY 2011 was not cost advantageous and cost VA an additional \$2.5 million. The Assistant Secretary contended that the FY 2010 average service fee percent should include a \$2.5 million interagency agreement with OPM for program management. By including this interagency agreement, the Assistant Secretary contends the total average service fee percent for FY 2010 was 4.52 percent rather than the 3.2 percent we calculated. As a result, VA achieved a slight reduction in the average service fee in FY 2011 at 4.5 percent as compared to the average service fee of 4.52 percent in FY 2010. The Assistant Secretary also noted that we did not acknowledge VA reduced its standardized service fee for FY 2012.

OIG Response: We disagree with the Assistant Secretary's assertion that the average service fee for FY 2010 was 4.52 percent. To add a 1.32 percent fee for program management to the average service fee percentage we calculated for FY 2010 is inaccurate given the period of performance for VA's \$2.5 million program management interagency agreement. We also note the Assistant Secretary calculated a program management service fee percent of 1.32 percent for FY 2010 based on our estimated total value for interagency agreements in FY 2011—as opposed to FY 2010—of about \$189 million.

VA did not provide us documentation to support its contention that the service fees it paid to OPM in FY 2010 did not include program management support. Further, the \$2.5 million interagency agreement the Assistant Secretary refers to and uses to justify an additional 1.32 percent program management fee in FY 2010 had a period of performance from July 2010 to July 2011 (that is, largely during FY 2011, not during FY 2010). VA spent about \$600,000 in FY 2010 and about \$1.9 million in FY 2011 on this interagency agreement. OPM did not assess this interagency agreement a service fee. We believe we correctly estimated that VA overpaid \$2.5 million in service fees in FY 2011.

In fact, we took a conservative approach in calculating our estimate of VA's service fee overpayment. Our estimate of VA's overpayment would increase significantly if we included the \$1.9 million VA paid OPM for program management in FY 2011 (as the interagency agreement's period of performance started in July 2010) in addition to the 1.5 percent VA reported it also paid OPM for program management in FY 2011.

Finally, our report does include a statement that the service fee with OPM for FY 2012 is a reported 3.75 percent. VA was unable to provide us with any documentation detailing the terms of this standardized service agreement.

Management Comment: The Assistant Secretary disagreed with our determination that VA did not adequately assess the reasonableness of OPM's service fees. The Assistant Secretary stated that VA did assess OPM's service fees against service fees charged by other agencies. In addition, OPM's service fee included program management support which was not, according to the Assistant Secretary, included in any of the other agencies' assisted acquisition service fees.

OIG Response: We found VA's interagency agreement contract files to be incomplete and insufficient to facilitate an audit as required by the FAR. For example, interagency agreement contract files did not include documentation detailing market research or assessments of the reasonableness of agency service fees for the reviewed interagency agreements.

During the course of our audit, we made multiple requests to VA to provide us with documentation to support its statements related to the results and extent of its market research. VA provided us with market research information after we concluded our audit work. However, we could not verify this information was created during the acquisition planning stage—as required by the FAR—because the information was not dated.

Furthermore, VA did not provide documentation detailing that OPM's service fee is made up of two components—assisted acquisition services and program management services. As a result, we could not assess the Assistant Secretary's statements that OPM's service fee included the provision of

services that other agencies do not include in their assisted acquisition service fee structure.

Management Comment: The Assistant Secretary disagreed with our finding that the terms and costs of interagency agreements with OPM were not adequately monitored. The Assistant Secretary stated contracts issued under the interagency agreements with OPM are firm-fixed-price contracts which protect VA against contractor cost overruns. VA monitors and accounts for costs such as contractor travel and consultant fees through the management plan and from OPM's deliverables receipt form that is submitted to VA. The deliverables receipt form contains a description of the goods and services and costs associated with the deliverables.

The Assistant Secretary stated the terms of interagency agreements with OPM are subject to several layers of performance monitoring and review that include monthly service agreement meetings with OPM, bi-weekly program management reviews as well as a formal change control process.

OIG Response: We agree firm-fixed-price contracting can reduce the risk of cost overruns. However, during the course of our audit, budget and program officials reported that they could not provide us with cost data related to consultant fees and contractor travel. These cost data were specifically requested by the Chairman of the Senate Committee on Veterans' Affairs. VA officials reported that OPM tracks these data and OPM officials reported that capturing these costs would require a manual review and accounting of contractor invoices. According to the Government Accountability Office's standards for internal control, federal agencies should be able—as stewards of public funds—to account for program costs.

The processes VA developed to monitor the terms of interagency agreements assumes timely possession of signed interagency agreements. During our audit work, acquisition and program officials reported that OPM was significantly delayed in providing VA with signed copies of interagency agreements. Officials reported that in some cases, they did not have copies of signed interagency agreements to allow them to monitor an agreement's terms until well into the period of performance. Without timely and complete copies of interagency agreements, VA's processes to monitor interagency agreement terms cannot be effective.

