

Inspector General

United States
Department of Defense



FY 2006 DoD Purchases Made Through the
U.S. Department of Veterans Affairs

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Acronyms

AFMS	Air Force Medical Service
AFMSCC	Air Force Medical Service Commodity Council
ADA	Antideficiency Act
COR	Contracting Officer's Representative
COTR	Contracting Officer's Technical Representative
FAR	Federal Acquisition Regulation
GAO	Government Accountability Office
GSA	General Services Administration
HAMS	Hospital Aseptic Management Services
IG	Inspector General
MIPR	Military Interdepartmental Purchase Request
MOA	Memorandum of Agreement
MTF	Medical Treatment Facility
NMLC	Naval Medical Logistics Command
OIG	Office of Inspector General
O&M	Operations and Maintenance
PSC	Personal Service Contract
QASP	Quality Assurance Surveillance Plan
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics
VA	U.S. Department of Veterans Affairs
VASS	Veterans Affairs Special Services
VHA	Veterans Health Administration



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-4704

December 20, 2007

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER
ASSISTANT SECRETARY OF DEFENSE FOR HEALTH
AFFAIRS
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Report on FY 2006 DoD Purchases Made Through the U.S. Department of
Veterans Affairs (Report No. D-2008-036)

We are providing this report for information and use. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Terry L. McKinney at (703) 604-9288 (DSN 664-9288) or Mr. Timothy E. Moore at (703) 604-9282 (DSN 664-9282). See Appendix G for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, appearing to read "Richard B. Jolliffe".

Richard B. Jolliffe
Assistant Inspector General
Acquisition and Contract Management

cc: Inspector General, Veterans Affairs

Department of Defense Office of Inspector General

Report No. D-2008-036

December 20, 2007

(Project No. D2006-D000CF-0244.000)

FY 2006 DoD Purchases Made Through the U.S. Department of Veterans Affairs

Executive Summary

Who Should Read This Report and Why? DoD contracting officials, program managers, and financial managers should read this report because it discusses widely misunderstood DoD guidance on planning, reviewing, and funding purchases made on behalf of DoD.

Background. This is one of several reports on DoD purchases made through non-DoD agencies. We performed the audit in accordance with Section 817, Public Law 109-364, "John Warner National Defense Authorization Act for Fiscal Year 2007." To comply with the law, the Offices of the Inspectors General (OIG) DoD and the U.S. Department of Veterans Affairs (VA) conducted an interagency audit of DoD purchases made through the VA.

The VA has six contracting organizations that make purchases on behalf of DoD. In FY 2006, DoD provided funds to the VA contracting activities to award 1,718 purchases of goods and services valued at \$373.0 million. The Air Force is the largest DoD user of the VA, accounting for \$327.0 million or 88 percent of the DoD purchases awarded through the VA in FY 2006.

We performed the audit to evaluate the DoD procedures over DoD purchases made through the VA. Specifically, we examined the policies, procedures, and internal controls to determine whether there was a legitimate need for DoD to use the VA and whether DoD clearly defined procurement requirements. Additionally, the interagency review examined whether the VA and DoD properly used and tracked funds and whether the VA complied with DoD requirements. A copy of this report will be provided to the senior official responsible for internal controls in the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]).

Results. The VA contracting officials and DoD management officials did not consistently comply with the Federal Acquisition Regulation and DoD procurement regulations when making purchases through the VA. Of the 49 purchases reviewed at DoD organizations, 46 were either hastily planned or improperly administered. Specifically, DoD organizations lacked acquisition planning to determine the best source, proper statutory authority, and required agreements for non-DoD contracts. The VA and DoD organizations were also deficient in contract administration, including the surveillance of contractor performance, assignment of contracting officer representatives, preparation of quality assurance surveillance plans, and collection and recording of contractor past performance.

Furthermore, 16 of 24 DoD purchases reviewed at the VA contracting activities were not properly awarded. Specifically, 14 of the 24 purchases did not have adequate support for

price reasonableness determinations, and 8 of 11 purchases did not provide an adequate justification for sole-source procurements. As a result, DoD organizations had no assurance that the purchases were based on best value or that the VA used effective and efficient acquisition procedures (finding A).

DoD correctly funded most purchases made through the VA that were entered into under the authority of section 8111, title 38, United States Code. However, the Air Force Surgeon General improperly used the VA's Austin Acquisition Office to obtain leased space through a service contract and improperly funded the Austin Automation Center to procure services and equipment. In addition, the Austin Automation Center failed to follow the Office of Management and Budget Business Rules for Intragovernmental Exchange Transactions and DoD policy on advance payments. Consequently, DoD organizations incurred six potential violations of the bona fide needs rule and the purpose statute that could result in Antideficiency Act violations, valued at \$4.4 million and DoD was unable to properly account for interagency transactions because of advance payments made on purchases by the Austin Automation Center (finding B).

The Army, Navy, and Air Force Military Departments had different approaches to acquire medical supplies and services. As a result, DoD may be missing an opportunity to leverage its expertise and buying power through standardized contracting practices among the Military Departments. Standard military contracting practices for medical support should result in better acquisitions at reduced prices (finding C).

Our review identified material internal control weaknesses. The DoD sites we visited encountered problems while implementing and executing policy. Applying the recommendations in this report should improve contracting and financial procedures for orders awarded using non-DoD contracts. In addition, implementation of recommendations should correct the material funding weaknesses identified in this report. A copy of this report will be provided to the senior official responsible for internal controls in the Office of the USD(AT&L).

The USD(AT&L) did not take action to address our recommendations in the "FY 2005 DoD Purchases Made Through General Services Administration" report (DoD Inspector General Report No. D-2007-007, October 30, 2006), so we are again recommending that the USD(AT&L) develop a training course that instructs contracting and program office personnel on proper acquisition planning and contract administration for assisted acquisitions, establish overall policies on acceptable contract administration roles and responsibilities for interagency purchases, and finalize negotiations with the VA to develop interagency agreements that specify agreed-upon roles and responsibilities regarding contract administration and surveillance duties. The USD(AT&L) should work with the VA to develop a corrective action plan that addresses the concerns identified in this report. In addition, the USD(AT&L) should also advise VA that Defense Acquisition University courses covering the preparation of sole-source justifications and price reasonableness determinations are available to VA contracting officers. The USD(AT&L) should negotiate with non-DoD agencies to determine the best method to record contractor performance on all Government contractors and initiate and coordinate a review with the Assistant Secretary of Defense for Health Affairs to assess whether the Military Departments are purchasing medical goods and services through the most efficient and effective methods. The Assistant Secretary of the Air Force (Financial Management and Comptroller) needs to coordinate with the VA to amend the March 31, 2005, memorandum of agreement between the Deputy Surgeon General of the Air Force and the VA Acting Deputy Assistant Secretary of Acquisition and Materiel Management to specify the types of purchases that are permissible under the interagency agreement between DoD and the VA.

The Under Secretary of Defense (Comptroller)/Chief Financial Officer should ensure that the VA understands the current DoD policy on advance payments and funding purchases when performing assisted acquisitions and ensure that guidance prohibiting advance payments has been distributed to field activities and to non-DoD agencies that procure goods and services on behalf of DoD. The USD(AT&L) should obtain an opinion from the DoD General Counsel on the correct course of action to resolve the improper payments and leasing arrangement. We also identified six potential funding violations, which are listed in Appendix D. Although the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer has taken actions to resolve most of the potential violations, recommendations to the Under Secretary regarding any unresolved potential violations will be contained in another DoD Inspector General audit report, "Potential Antideficiency Act Violations on DoD Purchases Made Through Non-DoD Agencies Update." (See the Findings section of the report for the detailed recommendations).

Management Comments and Audit Response. The Director of Defense Procurement and Acquisition Policy, responding for the USD(AT&L), concurred with recommendations to develop a training course on proper acquisition planning and contract administration, establish policy on contract administration roles and responsibilities when purchasing goods and services through a non-DoD agency, and finalize negotiations with the VA to develop interagency agreements that specify agreed-upon roles and responsibilities for contract administration and surveillance duties. The Director also concurred with recommendations to work with the VA to develop a corrective action plan that addresses the concerns identified in this report, develop an implementation plan for the VA/DoD corrective action plan, advise the VA that Defense Acquisition University courses covering sole-source justifications and price reasonableness determinations are available to VA contracting officers, negotiate with non-DoD agencies to determine the best method to record contractor performance on all Government contractors, and utilize the Past Performance Information Retrieval System.

The Air Force Deputy Surgeon General, responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), concurred with the recommendation to coordinate with the VA to amend the Air Force Medical Service-Veterans Affairs memorandum of agreement to specify permissible purchases under the interagency agreement and conform to provisions within the corrective action plan discussed above.

The Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, concurred with the recommendation to ensure that VA and DoD personnel understand DoD policy on advance payments and recover advance payments made to the VA Austin Automation Center that have not been expended. The Director of Defense Procurement and Acquisition Policy stated that the potentially improper payments and leasing issue will be resolved. Finally, the Director concurred with the recommendation to assess whether Military Departments are purchasing medical goods and services through the most efficient and effective methods. See the Findings section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

Although no comments were required, the Air Force Deputy Surgeon General provided unsolicited comments to Finding A. The Deputy Surgeon General stated that Air Force purchases were procured within the scope of the VA-DoD Health Care Resource Sharing Act statutory authority; he disagreed that the definition of health care resources is clearly defined in the VA-DoD Health Care Resource Sharing Act. The Deputy Surgeon General stated that the Task Force on Improvement of DoD Medical Care is aware that the Act requires clarification to reflect Congress' intent on the scope of DoD-VA sharing, and informed our office that the Air Force Medical Service-Veterans Affairs

memorandum of agreement will be rewritten to clarify contracting services. Finally, the Deputy Surgeon General stated that the Hospital Aseptic Management Services program does have a quality assurance surveillance plan that is based on customer complaint methodologies.

The Acting Director, VA Corporate Franchise Data Center also provided unsolicited comments to Finding B. The Acting Director stated his office awarded contracts in compliance with DoD guidance dated September 2003. The Acting Director also stated that advance payments to contractors were not made. The Acting Director said that contractor payments were made in arrears for services or products received and accepted in accordance with Federal procurement laws and regulation.

We agree that purchases for roof repairs, printers, furniture, radios, strategic services support, and manpower resource management support were appropriately awarded under the VA-DoD Health Care Sharing Act. We also agree that the Air Force Medical Service-Veterans Affairs memorandum of agreement should be clarified to specify which contracting services are within the scope of the agreement. Despite the Deputy Surgeon General's comments, there was no quality assurance surveillance plan provided for the purchase. Rather, quality assurance personnel relied on customer complaints to determine whether the contractor complied with the terms and conditions of the contract. Without a quality assurance surveillance plan, the Government cannot ensure efficient methods are used during contract performance. Regarding funding, the Austin Automation Center used outdated DoD guidance to procure goods and services and collected advance payments that were not in accordance with Government policy.

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Background

This audit was performed as required by section 817, Public Law 109-364, “John Warner National Defense Authorization Act for Fiscal Year 2007,” October 17, 2006. Section 817 states:

“(a) INSPECTOR GENERAL REVIEWS AND DETERMINATIONS.—

(1) IN GENERAL.—For each covered non-defense agency, the Inspector General of the Department of Defense and the Inspector General of such non-defense agency shall, not later than March 15, 2007, jointly—

(A) Review—

(i) the procurement policies, procedures, and internal controls of such non-defense agency that are applicable to the procurement of property and services on behalf of the Department by such non-defense agency; and

(ii) the administration of those policies, procedures, and internal controls; and

(B) Determine in writing whether—

(i) such non-defense agency is compliant with defense procurement requirements;

(ii) such non-defense agency is not compliant with defense procurement requirements, but has a program or initiative to significantly improve compliance with defense procurement requirements;

(iii) neither of the conclusions stated in clauses (i) and (ii) is correct in the case of such non-defense agency; or

(iv) such non-defense agency is not compliant with defense procurement requirements to such an extent that the interests of the Department of Defense are at risk in procurements conducted by such non-defense agency.”

To comply with the FY 2007 National Defense Authorization Act, the Offices of the Inspectors General (OIG) DoD and U.S. Department of Veterans Affairs (VA) conducted an interagency audit of DoD purchases made through the VA. This report addresses problems noted during the review. The DoD OIG transmitted a summary of the review to Congress on March 15, 2007. In addition, DoD OIG provided a briefing to staffers working for the Senate Armed Services Committee on March 29, 2007. The VA OIG transmitted a separate summary of its review to Congress on April 13, 2007. The law requires a second review if our initial review disclosed problems.

The VA mission is to provide America’s veterans and their families with medical care benefits and social support. The VA is divided into three subdivisions: the Veterans Health Administration (VHA), the Veterans Benefits Administration, and the National Cemetery Administration. Currently there are 154 VA medical centers and more than 235,000 VA personnel. The VA is the second largest Federal department. According to the VA fact sheet, the FY 2006 budget request was for \$73.0 billion. The VA was established on March 15, 1989, succeeding the former Veterans Administration that was established July 21, 1930.

The VA organization comprises several contracting organizations including the Austin Acquisition Operation, the Austin Automation Center, the Denver Acquisition and Logistics Center, the Joint Venture Acquisition Center, Veterans Affairs Special Services (VASS), and the National Acquisition Center that all make purchases on behalf of DoD.

In FY 2006, DoD provided funds to the VA contracting activities to award 1,718 purchases of goods and services valued at \$373.0 million. The Air Force is the largest DoD user of the VA, accounting for approximately \$327.0 million or 88 percent of the DoD purchases awarded through the VA in FY 2006. We visited 12 DoD and 5 VA organizations, and reviewed 124 Military Interdepartmental Purchase Requests (MIPR) totaling \$128.3 million for 58 purchases.

DoD Use of the VA. The Military Departments generally use the services of the VA contracting organizations to award contracts under section 8111, title 38, United States Code (38 U.S.C. 8111), “Sharing of Department of Veterans Affairs and Department of Defense Health Care Resources” (VA-DoD Health Care Resources Sharing Act) statutory authority. The VA and Office of the Air Force Surgeon General established a March 31, 2005, memorandum of agreement (MOA) that states the Air Force will use the VA as its primary contracting support for health care-related acquisitions. DoD uses MIPRs to transfer funds to the VA when using assisted acquisition services.

VA-DoD Health Care Resources Sharing Act. Congress encourages the VA and DoD to share resources through the VA-DoD Health Care Resources Sharing Act. The sharing act states:

The Secretary of Veterans Affairs and the Secretary of Defense shall enter into agreements and contracts for the mutually beneficial coordination, use, or exchange of use of the health care resources of the Department of Veterans Affairs and the Department of Defense with the goal of improving the access to, and quality and cost effectiveness of, the health care provided by the Veterans Health Administration and the Military Health System to the beneficiaries of both departments.

Memorandum of Agreement. The Deputy Surgeon General of the Air Force and the VA Acting Deputy Assistant Secretary, Office of Acquisition and Materiel Management signed an MOA, effective March 31, 2005, for Air Force contract support from the VA. The MOA was entered into under the authority of 38 U.S.C. 8111 and 10 U.S.C. 1104. The MOA supersedes the Service Legal Agreement between the Air Force Medical Logistics Office and the Department of Veterans Affairs National Acquisition Center, dated July 7, 1995. The VA-Office of the Air Force Surgeon General MOA states:

This MOA establishes a medical contracting service network for acquisition and procurement activities to facilitate the provision of Air Force Medical Service (AFMS) procurement requirements, increase efficiency of operations, and reduce cost of operations in accordance with the VA/DoD Joint Strategic Plan (April 2003). The

AFMS will be the customer of the services provided under this agreement and will use this service network on a voluntary basis.

DoD MIPRs to the VA. DoD uses the MIPR (DoD Form 448) to transfer funds within Military Departments and to other Federal agencies' servicing organizations. Most DoD MIPRs sent to the VA are authorized under the VA-DoD Health Care Resources Sharing Act. The VA policy limits interagency contracting authority to goods or services normally obtained by the VA in the course of carrying out its mission. The Austin Automation Center uses the Government Management Reform Act of 1994 to procure information technology-related goods and services. Purchases made under these two statutory authorities are categorized as non-Economy Act orders. Accordingly, the requirements of DoD Financial Management Regulation, Volume 11A, Chapter 3, "Economy Act Orders," do not apply.

The VA Initiatives Implementation. The VA is implementing several initiatives in response to the VA Inspector General (IG) Report No. 04-03178-139, "Audit of VA Acquisitions for Other Government Agencies," May 5, 2006, to improve problems noted regarding compliance with Federal Acquisition Regulation (FAR) and the VA acquisition regulations. These initiatives include developing specialized training for contracting officers making DoD purchases, implementing quality assurance controls, conducting program reviews of all Office of Acquisition and Material Management contracting offices, developing tools and procedures to assist contracting officers in complying with Defense procurement requirements, continuously monitoring compliance with Defense procurement requirements, and limiting purchases made on behalf of other Government agencies to those normally obtained to carry out the VA mission.

Allegations of Fraud, Waste, and Abuse. During the course of this audit, we interviewed a DoD contracting officer's representative (COR) (assigned by a VA contracting officer) who made allegations of fraud, waste, and abuse on three contracts awarded and administered by Veterans Health Affairs contracting activities. The contracting activities under the Office of Veterans Health Affairs no longer provide contracting services to DoD because of numerous discrepancies reported in VA Report No. 04-03178-139. The three contracts were at the end of FY 2005 and were outside the scope of this audit. At the request of Veterans Affairs officials, we referred the contracts to the Veterans Affairs Office of Inspector General for investigation. We have been informed that the three contracts are currently being reviewed by the Veterans Affairs Office of Counselor to the Inspector General.

Objective

Our overall audit objective was to evaluate the DoD procedures over DoD purchases made through the VA. Specifically, we examined the policies, procedures, and internal controls to determine whether there was a legitimate need for DoD to use the VA, and whether DoD clearly defined its requirements. Additionally, the interagency review examined whether the VA and DoD properly used and tracked funds, and whether the VA complied with Defense procurement

requirements. See Appendix A for a discussion of the scope and methodology. See Appendix B for prior coverage related to the objectives.

Review of Internal Controls

We identified material internal control weaknesses as defined by DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006. DoD organizations were required to ensure the acquisition strategy was in the best interest of the Government. The sites we visited encountered problems while implementing and executing policy. Furthermore, contracting, financial, and accounting officials did not comply with regulations and statutes. DoD organizations should incorporate the regulations and statutes associated with contracting and funding. Contracting, financial, and accounting officials should have the necessary training and knowledge to properly execute the orders. Implementing the recommendations in this report should improve contracting and financial procedures for contracts and orders awarded using non-DoD agencies. It should also correct the material weaknesses identified in this report. A copy of this report will be provided to the senior official responsible for internal controls in the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics.

A. DoD Use of VA-Assisted Acquisitions

The VA contracting officials and DoD management officials did not consistently comply with FAR and DoD procurement regulations and guidance when making purchases through the VA. Of the 49 purchases reviewed at DoD organizations, 46 were either hastily planned or improperly administered and there was no collection and recording of contractor past performance information by DoD organizations on the VA contracts. Specifically,

- DoD organizations often lacked acquisition planning to determine the best source, proper statutory authority, and required agreements for non-DoD contracts; and
- the VA and DoD organizations were deficient in contract administration, including the surveillance of contractor performance, assignment of CORs, and preparation of quality assurance surveillance plans (QASP).

On 16 of 24 purchases¹ reviewed at the VA contracting activities, the VA contracting officials did not properly award DoD purchases. Specifically,

- on 14 of the 24 purchases, the VA contracting officials did not have adequate support for price reasonableness determinations; and
- on 8 of 11 sole-source purchases,² the VA contracting officials did not provide adequate justification for sole-source procurements.

This occurred because the VA and DoD officials were unclear about interagency acquisition requirements. As a result, DoD organizations making purchases through the VA had no assurance that the purchases were based on best value or that the VA used effective and efficient acquisition procedures.

Criteria

Acquisition Planning Criteria. FAR Part 7, “Acquisition Planning,” details the Federal requirements for acquisition planning. FAR 7.102 states that agencies must perform acquisition planning for all acquisitions: “This planning shall integrate the efforts of all personnel responsible for significant aspects of the acquisition. The purpose of this planning is to ensure that the Government meets its needs in the most effective, economical, and timely manner.”

¹Fifteen of 24 purchases were also reviewed at DoD organizations, while the other 9 were solely reviewed at VA organizations. See the Appendix A “Purchases Reviewed” table and Appendix C, “Identified Contract Problems,” for detailed information on DoD and VA locations visited to review the purchases.

²Eleven of the 24 purchases reviewed at VA contracting activities were sole-source procurements.

FAR 7.105 requires organizations to consider acquisition alternatives and prospective sources of supplies and services that will meet their need.

FAR Part 10, "Market Research," requires that agencies use the results of market research to determine the sources capable of satisfying the agency's requirements.

Proper Use of Non-DoD Sources of Supply. The Principal Deputy Under Secretary of Defense (Comptroller) and Acting Under Secretary of Defense for Acquisition, Technology, and Logistics issued an October 29, 2004, memorandum, "Proper Use of Non-DoD Contracts" (DoD October 29, 2004, Memorandum). The memorandum directs Military Departments and Defense agencies to establish procedures for reviewing and approving the use of non-DoD contract vehicles when procuring supplies and services on or after January 1, 2005, for amounts exceeding the simplified acquisition threshold. The procedures for assisted acquisitions must include evaluating whether using a non-DoD contract is in the best interest of DoD; determining that services and supplies are within the scope of the contract used; reviewing funding to ensure it is in compliance with appropriation limitations; providing unique terms, conditions, and requirements to the assisting agency for incorporation into the order or contract, thus ensuring the contract is in compliance with DoD-unique statutes, regulations, directives, and other requirements; and collecting data on the use of assisted acquisitions for analysis.

DoD Policy on Interagency Agreements. DoD Instruction 4000.19, "Interservice and Intragovernmental Support," August 9, 1995, implements policies, procedures, and responsibilities for intragovernmental support as a result of agreements among Federal Government organizations. DoD organizations may enter into interagency agreements with non-DoD Federal agencies when funding is available to pay for the support, the agreement is in the best interest of the Government, the supplying agency is able to provide the support, the support cannot be provided as conveniently or economically by a commercial enterprise, and the agreement does not conflict with any other agency's authority.

