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VETERANS AFFAIRS CONTRACTING

Improvements in Policies and Processes Could Yield Cost Savings and Efficiency

Statement of Michele Mackin, Director, Acquisition
and Sourcing Management

Chairman Coffman, Ranking Member Kuster, and Members of the Subcommittee:

The Department of Veterans Affairs (VA) spent about \$20 billion on goods and services in fiscal year 2015.¹ The wide range of goods and services that VA procures—including construction, information technology, medical supplies, and many other categories—is essential to meeting its mission to provide health care, pensions, and other benefits to the nation’s military veterans. Prior assessments of VA management, both internal and external, have found shortcomings in VA procurement. In 2015, GAO added VA Health Care to our High Risk list because of issues including ambiguous policies, inconsistent processes, and inadequate oversight and accountability.²

My remarks today are based on our recently issued report on VA contracting, and I will summarize a few key findings from that report.³ I will address 1) the organizational structure of VA’s procurement function, 2) VA procurement policies, and 3) the extent to which opportunities exist to improve VA’s key procurement functions and to save money.

As part of our work for our September 2016 report, in order to evaluate VA’s procurement organizational structure, we reviewed policy documents and interviewed officials in leadership, local contracting office management, and contracting officer roles. To assess VA’s procurement policies, we obtained and analyzed policy documents, and interviewed officials responsible for making and implementing procurement policy. To assess opportunities to improve VA’s key procurement functions and to save money, we obtained and analyzed information regarding VA’s medical-surgical prime vendor program and interviewed officials with roles in management, contracting, and operations for the program. We also reviewed a non-generalizable sample of 37 contracts and 19 associated task orders from fiscal years 2013 through 2015. The selected contracts were chosen from the national contracting offices and local

¹For our purposes, “spent” means obligated, as defined in *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP; 31 U.S.C. § 1501 (a).

²GAO, *High Risk Series: An Update*, GAO-15-290 (Washington, D.C.; Feb. 11, 2015).

³GAO, *Veterans Affairs Contracting: Improvements in Policies and Processes Could Yield Cost Savings and Efficiency*, GAO-16-810 (Washington, D.C.; September 16, 2016).

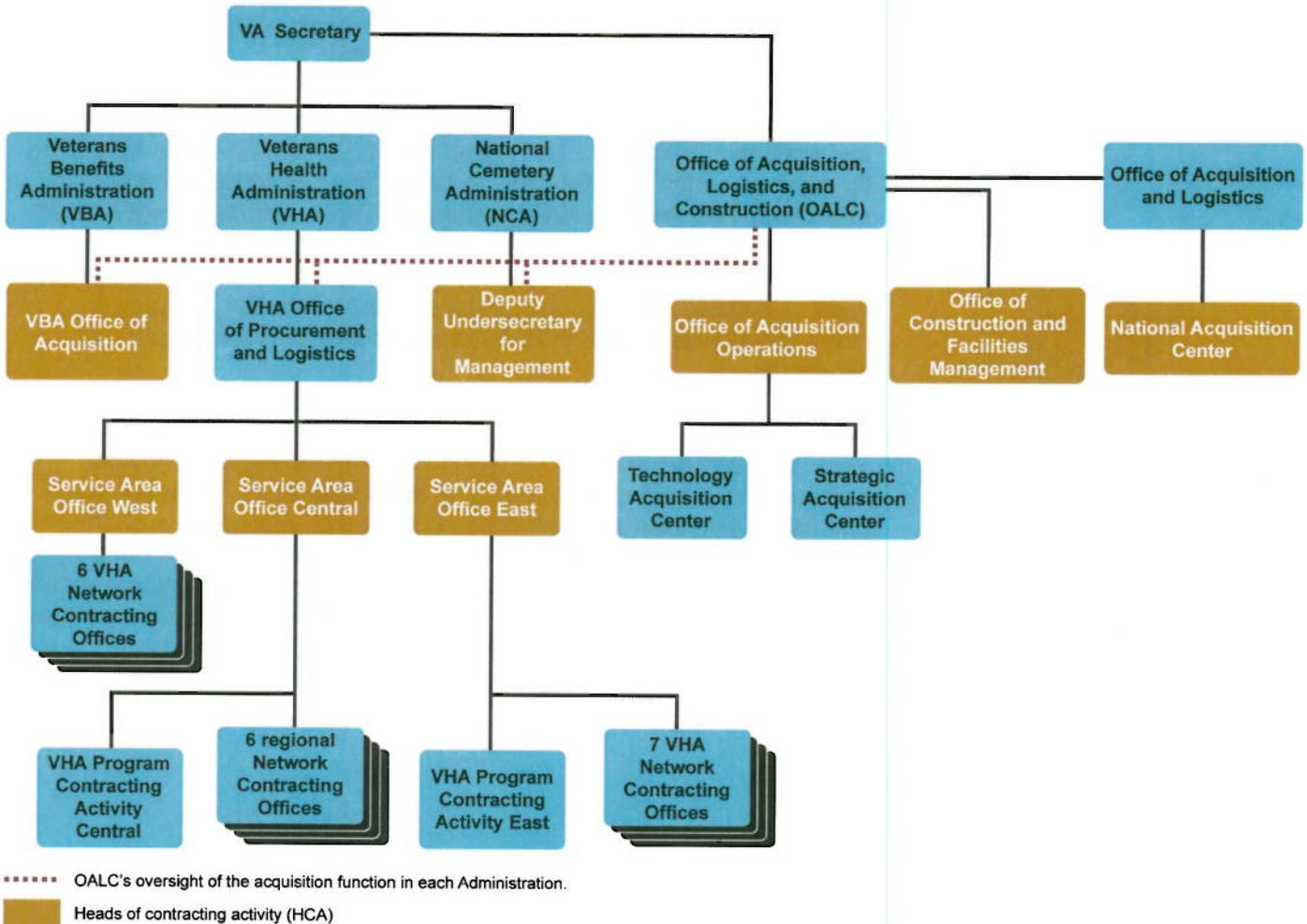
Veterans Health Administration (VHA) contracting offices we visited, and the basis for selection included dollar value and whether these contracts were competed or not. Additionally, we interviewed contracting officers responsible for each of the selected contracts.

