US DEPARTMENT OF VETERANS AFFAIRS

OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

OFFICE OF ACQUISITION, LOGISTICS, AND CONSTRUCTION

VA Federal Supply Schedule Contracts

Management Advisory Memorandum	26-01466-189	September 9, 2026

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The Office of Inspector General (OIG) has released this management advisory memorandum to provide information on matters of concern that the OIG has gathered as part of its oversight mission. The OIG conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation except for the standard of reporting.

July 16, 2026[1]

MANAGEMENT ADVISORY MEMORANDUM

FROM:	Larry Reinkemeyer, Assistant Inspector General for Audits and Evaluations, Office of Audits and Evaluations, VA Office of Inspector General (52)
TO:	Principal Executive Director, Office of Acquisition, Logistics, and Construction (003) and Chief Acquisition Officer
SUBJECT:	VA Federal Supply Schedule Contracts

This memorandum uses information identified in the course of the VA Office of Inspector General's (OIG) contract audits that examine VA Federal Supply Schedule (VA FSS) contract policies and procedures. Consistent with the OIG's mission, this memorandum highlights opportunities to improve the efficiency of the VA FSS program and helps ensure VA obtains the best prices possible for the government using taxpayer dollars.

The OIG has broad authority to conduct contract audit work under the Inspector General Act of 1978, as amended (5 U.S.C. § 405), and through its mandate to combat fraud, waste, and abuse. Under authority delegated by the General Services Administration (GSA), the VA FSS program supports purchases totaling about $25 billion annually in medical equipment, products, pharmaceuticals, and services by VA and other government agencies.[2] The program also leverages the collective buying power of these government agencies to negotiate discounts when awarding VA FSS contracts. In addition, VA FSS program staff may ask the OIG to review a vendor's data and compliance with VA FSS contract terms and conditions.[3]

In this memorandum, the OIG outlines two opportunities for improving price protections in VA FSS contracts. A third was discussed with VA FSS program officials in January 2026 that has since been addressed. First, VA FSS program officials could provide clearer guidance to vendors and program staff on tracking and adjusting government pricing to align with competitive commercial pricing. Second, officials could update solicitation instructions for dealers and resellers without significant commercial sales. In the VA FSS contract process, solicitation

[1] This memorandum was sent to the Office of Acquisition, Logistics, and Construction on July 16, 2026, to provide the opportunity to review and comment.

[2] 40 U.S.C. § 121(d) pursuant to 40 U.S.C. § 501.

[3] VA National Acquisition Center Procedural Guideline 22, *OIG Contract Audit Procedures*, February 9, 2023.

instructions ensure vendors provide the required information so VA FSS program staff can determine fair and reasonable pricing. Updating the competitive pricing guidance and solicitation instructions could improve the VA FSS program's ability to protect pricing in contracts related to the government's purchase of healthcare supplies and services.

As to the third opportunity for improvement, following the January 2026 discussions with the OIG, VA FSS program officials established a process in February for vendors to self-disclose their own noncompliance with VA FSS contract terms and conditions.[4] Under this new process, when vendors find instances of their noncompliance or overcharges, they will voluntarily report those issues to VA FSS staff. The vendor can also propose a refund or corrective action that can result in the program collecting money owed to the government.

This memorandum is meant to convey the information necessary for VA FSS program officials to determine whether actions are warranted to address the two ongoing opportunities the OIG identified to improve price protections. The OIG appreciates the swift action taken on the third opportunity. This memorandum is also meant to inform veterans and other stakeholders about these efforts to improve the VA FSS program.

Tracking and Adjusting Government Pricing to Align with Competitive Commercial Pricing

The VA FSS program can make better use of its available resources and guidance to achieve and maintain lower VA FSS contract prices. To help protect government contract pricing, the *General Services Acquisition Manual* requires vendors to follow the price reductions clause in VA FSS contracts. This clause ensures the government continues to receive the same discount relationship it negotiated at the start of the contract.[5] That is, the discount relationship negotiated requires that if a vendor lowers its prices for the established "tracking customer" (either a commercial customer or a category of customers used as a benchmark in the contract for pricing comparisons), the vendor must also lower its contract prices for the government. VA FSS program officials negotiate a tracking customer for each item in a VA FSS contract and use it to compare government prices with commercial pricing over the life of the contract.