DoD Financial Management Regulation volume 11A, chapter 1, "General Reimbursement Procedures and Supporting Documentation," March 1997, details interagency agreement documentation required to support evidence of a formal offer and acceptance between the grantor and grantee of the order. The minimum essential documentation includes the authority to enter into the memorandum of understanding, a description of the material or services required, the established dollar limits, financial source or fund citation, delivery requirements, payment provisions, duration of the agreement, and the form in which specific orders against the memorandum of understanding or MOA will be placed.

The DoD Deputy Chief Financial Officer issued a March 24, 2005, memorandum, "Proper Use of Interagency Agreements for Non-Department of Defense Contracts Under Authorities Other Than the Economy Act" (DoD March 24, 2005, Memorandum). This memorandum, in conjunction with the DoD October 29, 2004, Memorandum, establishes DoD policy on assisted acquisitions such as those completed by the VASS and ensures that interagency agreements (under authorities other than the Economy Act) for non-DoD contracts are used in accordance with existing laws and DoD policy.

MIPR Guidance. Section 1501, title 31, U.S.C, “Documentary Evidence Requirement for Government Obligations,” requires a binding, written agreement between two agencies that will report the specific goods to be delivered, real property to be bought or leased, or work or services to be provided. Defense Federal Acquisition Regulation Supplement 253.208-1, “Military Interdepartmental Purchase Requests,” requires reporting a realistic time of delivery or performance on each MIPR.

Price Reasonableness and Sole-Source Requirements. FAR Subpart 15.4, “Contract Pricing,” states that the contracting officer is responsible for obtaining sufficient information that is adequate for determining price reasonableness or cost realism; evaluating the reasonableness of the offered prices; and purchasing supplies and services from responsible sources at fair and reasonable prices. FAR 15.406-3, “Documenting the Negotiation,” states that the contracting officer must document in the contract file the principal elements of the negotiation agreement including documentation of fair and reasonable pricing.

FAR Subpart 8.4, “Federal Supply Schedules,” states that the General Service Administration (GSA) has already determined that prices of supplies and fixed-price services, and rates for services offered at hourly rates, under schedule contracts are fair and reasonable. However, FAR 8.405, “Ordering Procedures for Federal Supply Schedules,” states that services requiring a statement of work require the ordering activity to consider the level of effort and the mix of labor proposed to perform a specific task being ordered when determining that the total price is reasonable.

FAR Subpart 6.3, “Other Than Full and Open Competition,” provides sole-source restrictions for most contracts. FAR Subpart 16.5, “Indefinite-Delivery Contracts,” provides sole-source restrictions for multiple-award contracts. FAR Subpart 8.4 provides the restrictions for supply schedule contract actions.

FAR 8.405-6, “Limited Sources Justification and Approval,” lists the circumstances that may justify restrictions to competition for orders placed under Federal supply schedules:

- (1) only one source is capable of responding due to the unique or specialized nature of the work;
- (2) the new work is a logical follow-on to an original Federal Supply Schedule order provided that the original order was placed in accordance with the applicable Federal Supply Schedule ordering procedures. The original order must not have been previously issued under sole source or limited source procedures;
- (3) an urgent and compelling need exists, and following the ordering procedures would result in unacceptable delays.

Surveillance Requirements. FAR 46.103, “Contracting Office Responsibilities,” provides that contracting offices are responsible for receiving a QASP from the requesting activity when contracting for services.

According to FAR Subpart 46.4, “Government Contract Quality Assurance,” a QASP should be prepared in conjunction with preparation of the statement of

work and should specify all work requiring surveillance and the method of surveillance.

FAR Subpart 37.6, “Performance-Based Acquisition,” addresses QASP requirements for performance-based contracts. It requires agencies to develop QASPs when acquiring services that contain measurable inspection and acceptance criteria corresponding to the performance standards contained in the statement of work.

Past Performance Requirements. FAR 42.15 “Contractor Performance Information,” states:

Past performance information is relevant information, for future source selection purposes . . . It includes, for example, the contractor’s record of conforming to contract requirements and to standards of good workmanship; the contractor’s record of forecasting and controlling costs . . . interim evaluations should be prepared as specified by the agencies to provide current information for source selection purposes, for contracts with a period of performance, including options, exceeding one year.

Recently Issued DoD Guidance. The Acting Deputy Chief Financial Officer issued an October 16, 2006, memorandum, “Non-Economy Act Orders” (DoD October 16, 2006, Memorandum). The memorandum prescribes policy and procedures applicable to DoD procurement of goods and services from non-DoD agencies under statutory authority other than the Economy Act. The memorandum directs Military Departments to comply with FAR Part 7, and DoD Components’ procedures for the DoD October 29, 2004, Memorandum. Furthermore, all non-Economy Act orders exceeding \$500,000 must be reviewed by a DoD-warranted contracting officer prior to sending the orders to the funds certifier or issuing MIPRs to the non-DoD activity.

The memorandum states non-Economy Act orders for work and services outside of DoD should be executed through the use of MIPRs. If an alternative execution document is used, it must provide information consistent with the MIPR. Non-Economy Act orders must include a detailed description, specific performance or delivery requirements, proper fund citation, payment terms and conditions, specific non-Economy Act statutory authority, and the DoD Activity Address Code. Finally, the memorandum directs the requesting official to establish QASPs for non-Economy Act orders exceeding the simplified acquisition threshold. The requirement facilitates the oversight of goods and services for the performing agency. The plans should include contract administration oversight in accordance with the surveillance plan, procedures for receipt and review of receiving reports and invoices from the performing agency, reconciliation of receiving reports and invoices, and requirements for documenting acceptance of the goods received or services performed.

Acquisition Planning for VA-Assisted Contracting

We visited 12 DoD organizations that sent funds to the VA using MIPRs for the purchase of goods and services. All 12 DoD organizations did not always:

- perform acquisition planning documenting that the VA was the best source for procurement of goods and services;
- enter into interagency agreements with the VA that were specific, definite, and certain; or
- properly complete the MIPRs used to fund their purchases.

Acquisition Planning. On 35 of 49 purchases reviewed, DoD organizations did not document acquisition planning that determined contracting through the VA was in the best interest of the Government. The FAR requires acquisition planning for all procurements of goods and services as soon as an agency identifies a need. During initial acquisition planning DoD organizations should determine the best way to purchase goods or services and have this decision reviewed by a warranted DoD contracting officer. The requiring activity is required to use the results of market research to determine the sources capable of satisfying the agency's requirements.

For instance, the National Guard Bureau, a joint bureau of the Departments of the Army and Air Force, used the VA Austin Automation Center for the purchase of manpower resource management support. The National Guard Bureau did not justify that the use of the VA was in the best interest of DoD. Instead, the designated National Guard Bureau contracting officer's technical representative (COTR)³ stated that the VA contracting office developed the acquisition plan and further explained that she did not know why the VA was chosen to make the purchase. Requiring activities are primarily responsible for preparing acquisition plans because only the requiring activity is capable of documenting requirements.

In another instance, the Air Force 96th Medical Group prepared a boilerplate best interest determination for the purchase of Obstetrics and Gynecology Nurse Practitioners services. The boilerplate determination states:

use of a non-DoD contract is in the best interest of the Air Force considering the factors of satisfying customer requirements, cost effectiveness and price, delivery schedule, nonavailability of a suitable contract within DoD, contract administration, small business operations and any other factors as applicable.

The boilerplate statement does not explain the supporting rationale on why the use of the non-DoD contract is in the best interest of the Air Force. DoD organizations must explain the reason why the use of non-DoD contract vehicles are in the best interest of DoD, rather than sign a pre-prepared boilerplate

³COR and COTR are used interchangeably to refer to a person officially designated in writing by a contracting officer to act as a representative.

statement. Adequate planning will ensure surcharges are paid only when necessary and assist in preventing the procurement of goods and services at unreasonable prices.

When DoD purchases are awarded through non-DoD vehicles, a service fee is usually charged by the servicing agency. Assisted acquisitions awarded through the VASS charge 1 percent for Federal supply schedule purchases and 2 percent for placing orders against existing or new contracts. The VASS maximum surcharge is \$25,000 for any single purchase unless approved by both DoD and the VA in advance, while the minimum surcharge is \$175.

The Austin Acquisition Office, the Austin Automation Center, the Denver Acquisition and Logistics Center, the Joint Venture Acquisition Center, and the National Acquisition Center contracting organizations charge between 1 and 3 percent for awarding assisted acquisitions. These five VA contracting organizations do not have a maximum surcharge. In FY 2006, DoD sent the VA contracting organizations \$373.0 million for new orders and modifications to existing orders and paid VA surcharges of \$6.0 million. Of the \$373.0 million, \$178.6 million was sent to the VASS. The VASS surcharges totaled \$1.6 million, just under 1 percent of contracts awarded. The balance of \$194.4 million sent to the other five VA contracting organizations had VA surcharges totaling \$4.4 million, or 2.3 percent. DoD should closely evaluate all of the VA contracting options when making health care resource purchases through the VA. In most cases, the VASS will be more economical because of its surcharge ceiling. However, all of these surcharges might have been put to better use if using a DoD contracting officer or a different non-DoD contracting office that did not charge fees had been a viable option.

Interagency Agreements. On 33 of 49 purchases reviewed, DoD officials did not have an adequate interagency agreement with the VA outlining the terms and conditions of the purchase. While preparing interagency agreements, DoD officials did not comply with DoD Instruction 4000.19 and Financial Management Regulation volume 11A, chapter 1 requirements. These standards require detailed descriptions of the procured goods and services, disclosure terms and conditions for the procurement services, and the authority for entering into the agreement. The DoD March 24, 2005, Memorandum, in conjunction with the DoD October 29, 2004, Memorandum, mandates that supplies and services acquired by placing an order under a non-DoD contract will be consistent with DoD statutory and regulatory requirements applicable to the acquisition and requirements for use of DoD-appropriated funds.

For instance, the Air Force 311th Human Systems Wing did not prepare a specific interagency agreement for the purchase of an emergency care simulator. Specifically, the interagency agreement for the delivery order lacked the delivery requirements. The DoD Financial Management Regulation requires that the delivery requirements be included within the interagency agreement. Furthermore, the *Air Force Medical Logistics Letter* (a newsletter published by the Air Force Medical Support Agency to provide medical logistics information to Air Force medical activities) recommends that delivery requirements be included within the procurement package sent to the VASS. The *Air Force Medical Logistics Letter* also states that including the delivery date is

recommended to inform the VASS of the requirement's urgency and to increase the probability that the item will be received when needed. Other inadequate interagency agreements lacked detailed descriptions, periods of performance, delivery requirements, authority statements, and surveillance roles. In addition, the AFMS-VA MOA should specify the types of purchases that are permissible between DoD and VA. Specific interagency agreements should be developed in accordance with DoD standards, and all involved parties should ensure that they conform to the terms and conditions of the interagency agreement.

MIPR Preparation. Of 124 MIPRs reviewed, 75 did not contain the required information necessary for interagency transactions. DoD organizations issued MIPRs that either lacked a detailed description of the goods or services to be acquired, failed to specify the period of performance for purchased services and delivery requirements for goods, or omitted the funding statement required by the USD(C)/CFO March 27, 2006, memorandum, "Proper Use of Interagency Agreements with Non-Department of Defense Entities Under Authorities Other Than the Economy Act" (DoD March 27, 2006, Memorandum). For example, 38 of 43 MIPRs (totaling \$69 million) that were sent to the VA and dated after the effective date of the March 27, 2006, Memorandum, did not include the funding statement required by that memorandum. The funding statement states, "these funds are available for services for a period not to exceed one year from the date of obligation and acceptance of this order. All unobligated funds shall be returned to the ordering activity no later than one year after the acceptance of the order or upon completion of the order, which ever is earlier." In the case of goods, the memorandum requires that interagency funding documents include the statement, "I certify that the goods acquired under this agreement are legitimate, specific requirements representing a bona fide need of the fiscal year in which these funds are obligated." It appears that the March 27, 2006, requirements guidance is not being disseminated to the DoD working level.

When preparing a MIPR, DoD organizations should either list or include a reference to an interagency agreement, statement of work, task order, modification, or other contractual document that contains a specific description of goods and services being procured. This should also include the expected periods of performance and the DoD March 27, 2006, Memorandum required funding statement, to provide a sound basis for the use of DoD funds.

Contract Administration

DoD and the VA officials did not clearly delineate administrative roles and responsibilities for monitoring contractor performance or methods for collecting and recording past performance information into DoD past performance databases. Contract administration includes functions conducted by Government personnel from the awarding of the contract through contract termination. Furthermore, contract administration includes the elements of surveillance and documentation of past performance.

Delineation of Surveillance Roles and Responsibilities. Nineteen of 49 purchases reviewed at DoD organizations did not clearly delineate the roles and responsibilities for contract administration. For the 30 purchases with adequate

delineation of contract administration duties, DoD COTRs generally knew they were responsible for monitoring performance of each task or delivery order placed through the VA. Nevertheless, even when delineated in the MOA, DoD COTRs were not always aware of the specific surveillance procedures they were required to perform during the contract performance. Six of 30 purchases with adequately delineated contract administration duties did not prepare QASPs to monitor contractor performance. The DoD October 16, 2006, Memorandum clarifies DoD surveillance duties and procedures by requiring the requesting official to establish QASPs for non-Economy Act orders in excess of the simplified acquisition threshold. DoD organizations must implement the recently issued guidance that clarifies roles and responsibilities for non-Economy Act orders.

DoD Contracting Officers' Representatives. The VA contracting officers did not identify DoD personnel as CORs on 28 of 47 purchases reviewed.⁴ Thirteen of the 28 purchases did not have clear procedures explaining the specific surveillance steps DoD personnel should perform. Defense Federal Acquisition Regulation Supplement Subpart 201.6, "Contracting Authority and Responsibilities," states that contracting officers may designate a properly trained COR in writing prior to contract performance to assist in technical monitoring or administration of a contract. The MOA between the Air Force and the VA states that for task and delivery orders placed through the VASS or other VA contracting offices, the applicable VA contracting officer will appoint in writing a COR at the MTF or appropriate Air Force Medical Service organization located at the place of performance for each action.

Moreover, contracting personnel did not always follow their assigned roles and responsibilities when those duties were clearly delineated between the VA and DoD personnel. In one case, the VA contracting personnel failed to comply with their contract-delineated roles and responsibilities. Specifically, the VASS refused to modify 10 contracts (1 of the 10 contracts was within our sample review) to ensure the contractor was paid for work performed. The one purchase was for pharmacy service that was initially awarded through the VHA office in Tampa, Florida. However, the VHA Tampa office lost its authority to support DoD purchases. The VHA Tampa office contracts were then moved to the VASS located at Fort Detrick, Maryland. The VA returned funds on the pharmacy service contract to the Air Force 96th Medical Group through a MIPR Acceptance form, but did not cancel the contract. Later the Air Force 96th Medical Group requested that the VASS modify the contract to add FY 2006 funds so that the contractor could be paid for work that had been performed.

The VASS suggested that the Air Force 96th Medical Group coordinate with the Eglin Air Force Base contracting office to ratify the contract or use the Government Purchase Card to pay the contractor invoices. The VASS did not comply with the Defense Federal Acquisition Regulation Supplement requirement by refusing the DoD requiring activity the opportunity to amend the contract. Defense Federal Acquisition Regulation Supplement 208.7004, "Procedures," states that when the accepting activity requires additional funds to complete this

⁴Unable to determine whether there were CORs for one purchase at Air Force Medical Operations Agency (Fort Detrick) and one purchase at Air Combat Command due to the inability to interview CORs.

contract action for the requiring activity, the request for funds should identify the items involved and reason why funds are needed. The requiring activity must provide funds through a MIPR amendment or reduce the requirement. In addition, the VA-Office of the Air Force Surgeon General MOA requires that the VA provide a broad array of support services. Specifically, the VA executes contracts and the Air Force monitors contractor performance. The VA did not provide the Air Force 96th Medical Group support required under the fee-for-service agreement.

DoD Surveillance Plans. Eighteen of 34 purchases reviewed⁵ did not include adequate surveillance plans, while 16 purchases had adequate surveillance plans that met FAR requirements. Without adequate surveillance plans there was no assurance that work was actually monitored or the methods used to perform surveillance were sufficient. DoD should develop QASPs in conjunction with the preparation of the statement of work. The QASPs should specify all work requiring surveillance and the method of surveillance when monitoring contractor performance on service contracts. The method of surveillance should focus on how the work requiring surveillance will be evaluated. Preparing adequate QASPs will assist DoD requiring organizations in determining whether the contractor is being efficient and effective and in identifying areas requiring improvements. Labor hour and time-and-material contracts require more surveillance than firm-fixed-price contracts. The following table identifies the contract types for each of the 18 purchases that did not have a QASP.

Purchases Without QASP Contract Types		
<u>Contract Type</u>	<u>Total</u>	<u>Percent</u>
Labor Hour	12	67
Time-and Materials	2	11
Firm-Fixed-Price	4	22

DoD Organizations Without QASPs. Government contracts without a QASP increase the potential for confusion and misinterpretation when surveillance personnel conduct reviews. For instance, the Air Force Medical Operations Agency (Brooks-City Base) did not have a QASP for the \$39.0 million Hospital Aseptic Management Services (HAMS) purchase. The VA contracting officer stated that there was a DoD COTR; however, the DoD COTR identified by the VA stated that he was not the COTR and was not officially designated as the DoD COTR for the purchase. The VA-identified DoD COTR did not maintain a contract file. He explained that DoD monitors contractor performance through customer complaints and invoice reviews. DoD and the VA were unable to agree on whether there was an assigned COTR for the overall purchase. The VA contracting officer stated that he sends contract copies to the DoD COTR and does “not see any reason why DoD has to maintain contract documentation since the VA has copies of all contract documentation.” DoD personnel must document their surveillance efforts and demonstrate that

⁵ Fourteen of the purchases reviewed were for goods and dated prior to October 16, 2006; therefore, those purchases did not require a quality assurance surveillance plan. We were unable to determine whether an adequate QASP was prepared for one purchase due to a lack of documentation.

they adequately monitored contractors' performance. Without such documentation it would be difficult to convince a contractor he needs to improve his performance.

The Air Education and Training Command could not demonstrate how DoD performed contractor surveillance for the purchase of Hewlett Packard printers. The FAR requires Government inspections through the use of receiving reports or commercial shipping documents. DoD receiving personnel should ensure that goods conform to contract requirements. The recently issued DoD October 16, 2006, Memorandum requires the preparation of surveillance plans for goods. The surveillance plans should include the process for receipt and review of receiving reports and invoices from the performing agency, reconciliation of receiving reports and invoices, and requirements for documenting acceptance of the good. DoD adherence to these procedures will increase the likelihood that the Government receives the correct type and quantity of products.

DoD Organizations With QASPs. The Air Force Medical Operations Agency (Bolling Air Force Base), the Air Education and Training Command, the Jacksonville Naval Hospital, the Air Force 1st Medical Group, Air Force 60th Medical Group, Air Force 96th Medical Group, Air Combat Command, and the 579th Medical Group prepared and implemented a total of 16 comprehensive QASPs. The QASPs included all work requiring surveillance and the method of surveillance to review contractor work. For instance, the Air Force Medical Operation Agency developed a QASP to provide an effective surveillance method of monitoring contractor performance for third party collections of treatment provided within MTFs. The QASP included key performance indicators that detailed the methods and standards used to evaluate each of the contract objectives. Specifically the key performance indicators included methods the Government follows to monitor the contract's cash collections, billings, aging of accounts receivables, and customer complaints. The plan described how surveillance personnel were to compare the contractor's actual performance with contract requirements. This QASP is a good example of how a surveillance plan should be prepared. The DoD representative was responsible for adhering to the QASP. Surveillance plans that include comprehensive and systematic methods to evaluate the contractor provide greater assurance that DoD does not overpay for the goods not delivered or services not performed.

Contractor Past Performance. The 12 DoD activities reviewed did not collect and record the VA contractors' past performance information for any of the contract actions⁶ reviewed. No past performance information on the VA contracts had been entered into DoD data collection systems used to assess performance for future contract awards. DoD officials are not required to use the Past Performance Information Retrieval System; however, they "may consider" information from the system. The Past Performance Information Retrieval System functions as the central warehouse for performance assessment reports received from other Federal performance information collection systems. The Military Departments rely on the Contractor Performance Assessment Reporting

⁶ Three of the purchases reviewed were below the dollar threshold required for documenting past performance.

System and Past Performance Information Management System to record and retrieve past performance information.

DoD did not comply with FAR requirements for collecting contractor past performance. The FAR states that health care contracts valued at \$100,000 or more will have annual performance assessment reports prepared. In addition, interim evaluations should be prepared for contracts with a period of performance, including options, exceeding 1 year. Periodically evaluating and documenting current contractor performance provides valuable input to a contractor's prior performance, which can be an integral part of the "best value" source selection decision in future contract awards. Documenting past performance also provides the contractor with added motivation to perform at a high level.

We reported the same deficiency in DoD IG Report No. D-2007-007, "FY 2005 DoD Purchases Made Through the General Services Administration," October 30, 2006. The DoD OIG recommended that the Under Secretary of Defense for Acquisition, Technology, and Logistics negotiate with non-DoD agencies to develop procedures that will record contractor performance on all Government contractors, and access past performance information from the Past Performance Information Retrieval System for future source selection decisions. The Director of Defense Procurement and Acquisition Policy concurred and stated that new policy would be issued reminding the acquisition workforce of its responsibility to capture past performance information and utilize this information in the source selection process.

The VA Contract Award Decisions

Price Reasonableness Determinations. The VA contracting officials did not adequately document and support price reasonableness decisions for 14 of 24 purchases reviewed at the VA contracting offices. The 14 purchases were for services or a combination of goods and services. Eleven of the purchases had price reasonableness determinations that were not sufficiently supported. Three purchases did not have any price reasonableness determination documented in the contract files.

For example, the VA Denver Acquisition and Logistics Center awarded five orders for the purchase of blood gas analyzers, Propaq Encore monitors, business operations analyst services, third party collections and billings, and medical records clerks services. The price reasonableness determinations were vague, lacked sufficient documentation, and used the same "boilerplate" justification forms for each purchase. The justifications did not specify how price reasonableness was determined for contractor-proposed prices and contained no cost documentation. The justification forms used were the same forms used to justify exercising option years. However, the basic order for blood gas analyzers did not involve exercising an option year. The price reasonableness determination clearly was not appropriate for the blood gas analyzer purchase and indicates that justifications were not specifically written for each order.

