DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

DEPARTMENT OF VETERANS AFFAIRS

Insufficient Oversight of VA's Undelivered Orders

AUDIT | REPORT #17-04859-196 | DECEMBER 16, 2019

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Executive Summary

The VA Office of Inspector General (OIG) conducted this audit to determine if VA's management of undelivered orders (UDOs) ensured the most effective use of appropriated funds. Items or services ordered that have not yet been received are known as UDOs, and their values represent legal financial commitments. These commitments are reflected as open obligations in VA's accounting records. Sometimes the final cost for ordered items or services may be less than the amount of the original obligation estimate—for example, if the price of the goods or services ordered is reduced before delivery, or if a project order is canceled. When this happens, VA policy requires VA to deobligate the excess funds.[1]

VA policy defines a deobligation as a "cancelation or downward adjustment of previously incurred obligations." This deobligation is necessary so that the funds can be obligated toward another item or service within the proper time frame. Deobligated funds can only be obligated for a new purpose within an available period specific to the type of appropriation. For example, annual appropriated funds can only be reobligated in the same fiscal year. If annual appropriated funds are not reobligated within their fiscal year, they are required to be canceled and deposited with the Department of the Treasury.[2] These funds cannot be reobligated to goods or services in that fiscal year to support veterans.

VA's management of UDOs has been a longstanding problem and was included as a significant deficiency in VA's last two audited financial statements.[3] Proper management of UDOs is important to ensure the most effective use of appropriated funds. This audit examined whether outstanding balances on obligations for VA UDOs were deobligated timely when the funds were no longer needed so that they could be used for other purposes.

What the OIG Found

VA was ineffective at ensuring appropriated funds that were no longer needed were identified and deobligated. Based on a sample from the audit population of UDOs, the audit team estimated that VA had not deobligated approximately 3,900 of 10,624 orders.[4] Of the approximately $3.5 billion worth of UDOs in the audit population, the audit team estimated VA did not deobligate

[1] VA Financial Policy and Procedures, vol. II, chap. 5, "Obligations Policy," May 2014. This policy was updated in September 2018.

[2] 31 United States Code (U.S.C.) § 1552 (1982).

[3] VA Office of Inspector General, *Audit of VA's Financial Statements for Fiscal Years 2018 and 2017*, 18-01642-09, November 26, 2018.

[4] The sample included UDOs that were open for at least 90 days, for which the obligation was 90 days beyond the end date or was inactive for the previous 90 days as of June 30, 2017. See Appendix A for details on how the audit population was determined.

excess funds totaling at least $132.6 million in a timely manner. These funds could have possibly been used for other goods and services to benefit veterans.

UDO excess funds were not deobligated in a timely manner because VA personnel did not adequately monitor or reconcile open UDOs as required. The audit team identified four causes that contributed to an insufficient monitoring and reconciliation process: insufficient priority placed on the monitoring and reconciliation process, inadequate communication, conflicting deobligation guidance, and a lack of supporting documentation.

What the OIG Recommended

The OIG recommended:

- The Veterans Health Administration chief financial officer and the Veterans Health Administration executive director for procurement should ensure relevant staff review and reconcile open orders to identify and deobligate excess funds for completed, canceled, or orders recorded more than once, and ensure the relevant staff follow existing policy regarding required reviews of open obligations.
- The Veterans Health Administration chief financial officer and the Veterans Health Administration executive director for procurement should ensure that obligation policy includes specific time frames for effective interdepartmental communication to ensure timely identification of funds that are no longer needed for their original purpose and could be deobligated.
- The assistant secretary for management, chief financial officer should develop a process for monitoring performance across the Department regarding reconciliation of open orders and a plan to share results with appropriate officials for their action.
- The Veterans Health Administration chief financial officer and the Veterans Health Administration executive director for procurement should ensure compliance with existing policy, which requires obligations be adjusted when actual costs of goods and services are known to be less than the initially recorded amount.
- The Veterans Health Administration chief financial officer and the Veterans Health Administration executive director for procurement should ensure compliance with policy, which requires that obligations be supported by sufficient documentary evidence that substantiates the validity and proper authorization of obligations and that the evidence be retained and readily available upon request.
- The Veterans Health Administration executive director for procurement should ensure timely modifications or closing of contracts, when applicable, to allow for the deobligation of funds no longer required.

Management Comments

The executive in charge, Office of the Under Secretary for Health, stated that VA and the Veterans Health Administration (VHA) agree that UDOs are a department-wide challenge.[5] The executive in charge also stated VA concurs that the management of UDOs is ineffective. To address the recommendations, all of which he concurred with in principle, he stated the VA Chief Financial Officers' Council will form a work group with appropriate key stakeholders, such as the Office of Acquisition, Logistics, and Construction and VHA's Procurement and Logistics Office, to identify root causes of stale obligations and develop mitigation strategies to significantly reduce them.

The assistant secretary for management, chief financial officer concurred with Recommendation 3 and reported the Office of Management will establish an internal dashboard to monitor and track all open obligations with no activity over 90 days. On a quarterly basis, the Office of Management will share the status of stale obligations data with VA administrations to ensure timely closeout of contracts and deobligation of noncontract obligations.

