

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Department of Veterans Affairs

*Review of
Separately Priced Item
Purchases for Training
Conferences*

September 30, 2013
13-00455-345

ACRONYMS AND ABBREVIATIONS

| | |
|------|--|
| COR | Contracting Officer's Representative |
| DRF | Delivery Receipt Form |
| HR&A | Office of Human Resources and Administration |
| IA | Interagency Agreement |
| OALC | Office of Acquisition, Logistics, and Construction |
| OAO | Office of Acquisition Operations |
| OIG | Office of Inspector General |
| OPM | Office of Personnel Management |
| SMG | Strategic Management Group |
| SPI | Separately Priced Item |
| VA | Department of Veterans Affairs |

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Report Highlights: Review of VA's SPI Purchases for Training Conferences

Why We Did This Review

VA reported spending approximately \$15.5 million on three financial management training conferences in 2010 and 2011 using an interagency agreement (IA) with the Office of Personnel Management (OPM).

Separately priced item (SPI) purchases have not been a focus of our prior reports, yet SPIs pose financial risks if oversight is inadequate. Of the \$15.5 million VA reported spending on these conferences, about \$6.7 million was spent on SPI purchases and related service fees. We conducted this review to assess VA's oversight of SPI purchases.

What We Found

Our review of three conferences found VA paid about \$5.3 million for goods and services the prime vendor should not have purchased as SPIs. Instead, VA and OPM should have identified essential goods and services and required the prime vendor to deliver them as firm-fixed-price tasks rather than as SPIs. VA and OPM did not approve all SPI purchases in advance, and VA paid the prime vendor for SPIs and service fees without adequate supporting documentation. VA paid the prime vendor about \$697,000 in inappropriate service fees. Additionally, VA paid OPM about \$132,000 in service fees associated with inappropriate SPI purchases.

VA placed its trust and reliance on OPM to manage and administer the IA without establishing adequate oversight. This resulted in VA relinquishing its responsibility and accountability to sufficiently monitor and review conference-related expenditures. We questioned about \$1.1 million in SPI purchases that could have been saved through

competitive contracting. We also questioned \$697,000 in prohibited service fees paid to the prime vendor and \$132,000 in service fees paid to OPM associated with inadequate oversight.

What We Recommended

We recommended the Assistant Secretary for Human Resources and Administration consider discontinuing the use of assisted acquisition IAs with OPM for training conferences and establish controls to improve oversight of SPIs purchased through existing assisted acquisition IAs with OPM.

We recommended the Principal Executive Director, Office of Acquisition, Logistics, and Construction update policy to ensure a qualified individual with appropriate training in contracting is assigned to all IAs and take action to recover service fees paid to the prime vendor and OPM that were inappropriate or associated with inadequate oversight.

Agency Comments

The Assistant Secretary for Human Resources and Administration and the Principal Executive Director, Office of Acquisition, Logistics, and Construction concurred with our recommendations and provided action plans to address the recommendations. We consider the action plans acceptable and will follow up on their implementation.

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

LINDA A. HALLIDAY
Assistant Inspector General
for Audits and Evaluations

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INTRODUCTION

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| Objective | We conducted this review to assess VA's oversight of separately priced items (SPIs) purchased through an assisted acquisition interagency agreement (IA) for three VA financial management training conferences held in August 2010, December 2010, and March 2011. ¹ |
| Interagency Agreement With OPM | VA used an assisted acquisition IA with the Office of Personnel Management (OPM) to fund, plan, and conduct the conferences. On VA's behalf, OPM was responsible for conducting market research; considering appropriate sources for goods and services; and developing, awarding, and administering contracts and subcontracts. OPM selected a prime vendor to help plan, develop, and carry out tasks under the IA. |
| Separately Priced Items | SPIs are incidental items the prime vendor can purchase to support tasks developed under the IA. SPI purchases are not included within the firm-fixed-price cost of tasks developed to support the conferences—they are additional costs. SPIs related to these conferences were billed at cost plus a percentage of cost in additional service fees. |
| IA Issues Previously Reported by VA OIG | <p>While SPIs were not a focus of past VA Office of Inspector General (OIG) reports, we have identified significant issues regarding VA's assisted acquisition IAs with OPM in three previous reports. Our <i>Review of Acquisitions Supporting the Veteran Employment Services Office</i> (Report No. 13-00644-231, June 25, 2013) found that VA acquired excess services when it expanded an IA with OPM to provide two employment call centers. These call centers had call volumes so low during a 13-month period that each call center employee handled an average of 2.4 calls per day.</p> <p>The <i>Administrative Investigation of the FY 2011 Human Resources Conferences in Orlando, Florida</i> (Report No. 12-02525-291, September 30, 2012) reported VA's processes and oversight were too weak, ineffective, and in some instances, nonexistent to ensure that conference purchases using an IA with OPM were accurate, appropriate, necessary, and reasonably priced.</p> <p>The <i>Audit of ADVANCE and the Corporate Senior Executive Management Office Human Capital Programs</i> (Report No. 11-02433-220, August 2, 2012) reported VA's acquisition planning was inadequate and did not justify its determination that IAs with OPM represented the best procurement approach.</p> |

¹ VA held a fourth financial management training conference in August 2012, which was not included in our review because it was significantly smaller in scope. It provided training to just over 100 employees.