In another example, two contracts awarded by the VA Joint Venture Acquisition Center (Austin, Texas) based price reasonableness on the fact that the proposed contractor prices were lower than the independent Government cost estimates. However, the independent Government cost estimate was not in the contract files. The mere statement that the contractor prices were lower than the independent Government cost estimate is not sufficient justification for the contracting officer's determination of price reasonableness.

Sole-Source Awards. The VA officials awarded 11 of the 24 purchases reviewed at the VA contracting activities on a sole-source basis. The VA contracting officials did not adequately justify the use of sole-source contracts for 8 of the 11 sole-source purchases, and therefore did not comply with FAR requirements. Seven of the eight awards were Federal supply schedule purchases covered by FAR Subpart 8.4., "Federal Supply Schedules." The remaining order was awarded through a multiple-award contract covered by FAR 16.505(b), "Orders under Multiple Award Contracts." One of the eight inadequately supported sole-source awards cited the FAR 8.405-6(b)(2) exception, logical follow-on to an original Federal supply schedule order; one cited the FAR 16.505(b)(2)(iii) exception, logical follow-on to an order already issued under the contract, two cited the FAR 6.302-1 exception, "Only One Responsible Source;" one cited the FAR 16.505(b)(2)(ii) exception, only one capable source; and one cited the FAR 8.405-6(b)(3) exception, urgent and compelling need. One purchase placed under a blanket purchase agreement established against a Federal supply schedule contract had no sole-source justification and approval. Another purchase placed under a multiple-award contract cited justifications that were not one of the FAR 16.505 statutory exceptions to fair opportunity. Although sole-source exceptions were cited for seven of the purchases, the sole-source justifications and approvals did not include sufficient supporting documentation to validate the assertions. Interagency contracts that are not fully competed must provide sufficient explanations why FAR exceptions are allowed.

For example, the VA Austin Automation Center contracting officials issued a new task order for information technology and technical support on behalf of the Air Force Communications Agency. The Air Force Communication Agency's justification for awarding a sole-source contract stated that if the procurement was not sole-sourced, the Air Force Communication Agency would incur additional costs and substantial delays resulting from the time required for a new contractor to perform up to the level of the incumbent. Furthermore, there likely would be overall erosion in the quality of performance during the transition period, which would have a catastrophic impact on the entire Air Force Global Communications Support System. This justification does not constitute an authority to award because of one responsible source or an urgent and compelling need, the two justifications most often cited. In fact, this justification is applicable to every purchase made by an office with an incumbent contractor. The VA contracting officer approved the sole-source award on September 22, 2004, pursuant to FAR 16.505, without citing a specific statutory exception to the fair opportunity process. A VA legal review dated September 24, 2004, performed on the request for proposal, advised that one of the sole-source exceptions found at FAR 16.505(b)(2) should be cited as justification for not providing a fair opportunity to all multiple-award contract awardees. There was no indication that the contracting officer acted on the legal advice.

Conclusion

DoD officials must perform acquisition planning for all procurements to ensure all acquisition alternatives are considered before acquiring goods and services. DoD organizations should utilize their local contracting office to assist with early acquisition planning. Adequate planning will help in the competitive procurement of goods and services and ensure reasonable prices.

Contract administration roles and responsibilities are needed to ensure more efficient and effective management of DoD resources. DoD must develop QASPs that specify all work requiring surveillance and the method of surveillance when monitoring contractor performance on service contracts. Surveillance plans that are not properly prepared increase the potential for confusion and misinterpretation amongst surveillance personnel. All Government agencies should agree on a mandatory system that records contractor performance for use by all agencies. Interagency contracting requires strong internal controls, clear definition of roles and responsibilities, and sufficient training of both servicing and requesting activities personnel.

The VA contracting officials must adequately justify the use of sole-source contracts and sufficiently document price reasonableness determinations. DoD management should permit the VA contracting officers to attend Defense Acquisition University contracting courses and take steps to ensure contracting standards are enforced across all Government agencies.

Management Comments on the Finding and Audit Response

Air Force Comments. Although not asked to comment, the Air Force Deputy Surgeon General provided comments for the Assistant Secretary of the Air Force (Financial Management and Comptroller). The Air Force Deputy Surgeon General stated that Air Force purchases were procured within the scope of the VA-DoD Health Care Resource Sharing Act statutory authority. The Deputy Surgeon General disagreed that the definition of health care resources is clearly defined under the VA-DoD Health Care Resource Sharing Act statutory authority. Specifically, the VA-DoD Health Care Resource Sharing Act states “health-care resources include hospital care, medical services, and rehabilitative services.” The Deputy Surgeon General stated that DoD Instruction 6010.234.1 provides a clearer definition of resources that allows for a broader range of contracting activities.

Therefore, the Deputy Surgeon General stated that he disagrees with the DoD OIG restrictive view of the VA-DoD Health Care Resource Sharing statutes. The Deputy Surgeon General added that a broad scope of purchases are permissible under 38 U.S.C. 8111 and 10 U.S.C. 1044. The Deputy Surgeon General added that VA and DoD are authorized to share “health care resources,” which include hospital care and medical services, other health care services, and any health care support or administrative resource. The Deputy Surgeon General also stated his position is further supported by GAO reports and other commentaries that found

services for fire, utilities, laundry services, security, and waste collection all fall within the confines of the VA-DoD Health Care Resource Sharing Act. However, the Deputy Surgeon General did state that the Task Force on Improvement of DoD Medical Care is aware that the VA-DoD Health Care Resource Sharing Act requires clarification to reflect Congress' intent on the scope of DoD-VA sharing and that the AFMS-VA MOA will be rewritten to clarify contracting services.

Finally, the Deputy Surgeon General stated that the HAMS program does have a QASP that is based on customer complaint methodologies. Furthermore, the Deputy Surgeon General stated that each HAMS site has an individual COR, identified in writing, responsible for quality assurance activities and for accepting services on behalf of the contracting office. The COR relies on customer complaints to demonstrate how contractors provide poor performance. Both the AFMS program manager and the VA contracting office are collocated. The contracting office keeps official contract documents while the Air Force Program Manager maintains unofficial working documents to manage the overall program.

Audit Response. The definition of health care resources included within DoD Instruction 6010.23, "Department of Defense and Department of Veterans Affairs Health Care Resource Sharing Program," states that health care resources include "all available manpower, facilities, equipment, supplies, and funding to produce health care services, and any other health care support or administrative resource." Therefore, we agree with Air Force comments that purchases for roof repairs, printers, furniture, radios, strategic services support, and manpower resource management support that are used to produce health care services are within the scope of the VA-DoD Health Care Sharing Act. We also assent to the Deputy Surgeon General statement that the AFMS-VA MOA should be clarified to specify which contracting services are within the scope of the agreement.

Both the VA contracting officer and a DoD COR assigned to the HAMS custodial services purchase stated that the HAMS Program Manager is the appointed COTR for the purchase. The DoD COR stated that he reports errors in contractor charges to the COTR. Yet, as we reported, the identified COTR stated he was not the COTR and was not officially designated in writing. Despite the Deputy Surgeon General's comments, the program manager and VA contracting officer were not collocated at the same facility. Instead, the DoD program manager is located at Brooks City Base in San Antonio, while the VA contracting officer works out of the Joint Venture Acquisition Center in Austin, Texas. The program manager stated that he does not maintain contract documentation; instead he referred us to the VA contracting officer to obtain contract documentation. The program manager did not provide any unofficial working documents used to manage the overall program.

Regarding the surveillance procedures for the HAMS custodial services purchase, there was no QASP provided for the purchase. Rather, quality assurance personnel relied on customer complaints to determine whether the contractor complied with terms and conditions of the contract. In accordance with FAR Part 46.4, "Government Contract Quality Assurance," a QASP should be prepared in conjunction with preparation of the statement of work and should specify all work requiring surveillance and the method of surveillance. The method of surveillance should focus on how the work requiring surveillance will be

evaluated, rather than just relying on customer compliant evaluations. Without a QASP, the Government cannot maintain close surveillance over the \$39.0 million contract to ensure that efficient methods are being used during contract performance. Implementing Recommendations A.1.a., A.1.b., A.1.c., and A.1.d. will provide contract administration roles and responsibilities that are needed to effectively manage DoD resources and aid in the preparation of surveillance plans that will assist the Government to determine contractor compliance with contract terms and conditions.

Recommendations

Recommendations A.1.a., A.1.b., and A.1.c. are identical to our recommendations in the “FY 2005 DoD Purchases Made Through General Services Administration” report (DoD IG Report No. D-2007-007, October 30, 2006). At that time, the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics stated that its office was currently reviewing its curriculum in all courses to ensure that the subject topics included in the recommendation were properly covered. Furthermore, the Defense Acquisition University would assist in developing appropriate course materials in those subject areas. Regarding past performance, the Under Secretary of Defense for Acquisition, Technology, and Logistics stated that his office would issue a policy memorandum reminding the acquisition workforce of its responsibility to capture past performance information and to use the information within the source selection process. The policy was expected to be issued on December 1, 2006; however, as of September 2007, the Under Secretary had not issued the memorandum. The Acting Deputy Chief Financial Officer issued an October 16, 2006, memorandum, “Non-Economy Act Orders,” that clarifies the DoD guidance on financial management policy for interagency contracting.

A.1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics:

a. Develop a training course that instructs contracting and program office personnel on proper acquisition planning and contract administration for assisted acquisitions.

USD(AT&L) Comments. The Director of Defense Procurement and Acquisition Policy, responding for the Under Secretary of Defense for Acquisition, Technology, and Logistics, concurred and stated that the Defense Acquisition University has commenced a review of all course materials related to interagency acquisitions. The Director stated the Defense Acquisition University, in collaboration with the Defense Procurement and Acquisition Policy and GSA, has a new course in process entitled “The Essentials of Interagency Acquisition.” That is expected to be available by February 1, 2008. The MOA includes both DoD and GSA collaboration on comprehensive training at all GSA regions.

Air Force Comments. Although not asked to comment, the Air Force Deputy Surgeon General agreed with the recommendation. The Deputy stated that establishing new training courses for assisted acquisitions would be redundant.

Rather, he recommended the enforcement of current DoD training courses for employees of agencies conducting assisted acquisitions. The Deputy also stated that the Air Force provided guidance to the VA that instructs them to apply the Air Force Federal Acquisition Regulations to their procurement process when conducting an assisted acquisition.

Audit Response. We agree with the Director of Defense Procurement and Acquisition Policy, GSA, and the Defense Acquisition University. A joint effort to establish a new interagency acquisition course will better prepare contracting officers for interagency purchases. No further comments are necessary.

b. Establish overall policies on acceptable contract administration roles and responsibilities that DoD will accept when purchasing goods and services through a non-DoD agency.

(USD)AT&L Comments. The Director of Defense Procurement and Acquisition Policy concurred and stated DoD will issue an update to its policy on “Proper Use of Non-DoD Contracts.” The policy memorandum is expected to be issued in December 2007.

Air Force Comments. Although not asked to comment, the Air Force Deputy Surgeon General agreed with the recommendation. The Deputy also stated that training is needed for employees of agencies conducting assisted acquisitions.

Audit Response. The Director of Defense Procurement and Acquisition Policy agreed. The Air Force Deputy Surgeon General also agreed with the recommendation. Contract administration roles and responsibilities are needed for DoD when purchasing goods and services through non-DoD agencies to preclude the funding and contracting problems addressed in our report. No further comments are required.

c. Finalize negotiations with the U.S. Department of Veterans Affairs to develop interagency agreements that specify agreed-upon roles and responsibilities regarding contract administration and surveillance duties.

(USD)AT&L Comments. The Director of Defense Procurement and Acquisition Policy agreed and stated DoD will establish an MOA with the VA that will address roles and responsibilities regarding contract administration and surveillance procedures. The memorandum of agreement is expected to be completed by December 31, 2007.

Air Force Comments. Although not asked to comment, the Air Force Deputy Surgeon General agreed with recommendation. The Deputy stated that efforts toward education and enforcement of the contracting officer and COR duties and responsibilities as delineated in the current regulations would be more efficient and effective for management of contracts.

Audit Response. The Director of Defense Procurement and Acquisition Policy concurred and stated his office plans to establish an MOA with the VA that will address roles and responsibilities for contract administration and surveillance procedures. No further comments are necessary.

d. Work with the U.S. Department of Veterans Affairs to develop a corrective action plan that addresses the concerns identified in this report (including the lack of adequate acquisition planning, interagency agreements, quality assurance surveillance plans, and past performance information.) The corrective action plan should also address the contract modification problem that is preventing contractors from receiving payment for services performed. The corrective action plan should clearly delineate the duties and responsibilities of both the U.S. Department of Veterans Affairs and DoD on all purchases made by the U.S. Department of Veterans Affairs on behalf of DoD.

(USD)AT&L Comments. The Director of Defense Procurement and Acquisition Policy concurred and stated the MOA established between DoD and the VA will address the roles and responsibilities regarding contract administration and surveillance duties. The Director also stated the MOA will include a corrective action plan that will address the deficiencies identified in the audit report. The MOA, including the corrective action plan, is expected to be completed by December 31, 2007.

Air Force Comments. The Air Force Deputy Surgeon General agreed with the recommendation.

Audit Response. Management comments are responsive. No further comments are necessary.

e. Develop an implementation plan for the U.S. Department of Veterans Affairs /DoD corrective action plan that includes site visits to major DoD organizations to ensure the required procedures in the memorandum have been explained at the operational level.

(USD)AT&L Comments. The Director of Defense Procurement and Acquisition Policy concurred and stated the MOA established between DoD and the VA will include a corrective action plan that will address the deficiencies identified in the audit report and address the effective and efficient communication of proper procedures to the operation level. The MOA, including the corrective action plan, is expected to be completed by December 31, 2007.

Air Force Comments. Although not asked to comment, the Air Force Deputy Surgeon General stated that the Air Force Medical Logistics Office conducted three contracting workshops that educated the Continental United States and Outside the Continental United States contract managers and medical equipment managers. The contracting workshops focused on current acquisition regulations and how those regulations apply to the MTFs. The contracting workshops also addressed assisted acquisitions and standard acquisition procedures that include acquisition planning and contract administration. Beginning in 2008, the Air Force will conduct three contracting workshops per year.

Audit Response. Management comments are responsive. No further comments are necessary.

f. Advise the U.S. Department of Veterans Affairs that Defense Acquisition University courses covering the preparation of sole-source justification and price reasonableness determinations are available to U.S. Department of Veteran Affairs contracting officers.

(USD)AT&L Comments. The Director of Defense Procurement and Acquisition Policy agreed and stated the Under Secretary of Defense for Acquisition, Technology, and Logistics will coordinate with the President of the Defense Acquisition University to ensure that relevant Defense Acquisition University courses are offered to VA contracting officers on a space available basis. The action is expected to be completed in December 2007.

Air Force Comments. Although not required to comment, the Air Force Deputy Surgeon General agreed.

Audit Response. Management comments are responsive. No further comments are necessary.

g. Negotiate with non-DoD agencies to determine the best method to record contractor performance on all Government contractors. In addition, require DoD organizations to enter past performance information into the Past Performance Information Retrieval System and access the Past Performance Information Retrieval System for future source selection decisions.

(USD)AT&L Comments. The Director of Defense Procurement and Acquisition Policy concurred and stated that DoD will coordinate with the office of Federal Procurement Policy on the best method to record contractor past performance and information. Furthermore, he stated DoD is in the process of issuing a policy memorandum that addresses capturing past performance information. The policy is expected to be issued in December 2007.

Air Force Comments. Although not asked to comment, the Air Force Deputy Surgeon General stated that the VA does not currently have an automated system that is used for collecting DoD past performance data; therefore, a standard Federal past performance database would assist the acquisition community.

Audit Response. Management comments are responsive. No further comments are necessary.

A.2. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) coordinate with the U.S. Department of Veteran Affairs to amend the “Department of Veterans Affairs and Office of the Air Force Surgeon General” memorandum of agreement. The memorandum of agreement should specify the types of purchases that are permissible under the interagency agreement between the Department of Defense and the U.S. Department of Veterans Affairs and conform to all provisions contained within the corrective action plan discussed in Recommendation A.1.d.

Air Force Comments. The Air Force Deputy Surgeon General, responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), concurred. The Deputy stated that a new version of the MOA is currently in coordination with the Department of Veterans Affairs. The Deputy also stated that the current MOA states that the VA is the “preferred” method for contracting services. However, future policy will make the Commodity Council the preferred method of acquisition with a waiver process that collects information needed for Air Force Medical Service management. Finally, he stated the MOA should build measures to help accountability, particularly with respect to contract execution responsibilities.

Audit Response. The Air Force Deputy Surgeon General concurred. No further comments are necessary.

B. Funding of DoD Purchases Made Through the U.S. Department of Veterans Affairs

Using the provisions of 38 U.S.C. 8111, “Shared Health Care Resources,” DoD correctly funded most purchases made through the VA. However, the Office of the Air Force Surgeon General improperly used the Austin Acquisition Office to obtain leased space through a service contract and improperly funded the Austin Automation Center to procure services and equipment. In addition, the Austin Automation Center failed to follow the Office of Management and Budget Business Rules for Intragovernmental Exchange Transactions and DoD policy on advance payments. The VA relied on outdated financial guidance and apparently was unaware that DoD had issued numerous memorandums clarifying previously issued guidance on funding the procurement of goods and services purchased by non-DoD agencies. Consequently, the VA did not comply with current DoD funding policy. DoD organizations incurred six potential violations of the bona fide needs rule and the purpose statute that could result in Antideficiency Act (ADA) violations valued at \$4.4 million and DoD was unable to properly account for interagency transactions because of advance payments on purchases to the Austin Automation Center.

Policy and Procedures for the VA Franchise Fund

The Austin Automation Center. The Austin Automation Center is a fee-for-service enterprise that offers assisted acquisition services for information technology goods and services, using the VA Franchise Fund. The Government Management Reform Act of 1994 authorized the establishment of the VA Franchise Fund Pilot Program. Franchise fund pilots are intragovernmental revolving funds established as self-supporting businesslike entities that provide common administrative services on a fully reimbursable basis. Franchise fund pilots function as entrepreneurial activities within and between Government agencies. The Austin Automation Center charges to provide procurement services for acquisition of products or services. The proceeds made through the surcharges are used to pay for the operations of the Austin Automation Center.

Criteria

Funding Requirements. The ADA is codified in a number of sections of title 31 of the United States Code (such as 31 U.S.C. 1341(a), 1342, 1349–1351, 1511(a), and 1512–1519). The purpose of these statutory provisions, known collectively as the ADA, is enforcing the constitutional powers of the purse residing in Congress with respect to the purpose, time, and amount of expenditures made by the Federal Government. Violations of other laws may

create violations of the ADA provisions (for example, the “bona fide needs rule,” 31 U.S.C. 1502[a]).

Section 1341, title 31, U.S.C., “Limitations on Expending and Obligating Amounts,” states “an officer or employee of the United States Government ... may not (A) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation” or “(B) involve either Government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law.”

Section 1350, title 31, U.S.C., “Criminal Penalty,” states that “an officer or employee of the United States Government ... knowingly and willfully violating” 31 U.S.C. 1341(a) or 1342 “shall be fined not more than \$5,000, imprisoned for no more than 2 years, or both.” Section 1351, title 31, U.S.C., “Reports on Violations,” states that “if an officer or employee of an executive agency” violates 31 U.S.C. 1341(a) or 1342, the head of the agency “shall report immediately to the President and Congress all relevant facts and a statement of actions taken.”

To use appropriated funds, there must be a bona fide need for the requirement in the year the appropriations are available for obligation. Section 1502(a), title 31, U.S.C. states:

The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with section 1501 of this title. However, the appropriation or fund is not available for expenditure for a period beyond the period otherwise authorized by law.

Section 2410a, title 10, U.S.C. states that the Secretary of Defense may enter into a contract for procurement of severable services for a period that begins in one fiscal year and ends in the next fiscal year. This section applies to annual appropriations, such as operations and maintenance (O&M) funds. To meet bona fide needs rule requirements and 10 U.S.C. 2410a considerations, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD[C]/CFO) has specified that funds for severable services⁷ must be obligated in the year of the appropriation funding the services, and the contract period of the services cannot exceed 1 year. Also, ordered commercial goods must be received in the year of the appropriation unless there is a known production or delivery lead-time or unforeseen delays in delivery.

Government Accountability Office Red Book. The Government Accountability Office (GAO) Red Book, GAO-04-261SP, “Principles of Federal Appropriations Law, Third Edition, Volume I,” January 2004, states:

⁷Most service contracts are severable. A non-severable contract would have a primary deliverable such as a prototype system or a completed report at the end of the performance period.

An order or contract for the replacement of stock is viewed as meeting a *bona fide* need of the year in which the contract is made as long as it is intended to replace stock used in that year, even though the replacement items will not be used until the following year.

DoD Financial Management Regulation Appropriation Guidance. Annual appropriation acts define the uses of each appropriation and set specific timelines for use of the appropriations. The DoD Financial Management Regulation, volume 2A, chapter 1, “Budget Formulation and Presentation,” provides guidelines on the most commonly used DoD appropriations for determining the correct appropriation to use when planning acquisitions.

Expenses incurred in continuing operations and current services are funded with O&M appropriations. The Under Secretary of Defense (Comptroller)/Chief Financial Officer considers all modernization costs under \$250,000 to be expenses, as are one-time projects such as developing planning documents and conducting studies. O&M funds are available for obligation for 1 year.

Leasing Requirements. In accordance with the Federal Property Management Regulations, GSA will lease privately owned land and building space only when adequate Government controlled space is not available. However, GSA may delegate leasing authority to Government agencies. Government agencies have the authority to lease space in buildings and land when the required space is to be wholly or predominantly used for the special purpose of the requesting agency, and furthermore, is not generally suitable for use by other agencies. Additionally, GSA must be contacted by agencies for approval of leasing actions totaling 2,500 or more square feet.