LARRY M. REINKEMEYER
Assistant Inspector General
for Audits and Evaluation

[5] Recommendations directed to the under secretary for health were submitted to the executive in charge, who has the authority to perform the functions and duties of the under secretary for health.

Contents

Abbreviations

CFO	chief financial officer
FMS	Financial Management System
HTME	high-tech medical equipment
NAC	National Acquisition Center
OIG	Office of Inspector General
UDO	undelivered order
VAMC	VA medical center
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network

Introduction

The objective of this audit was to determine if VA’s management of undelivered orders (UDOs) ensured the most effective use of appropriated funds. Specifically, the audit examined if funds were properly deobligated and potentially available for other valid purchases in a timely manner. UDOs are items or services ordered and obligated that have not yet been received. The values of these orders represent legal commitments that are reflected as open obligations in VA’s accounting records. The initial obligation of funds for orders placed should be properly valued—that is, represent a reasonable estimate of the cost of the goods or services ordered. Obligations should represent a current and bona fide need and be supported by documentation, such as an authorization or a purchase order.

Ultimately, however, the final cost for items or services may be less than the amount of the original obligation. This may occur when a contract ends or is terminated, the price of goods or services ordered is reduced before delivery, or a project or order is canceled or is no longer needed, resulting in excess funds on the obligation. Excess funds may also occur when an obligation is recorded twice in error. When any of these events happen, VA obligations policy requires VA to deobligate the excess funds.[6]

VA policy defines a deobligation as a “cancelation or downward adjustment of previously incurred obligations.” Deobligated funds may only be obligated for a new purpose within the period of availability of the appropriation and reapportionment.[7] For example, annual appropriated funds may be reobligated in the fiscal year in which the funds were appropriated, while multiyear or no-year (that is, funds available for obligation for an indefinite period) appropriated funds may be reobligated in the same or subsequent fiscal years. If annual appropriated funds are not reobligated within their fiscal year, they are canceled and deposited with the Department of the Treasury.[8] A similar scenario can occur for an appropriation account for no-year funds (regardless of obligated status), even though it is available for an indefinite period. Such funds are canceled and deposited with the Department of the Treasury if the purpose of the funds is deemed by the President or agency head to have been carried out and there have been no disbursements of the appropriation for two consecutive fiscal years.[9] Therefore, when VA does not deobligate excess funds in a timely manner, the funds cannot be used for other goods and services that could benefit veterans.

[6] VA Financial Policy and Procedures, vol. II, chap. 5, *Obligations Policy*, September 12, 2018.

[7] Reapportionments are made when amounts available for obligation have increased.

[8] 31 U.S.C. § 1552.

[9] 31 U.S.C. § 1555 (1982).

VA Obligations Policy

In accordance with the law, VA's financial policy on obligations specifies that VA will incur obligations only for the purpose for which the specific VA appropriation is intended and within the applicable time limits.[10] Obligations must be supported by documentary evidence, such as purchase orders and contracts, which should be retained to provide proof that obligations were properly authorized and represent legitimate claims. If the amount of an obligation is undetermined at the time incurred, a reasonable estimate should be calculated.[11] As the information becomes available, adjustments should be recorded in the financial system showing that the original estimate was inaccurate. This policy also requires that VA adjust obligations when contracts or invoices reflect price changes in accordance with guidance from the Office of Management and Budget.[12]

Required Monitoring and Reconciliation

The assistant secretary for management, who is also the chief financial officer (CFO), oversees all financial management activities relating to VA's programs and operations as required by law.[13] Responsibilities include the direction, management, and provision of policy guidance and oversight of VA's financial management personnel, activities, and operations.[14]

CFOs, fiscal officers, chiefs of finance activities, chief accountants, and other key station officials, such as contracting officers, are responsible for ensuring compliance with financial policies and procedures, including monitoring, monthly reconciliation, and follow-up on UDOs.[15] Their responsibilities include deobligating excess funds that are no longer needed for the original purpose. VA policy requires monthly reviews and reconciliations of open obligations to identify discrepancies between UDO balances and subsidiary accounting records.[16] When discrepancies are identified, obligations should be reconciled by the VA medical center's (VAMC) Fiscal Service personnel against source documents, such as purchase orders, receiving reports, invoices, and payments. Fiscal Service personnel should ensure obligations that are 90 days beyond the end date (delivery date) of the obligation or have had no activity in the past

[10] 31 U.S.C. § 1301 (1982) and 31 U.S.C. § 1502 (1982).

[11] 31 U.S.C. § 1501 (1982).

[12] Office of Management and Budget, OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, June 2019.

[13] Chief Financial Officers Act of 1990, Pub. L. No. 101-576, 104 Stat 2838 (1990), and 38 U.S.C. § 309 (1991).

[14] VA Financial Policy, "Obligations Policy."