Management Comment: The Assistant Secretary in his concurrence with our recommendation that VA more accurately assess the effect of the ADVANCE program on its workforce by defining and improving its impact measures stated that economic conditions were included in VA's ROI analysis and proved to have no significant impact. Furthermore, the Assistant Secretary pointed out that in addition to external studies, VA also used rigorous statistical data analysis and input from internal program owners to benchmark VA's ROI.

OIG Response: We appreciate the methodological complexities of measuring the impact of ADVANCE. From information provided by VA, the ROI for ADVANCE and specifically initiatives such as the IT Academy and the Acquisitions Academy are based on studies of industries and employees that are not directly applicable to VA and its workforce. We recognize that it may be difficult to find a benchmark by which to measure ADVANCE and pointed out in our report that VA should consider a more conservative estimate of the expected ROI based on findings from previously published studies. Specifically, rather than attributing a 38 percent ROI based on study results that cited a range of 7 to 38 percent, we believe using a more conservative estimate, such as the median or mid-point (23 percent), would be more reasonable.

Data provided to OIG did not include details of analyses that were reportedly conducted to measure the impact of external factors such as the economy and the availability of employment outside of VA. As a result, we cannot comment on the level of significance these analyses have on key agency outcomes. Most of the ROI analyses used only one year of data (2010). More reliable insights into the impact of ADVANCE on VA may be obtained by including several years of longitudinal data to determine to what extent ADVANCE interventions account for changes in outcomes, such as reduced employee turnover and reduced sick leave usage.

Appendix A Background

VALU

In FY 2010, VA centralized its employee training efforts through ADVANCE's VA Learning University (VALU), which provides online training and classroom instruction. Employees can register for training and manage their training requirements through VALU's online Talent Management System. Supervisors can also use the Talent Management System to monitor employee training. VALU provides a range of courses from transformational leadership and time management to mandatory agency-wide training such as Ethics and Privacy requirements.

Executive Recruiting and Development Through CSEMO

In September 2009, the Secretary established the Corporate Senior Executive Management Office (CSEMO), which applies a corporate approach to Senior Executive Service workforce management, including recruitment, selection, development, and training in an effort to develop a cadre of senior executives who can easily move across VA from one administration to another. CSEMO's training includes mandatory senior executive forums and executive conferences for newly appointed senior executives. CSEMO, while funded through ADVANCE, reports to the VA Chief of Staff.

Interagency Agreements and Contracts

VA used interagency agreements to obtain goods and services through other Federal agencies to support ADVANCE and CSEMO. There are two types of interagency acquisitions—direct acquisitions and assisted acquisitions. In a direct acquisition, the requesting agency places an order directly against a contract held by the servicing agency. The servicing agency manages the contract but does not participate in the placement of an order. In an assisted acquisition, the servicing agency and requesting agency enter into an agreement that allows the servicing agency—on behalf of the requesting agency—to award a contract, task order, or delivery order.

VA's ADVANCE-related interagency agreements generally involve assisted acquisitions, with OPM acting as the servicing agency. These interagency agreements typically have two parts—Part A and Part B. Part A of an interagency agreement establishes the general terms of the agreement while Part B details costs and specific goods and services to be provided. Interagency agreements are signed by VA acquisition officials. VA's Strategic Management Group oversees ADVANCE spending through interagency agreements.

Applicable Criteria

OPM's Human Capital Assessment and Accountability Framework (the Framework), issued in 2002, established a Federal human capital framework that included standards and metrics to assess agencies' human capital management functions. Specifically, the Framework outlines an ongoing process to evaluate Federal agencies related to key areas detailed on the following page.

- Strategic alignment
- Leadership and knowledge management
- Results-oriented performance culture
- Talent management
- Accountability

Office of Acquisition and Logistics Information Letter 001AL-09-04, "Managing Interagency Acquisitions" (March 23, 2009), established procedures for entering into any agreement with another Federal agency with the exception of orders placed against GSA's multiple award schedules or government-wide agency contracts.

The FAR Part 17.5 requires agencies to evaluate fully the costs and benefits of interagency agreements and to take into consideration whether service fees are reasonable. Agencies are also required to ensure a complete understanding between them regarding each agency's roles and responsibilities.

The FAR Part 7 details steps agencies should take as part of acquisition planning. Specifically, the FAR requires agencies to perform market research to evaluate the feasibility of acquiring commercial items to meet the agency's need and to obtain competition among suppliers to the maximum extent practicable. The purpose of acquisition planning is to ensure the Government meets its needs in the most effective, economical and timely manner.

The Office of Federal Procurement Policy issued its "Interagency Acquisitions Policy" (June 2008) to all executive branch agencies detailing best practices and requirements related to interagency agreements effective October 2008. This policy includes requirements such as conducting a best interest determination to strengthen the soundness of agencies' business decisions to enter into interagency agreements and to strengthen the management of assisted acquisitions. Agencies are also required to ensure that there is complete understanding between them regarding each agency's roles and responsibilities.