RESULTS AND RECOMMENDATIONS

Finding Inadequate Oversight Resulted in Improper Purchases of Separately Priced Items and Inappropriate Service Fees

VA reported spending approximately \$15.5 million using an assisted acquisition IA with OPM on three financial management training conferences in 2010 and 2011. This included approximately \$6.7 million in SPI purchases and related service fees. We found VA paid about \$5.3 million for goods and services the prime vendor should not have purchased as SPIs, but found that these purchases were in support of the conferences. VA and OPM lacked documentation of required approvals for approximately \$3.4 million (51 percent) of the \$6.7 million spent on SPI purchases and related service fees. VA paid the prime vendor for SPI purchases and service fees without adequate supporting documentation. In addition, VA paid the prime vendor about \$697,000 in inappropriate service fees and paid OPM about \$132,000 in service fees associated with inappropriate SPI purchases.

These systemic issues occurred because VA placed its trust and reliance on OPM to manage and administer the IA without establishing adequate oversight. This resulted in VA relinquishing its responsibility and accountability to sufficiently monitor and review conference-related expenditures. We questioned about \$1.1 million spent on conference-related SPI purchases, \$697,000 in inappropriate service fees paid to the prime vendor, and \$132,000 in service fees paid to OPM associated with inadequate oversight.

Interagency Agreement With OPM

VA's Office of Human Resources and Administration (HR&A) manages VA's Human Capital Investment Plan, branded as ADVANCE. VA initiated the program in FY 2010 as an agency-wide effort to build and sustain VA's succession and workforce development and training. VA's IAs that support ADVANCE generally involve assisted acquisitions, with OPM acting as the servicing agency. As such, OPM is paid a service fee and can award contracts and task orders on behalf of VA. Generally, the servicing agency can manage financial risk by awarding firm-fixed-price tasks.

VA used an assisted acquisition IA with OPM to fund, plan, and conduct the three financial management training conferences in August 2010, December 2010, and March 2011. VA Office of Finance officials stated the purpose of the conferences was to train its financial workforce located throughout the country. In our opinion, VA held these conferences to fulfill valid training needs. VA offered 34 individual training courses during the conferences and reported just under 4,300 total staff attended.

Table 1 provides total costs reported by VA for the three conferences based on documentation OPM provided to the Office of Finance.

Table 1

| Total Conference Costs | | |
|-------------------------------|-------------------|-----------------------|
| Date | Location | Reported Costs |
| August 2010 | San Francisco, CA | \$5,700,000 |
| December 2010 | Dallas, TX | \$4,400,000 |
| March 2011 | Nashville, TN | \$5,400,000 |
| Totals | | \$15,500,000 |

Source: VA Office of Finance

Note: We rounded the VA-reported conference costs for reporting purposes.

OPM selected a prime vendor to help plan, develop, and carry out conference tasks under the IA, which included VA training conferences. Once OPM selected the prime vendor, the prime vendor used subcontractors to assist in developing and performing the tasks under the IA. For example, the prime vendor used a subcontractor to deliver the training courses at the three conferences. HR&A relied on OPM to conduct market research; consider appropriate sources for goods and services; and develop, award, administer, and monitor contracts. VA paid OPM a 2.5 percent service fee, based on the total cost of the IA, for acting as the servicing agency with responsibility for providing oversight of the prime vendor. However, VA is ultimately responsible for ensuring its funds are spent economically.

Inadequate Oversight of SPI Purchases

We identified several systemic issues regarding VA's inadequate oversight of SPI purchases associated with the three conferences.

- VA paid for goods and services the prime vendor should not have purchased as SPIs.
- VA and OPM did not approve all SPI purchases in advance, as required.
- VA authorized payments for SPI purchases without supporting documentation.
- VA paid inappropriate service fees to the prime vendor.

Improper Use of SPIs

We found VA paid about \$5.3 million for goods and services the prime vendor should not have purchased as SPIs. SPIs are incidental items the prime vendor can purchase to support tasks developed under the IA, and therefore, pose financial risks if oversight is inadequate.

The base contract between OPM and the prime vendor outlined the following examples of SPIs.