The commercial sales practice section of VA FSS solicitations tells vendors to propose a tracking customer for the price reductions clause, but the OIG has determined that relying on a single tracking customer might not provide the best price protection. For example, one type of tracking customer is a group purchasing organization—a group that purchases similarly to the government because it negotiates discounts by combining the buying power of its members. A potential challenge with proposing a single group purchasing organization is that if its members do not regularly buy the items covered under the VA FSS contract, the government does not

[4] VA Office of Procurement, Acquisition, and Logistics, email to VA FSS vendors, February 6, 2026.

[5] GSA, "Price Reductions," effective January 15, 2026, sec. 552.238-81 in *General Services Acquisition Manual*.

receive ongoing price protection. In this example, considering *all* group purchasing organizations would better protect prices because each group could have different purchasing patterns. The OIG also recommended that the VA FSS program negotiate pricing using all group purchasing organizations in a March 2026 unpublished independent audit report to VA FSS staff.[6] This approach supports the VA FSS program's goal to select tracking customers with buying volumes comparable to the government, which would help maintain price protections.

During the March 2026 discussion with the OIG team, VA FSS program officials explained that negotiating these broader categories of customers as the tracking customer is not formally included in the solicitation instructions nor in VA FSS program policies or guidance. Because GSA has authority over solicitation instruction language, VA FSS officials said they began discussions with GSA to revise the commercial sales practice instructions. However, GSA chose not to take action because it is transitioning all GSA schedules to transactional data reporting requirements. Instead of relying on vendors to disclose their commercial pricing practices, GSA is requiring them to report actual sales data. As a result, transactional data will replace the need to disclose commercial sales practices and negotiate a tracking customer.

Although this transition does not include VA FSS contracts at this time, because these contracts are exempt from GSA policy, VA FSS program officials told the OIG team in March 2026 that they would pursue transactional data reporting to align VA FSS contracts with GSA FSS/Multiple Award Schedule policy.[7] They did not have a definitive timeline for implementing transactional data reporting for VA FSS contracts but said a pilot could start at the end of 2026.

In June 2025, however, the GSA OIG reported concerns with GSA's transition to transactional data reporting, citing issues with data quality, how data were being used for pricing decisions, and the lack of price competition, which could place government agencies at risk of overpaying for products and services.[8] These potential risks merit consideration as VA FSS program officials implement transactional data reporting.

Although GSA decided not to revise solicitation language related to tracking customers, VA FSS vendors could still benefit from additional guidance when proposing tracking customers while they are still being used. The VA FSS program developed a guide in March 2019 outlining what vendors should include when proposing a tracking customer, such as a description of the

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[6] The OIG's independent audit reports are not published when they contain confidential information that is protected from release under 18 U.S.C. § 1905. According to the statute, this information could include trade secrets and protected business processes. The OIG does, however, publish summaries of its postaward contract reports. For example, see VA OIG, *A Summary of OIG Postaward Contract Reports Issued in Fiscal Years 2023 and 2024 on Vendors' Noncompliance with VA Federal Supply Schedule Contracts*, Report No. 25-00170-115, July 2, 2025.

[7] GSA Acquisition Regulation Transactional Data Reporting, 81 Fed. Reg. 41104 (June 23, 2016).

[8] GSA OIG, *Alert Memorandum: FAS is Expanding the Transactional Data Reporting Rule Despite a Failed Pilot Program*, Memorandum No. A140143-4, June 27, 2025.

customer or category of customers, pricing, and the reason the tracking customer was chosen.[9] However, program officials told the OIG team in the March 2026 discussions that the guide is outdated and not consistently shared with vendors. Because the VA FSS program maintains the guide, staff could update it to clearly define tracking customers and identify price protection considerations to help vendors prepare their proposals. Once updated, consistently offering the guide to vendors could also make this resource more impactful.