Appendix B Scope and Methodology

Scope We conducted our audit work from April 2011 to June 2012. We assessed whether VA is effectively managing its ADVANCE programs, including CSEMO. The scope of our audit included all ADVANCE-related procurements as well as spending and policy from FY 2010 through the second quarter of FY 2012.

Government Audit Standards Our assessment of internal controls focused on those controls relating to our audit objectives. Except as noted in the Scope Limitations section below, we conducted this performance audit in accordance with generally accepted government auditing standards. These 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives except for the effects of scope limitations, as explained below.

Scope Limitations During the audit, we requested information and documents from VA related to ADVANCE cost accounting, interagency agreement terms and practices, and program outcomes. Our ability to examine budget data that were necessary to achieving our audit objective was limited by delayed responses to our data requests and because an ADVANCE budget officer reportedly left VA at the start of the audit. Furthermore, our ability to conduct a full review of some interagency agreements, which was also key to achieving our audit objective, was limited by the availability of data, both hardcopy and electronic.

After we wrote our draft report and conducted our exit briefings, VA provided us with previously requested data as well as new information. For example, VA provided statements regarding the market research it conducted to evaluate alternatives to interagency agreements with OPM. We were unable, however, to validate this information because VA did not provide us with sufficient documentation to verify the accuracy and reliability of this information. Because of the delay in receiving this information and the scope limitations described above, we could not verify and include some of this information in the scope of our work. We do not believe that the nature of these limitations is such that they impact the validity of our audit findings, conclusions, or recommendations.

Methodology We reviewed ADVANCE budget data from FY 2010 through FY 2012 and obligation data for FY 2010 and FY 2011 to determine ADVANCE costs. We also reviewed and analyzed interagency agreement and procurement costs such as service fees. Additionally, we interviewed budget officials, as

well as officials from VA's Office of Acquisitions and Logistics and OPM for budget and interagency agreement information.

To determine how VA measures ADVANCE program outcomes, we reviewed VA's Human Capital Investment Plan Strategic Plan, program performance measures, ADVANCE training data for FYs 2010 and 2011, and the ADVANCE ROI report for FYs 2010 and 2011. We also interviewed program officials.

To assess whether ADVANCE aligns with Federal human capital reforms, we reviewed applicable Federal and agency human capital policies and interviewed program officials.

**Service Fee
Cost
Calculations**

To calculate how much VA paid OPM in service fees during FY 2011, we multiplied the standardized service fee percentage (4.5 percent) by the sum of the value (\$189 million) of all the interagency agreements that were assessed this standardized rate (N=26). To illustrate:

$$.045 \times \$189,000,000 = \$8,505,000$$

**FY 2010
Average
Service Fee
Percentage**

To calculate the FY 2010 average service fee percentage VA paid OPM, we summed the service fee percentages charged (70.5 percent) and divided this sum by the total number of interagency agreements (N=22). To illustrate:

$$.705 \div 22 = .032 \text{ or } 3.2 \text{ percent}$$

**Service Fee
Costs**

To determine how much money VA would have spent if it continued to pay OPM the average service fee in FY 2011 that it paid in FY 2010, we applied the FY 2010 average service fee (3.2 percent) to the total value of the interagency agreements that were assessed the FY 2011 standardized service fee (\$189 million). To illustrate:

$$.032 \times \$189,000,000 = \$6,048,000$$

**Potential
Service Fee
Savings**

To calculate the potential savings that VA could have obtained by paying the average FY 2010 service fee rate in FY 2011, we subtracted the amount VA would have paid if it were assessed the FY 2010 average service fee from the amount VA paid in service fees in FY 2011. To illustrate:

$$\$8,505,000 - \$6,048,000 = \$2,457,000$$

**Weighted
Average
Service Fee**

We also calculated a weighted average service fee for FY 2010. Unlike the mathematical average we calculated above where each interagency agreement service fee contributed equally to the final average, a weighted average accounts for the differences in the total value of each interagency agreement as a percentage of the value of all interagency agreements in FY 2010.

To calculate the weighted average service fee we summed the total value of all the service fees in FY 2010 (\$5.04 million) and divided this amount by the total value of all the interagency agreements in FY 2010 (\$167.3 million). To illustrate:

$$\$5,040,000 \div \$167,300,000 = .03013 \text{ or } 3.013 \text{ percent}$$

We chose, however, to use the mathematical average of 3.2 percent in our calculations resulting in a more conservative monetary benefits estimate. Appendix C provides additional information on the potential monetary benefits.