DoD Directives. DoD Directive 5110.4, “Washington Headquarters Service (WHS),” October 19, 2001, states that the Director, Washington Headquarters Service acts as the principle DoD Liaison with GSA for all administrative services and real property matters, including lease administration in the National Capital Region. DoD Instruction 5305.5, “Space Management Procedures, National Capital Region,” June 14, 1999, is the applicable guidance for obtaining space within the National Capital Region and prescribes procedures for obtaining space. Space requests are to be submitted through the Washington Headquarters Services.

Leased Space

The VA did not follow FAR or DoD policy when leasing office space. Specifically, the Austin Acquisition Office used a service contract to obtain leased space for the Office of the Air Force Surgeon General, though GSA, through the Washington Headquarters Service, is the leasing authority within the National Capital Region for DoD. By not following proper procedures, the VA and DoD may have entered into an illegal lease that overcharged the Government for use of office space. Without a legal and authorized agreement, no basis exists to obligate and expend Government funds. The USD(AT&L) should work with

the DoD Office of General Counsel to determine the correct actions to resolve the improper leasing arrangement.

Turn-Key Modernization Support Purchase. The Office of the Air Force Surgeon General used the Austin Acquisition Office to contract for the Turn-Key Modernization Support purchase. On behalf of the Air Force Surgeon General, the VA obtained Facility Management; Modernization/Information Technology Network, Desktop, Web Hosting, and Digital Communications Services; DoD Modernization/ Information Technology Collaboration Capacity; and DoD Modernization/ Information Technology Security and Maintenance Services through contract GS-35F-0763M, order number V791-AA6002, awarded August 20, 2006. Under the DoD Modernization/ Information Technology Collaboration Capacity task, the Austin Acquisition Office leased office space for the Air Force Surgeon General. The Performance Work Statement states, “The contractor shall lease the exclusive use of a 17,680 square foot IT [Information Technology] collaboration facility located on the 14th floor of 5201 Leesburg Pike, Suite 1400, Falls Church, Virginia.”

Authorization. The VA did not have authorization to lease office space on behalf of the Air Force. The Federal Property Management Regulations state that GSA has the authority to lease space for the Government. In addition, 10 U.S.C. 2664, “Limitations on real property acquisition,” precludes Military Department leases without specific statutory authority. Although GSA may delegate leasing authority to agencies for space that will be wholly or predominantly utilized for the special purposes of the agency, the VA did not have authority for this lease. However, GSA and the VA do have a long-standing MOA that allows the VA to lease medical facilities, but that MOA did not apply in this situation.

The GSA and the VA 1983 MOA states “. . . VA has assumed responsibility for all leasing for outpatient and medically related activities throughout the country.” By the terms of the MOA, the VA was required to make its needs known to the GSA regional offices to determine whether space was available. If space was not available, the VA could enter into a lease for medical facilities. In 1995, the VA and GSA signed a clarification to allow the VA to continue having leasing authority. However, no evidence exists that the VA consulted with GSA concerning the lease of office space for the Office of the Air Force Surgeon General. Also, the VA did not lease space for outpatient and medically related activities. Clearly, the VA obtained office space for the Office of the Air Force Surgeon General administrative staff. Therefore, the Austin Acquisition Office did not comply with the VA and Air Force MOA or Federal requirements by entering into a lease for the Air Force Surgeon General Office.

Overcharges. The Austin Acquisition Office signed a time-and-materials contract for the Turn-Key Modernization Support purchase. FAR 16.601, “Time-and-Materials Contracts,” states a time-and-materials contract provides for acquiring supplies or services on the basis of actual cost for materials. Based on a review of the actual charges of the space leased by the building owner to the contractor, the contractor overcharged the Government approximately \$109,000 from October 2005 through August 2006. The VA contracting officer is currently working with the contractor on the estimated overcharge. Additionally, DoD and

the Austin Acquisition Office are working with GSA regarding a lease agreement for the space. However, DoD should discontinue making lease payments to avoid improper payments of Government funds.

DoD Policy. On March 2, 2007, the Director of Defense Procurement and Acquisition Policy issued a memorandum, “Contracts for Services.” This memorandum reiterates that the FAR defines a service contract as “a contract that directly engages the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to furnish an end item of supply.” Specifically, service contracts should not be used to obtain end items such as office space or a military aircraft simulator, which are not consistent with the FAR definition of a “service.” In addition, on March 21, 2007, the Under Secretary of Defense for Acquisition, Technology, and Logistics issued a memorandum that restated DoD policy on leasing office space. The memorandum directs the National Capital Region to lease office space through the GSA or Washington Headquarters Services, unless otherwise expressly authorized by statute or delegation. Outside the National Capital Region, DoD Components may acquire leased office space only through GSA or a Military Department as may be expressly authorized by statute or delegation. The use of service contracts is not proper for entering into a contract for the purpose of acquiring leased office space for DoD operations.

Comptroller General Decision B-309181. On August 17, 2007, the Comptroller General of the United States issued a decision on “Interagency Agreements—Use of an Interagency Agreement between the Counterintelligence Field Activity, Department of Defense, and GovWorks to Obtain Office Space,” File B-309181. This decision stated that GovWorks, a Department of the Interior Franchise Fund, and the Counterintelligence Field Activity, a DoD agency, by circumventing Federal statutory and regulatory requirements on leasing using a service contract, involved the Government in an unauthorized transaction and millions of dollars of improper payments. However, no ADA violation occurred. The Air Force Surgeon General similarly used VA contracting officials at the Austin Acquisition Office to circumvent Federal statutory and regulatory requirements to lease office space using a service contract.

Potential Antideficiency Act Violations

Most VA contracting organizations used current DoD financial policies when procuring services and equipment on behalf of DoD. DoD generally used 38 U.S.C. 8111, “Sharing of Department of Veteran Affairs and Department of Defense Health Care Resources,” as the statutory authority to transfer funds to the VA. However, the Austin Automation Center used the franchise fund, under the authority of the Government Management Reform Act of 1994, when funding the procurement of DoD services and equipment. DoD and the VA organizations did not follow revised DoD guidance on interagency purchases. Therefore, DoD may have incurred potential ADA violations.

Use of the Austin Automation Center. The Austin Automation Center charges a 2 percent fee for purchases from an existing task order or contract and 3 percent

for new contract actions. Discounts are offered after the client contracts for more than \$500,000 of goods or services. The BuyIT.gov Program Manager and Chief Acquisition Management Services, the VA Austin Automation Center stated that issuing contracts for DoD lowers the overhead costs and helps lower rates for the VA.

The Austin Automation Center BuyIT.com Web site references an Under Secretary of Defense (Comptroller)/Chief Financial Officer September 2003 memorandum that states, with a bona fide need, the servicing agency may retain and promptly obligate funds in the following fiscal year. The Austin Automation Center interpreted this outdated DoD guidance to mean that goods and services procured in the following year could be procured with the earlier year appropriation. Consequently, the Austin Automation Center procured services and equipment for DoD organizations in FY 2006 using expired FY 2005 O&M funds. However, in October 2006, DoD clarified financial management policy for assisted DoD purchases made through non-DoD contracts.

The DoD October 16, 2006, Memorandum issues clear guidance on purchasing goods and services. Delivery of goods should be made during the period of availability of the funds, unless delivery, production, or manufacturing lead-time or unforeseen delays occur. Commercial off-the-shelf goods readily available from other sources should be procured and delivered in the period the funds are available. Severable services may cross fiscal years, as long as the period of performance does not exceed 1 year and services must begin in the year the funds are available for use. Use of current guidance will help ensure ADA violations do not occur.

Bona Fide Need. Six of the 16 purchases the DoD OIG and the VA OIG reviewed at the Austin Automation Center may have violated the bona fide needs rule and could result in ADA violations. DoD organizations used annual O&M appropriations to fund purchases of severable services that met a bona fide need of the following fiscal year instead of the year the funds were available. Also, DoD organizations purchased commercial goods that were contracted for and received after the availability of the funds. The delay in contracting and receiving the goods could not be justified because of delivery time, production lead-time, unforeseen delays, or stock replacement.

For example, the Office of the Air Force Surgeon General sent approximately \$3.7 million to the VA on September 28, 2005, using FY 2005 Defense Health Program Funds. The VA accepted the funds on September 28, 2005. FY 2005 Defense Health Program Funds expired September 30, 2005. The MIPR stated “The purpose of this effort is to provide information technology knowledge management support to the Modernization Directorate.” The VA contracted for BladeFram Base Systems and software licenses, costing \$718,606, using Federal supply schedule GS-35F-0330J. The VA contracting officer signed the purchase order February 16, 2006. The goods were commercial items and there was no evidence that a long lead-time was required to purchase these items, or that the items were needed to replenish the inventory, or that there was an unforeseen delay in purchasing these items. The Office of the Air Force Surgeon General should conduct a preliminary review to determine whether an ADA violation occurred.

Advance Payments

The Austin Automation Center collected full DoD payment for contracts immediately after contract award and prior to contract invoicing. Therefore, the Austin Automation Center did not follow the law or Government rules on advance payments. DoD loses oversight of funds that the VA collects prior to the services being received.

Advance Payments. The BuyIT.gov Program Manager and Chief Acquisition Management Services, VA Austin Automation Center stated that the Austin Automation Center collected the full amount of the contract and fee after contract award. To illustrate, DoD hypothetically sends \$1 million (using a MIPR) to the Austin Automation Center and receives an acceptance MIPR. The Austin Automation Center uses its own funds and completes the procurement and award. The contracting officer reports the value of the contract to the Austin Automation Center business support specialist and the next month the business support specialist collects through the Intra-Governmental Payment and Collection System the full contract amount plus fee from DoD. The VA pays the contractor as work is performed and accepted. The contracting officer certifies invoices based on the DoD COTR acceptance of goods and services.

Advance Payment Policy. Section 3324, title 31, U.S.C., “Advances,” states that advance payments may be made only if authorized by a specific appropriation or other law, or if the President allows it. Additionally, on October 4, 2002, the Office of Management and Budget issued Business Rules for Intergovernmental Transactions. The rules do not allow advance payments for service orders unless explicitly required by law. The Austin Automation Center violated this policy on advance billing. The Austin Automation Center did not pay the contractor until getting invoiced for work completed. However, the Center charged DoD the full amount of the contract prior to work being completed. This procedure is not in compliance with the intent of Government policy.

DoD Policy. The DoD Financial Management Regulation, volume 4, chapter 5, “Advance and Prepayments,” January 1995, reiterates 31 U.S.C. 3324. The regulation also provides guidance on the accounting policy for advances. DoD Components shall record advances as assets until receipt of goods or services involved or until contract terms are met. On March 1, 2007, the Under Secretary of Defense (Comptroller)/Chief Financial Officer issued a memorandum, “Advance Payments to Non-Department of Defense (DoD) Federal Agencies for Interagency Acquisitions.” This memorandum directs all DoD Components to stop the practice of advance payments unless specifically authorized by law, legislative action, or Presidential authorization, including the practice of permitting advance billings without the receipt of goods or services. The memorandum also requested all existing advancements retained by a non-DoD Federal agency be returned.

Oversight of Funds. Because of advance payments, DoD lost oversight of funds at the Austin Automation Center after contract award. Many contracts the VA awarded were time-and-material contracts used when it was not possible at the time of placing the contract to estimate accurately the extent or duration of the

work or to anticipate costs with any reasonable degree of confidence. DoD may or may not reach the funding ceiling of time-and-material contracts. If DoD does not reach the ceiling, DoD organizations may not receive expired funds back from the VA, as the VA had already collected full funding when the contract was awarded.

DoD Guidance on Purchases Made by Non-DoD Agencies

DoD has not updated the DoD Financial Management Regulations to reflect current guidance on purchases made through non-DoD agencies. Instead, DoD has issued policy memorandums such as the Deputy Chief Financial Officer October 16, 2006, memorandum, “Non-Economy Act Orders.” This requires DoD activities to check for the most recent USD(AT&L) and USD(C)/CFO guidance prior to using non-DoD agencies for procuring goods and services for each purchase. Also, it is unclear whether this information is passed on to non-DoD agencies making purchases on behalf of DoD.

Conclusion

By issuing a series of memorandums, DoD has continued to distribute and clarify comprehensive guidance on purchases made through non-DoD agencies. Most DoD purchases using the VA are funded correctly. However, the Austin Automation Center did not use current guidance on funding DoD purchases. As a result, DoD incorrectly used the VA Franchise Fund to extend the availability of funds and potential ADA violations occurred. We will audit the Austin Automation Center next year to ensure the current DoD guidance is being used so potential ADA violations do not occur. Also, the Office of the Under Secretary of Acquisition, Technology, and Logistics recently issued memorandums to restate the Department’s policy on leasing office space. The VA and the Office of the Air Force Surgeon General circumvented the law by contracting for leased office space using a services contract. By not following proper procedures, they entered into a lease without the legal authority to do so. DoD organizations and non-DoD contracting officers need to work together to ensure the proper policies and procedures are followed.

Management Comments on the Finding and Audit Response

VA Comments. Although not asked to comment, the Acting Director, VA Corporate Franchise Data Center stated the VA Corporate Franchise Data Center, formerly the Austin Automation Center, awarded contracts in compliance with the FAR, but inconsistent with DoD guidance that was issued after the orders were awarded. Specifically, the Acting Director stated that FY 2005 funds accepted for orders placed in FY 2006 (October 1, 2005, through September 30, 2006) were prior to the issuance of the DoD October 16, 2006, Memorandum. The Acting Director stated his office followed the DoD guidance in the September 25, 2003,

memorandum. The Acting Director added that his office will comply with the current DoD guidance for purchases, which includes utilizing the DoD October 16, 2006, Memorandum guidance for all future DoD acquisitions.

The Acting Director agreed that the Corporate Franchise Data Center used the franchise fund, under Section 403 of the Government Management Reform Act of 1994, Public Law Number 103-356, to fund the procurement of DoD services and equipment. The Acting Director stated the Corporate Franchise Data Center complied with the VA Appropriation Act of 1997, Public Law Number 104-204, when it collected full payment from DoD for contracts immediately after contract award. The Acting Director added this statute established the VA Franchise Fund and permits advance payments for providing common administrative services to other agencies. The Acting Director stated that collecting “earned” revenue (that is, contract award amount and acquisition service fee) is not an “advance payment” for the DoD intragovernmental order for acquisition services. Furthermore, the Acting Director said that revenue was collected after the completion of acquisition services that resulted in contract award. Finally, the Acting Director stated they will comply with the DoD March 1, 2007, Memorandum for all new DoD acquisitions. The Acting Director maintained that advance payments to contractors were not made and stated that the contractor payments were made in arrears for services or products received and accepted in accordance with Federal procurement laws and regulations. The DoD March 1, 2007, Memorandum provides current guidance on DoD purchases, and was issued after these funding actions were received and acquisitions awarded. The Acting Director requested that DoD ensure the VA receives new guidance that is issued by DoD regarding non-DoD agencies making purchases on behalf of DoD.

Finally, the Acting Director stated that its Business Support Specialist reconciles the amount expended on the contract versus the amount collected from the customer, and executes an “Acceptance of MIPR” to return funds during contract completion. The Acting Director will review unexpended funds on current contracts to determine the amount that should be returned to DoD and billed invoices that should be paid to the contractor.

Audit Response. We stated in our report that most VA contracting organizations used current DoD financial policies when procuring services and equipment on behalf of DoD. However, the Austin Automation Center used the outdated Under Secretary of Defense (Comptroller)/Chief Financial Officer September 2003 memorandum that states the servicing agency may retain and promptly obligate funds in the following fiscal year. Therefore, the Austin Automation Center procured goods and services in the following year of the appropriated funds. As a result, DoD may have incurred potential ADA violations. In an effort to ensure the proper use of DoD funds, the DoD October 16, 2006, Memorandum was issued to clarify financial management policy for assisted DoD purchases made through non-DoD contracts.

In our report we also noted that the Austin Automation Center collected the full contract amount and fee from DoD through the Intra-Governmental Payment and Collection System. Though the entire fee was collected from the payment system, work was not completed on the contract. These types of advance

payments are not in accordance with Government policy. The Acting Deputy Chief Financial Officer directed DoD Components to stop the practice of advancing funds to non-DoD Federal entities. These directions include stopping the practice of permitting advance billings without receipt of goods or services. Furthermore, the Acting Deputy Chief Financial Officer stated that all future payments should be based on billings for completed services or delivered goods. In response, the Chief Financial Officer, Veterans Affairs notified the Acting Deputy Chief Financial Officer that all DoD funds will be obligated to ongoing contracting actions or deobligated by June 30 in keeping with DoD policy. Since the Chief Financial Officer agreed to comply with DoD advance payments policy, no further actions are required.

Recommendations, Management Comments, and Audit Response

Recommendations pertaining to potential ADA violations are being consolidated into a separate DoD IG report, "Potential Antideficiency Act Violations on DoD Purchases Made Through Non-DoD Agencies Update." Accordingly, we are not making any recommendations addressing the potential ADA violations in this report.

B.1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer:

a. Ensure that personnel at the U.S. Department of Veterans Affairs understand the current DoD policy on advance payments and funding purchases when performing assisted acquisitions. Specifically, the Under Secretary of Defense (Comptroller)/Chief Financial Officer must ensure guidance that prohibits advance payments has been distributed to field activities and to non-DoD agencies that procure goods and services on behalf of DoD.

Comptroller Comments. The Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, concurred. The Deputy Chief Financial Officer stated that the U.S. Department of Veterans Affairs and the DoD Components were notified of the DoD advance payment policy in March 2007.

Air Force Comments. Although not asked to comment, the Air Force Deputy Surgeon General agreed and added that the funding issue is a problem. Furthermore, the Deputy stated definitive guidance on the various types of funds would be helpful.

Audit Response. The Deputy Chief Financial Officer concurred. The Air Force Deputy Surgeon General also agreed with the recommendations addressed to the Under Secretary of Defense (Comptroller)/Chief Financial Officer. No further comments are necessary.

b. Recover advance payments made to the U.S. Department of Veterans Affairs, Austin Automation Center that have not been expended.

Comptroller Comments. The Deputy Chief Financial Officer concurred.

Air Force Comments. Although not required to comment, the Air Force Deputy Surgeon General agreed.

Audit Response. Management comments are responsive. No further comments are necessary.

B.2. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics obtain an opinion from the DoD General Counsel on the correct course of action to resolve the improper payments and leasing arrangement.

(USD)AT&L Comments. The Director of Defense Procurement and Acquisition Policy, responding for the Under Secretary of Defense for Acquisition, Technology, and Logistics, concurred and stated that the Department is coordinating with the DoD General Counsel and the Office of the Under Secretary of Defense (Comptroller) to resolve potential improper payments and leasing issues. The Director added that resolution is expected by April 1, 2008.

Comptroller Comments. Although not required to comment, the Deputy Chief Financial Officer agreed. Specifically, the Deputy Chief Financial Officer stated his office directed all DoD Components and notified the U.S. Department of Veteran Affairs to return all existing advancements retained at non-DoD Federal agencies.

Air Force Comments. Although not asked to comment, the Air Force Deputy Surgeon General agreed.

Audit Response. Management comments are responsive. No further comments are necessary.

C. Military Departments Contracting Approach for the Procurement of Medical Supplies and Services

The Military Departments used different approaches to procure medical supplies and services. The Air Force decentralized its approach to procure medical services and supplies, while the Army and Navy centralized and regionalized their medical contracting. The Air Force's decentralized approach compels requiring activities to procure medical requirements through either base contracting offices that lack medical expertise or through interagency contracting offices such as the VA that are not permitted to acquire personal services. The Army and Navy award medical acquisitions directly from organic medical contracting offices with expertise. Although there are pros and cons to the different contracting approaches used, DoD may be missing an opportunity to leverage its expertise and buying power through standardized contracting practices among the Military Departments. Standard military contracting practices for medical support should result in better acquisitions at reduced prices.

Personal Service Contracts Authorization and Requirements

Personal Service Contracts. Section 1091, title 10, U.S.C., "Personal Services Contract," authorizes only the Secretaries of Defense (with respect to MTFs of DoD) and Homeland Security (with respect to MTFs of the Coast Guard when the Coast Guard is not operating as part of the Navy) to enter into personal service contracts (PSC). A PSC is characterized by the employer-employee relationship it creates between the Government and the contractor's personnel. PSCs are considered necessary for medical services because they assist with mission accomplishments, maintain readiness capability, and enhance the patient and provider relationship.

Personal Service Contracts for Health Care Providers. DoD Instruction 6025.5, "Personal Services Contracts (PSCs) for Health Care Providers (HCPs)," January 6, 1995, implements policies, responsibilities, and procedures for the authority of PSCs of health care providers. The DoD instruction directs that the PSC is the preferred type of contract to use when similar services in the civilian sector would be considered personal services, such as nurses working directly for doctors. Moreover, PSC health care providers are not required to maintain medical malpractice liability insurance. Any malpractice claim against a health care provider contracted by a DoD PSC would be processed as if it were made by a DoD military or civil service health care provider. Therefore, PSCs are generally less expensive than non-PSCs because the Government assumes the risk of medical malpractice.

Military Departments Contracting Approach for Medical Goods and Services Acquisitions

The Military Departments each have their own distinct contracting methods that they use to procure medical services. The contracting approach began with the Military Departments' Surgeons General delegating responsibility for medical services acquisitions to the Army Health Care Acquisition Activity, the Naval Medical Logistics Command (NMLC), and the Air Force Medical Logistics Office. Both the Army and Navy commands have medical contracting personnel. The Army medical contracting office has more than 250 personnel who procure a variety of medical services through a centralized contracting method, while the Navy medical contracting office has about 50 personnel who procure professional medical services through a process similar to the centralized contracting method used by the Army. However, the Air Force chose to decentralize its medical acquisitions by having Air Force base contracting offices provide support services to MTFs. Air Force requiring organizations also make extensive use of interagency contracting by contracting through the VA and other Government agencies. However, all of the Military Departments must procure PSCs through DoD contracting avenues since only DoD and the Department of Homeland Security are authorized to enter into PSCs.

The Air Force recognized a need for centralized contracting of PSCs when it established the Air Force Medical Service Commodity Council (AFMSCC). The AFMSCC has established two multiple-award PSC vehicles that may be used by Air Force requiring activities. The Army and Navy have established medical contracting offices that award PSCs. Furthermore, the Military Departments utilize the Defense Supply Center Philadelphia, a primary-level field activity of the Defense Logistics Agency, to procure pharmaceuticals and medical surgical supplies.

