STATEMENT OF
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BEFORE THE
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UNITED STATES HOUSE OF REPRESENTATIVES
HEARING ON VA CONFERENCES IN ORLANDO, FLORIDA
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Mr. Chairman and Members of the Committee, thank you for this opportunity to testify on the results of the Office of Inspector General's (OIG) work related to conference spending within the Department of Veterans Affairs (VA). My statement will focus on a report issued September 30, 2012, *Administrative Investigation of the Fiscal Year 2011 Human Resources Conference in Orlando, Florida*, and a report issued September 30, 2013, *Review of VA's Separately Priced Item Purchases for Training Conferences*. I am accompanied today by Mr. Gary Abe, Deputy Assistant Inspector General for Audits and Evaluations.

BACKGROUND

In VA, the majority of conference-related spending, including travel costs, utilized funds from ADVANCE, an agency-wide human capital planning effort to build and sustain VA's succession and workforce planning. ADVANCE funding for fiscal year (FY) 2011 was about $288.6 million, which was provided primarily by the Veterans Health Administration (VHA), VA's largest administration and ADVANCE's largest contributor. VHA provided $141.7 million from its Medical Services appropriation, $114.8 million from its Medical Support and Compliance appropriation, and $14.8 million from its Medical Facilities appropriation. Selected program offices, such as VA Learning University (VALU) and the Office of Human Resources Management (OHRM), receive ADVANCE funding through VA's Human Resources and Administration (HR&A) based on strategic priorities and funding levels. Program offices are responsible to ensure these funds are spent to meet the ADVANCE strategic goals. With their portion of ADVANCE funding, VALU and OHRM individually used multiple purchasing methods to fund the majority of the costs of conferences that we reported on.

Following the General Services Administration (GSA) OIG report in April 2012 regarding GSA conference expenditures, the VA OIG Hotline received allegations concerning two VA conferences held in Orlando, Florida, in July and August of 2011. Based on those allegations, we began a review in which we examined, and to the extent possible, reconstructed conference expenditures to provide an accounting of the costs associated with holding these two conferences. We interviewed senior VA leadership and relevant employees from VA, hotels, vendors, and another agency. We reviewed contract records, e-mail, travel, and purchase card records, as well as relevant Federal laws and regulations and VA policy.

Administrative Investigation of the Fiscal Year 2011 Human Resources Conferences in Orlando, Florida

In our opinion, VA held these conferences to fulfill valid human resources training needs. VA reported it provided about 57 individual training classes per conference for about 1,800 VA employees. It was beyond the scope of our review to assess the merits and effectiveness of the training curriculum and determine whether VA's decision to deliver the training in the format of these two large conferences was appropriate. However, our work did disclose a pattern of poor conference planning and management that resulted in over $750,000 in questioned costs.

Inadequate Senior Leadership Oversight

Senior leadership failed to provide proper oversight in the planning and execution of the two 2011 HR&A sponsored training conferences. The then VA Chief of Staff acknowledged he authorized the conferences and took "full responsibility" for them. Nonetheless, VA senior leaders, the Assistant Secretary for HR&A, the Dean of VALU, and the Deputy Assistant Secretary (DAS) for OHRM, did not exercise fiscal stewardship to ensure that public funds for the conferences were spent appropriately and prudently. FY 2011 performance metrics for both the Assistant Secretary and the VALU Dean encouraged spending human capital funds without any specific accountability checks to avoid unnecessary expenditures. In most instances, senior leadership delegated important responsibilities for conference planning and execution to their direct reports but did not provide the appropriate level of oversight needed. This hands-off approach resulted in imprudent expenditures and ethical misconduct by senior employees, conference planners, and other HR&A staff. It also contributed to a lack of communication between HR&A senior executives, resulting in confusion of roles and a dysfunctional execution of responsibilities that ultimately led to no one person really knowing who did what or why.