**Reliability of
Computer-
Processed
Data**

VA provided us ADVANCE budget (FYs 2010 through 2012) and cost information (FYs 2010 and 2011) on electronic spreadsheets. We could not verify cost data for ADVANCE offices, such as VALU, against data captured in VA's Financial Management System because these offices operate on ADVANCE and other funding sources that cannot be separated in VA's Financial Management System. We tested the reliability of cost data for these offices by evaluating the spreadsheets for discrepancies such as calculation errors and missing data. When we found discrepancies, we brought them to the attention of budget officials and worked with them to obtain corrected data.

We were able to assess the validity of CSEMO cost data by comparing the data captured in electronic spreadsheets against data in VA's Financial Management System. ADVANCE is the only funding source for CSEMO, and unlike other ADVANCE offices, CSEMO cost data can be validated against data in VA's Financial Management System. Based on our assessment, we believe ADVANCE cost data are sufficiently reliable for the purpose of this report.

**Reliability of
Interagency
Agreement
Data**

The Office of Acquisition and Logistics provided us a list of interagency agreements. We took several steps to assess this data for reliability. We tested the accuracy of key interagency agreement information, including funding amounts and service fees. When we identified discrepancies in the data, we worked with agency officials to resolve data problems. We also conducted an independent search of VA's electronic contract management system to identify additional ADVANCE-related interagency agreements. We confirmed with program officials that additional interagency agreements we identified in the electronic contract management system were ADVANCE-related.

We included 57 interagency agreements in our analyses. We judgmentally selected 20 to assess VA's compliance with the FAR and related Federal policies. In some cases, we limited our analyses to avoid using unreliable data. Based on our assessment and steps taken to limit our use of

problematic information, we believe the interagency agreement data we used were sufficiently reliable and complete for the purposes of our report.

Appendix C Potential Monetary Benefits in Accordance With Inspector General Act Amendments

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs
1	Assess if the current relationship with OPM for acquisition assistance is in VA's best interest and conduct an assessment of alternatives.	\$2.5 million*	\$0
Total		\$2.5 million	\$0

**Notes:*

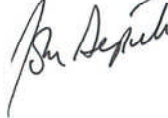
1. We arrived at our better use of funds estimate of \$2.5 million by applying the average service fee VA paid in FY 2010—3.2 percent—to FY 2011 interagency agreements that were assessed the 4.5 percent standardized service fee.
2. These monetary savings would have been realized if VA paid the same average service fee rate in FY 2011 that it did in FY 2010.

Appendix D Assistant Secretary for Human Resources and Administration Comments

**Department of
Veterans Affairs**

Memorandum

Date: July 6, 2012

From: Assistant Secretary for Human Resources and Administration (006) 

Subj: Response to Audit of ADVANCE and the Corporate Senior Executive Management Office Human Capital Programs (Project Number 2011-02433-R1-0149)

To: Assistant Inspector General for Audits and Evaluation (52)

INTRODUCTION

On behalf of the Department of Veterans Affairs (VA or Agency), the Office of the Assistant Secretary for Human Resources and Administration (HR&A) thanks the Office of Inspector General (OIG) for the opportunity to review and respond to the June 2012 Draft Report (the Report) entitled, "Audit of ADVANCE and the Corporate Senior Executive Management Office Human Capital Programs (Project Number 2011-02433-R1-0149)". The purpose of this memorandum is to provide the VA's response to the recommendations offered by the OIG in the above referenced draft report. The attachment is VA's response to each of the recommendations.

Briefly, VA concurs with the four proposed recommendations contained in this report and identifies various Plans of Action and timeline(s), including new and already implemented approaches. Additionally, VA submits information to address some of the findings identified in the Report. These points of clarification are identified after the Agency's responses to the recommendations in the attachment.

STATEMENT

Transforming VA's human capital into a 21st century workforce that is "People-Centric, Results-Driven, and Forward-Looking" is the mission of the Human Capital Investment Plan (HCIP). Under the banner of "ADVANCE", HCIP is meeting VA's Strategic Goal to "Improve internal customer satisfaction with management systems and support services to achieve mission performance, and, by investing in human capital, make VA an employer of choice." By building the Agency's internal capacity to serve Veterans, their families, its employees, and other stakeholders efficiently and effectively, HCIP will help meet this goal.

VA has established numerous processes and controls to ensure HCIP programs are adequately planned and managed, and thus produce the required results. Project goals, budgets, and requirements are reviewed and approved in advance of expending any funds. Great care is taken to eliminate inefficiencies and waste to ensure that VA's HCIP projects deliver the highest value to the Agency and the Nation's Veterans.

For example, VA refreshes the HCIP's Integrated Operational and Performance plan annually, setting the foundation for the use of HCIP resources. There are Agency level monthly Operational Management Reviews to ensure VA meets cost, schedule, and performance targets with corrective action taken as appropriate. Moreover, there are Monthly Performance Review meetings to monitor progress against the annual performance plan.