Army Medical Contracting Approach. The Army centralized approach utilizes the Medical Command Health Care Acquisition Activity and Regional Medical Command contracting offices to procure medical services. The regional commands are divided into six regions consisting of the North Atlantic, the Southeast, the Great Plains, the Pacific, the Western, and the Europe regions. Most Medical Command contracts cover personal services authorized under the authority of 10 U.S.C. 1091. The Army uses two separate multiple-award task order contracts called the Innovative Medical Acquisition Program to procure services. The Army also uses the VA Federal supply schedule and Native American 8(a) contracts to procure medical services. The Army accounted for approximately \$37.0 million or 10 percent of DoD purchases awarded through the VA in FY 2006. The Army Medical Command was established under the Command of the Army Surgeon General in October 1994.

Navy Medical Contracting Approach. The Navy centralized approach employs the NMLC Contract Directorate to acquire personal service health contracts. Those PSCs are awarded under the authority of 10 U.S.C. 1091. The Fleet Industrial Supply Center Norfolk, Detachment Philadelphia contracting office handles non-PSCs medical contracts. The NMLC Contracting Directorate also procures medical goods centrally, or base contracting offices can procure medical

goods locally. NMLC contract specialists and contracting officers are experts in health care service contracts. The Navy accounted for approximately \$6.1 million or 2 percent of DoD purchases awarded through the VA in FY 2006. NMLC began in 1850 and acts as the technical manager for the Navy direct health care services contracting program.

Air Force Medical Contracting Approach. The Air Force implemented a decentralized method to allow Air Force MTFs the ability to procure medical services and supplies through base contracting. Other options available to MTFs include procuring medical requirements through the VA, or through other contracting services. However, the Air Force Medical Service recently established an Acquisition Management Directorate under the Assistant Surgeon General for Modernization, which specializes in the acquisition of health care services, supplies, and equipment.

The AFMSSC supports the Air Force by establishing enterprise-wide medical acquisitions contracts. Those enterprise-wide medical acquisition contracts improve customer support, reduce purchase cost of services, reduce variation in services, increase standardization, and provide life-cycle management support. In addition, the AFMSSC developed a strategy to acquire both Clinical Support and Medical Administrative Support Services for all Air Force MTFs. The AFMSSC satisfies medical group needs by minimizing duplication of efforts, standardizing procurement policy, and providing purchasing flexibility. The AFMSSC was established in July 2004.

The Air Force Service Designated Official stated that an Air Force organization should first procure its requirements through base contracting. If the requiring activity is unable to award the requirement through base contracting, the organization is authorized to go through non-DoD designated officials. The Air Force 1st Medical Group Commander stated that the base contracting office is not medically trained, and hopes that a medical contracting office will be established to assist the Air Force 1st Medical Group with its requirements. The Secretary of Air Force, Contracting Operations Division indicated that the reason contracts were awarded through the VA was due to Air Force base contracting offices not having the resources to assist requiring activities with central contracts. Furthermore, medical contracts are procured through the VA because the VA offers a cheaper alternative than other options such as the Air Force Civil Engineering Support Agency or the Corp of Engineers, which charge higher fees. As previously mentioned, the Air Force accounted for approximately \$327.0 million or 88 percent of DoD purchases awarded through the VA in FY 2006. However, Air Force medical contracts involving personal services should only be awarded through DoD contracting organizations since DoD has a waiver to obtain medical personal services contracts.

Recently, the Air Force developed other means of awarding health care contracts. In 2005, the AFMSSC awarded an Air Force-wide Clinical Support Service centralized contract for health care workers. The PSC provides the services of physicians, nurses, and technicians to MTFs. All Air Force contracting offices that support Air Force MTFs are authorized to place orders against the \$1.9 billion contract that covers a period of 4 years with two 3-year options that could extend the ordering period to a total of 10 years. Air Force customers who

do not have a base contracting officer can contact the AFMSSC directly to request support in processing their requests. More recently, the AFMSSC awarded its second Air Force-wide contract under the Medical Administrative Support Services. The 5-year, \$96.4 million, multiple-award, indefinite-delivery, indefinite-quantity ordering contract provides medical administrative positions and services. The Air Force Service Designated Official stated that the Air Force is transitioning high dollar value contracts from non-DoD agencies to the AFMSSC. The Secretary of Air Force, Contracting Operations Division stated that AFMSSC contracts improve business operations, small business involvement, contracting operations, business relationships, and strategy. Furthermore, the AFMSSC saves money and increases efficiency for the Government. These Air Force-wide contracts assisted the AFMS in saving money by competitively awarding each of the task orders among six contractors and avoiding surcharges since there is no fee for the decentralized purchasing offices using the AFMSSC. These PSCs cannot be awarded through the VA since 10 U.S.C. 1091 does not authorize the VA to award PSCs.

Unified Medical Command Concept. Merging Army, Navy, and Air Force medical contracting into a Unified Medical Command may streamline the military health care system and enable DoD to provide better care to DoD military personnel while keeping costs at a minimum. This concept of consolidating military medical health services has been studied since 1948. According to economists with the Center for Naval Analysis, the establishment of a Unified Medical Command would provide a projected savings of \$500 million annually for DoD. Last year, the Defense Business Board, a group of outside management experts that advise the Defense Secretary, unanimously recommended that the Defense Secretary appoint a transition team to oversee the establishment of a Unified Medical Command by January 1, 2007. The Defense Business Board stated, “a joint command structure would inherently reduce costs through eliminating redundant processes and consolidating personnel, resulting in a more efficient and effective health care system.” The Unified Medical Command would take charge of all Army, Navy, and Air Force direct-care health services.

The Army and Navy planned on forming a single Unified Medical Command; however, the Air Force Surgeon General opposed the establishment of a Unified Medical Command. The Air Force Surgeon General stated that the service missions and cultures are different, and those differences justify having separate medical staffs and resources. In December 2006, the Deputy Defense Secretary decided not to endorse the Unified Medical Command, which would have streamlined the military health care system. The media opinion was that the decision not to establish a Unified Medical Command was primarily due to opposition received from the Air Force. Instead, the Deputy Defense Secretary approved a “new governance plan” for the health care system that directs joint oversight over medical research, medical education and training, health care delivery in major markets, and shared support services. Regardless of the decision not to create a single Unified Medical Command, we believe there are advantages to rethinking the contracting approach for acquiring medical services and supplies.

Conclusion

DoD may be missing an opportunity to leverage its expertise and buying power to standardize contracting among the Military Departments. The opportunity to use its expertise and buying power from the consolidation of Military Departments' medical contracting approaches may allow more efficient and cost-effective procurement prospects. This is especially important with rapidly rising health care costs. According to DoD information, "DoD's health care costs have almost doubled over the past five years. Costs in fiscal year 2006 were \$37 billion, up from \$19 billion in 2001. Health care costs are conservatively projected to reach \$64 billion in fiscal year 2015, an estimated 12 percent of the total DoD budget, compared with 8 percent now and 4.5 percent in 1990."

We feel that the differing methods of procuring medical goods and services used by the Military Departments are an impediment to consolidating medical services. Contracting procedures for medical goods and services could be standardized without affecting military missions or cultures. Accordingly, the Under Secretary of Defense for Acquisition, Technology, and Logistics should work with the Assistant Secretary of Defense for Health Affairs to determine the best and most efficient method for procuring medical services and then ensure that all the Military Departments are using those methods. We believe DoD can benefit from using its leverage to acquire medical supplies and services.

Recommendation

C. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics initiate and coordinate a review with the Assistant Secretary of Defense for Health Affairs to assess whether the Military Departments are purchasing medical goods and services through the most efficient and effective methods.

(USD)AT&L Comments. The Director of Defense Procurement and Acquisition Policy, responding for the Under Secretary of Defense for Acquisition, Technology, and Logistics, concurred and stated the Department already began to implement the recommendation as part of its effort in strategic sourcing. Specifically, the recommendation is in consonance with Recommendation 5.a. of DoD IG Report No. D-2004-094, "Direct Care Medical Services Contracts," June 24, 2004. The DoD IG report stated that the Assistant Secretary of Defense (Health Affairs), in conjunction with the Military Department Surgeon General, should develop a coordinated strategy for acquiring direct care medical services that includes the implementation of the "Centers of Excellence" concept. The Director added that the Army Surgeon General was tasked to develop a coordinated strategy for acquiring direct care medical services. Subsequently, the DoD Strategy Council for Acquiring Direct Care Medical Services was formed, and the Medical Command Health Care Acquisition Activity took the lead.

In June 2005, the DoD Strategy Council Report had three recommendations that were to create a DoD organization with tri-service support responsibilities and flexible contracting authority, establish strategic sourcing councils for key labor categories, and standardize the acquisition process and related capabilities. In April 2006 the Quadrennial Defense Review, Initiative 16, conducted follow-on work to the DoD Strategy Council. This initiative addressed the purchasing of goods and services through a more efficient and effective manner. Specifically, the Quadrennial Defense Review focus is to develop a coordinated tri-service process that facilitates sharing of personnel between facilities to enhance mission capabilities, minimize competition among the military services in the same market area and work with the VA if possible, respond to the needs of small facilities, and establish multi-service market and TRICARE Regional Office contracting capabilities able to support all services.

Army Comments. Although not asked to comment, the Deputy Assistant Secretary of the Army (Policy and Procurement) agreed with the recommendation to standardize the Military Departments contracting for medical goods and services acquisition. The Deputy also stated that the Army already began to implement the recommendation.

Air Force Comments. Although not asked to comment, the Air Force Deputy Surgeon General agreed and stated that the Services are conducting a review under the TRICARE Management Activity Quadrennial Defense Review Roadmap for Medical Transformation.

Audit Response. The Director of Defense Procurement and Acquisition Policy concurred. The Director stated DoD has been working on the implementation of this recommendation. No further comments are required.

Appendix A. Scope and Methodology

We conducted this performance audit from August 2006 through August 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit was a joint review between the DoD OIG and the VA OIG. We performed the audit in accordance with the “John Warner National Defense Authorization Act for Fiscal Year 2007.” This law requires the Inspectors General of DoD and the VA to review the policies, procedures, and internal controls for DoD purchases made through the VA. We reviewed a total of 58 purchases at DoD and VA activities funded by 124 MIPRs valued at approximately \$128.3 million. Thirty-four of the 58 purchases were reviewed solely at DoD activities and 9 of the 58 purchases were reviewed solely at VA activities. We reviewed 15 purchases at both DoD and VA activities. We reviewed 49 purchases at DoD activities funded by 112 MIPRs valued at \$121.7 million. See the table for purchases reviewed and Appendix C, “Identified Contract Problems,” for detailed information on DoD and VA locations visited. We reviewed VA purchases initiated by DoD in May 2005 through ongoing procurements not yet awarded.

Purchases Reviewed	
<u>Locations</u>	<u>Purchases</u>
DoD	34
VA	9
DoD and VA	<u>15</u>
Total	58

The VA provided seven spreadsheets containing DoD purchases made by the VA contracting offices as the universe of the audit. We took a judgmental sample of 58 purchases from the VA universe. We visited a total of 12 DoD and 5 VA organizations. The Navy organization visited was Jacksonville Naval Hospital. We visited Air Force organizations including the Air Combat Command, Air Education and Training Command, Air Force Medical Operations Agency, Air Force Medical Support Agency, Air Force 1st Medical Group, Air Force 60th Medical Group, Air Force 96th Medical Group, Air Force 311th Human Systems Wing, Air Force 59th Medical Wing, and Air Force 579th Medical Group. We also visited the National Guard Bureau. Additionally, we visited five VA organizations, including the Joint Venture Acquisition Center, Austin Automation Center, Austin Acquisition Office, Denver Acquisition and Logistics Center, and the VASS.

For each site, we attempted to review a minimum of five purchases containing contract actions between May 1, 2006, and September 30, 2006. We judgmentally selected purchases from the VA universe and MIPRs sent to the VA by the DoD organizations. We reviewed documentation maintained by the contracting and program organizations to support purchases made through the VA. The purchase documents reviewed included MIPRs and the VA acceptances, statements of work, acquisition plans, task orders, cost proposals, surveillance plans, invoices, sole-source justifications, price reasonableness determinations, contract award documents, payment history documents, and miscellaneous correspondence.

Our audit included four major areas of review at the DoD organizations and two major areas of review at the VA organizations visited.

At each DoD organization visited, our review included the following.

- We determined whether DoD organizations had internal controls to ensure that the proper types of funds and proper year of funds were used for DoD MIPRs sent to the VA. We determined whether the organization had written procedures covering the use of MIPRs to non-DoD organizations. For each purchase reviewed, we determined whether the appropriation code was correct and whether that code would be proper if the purchase had not been made through the VA.
- We determined whether DoD requiring organizations had internal controls for defining requirements and planning acquisitions for purchases awarded on the VA contracts. For each purchase reviewed, we determined when the organization developed the requirement, why the VA was selected to make the purchase, and whether DoD determined if it was in the best interest of the Government to use the VA. In addition, we determined whether there was a bona fide need for the requirement in the fiscal year of the appropriation used to finance the requirement.
- We determined whether DoD contracting activities are following established procedures for approving purchases made through the use of contracts awarded through the VA. Specifically, we determined whether a DoD contracting office was involved in planning the VA purchase.
- We determined how contractor performance was being monitored in situations where DoD purchases were awarded on the VA contracts. For each purchase reviewed, we determined whether a DoD representative was assigned as the COR and signed off on acceptance of contractor work.

At each VA organization visited, our review included the following.

- We determined whether the VA adequately competed DoD purchases according to the FAR and Defense Federal Acquisition Regulation Supplement. For each sole-source award, we determined whether the VA contracting officer prepared a Justification and Approval for Other Than Full and Open Competition that adequately justified the sole-source award.

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- We determined whether the VA contracting officers adequately documented that the prices paid for the DoD purchases were fair and reasonable.

These additional audit steps at the VA organizations were performed on 24 of the 58 purchases reviewed during the audit.

Use of Computer-Processed Data. The VA OIG provided spreadsheets with the universe of DoD purchases for FY 2006. From the spreadsheets, we judgmentally selected mostly high-value MIPRs for review. We did not assess the reliability of the VA-furnished data during this audit. However, we did not find any discrepancies in the data provided for the 58 purchases reviewed.

We did not assess the accuracy of the past performance information systems used within DoD, or the Government-Wide Past Performance Information Retrieval System, which is the official past performance system for compiling data on contractor performance used throughout the Federal Government.

Government Accountability Office High-Risk Area. GAO has identified several high-risk areas in DoD. This report provides coverage of the high-risk area “Management of Interagency Contracting.”

Appendix B. Prior Coverage

During the last 5 years, GAO, DoD IG, the Army, the Air Force, and the VA IG have issued 21 reports discussing interagency contracting. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Unrestricted VA reports can be accessed at <http://www.va.gov>.

GAO

GAO Report No. GAO-07-310, “High-Risk Series: An Update,” January 2007

GAO Report No. GAO-06-996, “Interagency Contracting: Improved Guidance, Planning, and Oversight Would Enable the Department of Homeland Security to Address Risks,” September 2006

GAO Report No. GAO-05-456, “Interagency Contracting: Franchise Funds Provide Convenience, but Value to DOD is Not Demonstrated,” July 2005

GAO Report No. GAO-05-201, “Interagency Contracting: Problems with DOD’s and Interior’s Orders to Support Military Operations,” April 2005

GAO Report No. GAO-05-274, “Contract Management: Opportunities to Improve Surveillance on Department of Defense Service Contracts,” March 2005

DoD IG

DoD IG Report No. D-2008-022, “FY 2006 DoD Purchases Made Through the National Institutes of Health,” November 15, 2007

DoD IG Report No. D-2007-044, “FY 2005 DoD Purchases Made Through the Department of the Interior,” January 16, 2007

DoD IG Report No. D-2007-042, “Potential Antideficiency Act Violations on DoD Purchases Made Through Non-DoD Agencies,” January 2, 2007

DoD IG Report No. D-2007-032, “FY 2005 DoD Purchases Made Through the Department of the Treasury,” December 8, 2006

DoD IG Report No. D-2007-023, “FY 2005 DoD Purchases Made Through the National Aeronautics and Space Administration,” November 13, 2006

DoD IG Report No. D-2007-007, “FY 2005 DoD Purchases Made Through the General Services Administration,” October 30, 2006

DoD IG Report No. D-2006-029, "Report of Potential Antideficiency Act Violations Identified During the Audit of the Acquisition of the Pacific Mobile Emergency Radio System," November 23, 2005

DoD IG Report No. D-2005-096, "DoD Purchases Made Through the General Services Administration," July 29, 2005

DoD IG Report No. D-2005-003, "DoD Antideficiency Act Reporting and Disciplinary Process," October 14, 2004

DoD IG Report No. D-2004-084, "Antideficiency Act Investigation of the Research, Development, Test and Evaluation, Defense-Wide Appropriation Account 97 FY 1989/1990 0400," May 28, 2004

DoD IG Report No. D-2003-090, "Use and Control of Military Interdepartmental Purchase Requests at the Air Force Pentagon Communications Agency," May 13, 2003

Army

AAA Report No. A-2007-0096-FFH, "Proper Use of Non-DoD Contracts U.S. Army Medical Command," March 22, 2007

AAA Report No. A-2004-0244-FFB, "Information Technology Agency Contract Management," May 25, 2004

Air Force

AFAA Report No. F2004-0006-FBP000, "GSA Military Interdepartmental Purchase Requests 353d Special Operations Group Kadena AB Japan," November 10, 2004

AFAA Report No. F2004-0046-FBP000, "GSA Military Interdepartmental Purchase Requests 390th Intelligence Squadron Kadena AB Japan," August 11, 2004

VA IG

VA Report No. 04-03178-139, "Audit of VA Acquisitions for Other Government Agencies," May 5, 2006

Appendix C. Identified Contract Problems

DoD Activity	Purchase	Purchase Reviewed at DoD	Purchase Reviewed at VA	No Audit Trail of Funds	Inadequate MIPR Preparation	Inadequate Sole-Source Justification	Inadequate Price Reasonable Determination
Army							
1) National Guard Bureau	1) Strategic Services Support 2) Manpower Resource Management Support	• •	• •	N/D	• •	• •	Adequate •
2) Army Research Laboratory	3) IV&V		•	N/R	•	•	•
Navy							
3) Jacksonville Naval Hospital	4) Business Operations Analyst Services	•	•		•	Adequate	•
	5) Medical Administrative/Records Clerk	•	•		•	Competed	•
	6) Central Appointment Data Entry Clerks	•	•		•	Competed	•
	7) Third Party Collections/Billings	•	•		•	Competed	•
	8) Emergency Services for IRMD	•	•		•	Competed	•
Air Force							
4) AFMOA/AFMSA, S.A.	9) Propaq Encore Monitors		•	N/R	•	Adequate	Adequate
5) AFMOA, Brooks City-Base	10) HAMS* 11) Chiller Replacement*	• •		•	• •		
	12) Furniture	•			•		
6) AFMOA Bolling	13) Third Party Collections 14) Third Party Collections	• •	• •		• •	Competed Competed	Adequate Adequate
7) Air Force Communications Agency	15) Information Technology Services		•	N/R	•	•	•
8) Air Force Surgeon General	16) Kiosks		•	N/R	•	•	•
	17) Modernization Support (Lease)		•	N/R	•	•	•
9) Air Education and Training Command	18) Information Management/Information Technology	•			•		
	19) HIPAA Operations and Services	•			•		
	20) HP Printers	•			•		
	21) Medical Readiness and Data Quality Managers	•			•		
	22) Coding Specialist	•			•		
	23) Repair HVAC Air Handlers		•	N/R	•	Competed	•
10) 1st Medical Group	24) IT Specialist 25) OB GYN Nurse	• •			• •		
	26) Lactation Nurse	•			•		
11) 60th Medical Group	27) Family Practice Physicians 28) Physicians & Medical Technicians	• •			• •		
	29) Furniture	•			•		
	30) Flexible Scopes	•	•		•	Competed	Adequate
	31) Slide Stainer	•			•		

Note: See the footnotes and acronym definitions at the end of Appendix F.

DoD Activity	Purchase	Purchase Reviewed at DoD	Purchase Reviewed at VA	No Audit Trail of Funds	Inadequate MIPR Preparation	Inadequate Sole-Source Justification	Inadequate Price Reasonable Determination
60th Medical Group, Cont'd 12) AFMSA/AFMOA, Fort Detrick	32) Epidural Pump	•			•		
	33) Motorola Radios	•		•			
	34) Deployable Environmental Control Unit	•		•	•		
	35) Portable Therapeutic Liquid Oxygen System Support	•		•			
	36) Portable Therapeutic Liquid Oxygen System Support	•		•	•		
	37) War Reserve Materiel Maintenance	•		•	•		
13) 96th Medical Group	38) Anesthesiologist	•					
	39) Post Anesthesia Registered Nurse	•	•			Competed	Adequate
	40) Nurse Practitioners	•			•	Competed	Adequate
	41) Pharmacy Service	•					
	42) Radiologist**	•					
	43) Medical Coding and Auditing	•	•			Competed	Adequate
14) Air Combat Command	44) Financial Management Consultation Support	•			•		
	45) Facilities Maintenance	•					•
	46) Global Expeditionary Medical System	•			•	N/A	
15) 311th Human Systems Wing	47) Removal and Replacement Chillers		•	N/R	•	N/A	Adequate
	48) Metal Analyzer	•		•	•		
16) 59th Medical Wing	49) Simulator	•		•	•		
	50) RNs and LVNs	•		•	•		
	51) RNs	•		•	•		
	52) RNs and LVNs Inpatient Cardiology	•		•	•		
	53) Chiller Replacement	•		•	•		Adequate
17) 579th Medical Group	54) Pumps	•		•	•		
	55) Blood Gas Analyzer	•		N/R	•		•
	56) Roof Repair	•			•	Adequate	•
	57) Appointment Clerks	•			•		
DoD Field Activity							
18) Defense Civilian Personnel Management Service	58) Civilian Personnel Management System Support		•	N/R	•	Competed	•
Total 18 DoD Activities	Total 58 DoD Purchases Reviewed	49 Purchases	24 Purchases	13 No	44 Inadequate	11 Reviewed	24 Reviewed
				10 Unknown		8 Inadequate	14 In adequate

Note: See the footnotes and acronym definitions at the end of Appendix F.