Notably, the Assistant Secretary abdicated his responsibilities when he failed to provide proper guidance and oversight to his senior executives in the operations of his organization. He relied on his career senior executives to run their respective organizations and handle all the details. We found no evidence that the Assistant Secretary paid attention to the details of this conference, including the costs. In fact, there is no evidence that the three ever met together to discuss the conferences. While the Assistant Secretary's memorandum to the Chief of Staff requesting conference approval stated "Our planning committee is pursuing all efforts to constrain and control conference costs," he was not involved in these details.

The Assistant Secretary's efforts to distance himself from responsibility extended to making false statements under oath as to his knowledge of, and involvement in, preparation of the General George S. Patton parody video. Specifically, the Assistant Secretary denied having viewed the video in advance of the July 2011 conference. Several individuals have, in fact, testified that he viewed the videos before the conferences took place.

Improper Acceptance of Gifts

The acceptance of gifts by Federal employees from potential contractors is a violation of Federal law and the applicable Executive Branch standards of conduct. We found that 11 VA employees, tasked with conference management responsibilities, accepted gifts. The gifts were offered because of the employees' official positions as VA representatives and potential hotel clients in booking conferences.

For example, all of the VA employees who participated in the pre-selection conference site visits to Dallas, Texas; Nashville, Tennessee; and Orlando, Florida, accepted complimentary lodging and upgraded rooms in violation of laws and regulations. The hotels that offered the gifts were prohibited sources in that they were seeking official action by VA in selecting their venues for the conferences, were seeking VA business and their interests could be substantially affected by the employees' performance or nonperformance of their official duties in evaluating and/or recommending the hotels for the conferences.

In addition to the pre-selection visits, several employees accepted additional gifts from the Orlando Marriott, the hotel selected to host the conferences. We based this finding on admissions by employees in sworn testimony and other records. The gifts included meals, lodging, transportation, gift baskets, Rockettes entertainment tickets, spa treatments, and a helicopter ride. A review of travel records reflected that employees failed to deduct the value of meals received free of charge from their travel reimbursement vouchers as required.

VA's primary conference event planner inappropriately communicated with a Marriott representative and solicited a particular gift of lodging from Marriott in connection with the contract award. He asked for this personal favor to enrich his and his family's stay at the Marriott during the conference. As a member of the contract proposal technical evaluation team, the event planner signed a confidentiality certificate to protect proprietary information. He engaged in a series of e-mail communications with the Marriott before the contract award on March 9, 2011. While we did not conclude that he disclosed confidential information to Marriott, the event planner acted improperly in engaging in these communications without reporting them as required. We made criminal referrals for the primary event planner's solicitation, as well as the Assistant Secretary's alleged false statement, to the U.S. Department of Justice (DOJ). DOJ declined the referral regarding the Assistant Secretary and declined prosecution of the primary event planner so we have closed our investigation. We also made 18 recommendations to VA to take appropriate administrative action against individuals involved in misconduct and lack of oversight.

Wasteful Expenditures

VA officials did not maintain accountability or question that conference-related expenditures were appropriate. HR&A senior leadership set a tone that they wanted these conferences to be signature events. However, inadequate oversight in conjunction with decentralized purchasing methods resulted in numerous examples of unauthorized, unnecessary, and unsupported conference expenditures. We questioned about $762,000 as unnecessary and/or wasteful expenses including costs associated

with the purchase of unnecessary promotional items, unsupported expenses, and the appropriateness of employee awards for conference planning and management. Seventeen VA employees received Special Contribution Cash and/or Time-Off Awards based on their work related to the HR conferences. The collective value of these awards totaled about $43,000. Documentation in support of the awards noted five employees were specifically recognized for keeping senior leadership aware of conference issues, despite the same senior leaders acknowledging they were uninvolved in many financial and conference planning decisions. Five other employees were recognized for their actions to minimize conference costs, but we identified instances where expenditures were excessive or unnecessary. The Dean of VALU or the Deputy Assistant Secretary authorized the awards, with values ranging from about $750 to $5,500.