Price Protections Under VA FSS Contracts for Dealers and Resellers Without Significant Commercial Sales

Price protections could be strengthened under VA FSS contracts awarded to dealers and resellers without significant commercial sales by updating the contract solicitation language. Currently, the commercial sales practice section requires this type of vendor to disclose information about the offered items, their acquisition cost, and the manufacturer's commercial list price. These vendors must also show that the manufacturer has agreed to provide access to its commercial data.

Because these vendors do not have their own commercial sales, they must rely on the manufacturer for information about lower prices or discounts than those offered to them or the government. However, dealers and resellers are not required to submit manufacturers' disclosures so that the VA FSS program can verify this information. Without verification, the VA FSS program may not be able to set government pricing based on lower commercial prices or use commercial tracking to enforce the price reductions clause. As a result, the government may end up paying higher prices than necessary over the life of the contract.

Due to its shift toward requiring transactional data reporting for GSA schedules, GSA informed VA FSS officials in March 2026 that it was not going to revise the established commercial sales practice language. Because the VA FSS program is exempted from GSA's transactional data reporting requirements, the VA FSS program continues to follow previous GSA authorities and guidance on commercial sales practices to establish price reductions clause tracking. Specifically, in 2008, GSA directed the VA FSS program to track the vendor's acquisition price and the manufacturer's list price.[10] In other words, if a manufacturer lowers its prices—whether its list price, its price to vendors without significant sales, or any other transactional price—the vendor must extend that discount to the government. In 2021, GSA updated its guidance and told the VA FSS program to track "all commercial customers." The guidance also noted that if a vendor sells only to the federal government, there will be no commercial sales to track, and

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[9] VA FSS, *Offeror's Guide to Commercial Sales Practice Format*, March 2019.

[10] Chief acquisition officer, GSA, letter to the deputy assistant secretary of the Office of Acquisition and Logistics and the executive director and chief operating officer of the National Acquisition Center, January 4, 2008.

therefore the government would not receive price reductions.[11] The OIG echoed this conclusion in a July 2025 report, stating that awarding VA FSS contracts to dealers and resellers without significant commercial sales negates any price protection provided by the price reductions clause because there are no commercial customers to use for tracking.[12]

In April 2026, GSA transitioned to transactional data reporting, which removed commercial sales practices from GSA contract solicitations. As noted, these changes do not govern VA FSS contract solicitations. According to a VA FSS program official the OIG team interviewed, GSA said the VA FSS program could develop its own instructions to address the challenges of protecting prices for dealers and resellers without significant commercial sales. The VA FSS official said they were working on revising the instructions to include

- requiring dealers and resellers without significant commercial sales to provide manufacturer commercial sales practices and data to support contract proposals, and
- establishing tracking mechanisms to satisfy the price reductions clause.

VA FSS Action on Vendor Self-Audit Disclosures

In discussions with the OIG in January 2026, VA FSS program officials acknowledged that some contract clauses, like the price reductions clause, encourage vendors to submit self-disclosures. However, they also said the program does not have a dedicated process for vendors to report self-audit findings about noncompliance with VA FSS contract terms and conditions. To address this matter, OIG staff suggested at that time that the VA FSS program could create a process similar to the one used by the Office of Pharmacy Benefits Management (PBM). That office provides guidance to vendors about complying with the Veterans Health Care Act of 1992, including instructions for submitting self-audit findings.[13] The office also set up a dedicated mailbox to receive these disclosures. PBM staff then forward these disclosures to the OIG for consideration of a potential contract audit.

In February 2026, the VA FSS program established a new process for vendors to report self-audit findings of noncompliance that was responsive to the OIG's suggestion. This new process will bolster the government's ability to hold vendors accountable to VA FSS contract terms and conditions and recover money owed to the government. The VA FSS program distributed the guidance about the new self-disclosure process via an email to VA FSS vendors and in its regular

[11] GSA, Federal Acquisition Service Policy and Procedure (PAP) 2021-05, effective October 27, 2021.

[12] VA OIG, *A Summary of OIG Preaward Contract Reports Issued in Fiscal Year 2024 on VA Federal Supply Schedule Nonpharmaceutical Proposals*, Report No. 25-00183-133, July 22, 2025.