Appendix D. Potential Antideficiency Act Violations That Occurred in FY 2006

Office of the Secretary of the Army Manpower and Reserve Affairs

Recruiting Tool. The Office of the Secretary of the Army Manpower and Reserve Affairs sent MIPR MIPR05273AM001 for \$2 million, using FY 2005 Army O&M funds; MIPR MIPR05273AM002 for \$4 million, using FY 2005 Army O&M funds; and MIPR MIPR05273CA003 for \$550,000, using FY 2005 Army O&M funds to the VA on September 30, 2005. The VA accepted the funds on September 30, 2005, the same day the funds expired. DoD purchased recruiting tools. On March 2, 2006, the VA personnel approved the Justification and Approval for Other Than Full and Open Competition. The Justification and Approval states that the services expire on February 12, 2005, and December 31, 2005. Services were being performed on an extension that expired on February 12, 2006. The VA awarded a contract from March 2, 2006, through December 31, 2006. Use of FY 2005 O&M funds to satisfy FY 2006 requirements does not meet the intent of the bona fide needs rule.

Air Force Surgeon General

The Air Force Surgeon General sent MIPR F1ATD45270G001 for \$3.7 million using FY 2005 Defense Health Program funds to the VA on September 28, 2005. The VA accepted the funds on September 28, 2005, to purchase the Information Technology Knowledge Management Support. The FY 2005 Defense Health Program funds expired on September 30, 2005. From this MIPR, the Air Force Surgeon General made at least four purchases:

- **SPI Dynamics.** The VA issued and signed the purchase order for supplies or services for \$27,220 on May 25, 2006, after the funding had expired. This was an open market purchase. The items purchased were SPI Dynamics Web Inspect Core Perpetual User License and maintenance and SPI Dynamics Web Inspect Professional Service 3-day classroom course with certification. Use of FY 2005 Defense Health Program funds to satisfy FY 2006 requirements does not meet the intent of the bona fide needs rule.
- **EMC Storage Solutions.** The VA issued and signed the purchase order for supplies or services for \$318,704 on March 16, 2006, after the funding had expired. This was a GSA purchase. The items purchased were EMC Storage Solutions. Use of FY 2005 Defense Health Program funds to satisfy FY 2006 requirements does not meet the intent of the bona fide needs rule.

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- **Computer Equipment.** The VA issued and signed the purchase order for supplies or services for \$69,904 on February 16, 2006, after the funding had expired. The contract used was GS-35F-4076D. The items purchased were Dell Server PowerEdge and Dell Server Storage Enclosure PowerVault. Use of FY 2005 Defense Health Program funds to satisfy FY 2006 requirements does not meet the intent of the bona fide needs rule.
 - **BladeFram Base.** The VA issued and signed the purchase order for supplies or services for \$718,606 on February 16, 2006, after the funding had expired. The contract used was GS-35F-0330J. The items purchased were BladeFram Base, software/license, Processing Blade-2 Socket Dual Core 2.2 GHz Opteron, additional Blade items, and Enterprise Normal Business Hours Support. Use of FY 2005 Defense Health Program funds to satisfy FY 2006 requirements does not meet the intent of the bona fide needs rule.

U.S. Air Force Joint Communications Support Element

Rapid Deployment Communications Package. The U.S. Air Force Joint Communications Support Element sent MIPR F2VTJ55266GC01 for \$397,325 using FY 2005 Air Force O&M funds to the VA on September 23, 2005. The VA accepted the funds on September 28, 2005. Amendment 1 for \$3,040 was sent to the VA on September 27, 2005, and the VA accepted the funds on September 28, 2005. Amendment 2 for \$780 was sent to the VA on September 27, 2005, and the VA accepted the funds on September 28, 2005. The total of the funds sent was \$401,146. FY 2005 O&M funds expired on September 30, 2005. The VA issued and signed the purchase order for supplies or services for \$358,749 on December 14, 2005, using GSA contract GS-35F-4655H for the Rapid Deployment Communications Package. The VA purchased a commercial item off of the Federal supply schedule more than 2 months after the funds had expired. Clearly, the purchase was not a bona fide need of the year of the funds used.

Appendix E. Other Identified Contract Problems

DoD Activity	Purchase	Inadequate Acquisition Planning	Inadequate Interagency Agreement	Inadequate Delineation of Contract Administration Duties	No DoD COR Letter	No DoD Collection and Recording of Past Performance	No QASP
Army							
1) National Guard Bureau	1) Strategic Services Support		•			•	•
	2) Manpower Resource Management Support	•				•	•
2) Army Research Laboratory	3) IV&V	N/R	N/R	N/R	N/R	N/R	N/R
Navy							
3) Jacksonville Naval Hospital	4) Business Operations Analyst Services	•	•	•	•	•	•
	5) Medical Administrative/Records Clerks	•	•	•	•	•	•
	6) Central Appointment Data Entry Clerks	•	•	•	•	•	•
	7) Third Party Collections / Billings	•	•	•	•	•	•
	8) Emergency Services for IRMD	•	•	•	•	•	•
Air Force							
4) AFMOA/AFMSA, S.A.	9) Propaq Encore Monitors	N/R	N/R	N/R	N/R	N/R	N/R
5) ASMOA, Brooks City-Base	10) HAMS*	•	•	•	•	•	•
	11) Chiller Replacement*	•	•	•	•	•	N/A
	12) Furniture	•	•	•	•	•	N/A
6) ASMOA Bolling	13) Third Party Collections	•	•	•	•	•	•
	14) Third Party Collections	•	•	•	•	•	•
7) Air Force Communications Agency	15) Information Technology Services	N/R	N/R	N/R	N/R	N/R	N/R
8) Air Force Surgeon General	16) Kiosks	N/R	N/R	N/R	N/R	N/R	N/R
	17) Modernization Support (Lease)	N/R	N/R	N/R	N/R	N/R	N/R
9) Air Education and Training Command	18) Information Management/Information Technology	•	•	•	•	•	•
	19) HIPAA Operations and Services	•	•	•	•	•	•
	20) HP Printers	•	•	•	•	•	•
	21) MR&D Quality Managers	•	•	•	•	•	N/A
	22) Coding Specialist	•	•	•	•	•	•
	23) Repair HVAC Air Handlers	N/R	N/R	N/R	N/R	N/R	N/R
10) 1st Medical Group	24) IT Specialist	•	•	•	•	•	•
	25) OB GYN Nurse	•	•	•	•	•	•
	26) Lactation Nurse	•	•	•	•	•	•
11) 60th Medical Group	27) Family Practice Physicians	•	•	•	•	•	•
	28) Physicians & Medical Technicians	•	•	•	•	•	•
	29) Furniture	•	•	•	•	•	N/A
	30) Flexible Scopes	•	•	•	•	•	N/A
	31) Slide Stainer	•	•	•	•	•	N/A

Note: See footnotes and acronym definitions at the end of Appendix F.

DoD Activity	Purchase	Inadequate Acquisition Planning	Inadequate Interagency Agreement	Inadequate Delineation of Contract Administration Duties	No DoD COR Letter	No DoD Collection and Recording of Past Performance	No QASP
60th Medical Group, Cont'd	32) Epidural Pump	•	•		•	N/A	N/A
12) AFMSA/AFMOA, Fort Detrick	33) Motorola Radios				•	•	N/A
	34) Deployable Environmental Control Unit	•	•		•	•	N/A
	35) Portable Therapeutic Liquid Oxygen System Support				•	•	•
	36) Portable Therapeutic Liquid Oxygen System Support				•	•	•
	37) War Reserve Materiel Maintenance	•	•	•	N/D	•	•
13) 96th Medical Group	38) Anesthesiologist	•				•	
	39) Post Anesthesia Registered Nurse	•				•	
	40) Nurse Practitioners	•				•	
	41) Pharmacy Service	•				•	
	42) Radiologist**	•			N/A		
14) Air Combat Command	43) Medical Coding and Auditing					•	
	44) Financial Management Consultation Support		•	•		•	
	45) Facilities Maintenance				N/D	•	N/D
	46) Global Expeditionary Medical System		•	•		•	
	47) Removal and Replacement Chillers	N/R	N/R	N/R	N/R	N/R	N/R
15) 311th Human Systems Wing	48) Metal Analyzer	•	•		•	•	N/A
	49) Simulator	•	•		•	•	N/A
16) 59th Medical Wing	50) RNs and LVNs		•	•	•	•	•
	51) RNs		•	•	•	•	•
	52) RNs and LVNs Inpatient Cardiology		•	•	•	•	•
	53) Chiller Replacement		•			•	N/A
	54) Pumps				•	•	N/A
	55) Blood Gas Analyzer	N/R	N/R	N/R	N/R	N/R	N/R
17) 579th Medical Group	56) Roof Repair	•	•	•		•	N/A
	57) Appointment Clerks	•			•	•	
DoD Field Activity							
18) Defense Civilian Personnel Management Service	58) Civilian Personnel Management System Support	N/R	N/R	N/R	N/R	N/R	N/R
Total 18 DoD Activities	58 Purchases	35 Inadequate	33 Inadequate	19 Inadequate	28 No	46 No	18 No

Note: See footnotes and acronym definitions at the end of Appendix F.

Appendix F. DoD MIPRs to VA in Audit

DoD Activity		Purchase		MIPR Number	Appropriation	MIPR Amount
Army						
1) National Guard Bureau	1	Strategic Services Support		MIPR5KDVAJ3543	Army NG O&M	\$3,000,000
				MIPR5KDVAJ3543 (A 1)	Army NG O&M	\$1,000,000
				F9WFJS5354G003	Air NG O&M	\$28,000
				MIPR6IBIGJ3627	Army NG O&M	\$600,000
				MIPR6IBIGJ3627 (A 1)	Army NG O&M	\$1,100,000
	2	Manpower Resource Management Support		MIPR6BDVAPP005	Army NG O&M	\$95,121
				MIPR6EIMAPP007	Army NG O&M	\$1,281,159
				MIPR6ERCMP008	Army NG O&M	\$3,422,773
				MIPR6ERCMP008 (A1)	Army NG O&M	\$1,454,376
				MIPR6EATTAV504	Army NG O&M	\$370,660
2) Army Research Laboratory	3	IV&V		MIPR6HAATAC081	DHP	\$143,420
Navy						
3) Jacksonville Naval Hospital	4	Business Operations Analyst Services		N0023206MPP0008	DHP	\$65,000
				N0023206MPP0008 (A 1)	DHP	\$3,244
				N0023206MPP0010	DHP	\$29,970
	5	Medical Administrative/Records Clerks		N0023206MPP0001	DHP	\$900,000
				N0023206MPP0001 (A 1)	DHP	(\$51,993)

Note: See the list of acronym definitions at the end of Appendix F.

DoD Activity	Purchase	MIPR Number	Appropriation	MIPR Amount	
Jacksonville Naval Hospital, Cont'd		17	N0023206MPP0001 (A 2) DHP	\$120,565	
		18	N0023206MPP0009 DHP	\$132,880	
		19	N0023206MPP0009 (A 1) DHP	\$1,328	
	6	20	N0023206MP6PP02 DHP	\$392,215	
		21	N0023206MP6PP02 (A 1) DHP	\$5,516	
		22	N0023206MP6PP02 (A 2) DHP	\$43,593	
	7	23	N0023206MP6PP03 DHP	\$453,200	
		24	N0023206MP6PP03 (A 1) DHP	(\$38,528)	
	8	25	N0023206MP6PP06 DHP	\$202,000	
		26	N0023206MP6PP06 (A 1) DHP	\$101,000	
		27	N0023206MP6PP06 (A 2) DHP	(\$27,736)	
	Air Force				
4) AFMOA/AFMSA, S.A.	9	28	V9133-0024 Defense WCF	\$357,515	
5) AFMOA, Brooks City-Base	10	29	F1J4AK6257GA01 DHP	\$39,410,000	
	11	30	F1J4AK6065GA02 DHP	\$588,247	
		31	F1J4AK6065GA02 (A 1) DHP	(\$257,978)	
	12	32	F1J4AK6045G002 DHP	\$4,925,000	
		33	F1JAK6045G002 (A 1) DHP	(\$1,907,991)	
6) AFMOA Bolling	13	34	F1ATB16195G004 DHP	\$5,321,007	

Note: See the list of acronym definitions at the end of Appendix F.

DoD Activity		Purchase		MIPR Number	Appropriation	MIPR Amount
AFMOA Bolling, Cont'd			35	F1ATB15252G002	DHP	\$1,401,175
			36	F1ATB15252G002 (A.1)	DHP	\$4,186,905
			37	F1ATB15252G002 (A.2)	DHP	\$569,258
			38	F1ATB15252G002 (A.3)	DHP	\$102,000
	14	Third Party Collections	39	F1ATB16195G003	DHP	\$6,911,414
			40	F1ATB15252G001	DHP	\$1,646,703
			41	F1ATB15252G001 (A.1)	DHP	\$4,916,197
			42	F1ATB15252G001 (A.2)	DHP	\$552,278
			43	F1ATB15252G001 (A.3)	DHP	(\$500,000)
7) Air Force Communications Agency	15	Information Technology Services	44	F3ST815327GC01	Air Force O&M	\$99,960
			45	F3ST815327GC01 (A.1)	Air Force O&M	\$0
			46	F3ST815327GC01 (A.2)	Air Force O&M	\$210,344
8) Air Force Surgeon General	16	Kiosks	47	F1ATD46249G001	DHP	\$625,260
	17	Modernization Support (Lease)	48	F1ATD46221G001	DHP	\$2,356,200
9) Air Education and Training Command	18	Information Management/Information Technology	49	F3PF375222GC02	DHP	\$5,149,781
	19	HIPAA Operations and Services	50	F3PF376216G001	DHP	\$383,569
	20	HP Printers	51	F3PF376072GN01	DHP	\$372,391
	21	Medical Readiness and Data Quality Managers	52	F3PF375347G001	DHP	\$345,412
			53	F3PF375347G001 (A.1)	DHP	(\$25,000)

Note: See the list of acronym definitions at the end of Appendix F.

DoD Activity		Purchase		MIPR Number	Appropriation	MIPR Amount
Air Education and Training Command, Cont'd	22	Coding Specialist	54	F3PF375222G001	DHP	\$6,325,000
			55	F3PF375222G001 (A.2)	DHP	(\$132,611)
			56	F3PF375222G001 (A.3)	DHP	(\$600,525)
	23	Repair HVAC Air Handlers	57	F3PF376068G001	DHP	\$2,474,500
			58	F3PF376068G001 (A.2)	DHP	(\$1,458,076)
10) 1st Medical Group	24	IT Specialist	59	F2Q4016274G006	DHP	\$225,089
	25	OB GYN Nurse	60	F2Q4016274G007	DHP	\$212,221
	26	Lactation Nurse	61	F2Q4016274G02	DHP	\$56,944
11) 60th Medical Group	27	Family Practice Physicians	62	F3Z4535214G001	DHP	\$619,881
			63	F3Z4535214G001 (A.1)	DHP	(\$127,500)
	28	Physicians & Medical Technicians	64	F3Z4535209G001	DHP	\$1,361,083
			65	F3Z4535209G001 (A.1)	DHP	(\$130,000)
	29	Furniture	66	V4427-0111	Defense WCF	\$548,935
			67	V4427-0111 (A.1)	Defense WCF	\$0
	30	Flexible Scopes	68	V4427-0053	Defense WCF	\$622,919
			69	V4427-0053 (A.1)	Defense WCF	\$3,177
			70	V4427-0053 (A.2)	Defense WCF	\$6,199
	31	Slide Stainer	71	V4427-0070	Defense WCF	\$9,917
			72	V4427-0070 (A.1)	Defense WCF	\$539

Note: See the list of acronym definitions at the end of Appendix F.

DoD Activity		Purchase		MIPR Number	Appropriation	MIPR Amount
60th Medical Group, Cont'd 12) AFMSA/AFMOA, Fort Detrick	32	Epidural Pump	73	V4427-0115	Defense WCF	\$31,212
	33	Motorola Radios	74	F1ATB25364G003	AF Other Procurement	\$753,568
			75	F1ATB25364G003 (A 1)	AF Other Procurement	(\$112,320)
	34	Deployable Environmental Control Unit	76	F1ATB26023G001	AF Other Procurement	\$2,115,850
	35	Portable Therapeutic Liquid Oxygen System Support	77	F1ATB26234G002	Air Force O&M	\$388,609
			78	F1ATB26234G002 (A 1)	Air Force O&M	\$13,251
	36	Portable Therapeutic Liquid Oxygen System Support	79	F1ATB26040G001	Air Force O&M	\$276,461
			80	F1ATB26040G001 (A 1)	Air Force O&M	\$38,178
	37	War Reserve Materiel Maintenance	81	F1ATB26088G001	DHP	\$10,200,000
			82	F1ATB26088G001 (A 1)	DHP	\$30,000
13) 96th Medical Group			83	F1ATB26088G001 (A 2)	DHP	(\$142)
	38	Anesthesiologist	84	F1T4AS5138G004	DHP	\$952,684
			85	F1T4AS5138G004 (A 1)	DHP	(\$23,421)
			86	F1T4AS5138G004 (A 2)	DHP	\$101,000
	39	Post Anesthesia Registered Nurse	87	F1T4AS5143G019	DHP	\$278,011
			88	F1T4AS5143G019 (A 1)	DHP	(\$702)
			89	F1T4AS5143G019 (A 2)	DHP	(\$32,958)
	40	Nurse Practitioners	90	F1T1AS6135G009	DHP	\$206,404
	41	Pharmacy Service	91	F1T4AS5143G021	DHP	\$158,820

DoD Activity		Purchase		MIPR Number	Appropriation	MIPR Amount
96th Medical Group, Cont'd			92	F1T4AS5143G021 (A.1)	DHP	\$4,353
			93	F1T4AS5143G021 (A.2)	DHP	(\$37,569)
	42	Radiologist**	94	F1T4AS5180G001	DHP	\$552,470
			95	F1T4AS5180G001 (A1)	DHP	(\$187,197)
			96	F1T4AS5180G001 (A2)	DHP	(\$361,657)
14) Air Combat Command	43	Medical Coding and Auditing	97	F2QF246059G001	DHP	\$3,014,190
			98	F2QF246059G001 (A.1)	DHP	(\$147,519)
	44	Financial Management Consultation Support	99	F2QF246082G001	DHP	\$152,422
			100	F2QF246082G001 (A.1)	DHP	\$31,398
			101	F2QF246082G001 (A.2)	DHP	\$0
	45	Facilities Maintenance	102	F2QF245266G002	DHP	\$154,604
	46	Global Expeditionary Medical System	103	F2QF246192G002	DHP	\$177,959
			104	F2QF246192G002 (A.1)	DHP	\$0
			105	F2QF246192G002 (A.2)	DHP	\$2,040
			106	F1ATB26234G001	Air Force O&M	\$76,492
	47	Removal and Replacement Chillers	107	F2QF246101G001	DHP	\$333,539
			108	F1J4AK6144GA01	DHP	\$140,071
15) 311th Human Systems Wing	48	Metal Analyzer	109	FM2855-5249-0122	Defense WCF	\$154,023
	49	Simulator	110	FM2855-5265-0094	Defense WCF	\$156,568

Note: See the list of acronym definitions at the end of Appendix F.

DoD Activity		Purchase		MIPR Number	Appropriation	MIPR Amount
311th Human Systems Wing, Cont'd						
			111	FM2855-5265-0094 (A 1)	Defense WCF	(\$8,181)
16) 59th Medical Wing	50	RNs and LVNs	112	F2MTL5202G007	DHP	\$1,831,846
			113	F2MTL5202G007 (A 1)	DHP	(\$403,643)
	51	RNs	114	F2MTL5202G013	DHP	\$1,018,840
			115	F2MTL5202G013 (A 1)	DHP	\$51,695
	52	RNs and LVNs Inpatient Cardiology	116	F2MTL5202G005	DHP	\$1,230,970
			117	F2MTL5202G005 (A 1)	DHP	\$57,914
	53	Chiller Replacement	118	F2MTL619G001	DHP	\$176,610
	54	Pumps	119	V3047-0195	Defense WCF	\$346,443
			120	V3047-0195 (A 1)	Defense WCF	(3,397)
	55	Blood Gas Analyzer	121	F2MTL6124GL01	DHP	\$55,626
17) 579th Medical Group	56	Roof Repair	122	F1A4A06076GG01	DHP	\$287,640
	57	Appointment Clerks	123	F1A4A06101GG01	DHP	\$175,492
DoD Field Activity						
18) Defense Civilian Personnel Management Service	58	Civilian Personnel Management System Support	124	AS6H5A600076MP	Defense-Wide O&M	\$1,328,236
18 DoD Activities		58 Purchases	124	MIPRs	Total	\$128,321,886

Note: See the list of acronym definitions at the end of Appendix F.

Appendixes Abbreviations, Acronyms, and Footnotes Defined

Abbreviations

A 1 Amendment 1
 A 2 Amendment 2
 A 3 Amendment 3
 N/A Not Applicable
 N/R Not Reviewed
 N/D Did not determine due to lack of documentation
 S.A. San Antonio
 T.O. Task Order

Acronyms

AFMOA Air Force Medical Operations Agency
 AFMSA Air Force Medical Support Agency
 NG National Guard
 NGB National Guard Bureau
 DHP Defense Health Program
 HAMS Hospital Aseptic Management Services
 HIPAA Health Information Portability Accountability Act
 HP Hewlett Packard
 HVAC Heating, Ventilation, and Air Conditioning
 IRMD Information Resources Management Department

Footnotes

*Contract Not Provided
 **Contract Cancelled

IT Information Technology
 IV&V Independent Verification and Validation
 LVN Licensed Vocational Nurses
 MR&D Medical Readiness and Data
 O&M Operation and Maintenance
 OB/GYN Obstetrics and Gynecology
 RN Registered Nurses
 WCF Working Capital Fund

Appendix G. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
 Director, Acquisition Resources and Analysis
 Director, Defense Procurement and Acquisition Policy
Under Secretary of Defense (Comptroller)/Chief Financial Officer
 Deputy Chief Financial Officer
 Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense for Health Affairs
Director, Program Analysis and Evaluation

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army
Chief, National Guard Bureau

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy
Commanding Officer, Jacksonville Naval Hospital

Department of the Air Force

Commander, Air Combat Command
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Air Force Surgeon General
Auditor General, Department of the Air Force
Commander, Air Education and Training Command
Commander, 1st Fighter Wing
Commander, 59th Medical Wing
Commander, 60th Medical Group
Commander, Air Force 96th Medical Group
Commander, Air Force 311th Human Systems Wing
Commander, Air Force 579th Medical Group

Other Defense Organizations

Director, Defense Finance and Accounting Service

Non-Defense Federal Organization

Office of Management and Budget
Inspector General, U.S. Department of Veterans Affairs

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
Senate Committee on Veterans' Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Oversight and Government Reform
House Committee on Veterans' Affairs
House Subcommittee on Government Management, Organization, and Procurement,
Committee on Oversight and Government Reform
House Subcommittee on National Security and Foreign Affairs,
Committee on Oversight and Government Reform

Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics Comments



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

NOV 21 2007

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL
ACQUISITION AND CONTRACT MANAGEMENT

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *na 11/28/07*

SUBJECT: Response to DoDIG Draft Audit Report on "FY 2006 DoD Purchases Made Through the U.S. Department Of Veterans Affairs," (Project No. D2006-D000CF-0244.000) September 26, 2007

As requested, I am providing the USD (AT&L) response to recommendations A.1 (a-g), B.2, and C of the subject draft report.