VA conducts a rigorous and layered oversight of HCIP initiatives. The oversight layers include:

- Developing statement of requirements documents and independent government cost estimates;
- Validating requirements documents and independent government cost estimates by a separate independent validation and verification process;
- Prioritizing requirements to identify and fund projects contributing to transformation;
- Verifying prioritized requirements through VA's contracting office;
- Coordinating with the Office of General Counsel to perform the necessary contractual and legal reviews;
- Monitoring execution which utilizes project management best practices;
- Regularly reviews the Office of Personnel Management's (OPM) project execution costs and schedules;
- Reviewing the OPM Deliverable Receipt Forms; and
- Conducting monthly and quarterly meetings with OPM to review and evaluate progress.

Through this comprehensive program of oversight management, VA is confident that it has and will continue to meet the program management and oversight needed to not only drive mission success, but also ensure taxpayer dollars are spent with accountability and integrity.

Attachment:

Responses to the OIG's Draft Report

VA RESPONSE TO OIG AUDIT PROJECT NUMBER 2011-02433-R1-0149

RECOMMENDATION 1: OIG recommends the Assistant Secretary for Human Resources and Administration conduct and document an assessment of its current relationship with the Office of Personnel Management for acquisition assistance to determine whether it is in VA's best interest and conduct an assessment of alternatives to facilitate making sound future program decisions.

VA RESPONSE: CONCUR. VA concurs with Recommendation 1 to conduct and document an assessment of its current relationship with OPM for acquisition assistance to determine if it is in VA's best interest, and to conduct an assessment of alternatives ensuring sound program decisions. In fact, VA has continually assessed its contractual relationship with OPM over the life of the HCIP/ADVANCE program, resulting in improved performance and reduced costs. VA is committed to improving the effectiveness and efficiency of its operations. As a result, VA will execute already planned actions to continue to improve the oversight and management over the HCIP/ADVANCE activities.

PLAN OF ACTION: (1) Continual evaluation of VA's acquisition strategy with focus on the OPM assisted acquisition services ensuring that the strategy is in VA's best interest.

Description: VA is currently conducting the FY13 HCIP/ADVANCE program prioritization. The requirements and method of service delivery will be evaluated against FY13 mission needs to develop a comprehensive acquisition strategy. This analysis will include market research and a sourcing strategy to best fit VA's mission needs and requirements. Analysis will be conducted for each distinct contract action, allowing VA to continue utilizing OPM where it is the best fit, and to select other alternatives whenever appropriate.

Timeline: Prioritization was implemented in FY11 and embedded in FY12 as an annual process.

PLAN OF ACTION: (2) VA has conducted and is documenting an assessment of the HCIP/ADVANCE acquisition process that includes an assessment of alternatives and cost comparisons of assisted acquisition service fees across multiple servicing Federal agencies.

Description: In Q1 of FY12, VA contracted an independent Federally Funded Research and Development Corporation to conduct the assessment and document the acquisition process including an assessment of alternatives to OPM.

Timeline: No later than the end of Q4 of FY12.

RECOMMENDATION 2: OIG recommends the Assistant Secretary for Human Resources and Administration improve the management of HCIP/ADVANCE interagency agreement costs by developing processes to collect and monitor contractor invoice data in relationship to the actual services provided.

VA RESPONSE: CONCUR. VA concurs with OIG Recommendation 2 to develop processes to collect and monitor contractor invoice data for services provided through interagency agreements, and submits that the existing Deliverables Receipt Form process meets this need and provides dual oversight of invoicing data. VA is committed to improving the effectiveness and efficiency of its operations. Therefore VA will carry out planned actions identified below to improve the oversight and management over the HCIP/ADVANCE activities, including the Deliverable Receipt Form process.

PLAN OF ACTION: (1) VA will continue to rigorously review the OPM Deliverable Receipt Form process to ensure the VA is receiving actual services contracted for in the interagency agreement.

Description: VA will provide additional written guidance to each Program Office implementing HCIP/ADVANCE initiatives to rigorously review the Deliverable Receipt Form process in relationship to the contracted for tangible and intangible goods and services ensuring the VA is properly receiving the benefits of the interagency agreement.

Timeline: No later than the end of Q4 of FY12.

PLAN OF ACTION: (2) VA will revisit the OPM Deliverable Receipt Form process annually to ensure that the Deliverable Receipt Form continues to meet the description and cost data sets needed for the VA to properly assess whether it has received the contracted goods and services.

Description: VA has been in regular dialogue with OPM since FY11 about the Deliverables Receipt Form process, format, and content. Furthermore, VA has been engaged in work sessions with OPM during:

- VA-OPM monthly service agreement meetings;
- VA-OPM bi-weekly Program Management Reviews; and
- Quarterly Executive Evaluations.

Timeline: No later than the end of Q4 of FY12.

PLAN OF ACTION: (3) As part of the maturation of VA's program management oversight, VA will assign qualified project managers to work within each program office, and will include in their duties the detailed review of Deliverable Receipt Form documentation to better assure the delivery of services before invoices are approved for payment.