- **Products and Product-Related Services**—Web site hosting; duplication of materials; and purchase of textbooks, binders, and licenses
- **Specialized Services**—Highly specialized or nationally recognized experts with justification that supports the use of expertise outside the normal labor categories
- **Travel**—Performance of travel necessary to complete work that is authorized in writing and in accordance with the Federal Travel Regulation

During one of our interviews, OPM clarified the purpose of SPIs by defining them as incidental charges to the overall task. VA and OPM missed a critical planning step that would have identified essential goods and services for conducting the conferences. They should have identified essential goods and services and required the prime vendor to deliver them as firm-fixed-price tasks rather than as SPIs. For example, VA and OPM should have identified training courses, audio visual, food and beverage, and interpreters as essential goods and services and required the prime vendor to develop firm-fixed-price tasks for each. This would have provided a needed control on the prime vendor to use SPIs only for incidental purchases that supported recognized firm-fixed-price tasks.

If VA and OPM identified essential goods and services and required firm-fixed-price tasks, the prime vendor would have assumed the risk and responsibility to control costs. Without this incentive to control costs, the prime vendor purchased essential goods and services as SPIs. The prime vendor then billed VA for its costs plus a percentage of costs in additional service fees. VA had no assurance these items were obtained at fair and reasonable prices that represented a best value for the use of VA funds. Table 2 lists purchases we determined as essential goods and services associated with planning and executing the conferences that were improperly purchased as SPIs.

Table 2

| Conference Expenses Improperly Purchased as SPIs | |
|---|--------------------|
| SPI Description | SPI Costs |
| Training Courses | \$3,700,000 |
| Food and Beverage ² | \$687,000 |
| Audio/Visual | \$606,000 |
| Nashville Temporary Classroom Build-Out | \$287,000 |
| Interpreters | \$45,900 |
| Total | \$5,300,000 |

Source: VA OIG analysis of invoices for SPI purchases

Note: We rounded the SPI costs for reporting purposes, and the amounts do not add up due to rounding.

While we recognized VA would have incurred costs for these goods and services whether they were obtained as firm-fixed-price tasks or as SPIs, we could not determine what would have been a fair and reasonable price for VA to pay. If the prime vendor had an incentive to limit costs, it is a reasonable expectation that VA could have obtained these goods and services at a lower cost, and VA would not have been billed added service fees.

Without historical data on which to determine potential savings, we estimated the prime vendor could have obtained these goods and services at a 20 percent savings under competitive contracting. As a result, we questioned about \$1.1 million spent on conference-related SPI purchases.

Following are two examples of conference-related services we determined were improperly purchased as SPIs.

Example 1

VA spent a total of about \$3.7 million for training courses for the three conferences. Since VA Office of Finance officials stated the purpose of the conferences was to train its financial workforce located throughout the country, we determined that training courses were essential to the conferences. VA and OPM should have required the prime vendor to deliver the training as a firm-fixed-price task. Instead, the prime vendor purchased training courses as an SPI and billed VA additional service fees.

Example 2

VA spent a total of about \$606,000 for audio/visual services supporting classroom activities at the three conferences. VA Financial Policies and Procedures for Conference Planning

² VA Office of Finance officials reported that morning and afternoon snacks and beverages were provided at each conference. This is allowable under the Federal Travel Regulation.

consider audio/visual an essential element of a conference. VA and OPM should have required the prime vendor to deliver these services as a firm-fixed-price task. Instead, the prime vendor purchased audio/visual services as an SPI and billed VA additional service fees.

*Lack of
Advance
Approvals for
SPI Purchases*

VA and OPM lacked documentation of required approvals for approximately \$3.4 million (51 percent) of the \$6.7 million spent on SPI purchases and related service fees the prime vendor billed as a percentage of the SPI costs. OPM procedures required the prime vendor to provide VA and OPM a pricing proposal for all SPIs. VA and OPM were to approve the pricing proposal in advance of any SPI purchase. VA, OPM, and the prime vendor documented the SPI request and approval process through email.

We determined this was not an effective process to track and maintain VA and OPM approvals. The individual designated as the VA Contracting Officer's Representative (COR) and prime vendor reported searching project files, computers, and email archives for approval of proposed SPI purchases. Because they could not locate approvals to support more than half the cost of SPI purchases, we were unable to determine whether VA and OPM approved the pricing proposals prior to the SPI purchases, as required.

*SPI Payments
Made Without
Adequate
Documentation*

VA approved payment of SPI purchases without adequate supporting documentation. The VA COR reviewed and approved all Delivery Receipt Forms (DRFs) that included SPI purchases for the conferences before OPM paid the prime vendor. DRFs typically included a consolidated amount billed to VA for various goods and/or services. The individual could not ensure the prime vendor charged VA the correct amount for the purchases. This was because OPM and the prime vendor did not provide VA invoices that detailed specific line-item costs or receipts that supported the total amount billed on the DRF. Without detailed invoices or receipts that supported billed SPI costs on DRFs, VA paid for SPIs without assurance that billed amounts were accurate and reasonable.