More detailed information on our objectives, scope, and methodology for our work can be found in our September 16, 2016 report. We conducted the work on which this statement is based 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.

Background

VA serves veterans of the U.S. armed forces, and provides health, pension, burial, and other benefits. In fiscal year 2015, VA spent about \$20 billion on goods and services via contracts—more than a quarter of its discretionary budget. As shown in the organizational chart below, these contracts were awarded by VA's eight heads of contracting activity (HCAs). The department's three operational administrations—VHA, the Veterans Benefits Administration, and the National Cemetery Administration—operate largely independently from one another.

Figure 1: Organizational Structure of Veterans Affairs Procurement



Source: GAO analysis of Veterans Affairs organizational charts and policies. | GAO-16-867T

In addition to the operating administrations, several VA procurement organizations have department-wide roles:

- The Office of Acquisition, Logistics, and Construction (OALC) is a VA headquarters organization responsible for directing the acquisition, logistics, construction, and leasing functions within VA.

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- The Office of Acquisition Operations (OAO), which falls under OALC's purview, conducts procurement activities for customers across the department and has two primary operating divisions—the Technology Acquisition Center (TAC), which focuses on IT purchasing, and the Strategic Acquisition Center (SAC), which is responsible for procurement of certain types of goods and services for the operating administrations, such as VHA.
 - The Office of Acquisition and Logistics (OAL) is responsible for oversight of contracting across VA, including setting policy and issuing warrants to contracting officers.
 - The National Acquisition Center (NAC) is an OAL contracting organization which serves VHA by providing contracting for certain health care-related goods and services.