[15] Stations are the official identification for funding and budgetary purposes of an organizational entity designated by the VA Secretary. These entities are located throughout the VA, including within the Veterans Benefits Administration, Veterans Health Administration, VA Central Office, and National Cemetery Administration.

[16] VA Financial Policy and Procedures, vol. 1, chap. 6, "Reconciliations," December 2010. This policy was updated in October 2018.

90 days are still valid and recorded correctly. For these delinquent UDOs, personnel should verify with the ordering service department or contracting officer, if applicable, that the goods or services have not been received and are still needed.

VHA's own guidance holds VAMC fiscal offices responsible for monitoring UDOs and notifying the requesting service when they become past due. A UDO is considered past due (delinquent) when it has been inactive for greater than 90 days or when an order's end date has been exceeded by at least 90 days. The validity of these UDOs should be confirmed by verifying goods or services have not been received but are still needed, and that the balance is recorded correctly. After researching the cause for the delinquent UDOs, either the contracting officer or the control point clerk should resolve the UDO by initiating a contract modification, updating the end date, or canceling the obligation through the fiscal office, as appropriate.[17]

Prior Report Findings

Management of UDOs continues to be a problem for the VA. The VA Office of Inspector General (OIG) has cited this area as a significant deficiency in the VA audited financial statements for several fiscal years, most recently in 2018.[18] A significant deficiency is a deficiency, or a combination of deficiencies, in an internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

[17] A control point clerk is responsible for initiating VA-Form 2237 procurement actions for the requesting service.
[18] VA Office of Inspector General, *Audit of VA's Financial Statements for Fiscal Years 2018 and 2017*.

Results and Recommendations

Finding: VA Did Not Adequately Manage Orders to Ensure Excess Funds Were Deobligated Timely

VA was not effective in ensuring funds that were no longer needed for their original purpose were identified and deobligated as required by VA obligations policy. When funds associated with UDOs are not deobligated in a timely manner, they cannot be used for other goods and services that could benefit veterans. The audit team estimated that VA did not deobligate funds in a timely manner for approximately 3,900 orders, totaling at least $132.6 million. The audit team identified four causes that contributed to an insufficient monitoring and reconciliation process—insufficient priority placed on the monitoring and reconciliation process, inadequate communication, conflicting deobligation guidance, and a lack of supporting documentation.

What the OIG Did

The audit team estimated that 247 stations had over 10,600 delinquent UDOs totaling approximately $3.5 billion as of June 30, 2017. A UDO is delinquent if it was open for at least 90 days and the obligation was 90 days beyond the end date or had no activity in the past 90 days. From the audit population, the team randomly selected eight of the 247 stations and reviewed a statistical sample of 78 delinquent UDOs total from those stations.[19] Each of the 78 selected UDOs had a value of $7,000 or more, totaling approximately $51.7 million. To determine the validity of the UDO, the audit team compared the purchase or delivery order to the item and quantity recorded on the corresponding receiving report. For orders where the goods or services had been received prior to the field visit, the audit team determined if funds were deobligated when final prices were less than initially estimated. When goods or services had not yet been received, the audit team determined if they were still valid orders by reviewing contracting documentation and interviewing staff.

The audit team met with Veterans Health Administration (VHA) officials from the Office of CFO and the Office of Acquisition, Logistics, and Construction and reviewed relevant documentation for UDOs, such as requisitions, purchase orders, contracts, and preliminary estimates and quotations from vendors. The audit team also interviewed Veterans Integrated Service Network (VISN), VAMC, acquisition and logistics, and engineering staff to determine their processes and roles in managing UDOs.

[19] See Appendix A for details on how the population was determined.

UDOs Were Not Deobligated Timely

The audit team estimated VA did not deobligate excess funds in a timely manner for approximately 3,900 orders totaling approximately $132.6 million. VA policy requires monthly analysis and reconciliation of UDOs.[20] Outstanding balances deemed to be excess funds on open obligations that are erroneous (such as recorded twice), or no longer needed because the goods and services have been received, need to be deobligated so the funds can be used prior to their expiration. If these funds are not deobligated and reobligated within the appropriate timeline, the funds are no longer available, and VA therefore cannot repurpose those funds for other goods, services, or activities that could benefit veterans.

Table 1 depicts the number and value of delinquent UDOs and the average days they were outstanding as of June 30, 2017, at all stations in the audit universe.

Table 1. Average Days Outstanding for Delinquent Undelivered Orders as of June 30, 2017

Station	Number of delinquent UDOs	Total value of delinquent UDOs (in dollars)	Average days outstanding
Buffalo VAMC	163	45,108,999	658
Carl T. Hayden VAMC (Phoenix, AZ)	90	29,507,468	738
Enterprise Systems Engineering	197	97,311,874	969
Fayetteville AR VAMC	24	16,468,839	392
National Acquisition Center (Hines, IL)	795	633,777,672	645
Memphis VAMC	99	23,205,327	1,018
Olin E. Teague VAMC (Temple, Texas)	132	15,150,637	658
VA Central Office	688	296,342,702	1,259
All other stations	8,436	2,339,428,835	692
Total	**10,624**	**$3,496,302,352**	
Average Total Days Outstanding			**732**

Source: VA's Undelivered Orders Report (FMS [Financial Management System] RPEDUOV2, F850) as of June 30, 2017

[20] VA Financial Policy, "Reconciliations."