*Inappropriate
Service Fees*

VA paid the prime vendor approximately \$697,000 in inappropriate service fees. VA and OPM allowed the prime vendor to charge service fees as a percentage of the total cost of SPI purchases, resulting in a cost-plus-percentage-of-cost billing arrangement. This is prohibited by section 3905, title 41, United States Code (41 U.S.C. §3905). It eliminates the incentive to minimize costs. Additionally, the base contract between OPM and the prime vendor did not provide detailed information on these fees, such as a definition or description of the fees. It did not include fixed percentages for each type of service fee and did not define or identify which fees the prime vendor could charge for each type of SPI purchase.

Table 3 provides total costs for three types of service fees charged by the prime vendor on conference-related SPI purchases.

Table 3

| SPI-Related Service Fees for All Conferences | |
|---|--------------------------|
| Service Fee Type | Service Fee Costs |
| Profit | \$318,000 |
| General and Administrative | \$254,000 |
| Subcontractor Handling | \$125,000 |
| Total | \$697,000 |

Source: VA OIG analysis of Delivery Receipt Forms and invoices for SPI purchases

Note: We rounded the service fee costs for reporting purposes.

Since Federal law prohibits cost-plus-percentage-of-cost billing arrangements, we questioned the \$697,000 VA paid the prime vendor for service fees related to SPI purchases.

Illustration of Inappropriate Service Fees

The following is an illustration of how inappropriate service fees significantly increased the cost of conference-related SPI purchases. Table 4 provides food and beverage costs for all three conferences that were billed as SPIs and the associated service fees VA paid to the prime vendor.

Table 4

| Food and Beverage Costs and Service Fees for All Conferences | |
|---|------------------|
| Description | Costs |
| Food and Beverage Charges | \$687,000 |
| General and Administrative Fees | \$97,300 |
| Profit Fees | \$34,500 |
| Total | \$819,000 |

Source: VA OIG analysis of Delivery Receipt Forms and invoices for SPI purchases

Note: We rounded the costs for reporting purposes, and the amounts do not add up due to rounding.

Food and beverage charges for the conferences totaled about \$687,000. However, because the prime vendor billed these expenses as SPIs, VA paid just under \$132,000 in inappropriate service fees. As a result, VA's food and beverage charges for the conferences increased by almost 20 percent.

Conference in Nashville, TN

One of the three conferences took place in Nashville, TN, during the week of March 28, 2011. The Nashville conference is an example of how VA's inadequate oversight and accountability led to questionable SPI purchases. Further, this example raised the question of whether VA is receiving a good value from its assisted acquisition IAs with OPM or if VA would have

stronger financial and management controls by planning and contracting for conference goods and services internally.

Insufficient Classroom Space

The prime vendor contracted with the Gaylord Opryland Resort and Convention Center in Nashville, TN, as the location for one of the conferences. An Office of Finance official stated senior officials from the Office of Finance and the Office of Management approved the site selection. The individual designated as VA COR stated the conferences required 50 classrooms to accommodate the number of classes offered. An HR&A employee conducted market research prior to the site selection and determined the hotel only had 30 classrooms available. VA Office of Finance officials reported they were not aware of the results of this market research and reported receiving information from an HR&A employee showing that the hotel had 60 breakout rooms. In order to conduct one of the conferences closer to the East Coast, plans moved forward with Nashville, TN, as the selected location for the conference.

Temporary Classrooms

To meet VA's space needs, the prime vendor submitted an SPI proposal to build 43 temporary classrooms to VA and OPM for approval. The vendor did not submit the proposal until 5 days prior to the start of the conference. VA and OPM approved the SPI purchase. The prime vendor billed VA about \$224,000 for building and dismantling the 43 temporary classrooms, \$32,500 for carpeting, and \$500 for signage. VA paid an additional \$13,000 in taxes and \$37,600 in service fees. The photograph below shows the space within the hotel where the temporary classrooms were built.

Space Used for Temporary Classrooms

Figure



Source: VA OIG photograph taken on February 21, 2013, at the Gaylord Opryland Resort and Convention Center in Nashville, TN

During the week of the conference, attendees reported acoustic issues with the temporary classrooms. To address the issues, 13 of the temporary classrooms were relocated to a different area of the hotel. This resulted in about \$17,300 in additional costs to VA. Total costs to VA associated with the classroom build-out were about \$324,000. Table 5 provides SPI costs, taxes, and service fees related to the build-out.