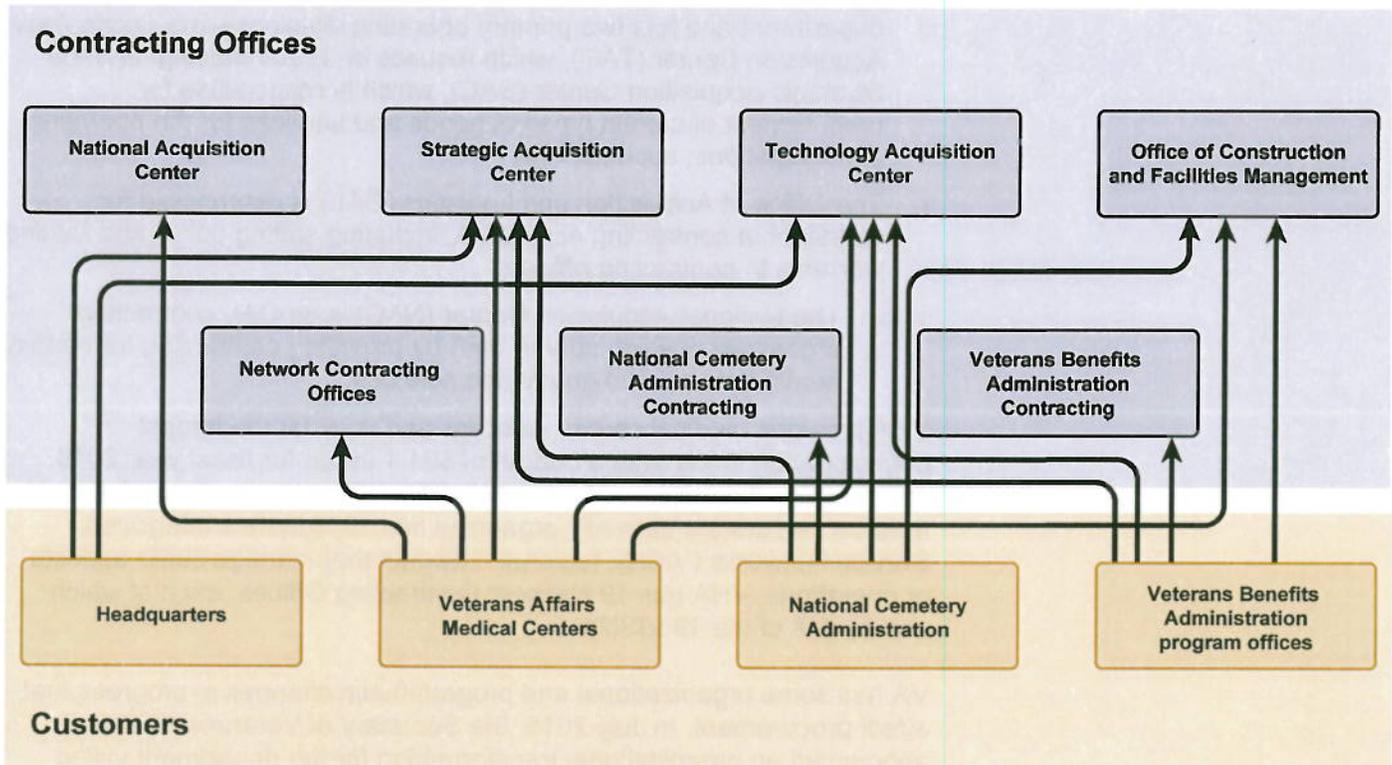
VHA provides medical care to veterans and is by far the largest administration in VA, with a budget of \$61.1 billion for fiscal year 2016, representing the majority of VA's \$75 billion discretionary budget. Its 167 medical centers are currently organized into 19 Veterans Integrated Service Networks (VISN), regional networks that manage some aspects of operations. VHA has 19 Network Contracting Offices, each of which serves one of the 19 VISNs.

VA has some organizational and programmatic changes in progress that affect procurement. In July 2015, the Secretary of Veterans Affairs announced an organizational transformation for the department called MyVA. In a related effort, responsibility for the medical-surgical prime vendor (MSPV) program—a logistics provider that facilitates ordering and delivery of supplies to medical centers from many different contractors—was recently transferred from NAC to SAC.

VA's Complex Procurement Structure Creates Challenges for Users

Given VA procurement's highly decentralized structure, a given customer—such as a department in a medical center or a program office—may need to work with multiple contracting entities to meet its procurement needs. Figure 2 illustrates the complex working relationship between contracting offices and their customers across VA.

Figure 2: Veterans Affairs Customer Relationships with Contracting Offices



Source: GAO analysis of Veterans Affairs policies. | GAO-16-867T

This can contribute to confusion. Several of the contracting officials we spoke with stated that they were, at times, uncertain about which contracting office handled what requirements. VA issued a memorandum in 2013 to clarify areas of responsibility for the national contracting organizations, but confusion remains. VA's Acting Chief Acquisition Officer stated that he is aware of overlap in the functions of some contracting organizations, especially the NAC and the SAC. At one VISN we visited, an official reported procuring one type of high-tech medical equipment through the SAC even though this area is specifically designated as NAC's responsibility because she expected that the SAC could execute the purchase more quickly.

Without clearly delineated organizational roles and customer relationships—beyond what was provided in the 2013 memorandum—the

possibility of duplication in these roles and relationships is increased, and customers lack clear guidance on which organization to approach for certain types of procurements. In our September 2016 report, we recommended that OALC assess whether additional policy or guidance is needed to clarify the roles of VA's national contracting organizations. The Acting Chief Acquisition Officer, OALC said that the department agreed with this recommendation.