Recommendation A.1 (a) The OIG recommended that the Under Secretary of Defense for Acquisition, Technology, and Logistics, develop a training course that instructs contracting and program office personnel on proper acquisition planning and contract administration for assisted acquisitions.

Response: Concur: The Defense Acquisition University has commenced a review of all course materials related to Interagency Acquisition. DAU in collaboration with DPAP and GSA has in process a new course entitled "The Essentials of Interagency Acquisition" that is expected to be available by February 1, 2008. As part of the MOA, DoD and GSA have collaborated on a comprehensive training at all GSA regions. (See Action Plan items 13 and 19 attached).

Recommendation A.1 (b): The OIG recommended that the Under Secretary of Defense for Acquisition, Technology, and Logistics, establish overall policies on acceptable contract administration roles and responsibilities that DoD will accept when purchasing goods and services through a non-DoD agency.

Response: Concur: The Department will issue an update to our policy on "Proper Use of Non-DoD contracts." The policy memorandum is expected to be issued in December 2007.

Recommendation A.1(c): The OIG recommended that the Under Secretary of Defense for Acquisition, Technology, and Logistics, finalize negotiations with the U.S. Department of Veterans Affairs to develop interagency agreements that specify agreed-upon roles and responsibilities regarding contract administration and surveillance duties.



Response: Concur: The Department will establish a Memorandum of Agreement (MOA) with the Department of Veterans Affairs that will address roles and responsibilities regarding contract administration and surveillance duties. The MOA is expected to be completed by December 31, 2007.

Recommendation A.1 (d): The OIG recommended that the Under Secretary of Defense for Acquisition, Technology, and Logistics, work with the U.S. Department of Veterans Affairs to develop a corrective action plan that addresses the concerns identified in this report including the lack of adequate acquisition planning, interagency agreements, quality assurance surveillance plans, and past performance information. The corrective action plan should also address the contract modification problem that is preventing contractors from receiving payment for services performed. The corrective action plan should clearly delineate the duties and responsibilities of both the U.S. Department of Veterans Affairs and DoD on all purchases made by the U.S. Department of Veterans Affairs on behalf of DoD.

Response: Concur: The MOA established between DoD and the Department of Veterans Affairs will address the roles and responsibilities regarding contract administration and surveillance duties. As part of the MOA, a Corrective Action Plan will be developed that will address the deficiencies identified in the audit report. The MOA, including the corrective action plan, is expected to be completed by December 31, 2007.

Recommendation A.1 (e): The OIG recommended that the Under Secretary of Defense for Acquisition, Technology, and Logistics, develop an implementation plan for the U.S. Department of Veterans Affairs/DoD corrective action that includes site visits to major DoD organizations to ensure the required procedures in the memorandum have been explained at the operational level.

Response: Concur: The MOA established between DoD and the Department of Veterans Affairs will include a Corrective Action Plan that will address the deficiencies identified in the audit report and address the effective and efficient communication of proper procedures to the operational level. The MOA, including the corrective action plan, is expected to be completed by December 31, 2007.

Recommendation A.1 (f): The OIG recommended that the Under Secretary of Defense for Acquisition, Technology, and Logistics, advise the U.S. Department of Veterans Affairs that Defense Acquisition University (DAU) courses covering the preparation of sole-source justification and price reasonableness determinations are available to U.S. Department of Veteran Affairs contracting officers.

Response: Concur. The Under Secretary of Defense for Acquisition, Technology, and Logistics, will coordinate with the President of the Defense Acquisition University to ensure that relevant DAU courses are offered to VA contracting officers on a space-available basis. The action is expected to be completed in December 2007.

Recommendation A.1 (g): The OIG recommended that the Under Secretary of Defense for Acquisition, Technology, and Logistics, negotiate with the non-DoD agencies to determine the best method to record contractor performance on all government contractors. In addition, require DoD organizations to enter past performance information into the Past Performance Information Retrieval System and access the Past Performance Information Retrieval System for future source selection decisions.

Response: Concur. The Department will coordinate with the office of Federal Procurement Policy on the best method to record contractor past performance and information. DoD is in the process of issuing a policy memo that addresses capturing past performance information. The policy memo is expected to be issued in December 2007.

Recommendation B.2.: The OIG recommended that the Under Secretary of Defense for Acquisition, Technology, and Logistics, obtain an opinion from the DoD General Counsel on the correct course of action to resolve the improper payments and leasing arrangement.

Response: Concur. The Department is coordinating with DoD General Counsel and OUSD (C) to resolve potential improper payments issues and potential leasing issues. Resolution is expected by April 1, 2008.

Recommendation C: The OIG recommended that the Under Secretary of Defense for Acquisition, Technology, and Logistics, initiate and coordinate a review with the Assistant Secretary of Defense for Health Affairs to assess whether the Military Departments are purchasing medical goods and services through the most efficient and effective methods.

Response: Concur. The Department has already begun to implement this recommendation as part of our efforts in strategic sourcing.

This recommendation is in consonance with Recommendation 5 (a) of DoDIG report entitled: "Direct Care Medical Services Contracts" (D-2004-094) dated 24 June 2004, which states that the Assistant Secretary of Defense (Health Affairs), in conjunction with the Military Department Surgeons General, should develop a coordinated strategy for acquiring direct care medical services that includes the implementation of the "Centers of Excellence" concept.

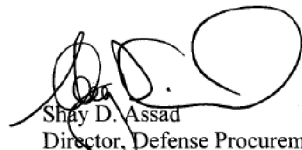
In response to the DoDIG report, dated 24 June 2004, the Army Surgeon General was tasked to develop a coordinated strategy for acquiring direct care medical services. Subsequently, the DoD Strategy Council for Acquiring Direct Care Medical Services was formed, and the MEDCOM Health Care Acquisition Activity (HCAA) took the lead. In June 2005, the DoD Strategy Council Report had three recommendations:

- Establish a DoD organization with tri-service support responsibilities and flexible contracting authority,
- Establish strategic sourcing councils for key labor categories, and
- Standardize the acquisition process and related capabilities.

As a follow-on to the DoD Strategy Council, the April 2006 Quadrennial Defense Review, Initiative 16, addressed the purchasing of goods and services through a more efficient and effective manner. The focus of QDR 16 is:

- To develop a coordinated tri-service process that facilitates sharing of personnel between facilities to enhance mission capabilities.
- To minimize competition among the military services in the same market area and to work with VA if possible.
- To be responsive to the needs of small facilities.
- To establish multi-service market and TRICARE Regional Office contracting capabilities able to support all services.

My POC is Michael Canales; he can be reached at (703) 695-8571 or via e-mail at michael.canales@osd.mil.


Shay D. Assad
Director, Defense Procurement and
Acquisition Policy

Attachment:
As stated

Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

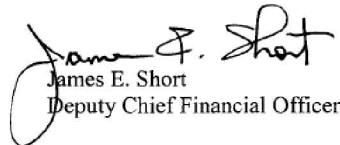
NOV -5 2007

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL AUDITING
SERVICE, OFFICE OF INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report, "FY 2006 DoD Purchases Made Through the U.S.
Department of Veterans Affairs," (Project No. D2006-D000CF-0244.000)

This memo is in response to the subject September 26, 2007, draft report provided to this office for review and comment. Our response to each of the audit report recommendations directed to the Under Secretary of Defense (Comptroller)/Chief Financial Officer is at Attachment 1.

We appreciate the opportunity to respond to your draft audit report and look forward to resolving the cited issues. My point of contact is Ms. Kathryn Gillis. She can be contacted by telephone at 703-697-6875 or e-mail at Kathryn.gillis@osd.mil.


James E. Short
Deputy Chief Financial Officer

Attachments:
As stated

cc:
ODGC(F)
USD(AT&L)

Attachment 1
Response to Draft Audit Report Recommendations

Office of the Inspector General (OIG), Department of Defense (DoD)
"FY 2006 DoD Purchases Made Through the U.S. Department of Veterans
Affairs"
OIG Project No. D2006-D000CF-0244,000

OIG Recommendation B1. Ensure that personnel at the U.S. Department of Veterans Affairs understand the current DoD policy on advance payments and funding purchases when performing assisted acquisitions. Specifically, the Under Secretary of Defense(Comptroller)/Chief Financial Officer must ensure guidance that prohibits advance payments has been distributed to field activities and to non-DoD agencies that procure goods and services on behalf of DoD.

OSD Response. Concur. The U.S. Department of Veterans Affairs and the DoD Components were notified of the Department's advance policy in March 2007.

OIG Recommendation B2. Recover advance payments made to the U.S. Department of Veterans Affairs, Austin Automation Center that have not been expended.

OSD Response. Concur. We directed all components and notified the U.S. Department of Veterans Affairs to return all existing advancements retained at non-DoD federal agencies.



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

MAR 1 2007

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
COMMANDERS OF THE COMBATANT COMMANDS
DIRECTOR, DEFENSE RESEARCH AND ENGINEERING
COMMANDER, U.S. SPECIAL OPERATIONS COMMAND
COMMANDER, U.S. TRANSPORTATION COMMAND
ASSISTANT SECRETARIES OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
INSPECTOR GENERAL OF THE DEPARTMENT
OF DEFENSE
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF DOD FIELD ACTIVITIES

SUBJECT: Advance Payments to Non-Department of Defense (DoD) Federal Agencies
for Interagency Acquisitions

In accordance with current DoD policy, all DoD Components are directed to stop the practice of advancing funds to non-DoD federal entities unless the DoD Components are specifically authorized by law, legislative action, or Presidential authorization. This includes the practice of permitting advance billings without the receipt of goods or services. All existing advancements retained by a non-DoD federal agency must be returned.

Components requesting goods or services from a non-DoD federal agency must be fully aware of the outside agency's billing practices and take appropriate action to ensure DoD funds are not disbursed in advance of contract performance. In addition, Components must work with their servicing disbursement sites to revise trading partner agreements to restrict other federal agencies' ability to withdraw funds prior to the delivery of goods or services performed.

The Department's legal authority to make advances is contained in Title 31, United States Code, Section 3324 and the Department of Defense Financial Management Regulation ("DoDFMR"), Volume 4, Chapter 5, which states that an advance of public money may be made only if it is authorized by:

a. a specific appropriation or other law; or

b. the President to be made to—

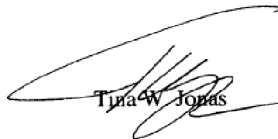
(1) a disbursing official if the President decides the advance is necessary to carry out--

- (a) the duties of the official promptly and faithfully; and
- (b) an obligation of the Government; or

(2) an individual serving in the armed forces at a distant station if the President decides the advance is necessary to disburse regularly pay and allowances.”

The specific appropriation or law authorizing the advance must be cited on the obligating and/or interagency agreement documents for those few exceptions where advances are authorized in a specific appropriation or law authorizing DoD to advance funds.

My point of contact is Ms. Kathryn Gillis, who can be reached at (703) 697-6875 or by e-mail at kathryn.gillis@osd.mil.



Tina W. Jonas



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

Robert J. Henke
Chief Financial Officer for
Department of Veterans Affairs
Washington DC 20420

Dear Mr. Henke,

As a result of recent audits on Interagency Acquisition, we have reviewed Departmental policy and reemphasized procedures for DoD Components doing business with other federal agencies. I am including these procedures for your information.

Concurrent with the policy, we are directing all DoD Components to stop the practice of advancing funds to non-DoD federal entities. This includes the practice of permitting advance billings without the receipt of goods or services. As a result, DoD Components are being directed to revise trading partner agreements to restrict the ability of other federal agencies to withdraw funds prior to the delivery of goods or services performed and to return all existing advances retained by a non-DoD federal agency. All future payments are to be based on billings for completed services or delivered goods.

In addition, we are directing all DoD Components to apply the attached policy and coordinate the return of expired funds obligated prior to September 30, 2006 for contracts that have yet been awarded. DoD Components who wish to proceed with executing these contracts must apply current year funding. We note that non-federal providers have awarded existing contracts where the period of performance is ongoing. In those instances, the funding may be retained and contracts completed as scheduled.

My point of contact for this matter is Mrs. Kathryn Gillis, who may be contacted at (703) 697-6875 or e-mail at Kathryn.gillis@osd.mil.

Sincerely,

Robert P. McNamara
Acting Deputy Chief Financial Officer



DEPARTMENT OF VETERANS AFFAIRS
ASSISTANT SECRETARY FOR MANAGEMENT
WASHINGTON DC 20420

JUN 07 2007

Mr. Robert P. McNamara
Acting Deputy Chief Financial Officer
Office of the Under Secretary of Defense
1100 Defense Pentagon
Washington, DC 20301-1100

Dear Mr. McNamara:

Thank you for your letter concerning DoD policy that prohibits all DoD components from advancing funds to non-DoD federal entities. The Department of Veterans Affairs (VA) has assessed the implications and necessary actions of your policy on VA financial and contracting activities. I apologize for the delay in responding.

VA's Supply Fund does not accept advances from DoD, with the exception of funds to support the DoDVA+ program. The Supply Fund has received 11 interagency agreements from DoD that are associated with the DoDVA+ program, with a total value of \$3.7 million. These agreements have \$763,000 currently unobligated. VA's Denver Acquisition and Logistics Center is working closely with DoD customers (both U.S. Army and U.S. Air Force) to ensure that all existing DoD resources have been properly obligated from both a contractual and fiscal standpoint. All funds will either be obligated due to ongoing contracting action or deobligated by June 30 in keeping with DoD policy. VA's Financial Services Center in Austin, Texas, does not have any DoD-related agreements that include advances, and all payments are based on purchase orders or contracts.

We have established a "drop dead" date of July 1 to have all DoD non-Economy Act resources returned to DoD if they have not been obligated prior to that date. Discussions with DoD customers indicate that they do not appear to have a problem with addressing the need to manage their resources in this timeframe.

Thank you for informing me of DoD's policy.

Sincerely,


Robert J. Henke

Office of the Assistant Secretary of the Army (Policy and Procurement) Comments



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

NOV 21 2007

SAAL-PP

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL, AUDIT POLICY AND
OVERSIGHT, INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE, 400 ARMY NAVY DRIVE,
ARLINGTON, VA 22202

SUBJECT: Army Comments on DoD Draft Audit Report on "FY 2006 DoD
Purchases Made Through the U.S. Department of Veteran's Affairs"
Project No. D2006-D000CF-0244.000, September 26, 2007

My office has received the draft report and we concur with recommendation C,
Standardization of the Military Departments Contracting for Medical Goods and
Services Acquisitions.

The Army has already begun to implement this recommendation. It is in
consonance with Recommendation 5 (a) of DODIG report entitled: "Direct Care Medical
Services Contracts" (D-2004-094) dated 24 June 2004, which states that the Assistant
Secretary of Defense (Health Affairs), in conjunction with the Military Department
Surgeons General, should develop a coordinated strategy for acquiring direct care
medical services that includes the implementation of the "Centers of Excellence"
concept.

In response to Recommendation 5, the Army Surgeon General was tasked to
develop a coordinated strategy for acquiring direct care medical services. Subsequently,
the DOD Strategy Council for Acquiring Direct Care Medical Services was formed, and
the MEDCOM Health Care Acquisition Activity (HCAA) took the lead. In June 2005, the
DOD Strategy Council Report had three recommendations:

- (a) Establish a DOD organization with tri-service support responsibilities and
flexible contracting authority,
- (b) Establish strategic sourcing councils for key labor categories, and
- (c) Standardize the acquisition process and related capabilities.

As a follow-on to the DOD Strategy Council, the April 2006 Quadrennial Defense
Review (QDR), Initiative 16, addressed the purchasing of goods and services through a
more efficient and effective manner. The focus of QDR 16 is:

- (1) To develop a coordinated tri-service process that facilitates sharing of
personnel between facilities to enhance mission capabilities.

(2) To minimize competition among the military services in the same market area and to work with VA if possible.

(3) To be responsive to the needs of small facilities.

(4) To establish multi-service market and TRICARE Regional Office contracting capabilities able to support all services.

Strategic Sourcing across the different military services is now being implemented on a wide scale, and governance structures are in place, or are being developed. This will enhance the ability of various commands to 1) identify those areas of major spending within the command, and 2) provide a structure to potentially integrate requirements within services, and also outside the respective services.

It will also be important to identify the methods utilized in procuring the services. Each service is structured differently, with the emphasis placed at different levels of responsibility. The way in which contracting commands are structured can influence the success of Strategic Sourcing. The Army's Medical Command is aligned regionally, with local requirements flowing through the regional office. If the other services are aligned similarly there would exist the capability to develop regional, strategically sourced, contract vehicles available for use by all services.


E. Ballard
Deputy Assistant Secretary of the Army
(Policy and Procurement)

Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller) Comments



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON DC



2 Nov 07

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL
ATTN: DEPUTY INSPECTOR GENERAL FOR AUDITING

FROM: HQ USAF/SG
1780 Air Force Pentagon
Washington, DC 20030-1780

SUBJECT: DoDIG Draft Audit Report, FY 2006 DoD Purchases Made Through the U.S.
Department of Veterans Affairs, (Project D2006CF-0244)

This letter is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide Air Force comments on subject report.

We understand Recommendations A.1.a. - A.1.g., B.2., and C. are addressed to the Under Secretary of Defense for Acquisition, Technology, and Logistics. Although not addressed to the Office of the Air Force Surgeon General directly, we concur with comment to the recommendations and will work as required to meet their plan of action.

Recommendation A.2. is addressed to the Assistant Secretary of the Air Force (Financial Management and Comptroller). We concur with comment to Recommendation A.2. and will work as required to meet their plan of action.

Recommendation B.1.a. and B.1.b. are addressed to the Under Secretary of Defense (Comptroller)/Chief Financial Officer. Although not addressed to our office directly, we concur with comment and will support their plan of action.

Additional specific management comments are attached. If you have any questions or concerns with our comments, please contact Maj Melanie C. Carino, AFMCA/SG3YR, DSN 761-6355.

CHARLES B. GREEN
Major General, USAF, MC, CFS
Deputy Surgeon General

Attachment:
1. Management Comments
2. Comment Matrix

cc:
SAF/FMPF

DoDIG Draft Audit Report
FY 2006 DoD Purchases Made Through the U.S. Department of Veterans Affairs
(Project D2006CF-0244)

Audit Result: AF/SG concurs with comment to all the recommendations. Comments noted on specific recommendations below.

Recommendation A.1:

We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics:

a. Develop a training course that instructs contracting and program office personnel on proper acquisition planning and contract administration for assisted acquisitions. **AF/SG concurs.** The acquisition process is the same among federal agencies, except for specific regulations that pertain to individual agencies, i.e. Air Force Federal Acquisition Regulations (AFFARS), etc. Guidance is provided to the Department of Veterans Affairs that instructs them to apply the AFFARS to their procurement process when conducting an assisted acquisition. Development of a specific training course regarding acquisition planning and contract administration for assisted acquisitions would be redundant. Recommend enforcement of current DoD training courses for employees of agencies conducting assisted acquisitions.

b. Establish overall policies on acceptable contract administration roles and responsibilities that DoD will accept when purchasing goods and services through a non-DoD agency. **AF/SG concurs.** The acquisition process is the same among federal agencies, except for specific regulations that pertain to individual agencies, i.e. Air Force Federal Acquisition Regulations (AFFARS), etc. Guidance is provided to the Department of Veterans Affairs that instructs them to apply the AFFARS to their procurement process when conducting an assisted acquisition. Development of a specific training course regarding acquisition planning and contract administration for assisted acquisitions would be redundant. Recommend enforcement of current DoD training courses for employees of agencies conducting assisted acquisitions.

c. Finalize negotiations with the U.S. Department of Veterans Affairs to develop interagency agreements that specify agreed-upon roles and responsibilities regarding contract administration and surveillance duties. **AF/SG concurs.** Development of specific roles and responsibilities regarding contract administration and surveillance duties could improve administration. Efforts toward education and enforcement of Contracting Officer and Contracting Officer Representative duties and responsibilities as delineated in the current regulations would be more efficient and effective for management of the contracts.

d. Work with the U.S. Department of Veterans Affairs to develop a corrective action plan that addresses the concerns identified in this report: including the lack of adequate acquisition planning, interagency agreements, quality assurance surveillance plans, and past performance information. The corrective action plan should also address the contract modification problem that is preventing contractors from receiving payment for services performed. The corrective action plan should clearly delineate the duties and responsibilities of both the U.S. Department of Veterans Affairs and DoD on all purchases made by the U.S. Department of Veterans Affairs on behalf of DoD. **AF/SG concurs.**

e. Develop an implementation plan for the U.S. Department of Veterans Affairs/DoD corrective action plan that includes site visits to major DoD organizations to ensure the required procedures in the memorandum have been explained at the operational level. **AF/SG concurs.** Over the past three years, the AF Medical Logistics Office has conducted three Contracting Workshops in order to educate the CONUS and OCONUS contract managers and medical equipment managers regarding current acquisition regulations and how they apply to the Medical Treatment Facilities (MTF). The decision was made to conduct three Contracting Workshops per year starting in 2008 because of the necessity and past success of the workshops. These workshops address assisted acquisitions in addition to standard acquisition procedures, such as acquisition planning and contract administration.

f. Advise the U.S. Department of Veterans Affairs that Defense Acquisition University courses covering the preparation of sole-source justification and price reasonableness determinations are available to U.S. Department of Veteran Affairs contracting officers. **AF/SG concurs.** It is recognized that adequate funding would be necessary to accomplish this recommendation.

g. Negotiate with non-DoD agencies to determine the best method to record contractor performance on all Government contractors. In addition, require DoD organizations to enter past performance information into the Past Performance Information Retrieval System and access the Past Performance Information Retrieval System for future source selection decisions. **AF/SG concurs.** A standard Federal past performance database would be a great assistance to the acquisition community. Currently, the Department of Veterans Affairs does not have an automated system that is used for collecting this data for the DoD.