Table 5

| Summary of SPI Costs for Temporary Classrooms | |
|--|------------------|
| SPI Description | SPI Costs |
| Temporary Classrooms | \$224,000 |
| Carpeting | \$32,500 |
| Signage | \$500 |
| Relocation of Classrooms | \$17,300 |
| Taxes | \$13,000 |
| SPI-Related Service Fees | \$37,600 |
| Total | \$324,000 |

Source: VA OIG analysis of Delivery Receipt Forms and invoices for SPI purchases

Note: We rounded the SPI costs for reporting purposes, and the amounts do not add up due to rounding.

The Nashville, TN, conference resulted in VA incurring additional and potentially unnecessary costs. VA could have avoided these costs if it made a better business decision for the location of the conference.

Reasons for Inadequate Oversight of SPI Purchases

These systemic issues occurred because VA placed its trust and reliance on OPM to manage and administer the IA without VA establishing adequate oversight. This resulted in VA relinquishing its responsibility and accountability to sufficiently monitor and review conference-related expenditures.

Ineffective Monitoring by OPM

OPM's monitoring of the prime vendor was ineffective and resulted in systemic issues with conference-related SPI purchases. VA paid OPM a 2.5 percent service fee based on total costs associated with the IA. OPM was paid this service fee for assisted acquisitions, which included developing, awarding, administering, and monitoring contracts. While the service fee was based on the total cost of the IA, we calculated the service fee related to money spent on inappropriate SPI purchases was about \$132,000 (\$5.3 million × 2.5 percent). We questioned the value VA received for this portion of the service fee paid to OPM based on the ineffective monitoring performed.

As stated earlier, OPM allowed the prime vendor to improperly purchase numerous conference goods and services as SPIs. This eliminated the prime vendor's incentive to minimize costs and resulted in uneconomical SPI purchases and inappropriate service fees.

*VA COR Not
Trained and
Certified*

The IA with OPM required VA to appoint a trained and certified COR to review deliverables and approve work. According to the Federal Acquisition Regulation, a COR shall be certified and qualified by training and experience commensurate with the responsibilities he or she is delegated. A COR is to be designated in writing specifying the extent of the COR's authority and limitations.

The individual designated as the VA COR to provide oversight of the work associated with the conferences was not a trained and certified COR. Additionally, this individual did not receive a Letter of Appointment or guidance on roles and responsibilities of a COR prior to the conferences. The individual thought their primary role in the SPI process was to ensure the purchases fit within the scope of the conferences and to certify that purchases were received and acceptable. Appointing an individual who was not trained and qualified to serve as the COR illustrates VA's reliance on OPM to oversee the contract with the prime vendor and its lack of responsibility to provide effective financial stewardship. VA missed an opportunity to establish a significant internal control to safeguard VA funds. The individual designated as VA COR did not limit the use of SPIs or ensure accurate billing by requiring invoices or receipts to support SPI costs billed on DRFs.

In June 2011, VA agreed to a modification to the IA that changed the requirement for a COR. Instead, VA required the appointment of an Initiative Coordinator, who did not need to be trained and certified as a COR. The same individual appointed as the VA COR became the Initiative Coordinator.

*Results of
Inadequate
Oversight of
SPI Purchases*

VA's reliance on OPM's oversight of the prime vendor to plan and execute the conferences resulted in VA relinquishing its responsibility and accountability to sufficiently monitor and review conference-related expenditures. VA's inadequate oversight and accountability led to questioned purchases totaling about \$1.1 million spent on conference-related SPI purchases, \$697,000 in inappropriate service fees paid to the prime vendor, and \$132,000 in service fees paid to OPM associated with inadequate oversight.

Conclusion

We identified systemic issues with VA's oversight of SPI purchases because VA placed its trust and reliance on OPM to manage and administer the IA without establishing adequate oversight. This resulted in VA relinquishing its responsibility and accountability to sufficiently monitor and review conference-related expenditures. The issues discussed in this report raise questions regarding whether VA is receiving value from its assisted

acquisition IAs with OPM and whether VA should contract for conference-related goods and services internally.

Recommendations

1. We recommended the Assistant Secretary for Human Resources and Administration consider discontinuing the use of assisted acquisition interagency agreements with the Office of Personnel Management for planning and conducting training conferences.
2. We recommended the Assistant Secretary for Human Resources and Administration establish controls to ensure adequate visibility and oversight of separately priced items purchased through existing interagency agreements with the Office of Personnel Management, to include ensuring proposed purchases are approved in advance and determined to be for incidental items that support essential tasks developed under the interagency agreement.
3. We recommended the Assistant Secretary for Human Resources and Administration ensure that VA receives and reviews invoices or receipts that support all separately priced items purchased through existing interagency agreements with the Office of Personnel Management prior to authorizing payment.
4. We recommended the Principal Executive Director, Office of Acquisition, Logistics, and Construction update its policy to ensure a qualified individual with appropriate training in contracting is assigned to all existing interagency agreements with the Office of Personnel Management to monitor work performed on VA's behalf.
5. We recommended the Principal Executive Director, Office of Acquisition, Logistics, and Construction request the Office of Personnel Management review all bills associated with VA's financial management training conferences, assess the results of the Office of Personnel Management's review, and take steps to recover service fees paid to the prime vendor as a percentage of the cost of separately priced item purchases.
6. We recommended the Principal Executive Director, Office of Acquisition, Logistics, and Construction assess the Office of Personnel Management's oversight of separately priced items purchased through the interagency agreement used to fund, plan, and conduct VA's financial management training conferences, and take steps to recover service fees paid to the Office of Personnel Management associated with inadequate oversight.