Insufficient Monitoring and Reconciliation of UDOs

Appropriate monitoring, reconciliation, and follow-up are critical to ensure obligated resources are properly used. CFOs, fiscal officers, chiefs of finance activities, chief accountants, and other key station officials, such as contracting officers, are responsible for ensuring compliance with financial policies and procedures including monitoring, monthly reconciliation, and follow-up on UDOs. From the audit sample of 78 UDOs, the audit team found that for 27 UDOs the ordering stations did not adequately reconcile, monitor, or follow up on the UDOs monthly. This resulted in duplicate obligation recordings without timely detection of the errors, as demonstrated in the examples below.

Example 1

At one station, duplications occurred because the ordering station chose a new funding source and created new obligations without canceling the existing obligations.

- *An order totaling $324,295 was incrementally obligated beginning in May 2013. In August 2016, another obligation was created for the same order in the amount of $324,295.*
- *In another instance, an obligation was created in August 2016 for $286,349. This duplicated an obligation that was recorded in May 2013.*

The duplicate obligations remained undetected until identified by the audit team in March 2018.

Example 2

At one station, the manager of the State Veterans Home Construction Grants Program advised the audit team that a UDO selected for testing was a duplicate obligation and was identified and corrected upon the team's request for supporting documentation. The obligation totaled $321,977 and was recorded in January 2013. The manager told the audit team that the error went undetected until February 2018 because it was procedure to wait until funds had nearly expired before following up with the grantee regarding open obligations.

Monthly monitoring, including reconciling outstanding obligations, was not treated as a priority at some stations. For example, during an interview, a station budget analyst stated, "We still were not expeditious in closing out the obligation." The budget analyst explained that despite efforts "to improve on our process to timely close out undelivered orders," other workload was a higher priority.

Another issue contributing to monitoring challenges was the backlogged workload for reviewing UDOs. In response to the audit team's query in May 2018 about a sample UDO, the chief of accounting for a VISN 17 station stated:

> This obligation has not been closed yet. We have a listing of more than 200+ obligations that have been waiting for de-obligation from contracting. This PO [Purchase Order] is one that is on the list. These orders date back to 2014…. In April, fiscal received notice that we could start de-obligating these orders ourselves ... we hope to be done with all of the decreases by the end of July.

Inadequate Communication

The audit team noted that for 18 of the 27 UDO errors identified, inadequate communication contributed to a failure to deobligate excess order funds. VA policy states that aged obligations, those that are 90 days beyond the end date or have had no activity in the past 90 days, should be reviewed to ensure they are valid and recorded correctly.[21] This review includes verifying that goods or services have not been received but are still needed. VAMC Fiscal Service personnel are responsible for monitoring UDOs and notifying the requesting and contracting offices when open obligations need to be reviewed. After researching the cause for delinquent UDOs, either the contracting officer or the control point clerk should initiate a contract modification; update the end date (i.e., modify the record to agree with the latest expected delivery date); or cancel the obligation, as appropriate. The audit team determined that communication between the contracting officer and Fiscal Service staff was inadequate and, in some cases, nonexistent. This breakdown in communication resulted in a failure to deobligate excess funds timely.

Example 3

> *Excess funds totaling $776,661 were not deobligated for five years despite multiple requests for action made by the contracting officer's representative to Fiscal Service staff. An order was complete and excess funds could have been deobligated in September 2012. However, the first request to deobligate the excess funds was not made until February 2014. Another request was made in September 2016. However, the funds were not deobligated until October 2017, over 3.5 years after the initial request. No explanation was provided for the intermittent follow-up.*

Example 4

> *Excess funds totaling approximately $27,564 were not deobligated timely for a UDO because the warranted contracting officer had not processed a contract*

[21] VA Financial Policy and Procedures, *Obligations Policy*.

modification with the vendor. The last activity date on this order was June 2016, and funds remained obligated as of June 30, 2017. This contract modification is required for Fiscal Service staff to deobligate the funds. No explanation was provided for the lack of modification and follow-up by the Fiscal Service staff.

Conflicting Deobligation Guidance

A substantial portion of the UDO amounts in the sample population was related to orders placed with the National Acquisition Center (NAC). The audit team identified high-tech medical equipment (HTME) orders placed with the NAC in the audit population by isolating UDOs with known NAC vendor codes. The audit team found that 2,210 UDOs totaling approximately $941 million were orders placed for HTME with the NAC. The UDOs were outstanding for an average of 566 days.

The NAC is responsible for supporting the healthcare requirements of VA and is organized as part of the Office of Acquisition and Logistics. One function of the NAC is to provide acquisition support for HTME. The HTME division of the NAC consists of two teams—contract administration and ordering. The contract administration team's responsibilities include preaward, award, and postaward tasks. The ordering team issues consolidated solicitations for medical equipment under the contracts. The NAC procures HTME using a process that consolidates all HTME requests and solicits bids from vendors. By soliciting VA requirements via the consolidation process, the HTME ordering team can obtain the lowest possible prices while maintaining quality and technological advantages. Accordingly, orders from VAMCs (or other VA offices) are placed with the NAC. This consolidation occurs only three times per year, resulting in substantial delays in procuring the equipment.