[13] Pub. L. No. 102-585, § 603. This act sets limits on the prices of pharmaceuticals purchased under VA FSS contracts; section 603 of the act places responsibility for compliance on vendors.

publication, the *VA FSS Newsletter*.[14] As part of the process, the VA FSS program set up a dedicated mailbox for these disclosures. Program officials also said they anticipate asking the OIG to conduct potential contract audits.

Requested Action

The OIG requests that VA FSS program officials report on any actions taken to address the remaining issues identified in this memorandum and provide updates on efficiencies and improvements that save taxpayer dollars and support collections resulting from vendor noncompliance.

VA FSS Program Comments

The acting associate executive director acknowledged the opportunities outlined by the OIG and identified further actions to be taken by the VA FSS program related to monitoring vendors for noncompliance and enforcement. The actions include expanding routine postaward contract audit coverage; reminding vendors more frequently how to voluntarily offer self-disclosures and implementing a structured self-disclosure policy; and using strategies such as corrective action reports or a letter of concern to enforce vendor compliance.

The full text of the VA FSS program's response is available in appendix A.

[14] VA Office of Procurement, Acquisition, and Logistics, email to VA FSS vendors, February 6, 2026; VA FSS Service, "Web Wisdom: OIG preaward audit and Self Disclosure Updates (For Informational Purposes Only)," *VA FSS Newsletter*, February 26, 2026, https://va.gov/federal-supply-schedule-service/eNews.

Appendix A: VA Management Comments

Department of Veterans Affairs Memorandum

Date: July 28, 2026

From: Director Federal Supply Schedule Service (003B1), Acting Associate Executive Director, Enterprise Procurement Office, Executive Director Procurement Operations

Subj: Office of Inspector General, Draft Report (Review/Comment), VA Federal Supply Schedule Contracts (project number 2026-01466-AE-0040)

To: Audit Operations Division (52D03)

The Office of the Federal Supply Schedule Services completed its review of the Office of Inspector General, Draft Report (Review/Comment), VA Federal Supply Schedule Contracts (project number 2026-01466-AE-0040) and respectfully provides the following comments:

"In the memorandum titled VA Federal Supply Schedule (FSS) Contracts, the OIG outlines two opportunities for improving price protections on VA FSS contracts. A third was discussed with VA FSS program officials in January 2026 that has since been addressed. First, VA FSS program officials could provide clearer guidance to vendors and program staff on tracking and adjusting government pricing to align with competitive commercial pricing. Second, officials could update solicitation instructions for dealers and resellers without significant commercial sales."

OIG outlined three improvement guardrails to help FSS to combat fraud, waste, and abuse. With respect to the third opportunity, further action is warranted to strengthen compliance enforcement and reduce delays in identifying and addressing noncompliance. VA FSS could partner with OIG more to expand routine post award contract audit coverage and remind the FSS contractors more frequently how to voluntarily offer self-disclosures to assure the protection of the program and integrity of the VA mission.

To effectively reduce occurrences of partners failing to self-disclose noncompliance within a reasonable time, the VA FSS could adopt the following prevention and monitoring strategies:

- Identify as an Annual Contract Review by ensuring the mutually beneficial one-to-one partnership checkup, continue to hold quarterly managerial OIG and FSS syncs to keep both parties informed and proactively plan next quarter and annual partnership.
- Implement Structured Voluntary Disclosure Programs: Establish clear leniency incentives similar to the DOJ Voluntary Self-Disclosure Policy to proactively reward partners that identify and report issues before they are independently uncovered by the VA Office of Inspector General (OIG) or auditors.
- For VA FSS to implement use of 'Corrective Action Reports' and/or 'Letter of concerns' when FSS industry partner does not comply or supply needed audit artifacts within stated timeframes, for FSS to consider this absence of good-faith and consider the elimination of the product(s) from the FSS schedule and allow the contract to lapse. (*For brand name drugs to be available via Interim Agreements per Public Law 102-585).

The OIG removed point of contact information prior to publication.

(Original signed by)

Gerald (Jerry) Jacobs

The text of VA's management comments is reprinted verbatim as received from the department. For accessibility, the original format of this appendix has been modified to comply with section 508 of the Rehabilitation Act of 1973, as amended.

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