Description: VA is committed to continuously improving its program and project management oversight over all HCIP/ADVANCE initiatives. To that end, the Assistant Secretary for Human Resources and Administration has approved a plan to strengthen the project management capabilities within each of the program offices, and the duties of the assigned project managers will include detailed review of Deliverables Receipt Form documentation as part of the invoice payment process.

Timeline: No later than the end of Q2 of FY13

RECOMMENDATION 3: OIG recommends the Assistant Secretary for Human Resources and Administration improve the management of HCIP/ADVANCE interagency agreement terms by developing processes to collect timely and complete information, including copies of signed interagency agreements.

VA RESPONSE: CONCUR. VA concurs with Recommendation 3 to develop processes for collecting timely and complete information, including copies of signed interagency agreements to improve VA's management of HCIP/ADVANCE interagency agreement terms. VA is committed to improving the effectiveness and efficiency of its operations. Thus, it will implement planned actions to improve the oversight and management over the HCIP/ADVANCE activities.

PLAN OF ACTION: VA-OPM Service Level Agreement.

Description: Beginning in January 2012, working in concert with OPM, VA drafted Service Level Agreement language formalizing the cyclical exchanges of data and reports critical to VA operations of HCIP/ADVANCE initiatives in accordance with the costs and terms of interagency agreements with OPM. These include vendor task order periods of performance, monitoring of initiative's major milestones and critical paths, and tracking vendor cost burn-rates against major milestones ensuring that the VA receives its contracted goods and services.

Timeline: No later than the end of Q4 of FY12.

RECOMMENDATION 4: OIG recommends the Assistant Secretary for Human Resources and Administration more accurately assess the effect of the HCIP/ADVANCE program on VA's workforce by defining and improving its impact measures.

VA RESPONSE: CONCUR. The HCIP/ADVANCE program evaluation program is a pioneering effort across public and private sectors because of its comprehensive and data-driven approach to measuring human capital impacts within VA. According to the American Society for Training and Development, only 17.9% of all organizations in the United States utilize a similarly exhaustive evaluation technique for their investments in training and development. VA is one of few Federal agencies conducting this level of return on investment (ROI) analysis. VA enlisted the help of a reputable audit firm (Deloitte) to develop and implement an evaluation strategy to measure return on this human capital investment. This analysis demonstrated a \$604.2M, or positive 4.7% return on a \$577M investment, over fiscal years 2010-11. The analysis also identified a number of qualitative benefits that positively impact delivery of services to Veterans, such as improved customer satisfaction and increased employee morale.

VA concurs with the recommendation to continue to refine its impact measures in order to more precisely and accurately assess the effect of the HCIP/ADVANCE program on VA's workforce. Although VA is committed to improving the effectiveness of its impact measures, and has

already taken several planned actions to improve the oversight and management of the HCIP/ADVANCE activities, we would also like to address a few points of disagreement in the OIG Draft Report:

- The OIG Draft Report notes a concern that economic factors were not considered in the ROI analysis and suggests these may impact some of the benefits attributed to HCIP/ADVANCE activities. When included in Deloitte's analysis, economic conditions proved to have no significant impact. In this analysis, two widely accepted economic indicators (Unemployment Rate and Consumer Sentiment Index) were incorporated and the results showed that they had no significant effect on the movement of key impact measures. However, understanding that economic conditions may become significant in the future, we will continue to include them in our analysis;
- The OIG Draft Report states that VA relied upon external studies to benchmark VA's ROI. VA did not rely solely upon external studies to benchmark VA's ROI. Literature review supplemented rigorous VA statistical data analysis and input from internal program owners; and
- The OIG Draft Report states that monetary benefits may not provide the most accurate measurement of HCIP/ADVANCE training on the development of the organization and suggests VA expand assessments of program impact on the development of the workforce. ROI analysis is only one facet of VA's current evaluation approach. This approach also includes methods to capture reactions to the program, learning gain, positive behavior change, and organizational impact. This evaluation is completed using the following methodologies:
 - Kirkpatrick Four Levels Methodology Kirkpatrick utilizes four levels of analysis to capture training and development benefits to each layer of an organization (The Learner's Reaction, Learning Gain, Behavioral Change, and Organizational Results). This approach is the commonly accepted training evaluation standard for business and industry; and
 - Quantitatively Derived ROI ROI analysis uses advanced statistical and data analytics techniques to show how the movement of key performance indicators, during and after training, affected VA's bottom line.

PLAN OF ACTION: Continual evaluation and improvement of the existing ROI methodologies focused on enhancing the impact measures to better assess the effectiveness of HCIP/ADVANCE program activities and investments.