The audit team noted that delays in deobligation of excess funds for six of the 27 delinquent UDOs occurred because the NAC issued guidance to ordering stations that conflicted with VA policy. VA policy requires the processing of valid adjustments to obligations upon receipt of invoices or a contract document that shows a change in price. Contrary to policy, the NAC instructed ordering stations to delay adjusting the obligations until delivery of the equipment. The HTME ordering chief stated this was done to ensure funds remained available in case of future price adjustments. Since equipment prices are contracted, that delay in adjusting the obligation amount is unnecessary. As a result, excess funds were not deobligated after it was determined that actual costs of goods and services were less than the initial estimates. For example, one UDO totaling $2,417,170 from July 2013 remained outstanding as of June 2017, although a contract was awarded in July 2015 for $1,963,915. The excess balance of $453,255 was not deobligated based on instructions from the NAC to leave it open until delivery of the equipment, even though it was known that excess funds were obligated prior to the delivery. No further orders against the obligation were expected to be made.

Lack of Supporting Documentation

Personnel responsible for monitoring and reconciling UDOs could not provide the audit team information to justify why six of 27 orders remained open and funds were not deobligated. According to a contracting officer, supporting contract documentation was not retained from a prior contracting officer's electronic contract management system. No explanation was provided for failing to retain the documents.

At one station, the audit team found excess funds related to four UDOs totaling approximately $660,000 that were not deobligated timely. The station lacked supporting documentation, such as purchase orders, to justify keeping the obligations open. The contracting officer was not able to provide support explaining the delay in deobligating funds.

Example 5

One UDO totaling approximately $585,000 remained open from February 2011 until September 2017, although the period of performance ended in July 2011. No contract extensions were noted, and the contract was formally closed in February 2014. However, the excess funds were not deobligated until September 2017. No supporting documentation was available addressing why it was not deobligated.

Example 6

One UDO totaling approximately $44,600 remained open from February 2012 until September 2017, although the period of performance ended in February 2013. No contract extensions were noted, and the last activity on the obligation was in April 2013. No supporting documentation was available addressing why the contract was not deobligated.

Conclusion

VA was noncompliant with its own policies requiring routine follow-up on outstanding orders. This occurred because of an insufficient monitoring and reconciliation process by CFOs, fiscal officers, chiefs of finance activities, chief accountants, and other key station officials, such as contracting officers. Stations lacked clear priorities to properly manage excess funds on UDO obligations. There was poor communication between finance activities, acquisition services, and order-initiating services. In addition, there was conflicting deobligation guidance for some purchases. Finally, despite VA requirements, some UDOs lacked proper documentation to justify why the orders remained open. As a result, VA did not deobligate an estimated 3,900 orders totaling at least $132.6 million. These funds could have been put to better use meeting veterans' needs.

Recommendations 1–6

1. The Veterans Health Administration chief financial officer and the Veterans Health Administration executive director for procurement should ensure relevant staff review and reconcile open orders to identify and deobligate excess funds for completed, canceled, or orders recorded more than once, and ensure the relevant staff follow existing policy regarding required reviews of open obligations.
2. The Veterans Health Administration chief financial officer and the Veterans Health Administration executive director for procurement should ensure that obligation policy includes specific time frames for effective interdepartmental communication to ensure timely identification of funds that are no longer needed for their original purpose and could be deobligated.
3. The assistant secretary for management and chief financial officer should develop a process for monitoring performance across the Department regarding reconciliation of open orders and develop a plan to share results with appropriate officials for their action.
4. The Veterans Health Administration chief financial officer and the Veterans Health Administration executive director for procurement should ensure compliance with existing policy, which requires that obligations be adjusted when actual costs of goods and services are known to be less than the initially recorded amount.
5. The Veterans Health Administration chief financial officer and the Veterans Health Administration executive director for procurement should ensure compliance with policy, which requires that obligations be supported by sufficient documentary evidence that substantiates the validity and proper authorization of obligations and that the evidence be retained and readily available upon request.
6. The Veterans Health Administration executive director for procurement should ensure timely modifications or closing of contracts, when applicable, to allow for the deobligation of funds no longer required.

Management Comments

The executive in charge, Office of the Under Secretary for Health, stated that VA and VHA agree that UDOs are a department-wide challenge. The executive in charge also stated VA concurs that the management of UDOs is ineffective. To address the recommendations, all of which he concurred with in principle, he stated the VA Chief Financial Officers' Council will form a work group with appropriate key stakeholders, such as the Office of Acquisition, Logistics, and Construction and VHA's Procurement and Logistics Office, to identify root causes of stale obligations and develop mitigation strategies to significantly reduce them. The full text of the response from the executive in charge is included in Appendix C.