**Management
Comments
and OIG
Response**

The Assistant Secretary for Human Resources and Administration concurred with recommendations 1, 2, and 3 and provided action plans to address the recommendations.

The Assistant Secretary's comments and action plans were responsive to the intent of our recommendations. HR&A will work with the Office of Acquisition Operations (OAO) to transition to direct contracts for many services currently provided through OPM, with the goal of transitioning most contracts for training by FY 2015. OAO modified VA's agreement with OPM requiring OPM to provide VA invoice reconciliations. HR&A provided program offices verbal guidance on approving SPIs and plans to develop a process to ensure VA reviews documentation that supports billed charges.

HR&A requested closure of recommendations 1 and 2 based on corrective actions taken. However, we will monitor implementation of action plans and will close the recommendations when we receive sufficient evidence demonstrating HR&A's progress in addressing the issues identified. Appendix D contains the full text of the Assistant Secretary's comments.

The Principal Executive Director, Office of Acquisition, Logistics, and Construction (OALC) concurred with recommendations 4, 5, and 6 and provided action plans to address the recommendations.

The Principal Executive Director's comments and action plans were responsive to the intent of our recommendations. OALC will revise its IA policy to help ensure VA assigns qualified individuals with appropriate training to monitor existing and future IAs. In addition, OALC sent a letter to OPM requesting a review of all bills associated with VA's financial management training conferences and will assess the results of OPM's review. Based on the assessment, OALC will coordinate with OPM to recover inappropriate service fees paid to the prime vendor and will take steps to recover service fees paid to OPM related to inadequate oversight of SPI purchases.

We will monitor implementation of these action plans and will close the recommendations when we receive sufficient evidence demonstrating OALC's progress in addressing the issues identified. Appendix E contains the full text of the Principal Executive Director's comments.

Appendix A Background

ADVANCE

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. HR&A manages the ADVANCE program, which provides services including:

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

Interagency Agreements

VA uses IAs to obtain goods and services through other Federal agencies to support ADVANCE. The two types of IAs are 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 requesting agency enters 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 IAs generally involved assisted acquisitions, with OPM acting as the servicing agency. These IAs typically have two parts, Part A and Part B. Part A of an IA establishes the general terms of the agreement, and Part B details requirements and funding information.

Strategic Management Group and Office of Acquisition Operations

The Strategic Management Group (SMG) is responsible for overseeing ADVANCE spending through IAs. It prioritizes and monitors the use of ADVANCE funds, to include procurements and expenditure rates. OAO reviews IA proposals and determines whether they agree with the use of each IA. SMG and OAO are both involved in negotiating, administering, and modifying IAs but do not provide oversight and management of IA tasks.

Appendix B Scope and Methodology

Scope

We conducted our review from November 2012 through August 2013. The scope of our review included all SPI purchases associated with three VA financial management training conferences held in 2010 and 2011. VA used an assisted acquisition IA with OPM to fund, plan, and conduct these three conferences.

This review focused on three financial management training conferences that included significant SPI expenses. Previous VA OIG reports identified significant issues with VA's assisted acquisition IAs with OPM and with training conference expenditures. However, SPI purchases were not a focus of these previous reports.

VA conducted a fourth financial management training conference in August 2012. However, it was considerably smaller in size and scope, and did not include significant SPI purchases. Therefore, we did not include the fourth conference in the scope of our review.

Methodology

We reviewed and analyzed the Federal Acquisition Regulation, Federal law, VA policies, the IA, and associated management plans, including tasks related to SPI purchases for the conferences. Additionally, we reviewed OPM guidelines and its contracts with the prime vendor. We interviewed officials and staff from OPM, the prime vendor, SMG, Office of Finance, OAO, and HR&A to obtain information on their roles and responsibilities related to the conferences and the SPI approval and purchase process.

To assess the effectiveness of VA's controls over the SPI process, we examined VA's oversight process and controls. We interviewed the individual designated as the VA COR to monitor the conferences. The purpose of this was to determine the individual's training and qualifications, as well as VA's procedures for approving SPIs. Specifically, we determined whether the individual approved SPIs prior to purchase and to what extent VA verified costs listed on DRFs prior to approval for payment.