VA Procurement Policies Are Outdated and Not Always Cohesive and Effectively Communicated

Key VA procurement policies are outdated and difficult for contracting officers to use. *Standards for Internal Control in the Federal Government* state that it is important for an organization's management to update its policies over time to reflect changing statutes or conditions, and that those policies should be communicated to those who need to implement them.⁴ However, many of VA's regulations and policies are outdated, most notably the VA Acquisition Regulation (VAAR), which has not been updated since 2008.⁵ The department has issued a patchwork of policy documents in the interim to fill this gap. VA asks contracting officers to refer to two different versions of the VAAR, one from 1997 and the other from 2008. This causes confusion among contracting officers. In addition, VA communicates interim procurement policies in a number of different forms, some of which can be duplicative. Figure 3 illustrates the numerous sources that contracting officers must turn to for guidance.

⁴GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G, (Washington, D.C.: Sept. 10, 2014).

⁵While we have not reviewed all Federal Register notices since 2008 to determine whether there have been any updates, agency officials confirmed that the VAAR has not been updated since 2008.

Figure 3: Sources of Department of Veterans Affairs (VA) Procurement Policy



Source: GAO analysis of Veterans Affairs procurement policies. | GAO-16-867T

Note: A regulatory deviation is a policy, procedure, method, or practice at any stage of the procurement process that is inconsistent with the Federal Acquisition Regulation. Acquisition Flashes disseminate information relevant to day-to-day procurement operations. Information Letters are policy memoranda.

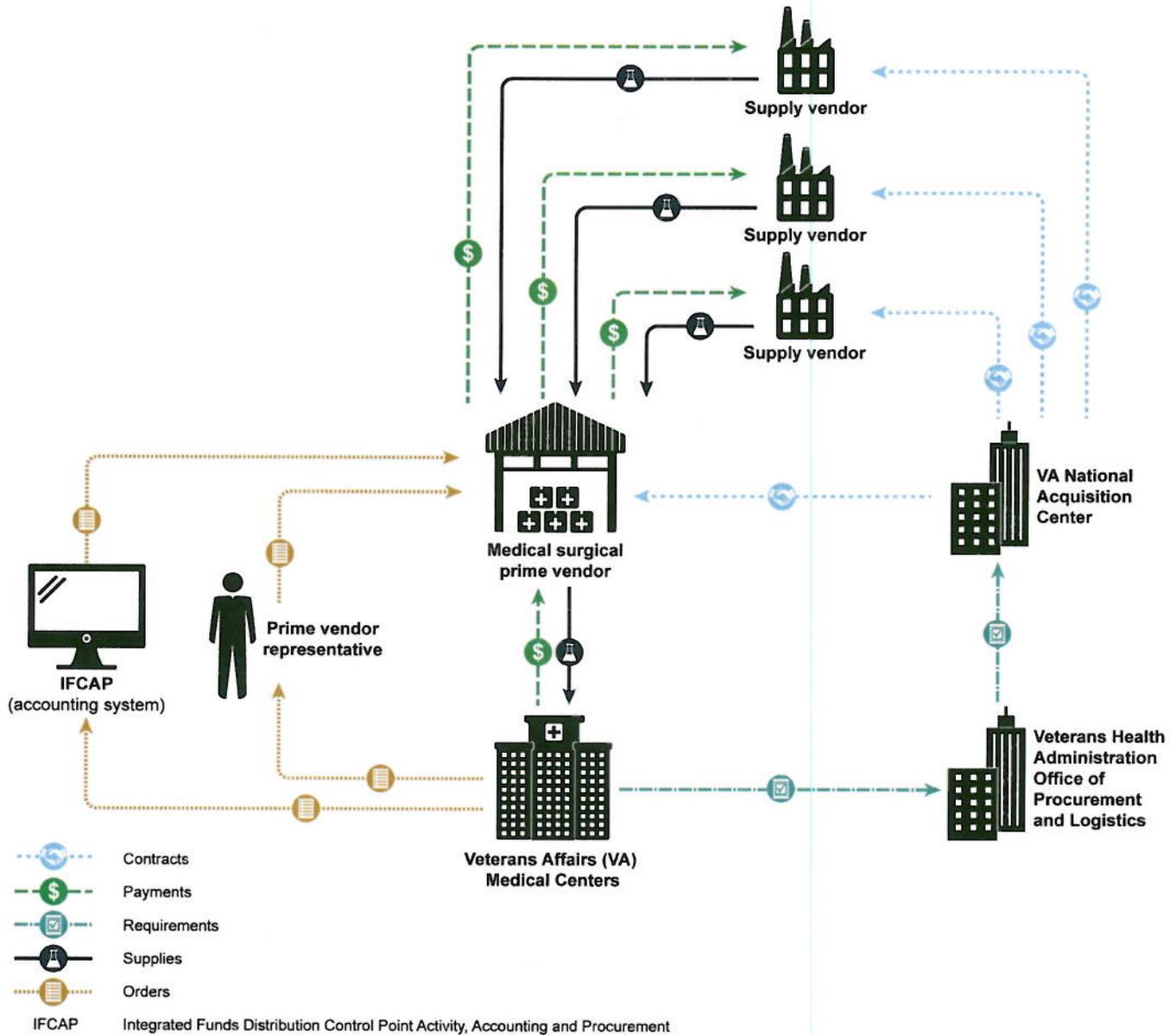
The sheer volume and number of different forms of communications—many of which are outdated—are confusing and present challenges for contracting officials seeking appropriate guidance. While VA recently fully rescinded the 1997 VAAR after our inquiries, the 2008 version remains out of date. A new revision of the VAAR is also in development, but has faced delays. VA began the process in 2011 but does not plan to finalize the new VAAR until December 2018, including the required rulemaking process. The lengthy delay in updating this fundamental source of policy impedes contracting officers' abilities to effectively carry out their duties. In our September 2016 report, we recommended that VA identify measures to expedite the revision of the VAAR, and take interim steps to clarify its policy framework; the Acting Chief Acquisition Officer, OALC stated that the department agreed with both of these recommendations.