The Dean of VALU and the Deputy Assistant Secretary received significant cash awards based on their overall FY 2011 performance. While their awards were not specific to the conferences, we believe their failure to demonstrate essential executive leadership and business acumen on conference decisions and spending should have had some impact on their performance ratings and associated cash awards.

Weak Control Environment

Overall, VA's control environment was too weak, ineffective, and in some instances, nonexistent to ensure that conference costs were accurate, appropriate, necessary, and reasonably priced. Staff lacking an appropriate level of supervision made poor decisions that demonstrated a lack of prudence and concern for controlling expenses. Accountability was inadequate to ensure effective reporting on the dollars spent.

- HR&A Exceeded Authorized Spending Levels – Due to a lapse in communication between VALU and OHRM and a lack of policies requiring a detailed budget of expected costs, HR&A spent above the amount authorized by the Chief of Staff. On December 20, 2010, the Chief of Staff approved $8 million in total ($4 million for travel and per diem and $4 million for the conferences) for three HR conferences for 3,000 or more VA attendees in FY 2011. Based on the limited details contained in the conference authorization request from the Assistant Secretary, it would seem each conference had an expected average cost of $2.67 million ($8 million for three conferences). However, we determined VA spent at least $6.1 million for just two conferences. This resulted in an amount about $760,000 more than authorized. Expectations fell short, as well, of the planned number of attendees. In fact, VA reported about 1,800 employees were trained, well below the 3,000 attendees upon whom the $8 million conference approval was based.

  Once HR&A obtained the Chief of Staff's authorization, senior leadership did not take the appropriate actions to ensure that the costs of the conferences remained within the amounts approved. In June 2011, VALU drafted a Service Level Agreement (SLA) that set the cost estimate for two conferences at $9,300,846. (The SLA is the tool VALU developed to budget for and control costs; however, VALU did not set the budget until a month before the first HR conference was

held in July 2011.) The budget for the two conferences was about $1.3 million above the $8 million amount approved by the Chief of Staff for three conferences. The SLA provided no justification for the significant increase in expected conference expenditures, while reducing the number of conferences and attendees. Once a more detailed budget was identified, HR&A senior leadership failed to return to the Chief of Staff for approval or to provide justification for the increase in expected costs.

- Inappropriate Pre-Planning Site Visits – VA employees involved in conference planning conducted inappropriate and unnecessary pre-planning site visits. Seven employees visited three locations to determine whether potential hotels could accommodate conference requirements. However, the visits occurred prior to the Chief of Staff authorizing the conferences on December 20, 2010. The primary event planner stated that two GS-15 managers within OHRM made the decision regarding which employees would conduct the pre-planning site visits.

  The visits also took place prior to the January 6, 2011, issuance of the Request for Proposal (RFP). This was inappropriate because there was no guarantee that hotels in the locations visited would ultimately bid on this contract. Sound business practice entails that site visits be conducted after RFP issuance. The event planner explained that these pre-planning visits were intended to expedite development and issuance of the RFP and avoid anticipated lag time in the acquisition process. A senior official within the Office of Acquisition, Logistics, and Construction confirmed that the pre-planning site visits were unnecessary. The information needed to perform market research and identify potential conference locations was readily available online.

  The unnecessary site visits occurred because of a lack of overarching policy guidance outlining the appropriate procedures for pre-planning site visits. There was a lack of oversight to ensure appropriate approvals were obtained and the site visits were justified. Further, there was no requirement for event planners to consult with the Office of Acquisition, Logistics, and Construction to ensure the conferences were managed in accordance with applicable regulations. Amid such weaknesses, conference planning individuals did not use sound business judgment in making the decision to conduct these site visits, which comprised $10,666 in questioned costs.