The assistant secretary for management and chief financial officer concurred with Recommendation 3 and reported the Office of Management will establish an internal dashboard to monitor and track all open obligations with no activity over 90 days. On a quarterly basis, the Office of Management will share the status of stale obligations data with VA administrations to ensure timely closeout of contracts and deobligation of noncontract obligations. The full text of the response from the assistant secretary is included in Appendix D.

OIG Response

The action plans provided by the executive in charge, Office of the Under Secretary for Health, and the assistant secretary for management are responsive to the recommendations. The OIG will monitor implementation of planned actions and will close the recommendations when VA provides sufficient evidence demonstrating progress in addressing the intent of the recommendations and the issues identified.

Appendix A: Scope and Methodology

Scope

The audit team conducted its audit work from October 2017 through July 23, 2019. VA's UDO population included 28,986 orders as of June 30, 2017, with a value of approximately $3.6 billion. The audit team included a UDO in the population if it was open for at least 90 days and the obligation was 90 days beyond the end date or had no activity in the past 90 days. These UDOs contained an order date between April 3 and June 30, 2017, and were

- At least 90 days old,
- Outstanding for at least 90 days beyond the end date, or
- Inactive for the past 90 days.

From these UDOs, the audit team performed the following steps to determine the sample population:

- Excluded 7,348 UDOs, totaling approximately $24 million, related to travel orders or relocations
- Excluded 10,708 UDOs, totaling approximately $18.2 million, for orders that were less than the $7,000 median
- Excluded 306 UDOs, totaling approximately $68.9 million, related to community care orders

This resulted in 10,624 UDOs, totaling approximately $3.5 billion, that were included in the audit scope. Also, the scope did not include UDOs initiated with purchase card transactions or auto-accrued UDOs reported on VA Form F851, Verification of General Ledger Accounts Payable.

Methodology

The audit team reviewed a statistical sample of 78 UDOs, valued at approximately $51.7 million, from eight randomly selected stations. The audit team met with the Office of VHA CFO and Office of Acquisitions and Logistics officials and staff. The audit team conducted site visits at four of the eight stations—two VAMCs, the NAC, and the office of the State Home Construction Grants Program. At each site selected, the audit team requested and reviewed relevant documentation for UDOs such as requisitions, purchase orders, contracts, and preliminary estimates and quotations from vendors. The audit team also reviewed obligation tables in VA's Financial Management System (FMS) to verify obligation, expenditure, and modification activity. The audit team also obtained VISN policy, local policy, and reconciliations. The audit team interviewed personnel from the VISN, VAMC, and engineering staff.

Fraud Assessment

The audit team assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur during this audit. The audit team exercised due diligence in staying alert to any fraud indicators. The audit team

- Solicited the OIG's Office of Investigations for indicators, and
- Interviewed management, fiscal, contracting, and program personnel for any known incidents of fraud.

The audit team did not identify any instances of fraud or potential fraud during this audit.

Data Reliability

The audit team relied upon computer-processed data from VA's *Undelivered Orders Report* (FMS RPEDUOV2, F850) as of June 30, 2017, to obtain a universe and select the sample selection of UDOs. To assess the reliability of the F850 report, the audit team performed the following:

- Verified that fields contained only positive numeric data where expected.
- Identified 2,070 entries where the order date was after the end date (delivery date) and 109 entries where the end date was blank. These entries accounted for less than 2 percent of the data and therefore the audit team did not pursue this further.
- Compared the UDO balance per the F850 report to the UDO balance in the related general ledger report as of June 30, 2017. The audit team found that the general ledger included accruals totaling approximately $356 million for credit card UDOs that were not included on the F850 report. The audit team did not include this amount in the scope of this audit or evaluate credit card UDOs because the audit team did not anticipate that delinquent UDOs from credit cards would be a significant risk.
- Noted after reconciling items that the F850 report balances exceeded the related general ledger account balances by approximately $6 million, which the audit team deemed an acceptable difference.
- Chose 30 items to test for accuracy using a random number generator. The audit team identified some discrepancies regarding the order date. For example, the purchase order date listed on the F850 report did not agree with the purchase order date on the supporting documentation. For various items, the F850 report reflects order dates ranging from one to six days after the obligation date. However, these variances were not significant enough to affect the audit objectives.

The audit team determined the data were sufficiently reliable and appropriate.

Government Standards

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

Appendix B: Statistical Sampling Methodology

To assess the effectiveness of UDO monitoring, the audit team reviewed a statistical sample of undelivered order balances as of June 30, 2017.

Population

As of June 30, 2017, there were 28,986 delinquent UDOs valued at approximately $3.6 billion. The audit team included a delinquent UDO for selection if it was open for at least 90 days and the obligation was 90 days beyond the end date or had no activity in the past 90 days. From these orders, the audit team excluded relocation and travel vouchers and set the following parameters to arrive at the population from which to pull the sample orders:

- Order date on or before April 3, 2017 (at least 90 days old)
- End date greater than September 30, 2017, or no activity for at least 90 days
- Outstanding balance of the $7,000 median or greater[22]
- Purpose not related to community care

Sampling Design

To identify the audit scope, the audit team used a two-stage random statistical sample. In the first stage, the audit team randomly identified eight VA stations using probability proportional to size sampling methodology for the audit sample. The total UDO amount in each station was used as the measure of size to improve the precision of projections of the UDO amounts.