Data Reliability

VA's Office of Finance provided us with total reported costs for the three conferences, which we show in Table 1 on page 3 of this report. We did not obtain, review, or validate the costs for VA employee travel, which made up a significant portion of the total conference costs. Instead, we focused our review on the costs associated with conference-related SPI purchases. To gain reasonable assurance that SPI costs were reliable, we compared cost data provided by VA, OPM, and the prime vendor. We did not identify inconsistencies that caused us to question the validity of the SPI cost data provided. Therefore, we gained reasonable assurance that the SPI cost data were sufficiently reliable for the purpose of this review.

To ensure cost spreadsheets provided by the prime vendor were sufficiently reliable, we evaluated the data and verified the accuracy with prime vendor staff. Specifically, we reviewed all relevant cells in the spreadsheet to ensure

the prime vendor accurately recorded formulas, formats, and figures. Additionally, we asked the prime vendor several questions in an effort to confirm the data contained in the spreadsheet were protected against being unintentionally altered, reviewed by multiple sources, and supported by source documentation. Based on this evaluation, we determined the prime vendor's data were sufficiently reliable for the purposes of our review. We believe these procedures were sufficient to support this review.

**Government
Standards**

We conducted this review under the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency in January 2012.

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

| Recommendation | Explanation of Benefits | Better Use of Funds | Questioned Costs |
|----------------|--|-----------------------------|------------------|
| 2 | Goods and services for the conferences that should not have been purchased as SPIs | \$1.1 million (see Note) | \$0 |
| 5 | Service fees charged to VA by the prime vendor as a percentage of the cost of SPI purchases | \$0 | \$697,000 |
| 6 | OPM service fees related to spending on goods and services that should not have been purchased as SPIs | \$0 | \$132,000 |
| Total | | \$1.1 million | \$829,000 |

Note: We calculated the better use of funds as 20 percent of the amount spent on goods and services that should not have been purchased as SPIs (\$5.3 million). We recognized VA would have incurred some expenses related to the essential items purchased as incidentals, but we believe if the prime vendor had an incentive to control costs, the goods and services could have been obtained at a lower price. Without historical data on which to determine potential savings, we estimated the prime vendor could have obtained these goods and services at a 20 percent savings under competitive contracting.

Appendix D Assistant Secretary for Human Resources and Administration Comments

Department of Veterans Affairs

Memorandum

Date: September 26, 2013

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

Subj: Draft Report: Review of Separately Priced Item Purchases for VA's Financial Management Training Conferences (Project No. 2013-0045-R1-0021)

To: Inspector General (OIG)

The Assistant Inspector General for Audits and Evaluations requested that the Office of Human Resources and Administration (HRA) review and provide concurrence on the draft report, "Review of Separately Priced Item Purchases for VA's Financial Management Training Conferences (Project No. 2013-0045-R1-0021)," recommendation numbers one, two, and three.

HRA has completed its review of the draft recommendations and submits the following:

Recommendation 1: We recommend the Acting Assistant Secretary for Human Resources and Administration consider discontinuing the use of assisted acquisition interagency agreements with the Office of Personnel Management for planning and conducting training conferences.

Concur. Human Resources and Administration (HRA) will continue to work with the Office of Acquisition Operations (OAO) to transition to direct contracts, where appropriate, for many of the services currently provided through the Office of Personnel Management (OPM), with a goal of transitioning most contracts for training from OPM by FY 2015. This process began with HRA's FY 2013 acquisitions.

We request this recommendation be closed.

Recommendation 2: We recommend the Acting Assistant Secretary for Human Resources and Administration establish controls to ensure adequate visibility and oversight of separately priced items purchased through existing interagency agreements with the Office of Personnel Management, to include ensuring proposed purchase are approved in advance and determined to be for incidental items that support essential tasks developed under the interagency agreement.

Concur. OAO amended the Department of Treasury form 7600 Part A, Terms and Conditions, outlining VA's agreement with OPM to specify that invoice reconciliations will be provided as part of the OPM-provided financial information.

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Subj: Draft Report: Review of Separately Priced Item Purchases for VA's Financial Management Training Conferences (Project No. 2013-0045-R1-0021)

In early August, the Acting Assistant Secretary for Human Resources and Administration issued verbal guidance to the program offices instructing program offices to approve Separately Price Items (SPIs) only after appropriate consultation and only in accordance with agency policies and directives. This guidance was further implemented by a process established in VALU and formalized via memo from the Dean, VA Learning University dated September 11, 2013 (see attached*). The Dean is the approving official.

We request this recommendation be closed.

Recommendation 3: We recommend the Acting Assistant Secretary for Human Resources and Administration ensure that VA receives and reviews invoices or receipts that support all separately priced items purchased through existing interagency agreements with the Office of Personnel Management prior to authorizing payment.