- Lack of Accountability and Control Over Costs – Federal agencies, as stewards of public funds, should be able to account for program costs. However, VA could not account for all conference-related costs more than a year after the conferences took place. Specifically, in an April 2012 memorandum to the Chief of Staff, the DAS for OHRM reported approximately 2,000 employees had been trained at the two conferences at a cost of about $5.1 million. On August 24, 2012, VA reported to several congressional committees that the HR conferences cost a total of $5.2 million. On August 16, 2012, the Dean of VALU provided a spreadsheet showing VA spent about $5.6 million on the two conferences. This

figure was revised on August 24, 2012, with an increase of about $5,000. After we asked for supporting documentation on travel costs related to the conferences, VALU again revised its spreadsheet on August 27, 2012, to show conference-related costs totaling about $5.8 million.

As part of our review, we reconstructed conference-related costs of at least $6.1 million, representing a difference of about $300,000 above VA's highest estimate of $5.8 million. We could not provide reasonable assurance that the $6.1 million represents a complete accounting of the conference costs.

Without basic financial controls, such as a detailed budget, spend plan, or other mechanisms to track all conference-related expenses, VA was unable to adequately manage costs or accurately account for conference expenditures. Multiple methods used to purchase goods and services created a lack of transparency over conference costs.

Additionally, VA relied heavily on contractors—primarily the vendor, Systems Research and Applications Corporation (SRA)—for planning and executing their conferences. A work breakdown structure developed for the conferences indicated a significant number of conference tasks were the responsibility of contractors. More importantly, we could not determine to what extent conference-related decisions were made by the contractors involved and whether VA maintained an appropriate level of control over these decisions.

- Inadequate Management of Interagency Agreements – Based on our review, spending through the use of Interagency Agreements (IAs) comprised at least 47 percent, or almost $2.8 million, of total HR conference costs. VA used existing IAs, primarily those with the Office of Personnel Management (OPM), to obtain services such as conference event planning, training, and evaluation. However, due to inadequate IA management, VA could not readily determine how many IAs and associated costs were used to support the HR conferences. For example, VA reported to us they utilized two IAs with SRA totaling $2,705,710 that supported both HR conferences. We independently identified four additional IAs, as well as service fees, that VA did not report to us. Specifically, these IAs had contracts with vendors such as SERCO and Booz Allen Hamilton (BAH) that provided services for the HR conferences. We identified $82,654 in SERCO and BAH costs that VA did not report to us.

  A lack of transparency over IA costs impaired accountability and created the potential for duplicate purchases. IAs used to support the HR conferences included deliverables to accomplish other ADVANCE program goals, such as additional training conferences, communication plans, competency gap assessments, and Web site maintenance. Given the lack of specificity as to what the IAs were used for, duplicate goods and services could be purchased through both the IAs and other means without awareness. For example, conference planners purchased 1,000 water bottles and 1,100 notebooks from vendors at a cost of $3,342 and paid for these purchases with a Government purchase card.

Through an IA, SRA also purchased 2,500 water bottles and 2,500 notebooks at a significantly higher cost of $17,364. VA's purchases through SRA appeared to be excessively priced and unnecessary. Regardless, water bottles have intrinsic value and are therefore unallowable.

VA did not have a process in place to require OPM to provide detailed invoices that included information on specific line item costs incurred through IAs. Instead, VA initiative coordinators reviewed and authorized vendor payments for conference goods and services based on OPM's delivery receipt forms, which often consolidated the costs of several deliverables into one summary bill lacking line-item cost details. Sometimes OPM's consolidated receipt forms covered a range of vendor deliverables that were not related to the July and August 2011 HR conferences. We reported similar weaknesses in our audit report, *Audit of VA's ADVANCE and Corporate Senior Executive Management Office Human Capital Programs* (August 2, 2012).

- Contract Violations and Lack of Oversight – VHA acquisition personnel and VALU and OHRM program officials did not effectively plan or manage the firm fixed price contract of $335,800 with the hotel to support the conferences. Specifically, these officials did not: adequately identify conference requirements and clearly state contract terms; conduct a technical and legal review of the proposed firm-fixed-price contract with the hotel prior to award; conduct and document price negotiations with the contractor; designate a Contracting Officer's Representative (COR) in writing, per FAR requirements; and authorize conference expenditures properly.