VA Can Improve Its Processes for Medical Supply Purchasing and Identify Other Cost Savings Opportunities

VA medical centers use contractors called medical-surgical prime vendors to obtain many of the supplies they use on a daily basis, such as bandages and surgical sutures. Officials known as ordering officers, who work at the medical centers, regularly place orders. In turn, the prime vendor delivers those orders via a local warehouse. The prices for these medical supplies are established by VA national contracts, which typically provide significant discounts over the Federal Supply Schedule prices—an estimated 30 percent on average, according to a senior NAC official. Use of these national contracts is also required by VA policy and regulation.⁶ Figure 4 provides an overview of the MSPV process.

⁶ VA is required to purchase through the MSPV all medical and surgical supplies that are available from an MSPV contract. Department of Veterans Affairs Memorandum, June 22, 2015, Use of Medical/Surgical Prime Vendor (MSPV) Contracts is Mandatory. VA is also required to satisfy supplies and services requirements using the order of priority listed in VAAR 808.002(a)(2), which lists a higher priority of use for national contracts, such as the MSPV contracts, than for Federal Supply Schedule Contracts. See also, Department of Veterans Affairs Memorandum, May 5, 2016, Class Deviation Veterans Affairs Acquisition Regulation (VAAR) Part 808, Required Sources of Supplies and Services, and VAAR Subpart 808.002, Priorities for Use of Government Supply Sources.

Figure 4: Structure of Current Medical Surgical Prime Vendor Process



Source: GAO analysis of Veterans Affairs contracts and policies. | GAO-16-867T

However, the current MSPV process is confusing and cumbersome. Most orders are placed through the Integrated Funds Distribution Control Point

Activity, Accounting and Procurement (IFCAP) system, a decades-old IT system with a text-based interface, which does not include a tool to look up items that are available on the national contracts. For instance, ordering officers must know the exact item number—which is different for each vendor—to enter into IFCAP. The existing tools to look up available national contracts are also cumbersome. Along with discounted items on national contracts, the MSPV system also allows ordering officers to buy thousands of items directly from VA's Federal Supply Schedule contracts, which lack the degree of discounted pricing of the national contracts. Because of the challenges posed by the system, ordering officers in some cases purchase items directly from the Federal Supply Schedules, and might miss opportunities to obtain discounts on the national contracts.

Administration of the MSPV program is being transferred from NAC to SAC, and, along with this transfer, VHA and SAC are making changes to the MSPV program in an effort to address the issues discussed above and streamline the process. To support the next generation MSPV, SAC has already awarded new prime vendor contracts and is in the process of awarding the supporting national contracts for individual types of supplies.