[22] Approximately 85 percent of the audit universe was made up of UDOs that exceeded $7,000.

Table B.1 shows the randomly selected VA stations included in the audit team's sample and the total amount of the UDO balance for the stations as of June 30, 2017, per VA records.

Table B.1. Stations Randomly Selected for Sampling

Station	UDO balance as of 6/30/2017 (in dollars)
Buffalo VAMC	45,243,012
Carl T. Hayden VAMC (Phoenix, AZ)	29,662,641
Enterprise Systems Engineering	97,695,208
Fayetteville AR VAMC	16,486,888
National Acquisition Center (Hines, IL)	633,796,347
Memphis VAMC	23,624,457
Olin E. Teague VAMC (Temple, Texas)	15,465,627
VA Central Office	297,189,709
Total	**$1,159,163,889**

Source: VA's Undelivered Orders Report (FMS RPEDUOV2, F850) as of June 30, 2017

For the second stage of the sample, the audit team selected 10 random UDOs that had values of $7,000 or more from each station.[23] The audit team selected an equal-sized sample in the second stage to reduce the variability in the size of the sampling weights and, therefore, improve the precision of sample projections.

Weights

The audit team calculated estimates in this report using weighted sample data. Sampling weights are computed by taking the product of the inverse of the probabilities of selection at each stage of sampling.

Projections and Margins of Error

The margins of error and confidence intervals are indicators of the precision of the estimates. If the audit team repeated this audit with multiple samples, the confidence intervals would differ for each sample, but would include the true population value 90 percent of the time.

[23] The sample size was reduced from 80 to 78 for projection purposes due to the exclusion of two selected sample items related to community care obligations.

Table B.2 presents the estimates over the sample population, including the sample results, estimate, margin of error, lower 90 percent value, and upper 90 percent value.

Table B.2. Overall Projection of Orders to Be Deobligated

Results	Estimate	Margin of error	Lower 90%*	Upper 90%	Total sample	Count from sample
Number of orders to be deobligated	3,900	1,377	2,561	5,315	78	27
Percentage of orders to be deobligated	37%	13.0%	24.10%	50.0%	78	27
Value of orders to be deobligated	$379,812,333	$247,213,023	$132,599,310**	$627,025,356	78	27

Source: VA OIG analysis of statistical sample results projected over the sample population
** Totals may not sum due to rounding.*
*** The OIG used the lower limit of the 90 percent confidence level as a conservative estimate due to the high margin of error. The true value is very likely to be at least this amount. Margins of error for estimates of monetary amounts tend to be larger because values in the population have a lot of variation.*

Table B.3 depicts the UDOs in selected stations, the results of testing and the average days the UDOs were outstanding.

Table B.3. UDOs for Randomly Selected Stations, as of June 30, 2017

Station	Amount selected for testing (in dollars)	Valid obligations (in dollars)	Count of valid orders	Count of orders to be deobligated	Amount to be deobligated (in dollars)	Average days outstanding as of 6/30/2017
Buffalo VAMC	4,030,507	3,543,215	7	3	487,292	768
Carl T. Hayden VAMC	1,415,205	883,744	5	5	531,462	753
Enterprise System Engineering	1,557,256	643,308	3	7	913,948	1,638
Fayetteville, AR, VAMC	10,138,053	10,138,053	-	-	-	300
National Acquisition Center (Hines, IL)	10,723,581	10,723,581	-	-	-	577
Memphis VAMC	1,707506	919,469	2	6	788,036	862
Central Texas VAMC	1,197,301	1,158,865	8	2	38,435	680
VA Central Office	20,910,452	19,581,002	6	4	1,329,450	1,728
Total	**$51,679,862**	**$47,591,237**	**51***	**27**	**$4,088,623**	**915**

Source: FMS data and contracting documents

** The sample size was reduced from 80 to 78 for projection purposes due to the exclusion of two selected sample items related to community care obligations.*

Table B.4 depicts those sample UDOs tested that were placed with the NAC and their average days outstanding. UDOs selected at three of the stations the audit team tested were not for orders placed with the NAC.

Table B.4. Tested Sample of NAC Orders Only as of June 30, 2017

Station	UDO (in dollars)	Count of orders in samples	Count of orders to be deobligated	Amount to be deobligated (in dollars)	Average days outstanding as of June 30, 2017
Buffalo VAMC	3,720,430	5	2	477,128	698
Carl Hayden VAMC	1,136,564	6	4	430,221	701
Fayetteville, AR, VAMC	1,086,480	6	-	-	294
Memphis VAMC	1,687,410	6	4	767,941	1016
Texas VAMC	557,061	3	-	-	309
Overall Average Days			-	-	634
Total	**$8,187,945**	**26**	**10**	**$1,675,290**	

Source: FMS data and contracting documents

Appendix C: Management Comments—Executive in Charge, Office of the Under Secretary for Health

Department of Veterans Affairs Memorandum

Date: Oct. 23, 2019

From: Executive In Charge, Office of the Under Secretary for Health (10)

Subj: OIG Draft Report, VA’s Undelivered Orders (Project # 2017-04859-BA-0172) (VIEWS 01396512)

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

1. Thank you for the opportunity to review and comment on the Office of Inspector General (OIG) draft report, Audit of VA’s Undelivered Orders.