Recommendation A.2:

We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) coordinate with the U.S. Department of Veteran Affairs to amend the "Department of Veterans Affairs and Office of the Air Force Surgeon General" memorandum of agreement. The memorandum of agreement should specify the types of purchases that are permissible under the interagency agreement between the Department of Defense and the U.S. Department of Veterans Affairs; and conform to all provisions contained within the corrective action plan discussed in Recommendation A.1.d. **AF/SG concurs.** AF/SGR is responsible for the MOA and a new version is currently in coordination with the Department of Veterans Affairs. The current MOA states that the VA is the "preferred" method for contracting for services. The future policy will make the Commodity Council preferred method of acquisition with a waiver process that collects information needed for AFMS management. The MOA should build measures to help accountability, particularly with respect to contract execution responsibilities.

Recommendation B.1:

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer:

a. Ensure that personnel at the U.S. Department of Veterans Affairs understand the current DoD policy on advance payments and funding purchases when performing assisted acquisitions. Specifically, the Under Secretary of Defense (Comptroller)/Chief Financial Officer must ensure guidance that prohibits advance payments has been distributed to field activities and to non-DoD

agencies that procure goods and services on behalf of DoD. **AF/SG concurs.** The subject of funding has been a problem issue for some time. Definitive guidance on types of funding, i.e. stock funds, etc. would be very helpful.

b. Recover advance payments made to the U.S. Department of Veterans Affairs, Austin Automation Center that have not been expended. **AF/SG concurs.**

Recommendation B.2:

We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics obtain an opinion from the DoD General Counsel on the correct course of action to resolve the improper payments and leasing arrangement. **AF/SG concurs.**

Recommendation C:

We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics initiate and coordinate a review with the Assistant Secretary of Defense for Health Affairs to assess whether the Military Departments are purchasing medical goods and services through the most efficient and effective methods. **AF/SG concurs.** There is currently a review being conducted by the services under the TRICARE Management Activity Quadrennial Defense Review Roadmap for Medical Transformation.

Additional AF/SG Comments:

Additional AF/SG comments with regards to specific items in the report are included in the attached matrix.

The AF/SG would like to address specifically what the AF/SG staff has been doing over the past four years to improve the assisted acquisition process.

During 2003-2004:

- Two Contract Specialists (GS-1102) were hired in order to assist with performance work statements, procurement package preparation and training for the AFMS. They also assisted in providing contract guidance to the MTF personnel.
- The Air Force Medical Logistics Office (AFMLO) and Chief of the Veterans Affairs Special Services (VASS) recognized a need for instituting Standard Operating Procedures (SOP) into the VASS organization. Several SOPs were developed by the VASS Chief and coordinated with the AFMS Contract Specialists. The SOPs have added value to the VA acquisition process.
- A VASS Handbook was developed to instruct AF personnel how to prepare purchase request packages. This handbook has been continuously updated to address new regulations and procedures.
- Contracting workshops were developed to address the immediate DoD contracting needs and also assisted acquisition procedures.

-
- Contracting Officer Representative (COR) Phase II training was implemented at the VASS. Note: Phase II training is specific to the awarded contract and is provided in addition to standard COR training.
 - Specific customer assistance representatives were added to the VASS staff to provide better service and control of procurement packages.
 - The AFMLO Contracting Toolkit was developed in order to assist MTF contract managers in the acquisition process.
 - The AFMS Commodity Council was initiated.

During 2005-2007:

- A web enabled database was developed and enhanced to track all the Military Interagency Procurement Requests (MIPRs) and resultant contracts.
- The AFMS Commodity Council completed Spiral 1 for hiring Clinical Support (Direct care) healthcare services in early 2005.
- The AFMS Commodity Council completed Spiral 2 for hiring Medical Administrative Support services in 2006.
- Contracting workshops have continued to be conducted and targeted the field MTFs.
- The DoD Strategy Council for Acquiring Direct Care was initiated and provided recommendations for continuing improvements in tri-service acquisition methods of healthcare services.
- TMAs Quadrennial Defense Review Roadmap for Medical Transformation includes review of acquisition of healthcare services.
- AFMS SG initiated the Surgeon General's Office of Modernization Acquisition Management (SGRM), an office specifically for AFMS acquisition management.
- Program management and acquisition training programs, along with tracking systems have been established.
- Specific medical acquisition contracting offices have been established and discussions continue with the AF Contracting Officials for improvement in the area of specific "medical" contracting expertise and personnel within the AF.

Final Report
Reference

Item #	DoDIG Report Excerpt	Page	AF/SG Comment
1	Contracting, financial, and accounting officials should have the necessary training and knowledge to properly execute the orders.	4	The program managers, contracting officers and financial managers assigned to the AFMAC are properly trained, however, it is difficult to obtain classes at DAUB since positions are not acquisition coded. A package was submitted to SAF/AQX to have positions acquisition coded 8 months ago. The package was approved but positions have not yet been coded. AFDW contracting resources assigned to the Commodity Council are also trained and certified. Ordering guides are prepared for ordering services under commodity council contracts. MIPR guidance has been developed by the financial community.
2	Of the 49 purchases reviewed at DoD organizations, 46 were either hastily planned or improperly administered and there was no collection and recording of contractor past performance by DoD organizations on the VA contracts. Specifically, • DoD organizations often lacked acquisition planning to determine the best source, proper statutory authority, and required agreements for non-DoD contracts; and • the VA and DoD organizations were deficient in contract administration, including the surveillance of contractor performance, assignment of CORs, and preparation of quality assurance surveillance plans (QASP).	5	The office with the requirement should have a procurable package ready to execute prior to the requirement being forwarded to the VASS. Additionally, this is a requirement of the service designated official. Concur that basic acq planning was probably not followed with the exception of developing a statement of work. Concur that these contracts were probably not surveilled well as little documentation exists on past performance for making future purchase decisions of contracts were awarded under VASS. More CORs are needed to properly document contract performance. Recommend that Government workers assigned as CORs be reviewed annually and an assessment made of COR performance and workload. Additionally: (1) The commodity council solves these problems for contracts under its domain, (2) SGR is putting together an Acquisition Review Panel to review acquisition strategy as part of the requirements approval process. I think COR assignment and review should be part of the acq planning process, (3) Recommend MOA be revised to require the VA to enter past performance into CPARS. Lack of past performance information on VA contracts has been an issue with AFMSSC source selection.
3	Furthermore, all non-Economy Act orders exceeding \$500,000 must be reviewed by a DoD-warranted contracting officer prior to sending the orders to the funds certifier or issuing MIPRs to the non-DoD activity.	8	Included in the new DoD MIPR policy
4	In another instance, the Air Force 96th Medical Group prepared a boilerplate best interest determination for the purchase of Obstetrics and Gynecology Nurse Practitioners services. The boilerplate determination states: use of a non-DoD contract is in the best interest of the Air Force considering the factors of satisfying customer requirements, cost effectiveness and price, delivery schedule, nonavailability of a suitable contract within DoD, contract administration, small business operations and any other factors as applicable. The boilerplate statement does not explain the supporting rationale on why the use of the non-DoD contract is in the best interest of the Air Force. DoD organizations must explain the reason why the use of non-DoD contract vehicles are in the best interest of DoD, rather than sign a pre-prepared boilerplate statement. Adequate planning will ensure surcharges are paid only when necessary and assist in preventing the procurement of goods and services at unreasonable prices.	9,10	Commodity Council has fixed this issue.
5	Health Care Resource Acquisitions. On 16 of 49 purchases reviewed, DoD goods and services procured through the VA were not within the scope of the statutory authority (VA-DoD Health Care Resources Sharing Act) used for the purchase. The VA-DoD Health Care Resources Sharing Act states "health-care resources include hospital care, medical services, and rehabilitative services."	10	Non-Concur: The definition of what can be shared under 8111 does not reference DODI 6010.23 4.1. The definition of a healthcare resource is contained in paragraph E.2.1.5 which allows for contracting for a broader range of activities. This is a DoD regulation but was not cited by the IG. The AF testified to the Task Force on Improvement of DoD medical care that 8111 needed to be clarified to reflect Congress' intent on scope of VA sharing.

Deleted

6	<p>For example, the Air Force 579th Medical Group purchase for roof repairs at the requiring activity's medical treatment facility (MTF) was not correctly awarded under the VA-DoD Health Care Resources Sharing Act because the purchase was not a health care resource.</p>	10	<p>The roof repair was appropriately awarded under 38 USC 8111 (relevant section below). AF use of VA contracting services as an administrative resource is specifically allowed under the law. A rewrite of the AFMS and VA MOA to be more specific will clarify contracting services.</p> <p>38 USC 8111 (g) (4) states: The term "health-care resource" includes hospital care, medical services, and rehabilitative services, as those terms are defined in paragraphs (5), (6), and (8), respectively, of section 1701 of this title, services under sections 1782 and 1783 of this title, any other health-care service, and any health-care support or administrative resource.</p>	Deleted
7	<p>In other instances, the VA contracting officials awarded purchases for printers, furniture, radios, strategic services support, and manpower resource management support under the VA-DoD Health Care Resources Sharing Act. None of these purchases pertain to hospital care, medical services, or rehabilitative services; therefore, they cannot be categorized as health care resources. Though Congress issued policy that encourages the sharing of health care resources between the VA and DoD to reduce costs of duplication and the under use of health care resources, these types of nonmedical purchases are not within the scope of the health care resource definition.</p>	10	<p>Disagree with the IG's restrictive view of the VA-DOD sharing statutes, and believe that both Congress and the current Administration intend a broad scope of what types of purchases are permissible and sharing IAW 38 USC 8111 and 10 USC 1044. These statutes authorize the VA and DOC to share "health care resources," which are broadly defined to include hospital care and medial services, and other health-care service, and any healthcare support or administrative resource. See 38 USC 8152. These statutes have been implemented by DOD in DODI 6010.23, Sept 12, 2005, Enclosure 2, para E2.1.5, which further defines healthcare resource as: "All available manpower, facilities, equipment, supplies, and funding to produce health care services, and any other health care support or administrative resource." Therefore, sharing use of VA contracting to provide AF MTF's with healthcare related supplies/services is permissible. Had the scope of sharing been limited to direct patient care, as what seems to be suggested in the draft report, Congress certainly could have done so.</p>	Deleted
7 Cont.		10	<p>The validity of the conclusion is further supported by GAO reports and other commentaries, favorably noting sharing of services such as fire, utilities, laundry services, security, waste collection and the like. Further support for Congress' broad interpretation of the scope of sharing is present in 38 USC 8121 (b) which authorizes DOD to make purchases through the VA's supply fund in the same manner as activities of the VA. Should this statute be implemented by the VA and DOD, it could even more clearly authorize purchase of services, equipment or supplies irrespective of their connection to direct patient care. ...and if implementation is reconciled with applicable policies, it may solve many of the fiscal issues identified above.</p>	
8	<p>MIPR Preparation. Of 124 MIPRs reviewed, 75 did not contain the required information necessary for interagency transactions. DoD organizations issued MIPRs that either lacked a detailed description of the goods or services to be acquired, failed to specify the period of performance for purchased services and delivery requirements for goods, or omitted the funding statement required by the USD(C)/CFO March 27, 2006, memorandum, "Proper Use of Interagency Agreements with Non-Department of Defense Entities Under Authorities Other Than the Economy Act" (DoD March 27, 2006, Memorandum)...All unobligated funds shall be returned to the ordering activity no later than one year after the acceptance of the order or upon completion of the order, which ever is earlier." In the case of goods, the memorandum requires that interagency funding documents include the statement, "I certify that the goods acquired under this agreement are legitimate, specific requirements representing a bona fide need of the fiscal year in which these funds are obligated." It appears that the March 27, 2006, requirements guidance is not being disseminated to the DoD working level.</p>	11	<p>AFMLO & VA has been following guidance contained in MIPR Guide dated Nov 06. The VASS reviews packages to ensure the correct information is being provided. AFMLO and the VASS have been successful in reviewing and obtaining correct information over the past year. The current MIPR guide is dated Aug 07. Provisions have been addressed in training which occurred in Aug 07 at the Medical Logistics Symposium and will continue in future workshops. Four workshops will be held in 2008.</p>	

9	<p>DoD Organizations Without QASPs. Government contracts without a QASP increase the potential for confusion and misinterpretation when surveillance personnel conduct reviews. For instance, the Air Force Medical Operations Agency (Brooks-City Base) did not have a QASP for the \$39.0 million Hospital Aseptic Management purchase. The VA contracting officer stated that there was a DoD COTR; however, the DoD COTR identified by the VA stated that he was not the COTR and was not officially designated as the DoD COTR for the purchase. The VA-identified DoD COTR did not maintain a contract file. He explained that DoD monitors contractor performance through customer complaints and invoice reviews. DoD and the VA were unable to agree on whether there was an assigned COTR for the overall purchase. The VA contracting officer stated that he sends contract copies to the DoD COTR and does "not see any reason why DoD has to maintain contract documentation since the VA has copies of all contract documentation." DoD personnel must document their surveillance efforts and demonstrate that they adequately monitored contractors' performance. Without such documentation it would be difficult to convince a contractor he needs to improve his performance.</p>	14	<p>The HAMS program does have a QASP which is based on customer complaint methodologies. Each HAMS site has an individual COR, identified in writing, responsible for quality assurance activities and for accepting services on behalf of the Contracting Office. This individual uses complaints to demonstrate poor performance of the contractor. The AFMS program manager and the VA contracting office are collocated. The contracting office keeps official contract documents while the AF Program Manager has unofficial, working documents to manage the overall program.</p>
10	<p>DoD officials must perform acquisition planning for all procurements to ensure all acquisition alternatives are considered before acquiring goods and services. DoD organizations should utilize their local contracting office to assist with early acquisition planning.</p>	17	<p>AFMS Commodity Council policy is forthcoming. Through Acquisition Transformation, AF contracting is consolidating into regional offices and acquisition planning by local MTFs will be difficult to accomplish. Recommend turning AFMSSCC into Medical Center of Excellence for all medical requirements. Army and Navy are also set up this way.</p>
11	<p>A.2. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) coordinate with the U.S. Department of Veteran Affairs and Office of the Air Force Surgeon General' memorandum of agreement. The memorandum of agreement should specify the types of purchases that are permissible under the interagency agreement between the Department of Defense and the U.S. Department of Veterans Affairs; and conform to all provisions contained within the corrective action plan discussed in Recommendation A.1.d.</p>	19	<p>AF/SGR is responsible for the MOA and a new version is currently in coordination with the Department of Veterans Affairs. The current MOA states that the VA is the "preferred" method for contracting for services. The future policy will make the Commodity Council preferred method of acquisition with a waiver process that collects information needed for AFMS management. The MOA should build measures to help accountability, particularly with respect to contract execution responsibilities.</p>
12	<p>Air Force Surgeon General improperly used the VA's Austin Acquisition Office to obtain leased space through a service contract.</p>	20,23,24	<p>AF/SGRM has identified this to the DoD/IG and is working to correct this problem.</p>
13	<p>Air Force Surgeon General improperly funded the Austin Automation Center to procure services and equipment.</p>	20,23	<p>Disagree with the IG's comment that VA Austin's advance payments were not in compliance with the intent of government policy. AF/SGR did not lose oversight of funds, and has been able to recall funds from the VA. The funds are technically "advanced" to the VA, but are not given to the contractor for performance until service rendered/goods accepted. AF/SGR monitored payments and burn rate, and captured the unused dollars back before it expires.</p>

14	<p>For example, the Office of the Air Force Surgeon General sent approximately \$3.7 million to the VA on September 28, 2005, using FY 2005 Defense Health Program Funds. The VA accepted the funds on September 28, 2005. FY 2005 Defense Health Program Funds expired September 30, 2005. The MIPR stated "The purpose of this effort is to provide information technology knowledge management support to the Modernization Directorate." The VA contracted for BladeFram Base Systems and software licenses, costing \$718,606, using Federal supply schedule GS-35F-0330J. The VA contracting officer signed the purchase order February 16, 2006. The goods were commercial items and there was no evidence that a long lead-time was required to purchase these items, or that the items were needed to replenish the inventory, or that there was an unforeseen delay in purchasing these items. The Office of the Air Force Surgeon General should conduct a preliminary review to determine whether an ADA violation occurred.</p>	25	<p>AF/SG agrees a preliminary review is needed to determine whether an ADA violation occurred. AF/SGR believes that a need/requirement for each of the items existed at the time they were ordered, to correct identified deficiencies with the Optimart Network and computing infrastructure supporting the Assessment/Demonstration Center. AF/SGY to review.</p>
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U.S. Department of Veterans Affairs Comments

DEPARTMENT OF VETERANS AFFAIRS
Austin Automation Center
1615 Woodward Street
Austin TX 78772

October 26, 2007

In Reply Refer To: (200/00D)

Department of Defense Inspector General
Attn: Christine McIsaac
Acquisition and Contract Management Directorate
400 Army Navy Drive
Arlington, VA 22202-4704

SUBJ: Response to DoD IG Draft of a Proposed Report FY 2006 DoD Purchases Made through the U.S. Department of Veterans Affairs, Project No. D2006-D000CF-0244.000

Thank you for the opportunity to comment on the subject draft report, dated September 26, 2007. The Department of Veterans Affairs (VA) is committed to ensuring that contracts for goods and services on behalf of the Government comply with law and regulation.

This response is limited to the comments regarding the acquisitions conducted by the Austin Automation Center (AAC), now known as the VA Corporate Franchise Data Center (CFD), under the BuyIT program (finding B) and does not address comments regarding the Austin Acquisition Office under the Office and Acquisition and Logistics. These are distinct contracting activities.

OIG Comment (finding B, page 25): "The Austin Automation Center BuyIT.com Web site references an Under Secretary of Defense (Comptroller)/Chief Financial Officer September 2003 memorandum that states, with a bona fide need, the servicing agency may retain and promptly obligate funds in the following fiscal year. The Austin Automation Center interpreted this outdated DoD guidance to mean that goods and services procured in the following year could be procured with the earlier year appropriation. Consequently, the Austin Automation Center procured services and equipment for DoD organizations in FY 2006 using expired FY 2005 O&M funds. However, in October 2006, DoD clarified financial management policy for assisted DoD purchases made through non-DoD contracts."

CFD Response: When the funds were accepted via Military Interdepartmental Purchase Request (MIPR) in FY 2005 and orders placed in FY 2006 (October 1, 2005 through September 30, 2006), the October 16, 2006 memorandum had not been issued by DoD and the CFD followed the latest DoD guidance in the September 25, 2003 memorandum. The CFD awarded contracts in compliance with the Federal Acquisition Regulation (FAR), but inconsistent with DoD guidance that was issued after the orders were awarded. The CFD will comply with DoD's updated guidance regarding DoD purchases and will utilize the guidance of the October 2006 memorandum for all future DoD acquisitions.

2.

Department of Defense Inspector General
ATTN: Christine Melsaac

OIG Comment (finding B, page 26): "The Austin Automation Center collected full DoD payment for contracts immediately after contract award and prior to contract invoicing. Therefore, the Austin Automation Center did not follow the law or Government rules on advance payments. DoD loses oversight of funds that the VA collects prior to the services being received.

Advance Payments. The BuyIT.gov Program Manager and Chief Acquisition Management Services, VA Austin Automation Center, stated that the Austin Automation Center collected the full amount of the contract and fee after contract award. To illustrate, DoD hypothetically sends \$1 million (using a MIPR) to the Austin Automation Center and receives an acceptance MIPR. The Austin Automation Center uses its own funds and completes the procurement and award. The contracting officer reports the value of the contract to the Austin Automation Center business support specialist and the next month the business support specialist collects through the Intra-Governmental Payment and Collection System the full contract amount plus fee from DoD. The VA pays the contractor as work is performed and accepted. The contracting officer certifies invoices based on the DoD COTR acceptance of goods and services."

CFD Response: The CFD agrees that it used the Franchise Fund, under Section 403 of the Government Management Reform Act of 1994, Pub. L. No. 103-356, to fund the procurement of DoD services and equipment. Also, the CFD collected full DoD payment for contracts immediately after contract award in accordance with VA's Appropriation Act of 1997, Pub. L. No. 104-204 (1996). This statute established the VA Franchise Fund and permits advance payments for providing common administrative services to other agencies. However, collecting the "earned" revenue (i.e., contract award amount and acquisition service fee) is not an "advance payment" for the DoD intergovernmental order for acquisition services. The revenue was collected after completion of the acquisition services resulting in contract award. The CFD will comply with the DoD memorandum issued March 1, 2007, for all new DoD acquisitions. The memorandum, dated March 1, 2007, provided the current guidance on DoD purchases and was issued after these funding actions were received and acquisitions awarded. The CFD requests that DoD ensure the VA is provided new guidance as issued by DoD regarding non-DoD agencies making purchases on behalf of DoD.

Advance payments to contractors were not made. Contractor payments were made in arrears for services or products received and accepted in accordance with Federal procurement law and regulation.

OIG Comment (finding B, page 27): "DoD may or may not reach the funding ceiling of time-and-material contracts. If DoD does not reach the ceiling, DoD organizations may not receive expired funds back from the VA, as the VA has already collected full funding when the contract was awarded."

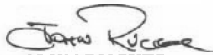
3.

Department of Defense Inspector General
ATTN: Christine McIsaac

CFD Response: At contract completion, the CFD Business Support Specialist reconciles the amount expended on the contract versus the amount collected from the customer and the CFD executes an "Acceptance of MIPK" to return the funds. The CFD will review unexpended funds on current contracts for return to DoD and to be billed as invoices are paid to contractors.

If you have any questions, please call me at 512-326-6000, or have a member of your staff contact David W. Peterson, Chief, Acquisition Management Services, at 512-326-6020.

Sincerely,



JOHN RUCKER
Acting Director
Corporate Franchise Data Center

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