VHA and SAC also plan to implement a new online ordering interface, developed by a contractor for VHA, which will provide ordering officers a more intuitive interface for the outdated and difficult-to-use IFCAP system. Further, unlike the current system, this new interface will only permit ordering officers to purchase items from a specific catalog of items, not the wider range of Federal Supply Schedule items. VA estimates that this catalog will eventually contain 8,000 to 10,000 items to meet the needs of its medical centers. However, there have been some delays in VHA's development of supply requirements and SAC's award of new supply contracts, with only about 1,800 items on national contracts as of July 2016. VA does not anticipate that SAC will be able to award contracts for the full catalog by the time the new MSPV contracts become operational in December 2016. In the interim, SAC and VHA officials stated that they will allow ordering of Federal Supply Schedule items (approximately 4,500) that are not on national contracts, to ease the transition.

Work remains to ensure that the transition to this new approach will be successful. Updating the MSPV process affects how essential supplies are ordered and delivered at 167 medical centers on a daily basis, and facility logistics staff, including ordering officers, must be able to implement the new approach. VHA has an outreach plan in place, but chief logistics officers at medical centers we visited expressed some

concerns about the transition—for instance, one reported that his office's analysis found 14 items deemed critical to the function of the medical center were not on a preliminary list of supplies available through the new MSPV, nor were acceptable substitutes. If medical centers instead purchase items through their local contracting offices because the new MSPV does not meet their needs, it will undermine the program's potential to increase efficiency and cost savings.

In our September 2016 report, we recommended that VA take steps to facilitate the transition to the new MSPV process, including ensuring that SAC collects data to monitor the use of national contracts in the new system, that SAC and VHA establish achievable time frames for eliminating Federal Supply Schedule items from the MSPV catalog once national contracts are in place, and that the new ordering interface clearly distinguish between items on national contracts and the 4,500 items on the Federal Supply Schedules. The Acting Chief Acquisition Officer, OALC said that the department agreed with this recommendation.

VA's substantial buying power presents many opportunities for procurement cost savings, but the department has not consistently taken advantage of them. A key aspect of strategic sourcing is consolidating similar requirements to manage them collectively, reaping cost savings and efficiency gains.⁷ VA has done this successfully in some areas, such as pharmaceuticals, and the planned changes to the MSPV program could result in greater use of discounted national contracts for medical supplies if they are successfully implemented.

There are opportunities to better apply strategic sourcing principles at the regional level, as well. Within VHA, each of the 19 VISNs is responsible for a regional network of multiple medical centers and clinics. Individual medical centers within each VISN procure many goods and services separately, despite the fact that their requirements are similar. Consolidating these requirements—such as security services, elevator maintenance, and eyeglasses for patients—can realize both cost savings and greater efficiency in awarding and administering contracts.

⁷GAO, Strategic Sourcing: Improved and Expanded Use Could Save Billions in Annual Procurement Costs, GAO-12-919 (Washington, D.C.; Sept. 20, 2012).

We found efforts underway to consolidate requirements at the regional level, but local autonomy and limited planning capacity pose obstacles. For instance, one VISN we visited recently began an initiative to consolidate requirements for purchases made by all of its medical centers, especially services. VISN managers explained that they began with the easiest requirements, such as landscaping services and parking administration. They issued a draft memorandum with plans to broaden this approach to most purchases, but medical center staff provided feedback that they preferred their own local contracts and did not want VISN-wide contracts to become the default approach. In our review of 37 selected contracts, we did find several instances of VISN and contracting officials consolidating requirements for greater efficiency and to obtain better pricing. This indicates that consolidating procurement is possible with leadership buy-in, and that there are opportunities to share lessons learned across VISNs. Within VHA, in VISNs where there is not a consistent push by local leadership to pursue consolidation, it is challenging for efforts driven by individual departments or contracting personnel to overcome cultural obstacles.

To provide the necessary leadership commitment to take advantage of these opportunities, we recommended in our September 2016 report that VHA Procurement and Logistics conduct a review of VISN-level strategic sourcing efforts, identify best practices, and, if needed, issue guidance. The Acting Chief Acquisition Officer, OALC said that the department agreed with this recommendation.

Chairman Coffman, Ranking Member Kuster, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contacts and Staff Acknowledgements

If you or your staff have any questions about this statement, please contact Michele Mackin at (202) 512-4841 or MackinM@gao.gov. In addition, contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to the report on which this testimony is based are Lisa Gardner, Assistant Director; Emily Bond; George Bustamante; Margaret Hettinger; Julia Kennon; Katherine Lenane; Ethan Levy; Teague Lyons; Jean McSween; Sylvia Schatz; Erin Stockdale; and Roxanna Sun.

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