Description: Prior to the launch of HCIP/ADVANCE, a robust needs assessment methodology was constructed and implemented. This process leveraged studies from internal Subject Matter Experts from organizations such as the Office of the Chief Financial Officer, Office of Information and Technology and Human Resources and Administration, and other areas of technical expertise across VA. This input was gathered and translated into specific requirements used to drive the creation of learning content designed to close identified competency gaps. These offerings continue to be delivered in a blended fashion that enhance adult learning and maximize fiscal prudence. VA continues to enhance its ability to demonstrate and measure the

impact and benefits of this investment and will further refine its industry best evaluation and ROI approaches.

Timeline: Ongoing. VA will continue to drive improvements in evaluation methodologies in FY12.

VA'S FACTUAL RESPONSES TO THE OIG'S FINDINGS

OIG FINDING: VA did not conduct adequate Market Research. (OIG Draft Report, pg 3)

VA RESPONSE: NON-CONCUR. There appears to be a basic misunderstanding in the Draft Report relating to market research requirements and interagency agreements. According to VA's Office of Acquisitions, the Economy Act of 1932 authorizes agencies to enter into mutual agreements to obtain supplies or services by inter-agency acquisition. Contrary to the OIG's assertion, there is no regulatory requirement that market research associated with such interagency agreements include private-sector solutions. As articulated in the Federal Acquisition Regulation, Subchapter C, Part 17, the acquiring agency must only determine that the acquisition method represents the best procurement approach, satisfies the agency's requirements, is cost-effective, and that funding will be used within appropriation limitations.

VA did, indeed, proceed to conduct market research specifically targeting assisted acquisition contract support at the outset of the HCIP/ADVANCE program, and determined that the use of an interagency agreement with OPM was the most effective and efficient method to execute on its HCIP/ADVANCE mission. Further, in April 2012, VA confirmed the use of the OPM interagency agreement to be effective, efficient, and in the VA's best interest. In summary, VA's contracted independent Federally Funded Research and Development Corporation study and analysis includes a conclusion validating that OPM is the government-to-government leader in assisted acquisitions for human resource requirements and that "it is clear . . . on a relative basis (VA) is receiving favorable fee treatment in relation to other government agencies."

Accordingly, the VA Office of Acquisition concludes that the reference to the Federal Acquisition Regulation in support of this finding is inapplicable.

OIG FINDING: Inadequate Assessment of Service Fees. (OIG Draft Report, pg 4)

Specific finding: OIG determined that VA's standardized service fee agreement with OPM for FY2011 was not advantageous and cost VA an additional \$2.5M.

VA RESPONSE: NON-CONCUR. VA offers the following information to respond to this finding:

- An accurate calculation of FY11 vs. FY10 fees should factor in the OPM program management services provided by contract in FY10 valued at \$2.5M: this resulted in a cost

savings in FY11. When the full cost of FY10 acquisition and program management is considered, there is actually a slight reduction realized for FY11, rather than the \$2.5M increase cited in the finding.

The table below reflects the breakdown of the fees paid to OPM for assisted acquisitions and program management support for the period FY10 through FY12. Noteworthy is the downward trend and program cost savings as VA's oversight model matures.

TYPE OF FEE	FY2010	FY2011	FY2012
Assisted Acquisition	3.2% (Note 1)	3.0%	3.0%
Program Management	1.32 % (Note 2)	1.5%	0.75%
Total Percentage	4.52%	4.5%	3.75%

Note 1: FY10 costs were variable; Appendix B of the report calculates effective FY10 fees to have been 3.2%, which VA believes to be accurate.

Note 2: FY10 Program Management was provided at a direct cost of \$2.5M, and was not included in the fee structure. It is converted to a percentage here to support comparison with other FY's.

- OIG's finding fails to acknowledge actions taken by VA during FY11 to address fees. Those actions resulted in a new fee structure starting in FY12 that reduces fees to a level well below the FY10 baseline yielding savings in FY12 and future years. These savings are estimated at nearly \$2M annually. For FY12 and beyond, VA will pay less than the FY10 baseline. As programs mature, and as VA's internal capabilities also mature, VA will continuously revisit whether program management services are required and will take advantage of opportunities to drive the 3.75% fee closer to the acquisition baseline of 3.0%. See table above.

OIG FINDING: Inadequate Assessment of Service Fees. (OIG Draft Report, pg 4)

Specific finding: VA reported it did not evaluate the reasonableness of the interagency service fees.

VA RESPONSE: NON-CONCUR. As part of VA's market research, program officials and VA's Office of Acquisition reviewed OPM service fees in relation to what other Agencies were charging. It should be noted that the OPM fee included program management support* which was not included in any of the other agencies fees below:

- OPM 4.52%*
- GSA FAS 5.0%

- DOI NBC 5.0%
- GSA FEDSIM 5.0%
- DOE 3.0%

Accordingly, VA did evaluate the reasonableness of the OPM fee in light of the contracting officer's direct experience, and the Agency's experience and knowledge as reflected above. It is clear that the OPM acquisition fee range of 2.5%-3.0% (see table above) is competitive against these alternatives.