- Inappropriate Use of Government Purchase Cards – VA cannot identify all individuals who used their Government purchase cards to acquire goods and services for the HR conferences. We determined at least seven employees used their individually assigned Government cards for purchases, such as promotional items valued at $95,459 and rentals of computers and related equipment at $26,088. In total, we estimated that at least $215,826 was spent using Government purchase cards on both conferences.

  Further, we found the primary event planner exceeded his authority in using his Government purchase card in support of the July and August 2011 HR conference expenses. The event planner made at least ten transactions totaling $102,407. These purchases exceeded the $3,000 micro-purchase threshold and were not valid because he did not have a current warrant. The warrant supporting his purchases over the $3,000 limit was issued by VHA, and was not transferrable to VALU, his current employer. The warrant was also unsigned, rendering it invalid.

OIG Recommendations

Our report included 18 recommendations for personnel-related actions, as well as 31 recommendations for improving conference management and control in the following areas:

- Conference Approval Process
- Pre-Planning Site Visits
- Accountability and Control of Conference Costs
- Management of Interagency Agreements
- Contract Management
- Purchase Card Management

Prior to the release of our report, VA sent a memorandum to VA staff advising of new procedures for VA conferences. In response to our report, the Department agreed with our recommendations and outlined plans to address them including the issuance of directive and a handbook on "Conference Planning, Execution, and Oversight." As of October 24, 2013, 3 of the 18 personnel-related recommendations remain open, while 23 of 31 conference management recommendations remain open. We continue to follow up on VA's corrective actions. Once all conference management recommendations are closed and VA has used the new controls for a sufficient time period, we plan on conducting a review of VA's implementation to ensure improvement in financial accountability and transparency.

Review of VA's Separately Priced Item Purchases for Training Conferences

Based on our previous work[1], we became aware of issues related to assisted acquisition interagency agreements with OPM, and we learned of three financial management training conferences VA conducted in 2010 and 2011. We conducted this review to assess VA's oversight of separately priced items (SPIs) purchased through an assisted acquisition IA with OPM for these conferences. SPI purchases had not been a focus of our prior reports. About $6.7 million of the $15.5 million VA spent on the three conferences was for SPI purchases and related service fees. We found VA paid about $5.3 million for goods and services the prime vendor should not have purchased as SPIs. We also found that VA paid the prime vendor about $697,000 in inappropriate service fees and that VA paid OPM about $132,000 in service fees associated with inappropriate SPI purchases.

We made recommendations to the Assistant Secretary for HR&A to consider discontinuing the use of assisted acquisition IAs with OPM for training conferences and establish controls to improve oversight of SPIs purchased through existing assisted acquisition IAs with OPM. We also made recommendations to the Principal Executive Director, Office of Acquisition, Logistics, and Construction. Both offices concurred with the recommendations and provided action plans. We consider the action plans acceptable and we will follow up on their implementation.

[1] *Audit of ADVANCE and the Corporate Senior Executive Management Office Human Capital Programs* (August 2, 2012)*; Administrative Investigation of the FY 2011 Human Resources Conferences in Orlando, Florida* (September 30, 2012)*;* and *Review of Acquisitions Supporting the Veteran Employment Services Office* (June 25, 2013).

CONCLUSION

VA failed to provide effective oversight and had weak internal controls which resulted in wasteful and excessive spending on conferences in FY 2011 especially the July and August HR Conferences. VA needs to fully implement its handbook for conference planning, execution, and oversight. This action will address a significant number of the open recommendations from the HR conferences report. It will also provide VA staff guidance on proper policies and procedures. Finally, VA needs to review and determine whether interagency agreements are an appropriate vehicle to use in planning conferences.

Mr. Chairman, and Members of the Committee, this concludes my statement today. We will be pleased to answer any questions you may have.