Concur. OAO has amended the Department of Treasury form 7600 Part A, Terms and Conditions, outlining VA's agreement with OPM to specify that invoice reconciliations will be provided as part of the OPM-provided financial information. HRA will work with the Office of Acquisitions Operations (OAO) and with the Office of Personnel Management (OPM) to ensure that VA receives invoices, receipts, or other detailed documentation supporting separately priced items purchased through existing interagency agreements with OPM, and will establish a process to ensure they are reviewed prior to authorizing payment in accordance with Procurement Policy Memorandum 2013-06, which was updated and redistributed July 11, 2013, to ensure that the PPM will require servicing agencies to provide invoices supporting the purchases of goods and any services not billed as labor.

Finally, as we migrate to new acquisition vehicles, HRA will work with OAO to minimize the use of SPIs by properly defining the requirements in advance.


Gina S. Farrisee

*Attachment not included in this report.

Appendix E Principal Executive Director, Office of Acquisition, Logistics, and Construction Comments

Department of Veterans Affairs

Memorandum

Date: September 24, 2013

From: Principal Executive Director, Office of Acquisition, Logistics, and Construction (003)

Subj: Draft Report: Review of Separately Priced Item Purchases for VA's Financial Management Training Conferences (Project No. 2013-0045-R1-0021) (VAIQ 7391321)

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

1. The Assistant Inspector General for Audits and Evaluations requested that the Office of Acquisition, Logistics, and Construction (OALC) review, concur, and comment on the Office of Inspector General's draft report titled, "Review of Separately Priced Item Purchases for VA's Financial Management Training Conferences, Project Number 2013-0045-R1-0021."

2. OALC concurs with the findings of the report and provides the following comments to recommendations numbered four, five, and six.

a. **Recommendation 4:** We recommend the Principal Executive Director, Office of Acquisition, Logistics, and Construction update its policy to ensure a qualified individual with appropriate training in contracting is assigned to all existing interagency agreements with the Office of Personnel Management [OPM] to monitor work performed on VA's behalf.

OALC Response: Concur. OALC will revise the current Interagency Agreement Procurement Policy Memorandum to include language that requires Heads of the Contracting Activities to develop and implement guidance ensuring only qualified individuals with appropriate training are assigned to all existing and future interagency agreements. **The revision will be effective no later than the end of the first quarter fiscal year 2014.**

b. **Recommendation 5:** We recommend the Principal Executive Director, Office of Acquisition, Logistics, and Construction request the Office of Personnel Management reviews all bills associated with VA's financial management training conferences, assess the results of the Office of Personnel Management's review, and take steps to recover service fees paid to the prime vendor as a percentage of the cost of separately priced item purchases.

OALC Response: Concur. OALC requested in the attached letter that the Office of Personnel Management (OPM) review all bills associated with VA's financial management training conferences (see Attachment *.) In addition, OALC will assess OPM's review and coordinate with OPM to ensure recovery of service fees paid to the OPM prime vendor as a percentage of the cost of separately priced item purchases. **Completion of necessary reviews is estimated to be March 1, 2014.**

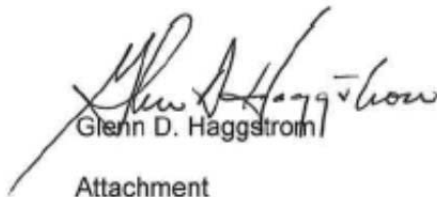
Page 2.

Draft Report: Review of Separately Priced Item Purchases for VA's Financial Management Training Conferences (Project No. 2013-0045-R1-0021) (VAIQ 7391321)

c. Recommendation 6: We recommend the Principal Executive Director, Office of Acquisition, Logistics, and Construction assess the Office of Personnel Management's oversight of separately priced items purchased through the interagency agreement used to fund, plan, and conduct VA's financial management training conferences, and take steps to recover service fees paid to the Office of Personnel Management associated with inadequate oversight.

OALC Response: Concur. Resulting from aforementioned OPM review, OALC will assess the review and take steps to recover associated interagency agreement (IAA) service fees paid to OPM due to the identified lack of oversight by OPM in managing separately priced item purchases, as required by the IAA terms and conditions between the two parties. **Completion of necessary reviews is estimated to be March 1, 2014.**

3. Should you have any questions, please contact Ms. Annette Powe, at (202) 632-5454 or Annette.powe@va.gov.


Glenn D. Haggstrom
Attachment



*Attachment not included in this report.

Appendix F 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. |
|-------------|---|

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|-----------------|--|
| Acknowledgments | Nick Dahl, Director Irene J. Barnett Stephen Bracci Michael Cannata John Cintolo Ron Comtois Michael Derick Karen Hatch David Orfalea Joseph Vivolo |
|-----------------|--|

Appendix G Report Distribution

VA Distribution

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