OIG FINDING: Inadequate Monitoring of Costs. (OIG Draft Report, pg 4)

Specific finding: VA did not adequately monitor and account for specific program costs, such as consultant fees and contractor travel. And, VA did not require OPM to provide detailed invoices that include specific program costs incurred through interagency agreements. (OIG Draft Report, pg 4)

VA RESPONSE: NON-CONCUR. VA submits the following information in respect to the above OIG finding:

VA wishes to address this finding in the context of the HCIP/ADVANCE projects leveraging OPM's assisted acquisition services.

VA develops the HCIP/ADVANCE projects under a Firm Fixed Price contracting approach. As a risk reduction element, the Government is encouraged to use Firm Fixed Price contracting to shift the risk of project cost overruns from Government to vendor. Accordingly, when the VA develops the project requirements and Independent Government Cost Estimates, all of the contemplated costs, including contractor travel and consultant fees, are included in the VA Independent Government Cost Estimate analysis.

Once the acquisition package is at OPM, VA requirements are treated with pre-determined Firm Fixed Price labor rates. Here, contractor travel is identified as a Specially Priced Item, and is estimated in advance but not necessarily included in the task order. OPM has a process for estimating and approving vendor travel costs to this end.

Accordingly, VA monitors and accounts for the consultant fees and contractor travel through the management plan and the OPM Deliverables Receipt Form documentation while understanding that the Firm Fixed Price approach ultimately protects the VA from the risk of cost overruns.

With regard to OPM invoices, VA receives the OPM Deliverables Receipt Form documentation which is substantially similar to the vendor invoice. The Deliverables Receipt Form documentation contains a description of the goods and services delivered, the cost associated with the deliverables, a reference to the task in the management plan, and a reference to the OPM Task Order.

This Deliverables Receipt Form process is necessary because the vendor's direct contractual relationship is with OPM while VA's contractual relationship is with OPM through the interagency agreement. Essentially, OPM conducts the competition of VA's requirements through their pre-competed vendor pool.

OIG FINDING: Inadequate Monitoring of Terms. (OIG Draft Report, pg 5)

VA RESPONSE: NON-CONCUR. VA has multi-layer reviews and approval processes for monitoring interagency agreements with OPM. The initial review and approval process routes an interagency agreement through VA's Office of Acquisitions, VA Office of General Counsel, OPM Contracting Officer, and OPM Office of General counsel. Following this review, the management plan is prepared based upon the terms of the interagency agreement. The management plans are subject to multi-layered governance and performance monitoring processes at both Agencies that include:

- VA-OPM monthly service agreement meetings;
- VA-OPM Bi-weekly Program Management Reviews;
- Quarterly Executive Evaluations;
- Deliverables Receipt Form process;
- Formal change control; and
- Formal in-process reviews.

Detailed process descriptions, definitions, templates and sample artifacts are included in the VA response reference binders previously submitted.

Summary of VA Response:

VA concurs with the four proposed recommendations contained in the OIG Draft Report. We have identified a plan of action, with timelines, to address each of the recommendations.

As noted in the Draft Report, HCIP/ADVANCE aligns with federal human capital reforms by centralizing workforce training and senior executive recruitment and development. HCIP/ADVANCE is successfully transforming VA and enabling the department to meet its Strategic Goals through critical investments in human capital. This program has resulted in tangible, measurable and positive results which add value to our efforts to provide services to Veterans and their families.

While constantly working to improve the administration of this program, VA is confident that ongoing comprehensive management of our Human Capital Investment Plan initiatives will continue to ensure the integrity of our investments.

VA has continually assessed its contractual relationship with OPM over the life of the HCIP/ADVANCE program, resulting in improved performance and reduced costs. OPM brings expedited contracting processes and a proven track record in the area of training development acquisitions. VA will continue to contract through OPM, closely managing that relationship through robust internal governance and performance monitoring processes. VA is confident it has and will continue to meet the program management and oversight requirements needed to drive mission success while ensuring best value to the agency.

Appendix E Office of Inspector General Contact and Staff Acknowledgments

OIG Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
-------------	---

Acknowledgments	Nick Dahl, Director Irene J. Barnett Stephen Bracci David Garrity Lee Giesbrecht James McCarthy David Orfalea Shawn Steele Joseph Vivolo
-----------------	--

Appendix F 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 Military Construction, Veterans
Affairs, and Related Agencies
House Committee on Oversight and Government Reform
Senate Committee on Veterans' Affairs
Senate Appropriations Subcommittee on Military Construction, Veterans
Affairs, and Related Agencies
Senate Committee on Homeland Security and Governmental Affairs
National Veterans Service Organizations
Government Accountability Office
Office of Management and Budget

This report will be available in the near future on the OIG's Web site at <http://www.va.gov/oig/publications/reports-list.asp>. This report will remain on the OIG Web site for at least 2 fiscal years.