2. The Department of Veterans Affairs and Veterans Health Administration (VHA) agree that undelivered orders are a Department-wide challenge. To identify the root causes of the stale obligations and develop mitigation strategies to significantly reduce them the VA Chief Financial Officers' Council shall form a work group with appropriate key stakeholders such as the Office of Acquisition Logistics and Construction. VHA will, as requested, collaborate with and support the workgroup. Findings underlying all six recommendations will be addressed through the workgroup's actions. VHA is not providing independent action plans for recommendations 1, 2, 4, 5, and 6.

3. If you have any questions, please email Karen Rasmussen, M.D., Director, GAO OIG Accountability Liaison Office at VHA10EGGOALAction@va.gov.

(Original signed by)

Richard A. Stone, M.D.

Attachment

Attachment

VETERANS ADMINISTRATION (VA)

Action Plan

OIG Draft Report - VA's Undelivered Orders (Project Number 2017-04859-BA-0172)

Date of Draft Report: Revised August 26, 2019

VA Comments: VA concurs in principal and will take the following action to address all 6 recommendations.

VA concurs that the management of undelivered orders (UDOs) is ineffective. Because UDOs are a Department-wide challenge, the VA Chief Financial Officers (CFO) Council shall form a work group with appropriate key stakeholders, such as the Office of Acquisition Logistics and Construction and VHA's Procurement and Logistics Office, to identify the root causes of the stale obligations and develop mitigation strategies to significantly reduce them.

Status : In Progress Target Completion Date : September 2020

Recommendation 1. The Veterans Health Administration Chief Financial Officer (VHA CFO) and the Veterans Health Administration Executive Director for Procurement should ensure relevant staff review and reconcile open orders to identify and de-obligate excess funds for completed, canceled, or orders recorded more than once, and ensure the relevant staff follow existing policy regarding required reviews of open obligations.

Recommendation 2. The Veterans Health Administration Chief Financial Officer and the Veterans Health Administration Executive Director for Procurement should ensure that obligation policy includes specific time frames for effective interdepartmental communication to ensure timely identification of funds that are no longer needed for their original purpose and could be de-obligated.

Recommendation 3. The Assistant Secretary for Management and Chief Financial Officer should develop a process for monitoring performance across the Department regarding reconciliation of open orders and develop a plan to share results with appropriate officials for their action.

Recommendation 4. The Veterans Health Administration Chief Financial Officer and the Veterans Health Administration Executive Director for Procurement should ensure compliance with existing policy that requires obligations be adjusted when actual costs of goods and services are known to be less than the initially recorded amount.

Recommendation 5. The Veterans Health Administration Chief Financial Officer and the Veterans Health Administration Executive Director for Procurement should ensure compliance with policy that requires obligations to be supported by sufficient documentary evidence that substantiates the validity and proper authorization of obligations and that the evidence be retained and readily available upon request.

Recommendation 6. The Veterans Health Administration Executive Director for Procurement should ensure timely modifications or closing of contracts, when applicable, to allow for the de-obligation of funds no longer required.

For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.

Appendix D: Management Comments—Assistant Secretary for Management and Chief Financial Officer

Department of Veterans Affairs Memorandum

Date: Sept. 06, 2019

From: Assistant Secretary for Management and Chief Financial Officer (004)

Subj: Audit of VA's Undelivered Orders - (#17-04859-BA-0 1720)

To: Inspector General (50)

The Office of Management has reviewed the revised draft report and concurs.

(Original signed by)

Jon J. Rychalski

Attachment

Audit of VA's Undelivered Orders

Report Number: #2017-04859-BA-0172, Issued 2019

Recommendation 3:	The Assistant Secretary for Management and Chief Financial Officer develop a process for monitoring performance across the Department regarding reconciliation of open orders and a plan to share results with appropriate officials for their action.
VA Response:	The Office of Management (OM) will establish internally facing dashboard to monitor and track all open obligations with no activity over 90 days. On a quarterly basis, OM will share the status of stale obligations data with Administrations to ensure timely close-out of contracts and de-obligation of non-contract obligations.
Supporting Documentation:	TBD
Status:	TBD

For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.

Appendix E: Monetary Benefits in Accordance with Inspector General Act Amendments

Recommendation	Explanation of benefits	Better use of funds	Questioned costs
1–6	Estimate of orders that were not deobligated in a timely manner	$132.6 million	$0
	Total	$132.6 million	$0

Source: VA OIG analysis of statistical sample results projected over the sample population

OIG Contact and Staff Acknowledgments

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