

**WITNESS STATEMENT OF  
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HEARING OF THE HOUSE COMMITTEE ON VETERANS AFFAIRS  
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS  
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Mr. Chairman, Ranking Member Kuster, Members of the Subcommittee, thank you for all you do for America's Veterans and their families, and for providing the National Veterans Small Business Coalition with this opportunity to share its views on legislation to strengthen U.S. Department of Veterans Affairs (VA) Acquisitions.

The National Veterans Small Business Coalition is the largest not-for-profit organization of its kind representing America's Veteran-owned small businesses to the Federal government, giving a collective voice to these businesses on legislative, regulatory, and policy issues affecting Federal procurement. We do so to enhance procurement opportunities for veteran small business entrepreneurs engaged in, or seeking to enter, the Federal Marketplace.

Today, I would like to start my testimony discussing the draft bill concerning improving hiring and training of VA Acquisition Personnel and improving the efficiency of acquisition organizations in VA. From our perspective, this is perhaps the most important bill before us today.

The National Veterans Small Business Coalition fully supports any legislation which strengthens VA's acquisition operations and improves the knowledge and skills of the department's acquisition professionals.

Procurement reform through legislation at VA is long overdue. Although VA has a robust training program worthy of emulation offered through the VA Acquisition Academy in Frederick, MD, we believe VA's training program could always be strengthened with curricula specifically designed to train VA acquisition and small business personnel in the area of socioeconomic procurement preference program goal development, attainment, advocacy, and use of the Veterans First Contracting Program.

VA's acquisition organizational structure on the other hand, leaves much to be desired. VA's continued decentralized approach to its acquisition operations creates duplication of efforts, redundant procurements, waste and inefficiency. Multiple VA contracting activities, all seeking to prove themselves as value-added organizations seek to conduct procurements as if to compete with other contracting activities as to which organization can do the best job. This is troubling to VA's industry partners and has an adverse effect on SDVOSBs and VOSBs. It is dumbfounding as to why VA allows this organizational structure to persist. Veterans and the American taxpayers certainly deserve better, and this can be accomplished through centralizing and strengthening acquisition leadership and programs at the department level. As examples, we offer the following:

VA's Strategic Acquisition Center (SAC) in Fredericksburg, VA, is now conducting most of VA's medical/surgical related procurements, these procurements having migrated there from VA's National Acquisition Center's National Contract Service in Hines, IL. The SAC often using open market procurement methods to conduct its acquisitions.

The SAC charges the Veterans Health Administration (VHA) a three percent Service Level Agreement Fee for this privilege, as opposed to when VHA buys using VA's Federal Supply Schedule Contracts, which includes only a one-half of one percent Industrial Funding Fee. In other words, VHA's cost on many acquisitions increased from one-half of one percent to three percent of every procurement dollar spent, an increase of 600%. While a two and one-half cent fee increase per dollar spent does not sound significant, multiply this against the billion plus dollars VHA spends each year on medical/surgical and related items.

Although buying through the SAC now helps replenish VA's Supply Fund (38 U.S.C. § 8121) it dramatically increases VHA's costs to use these contract vehicles. These fees are paid by VHA from the same funding used for the procurement, most often the Medical Care Appropriation. Increasing its costs to buy has to increase VHA's opportunity costs—what does VHA give up in terms of its opportunity costs? There are those at VA which suggests the costs savings resulting from procurements conducted by the SAC off-set the increased fees to use these contract vehicles, but no empirical data is available to prove this assertion.

Additionally, many within and outside of VA's procurement community are left wondering what the mission of the VA National Acquisition Center's National Contracts Service is now that most of its work has migrated to the SAC, without a commensurate adjustment in staffing.

Furthermore, open market procurements undermine VA's Federal Supply Schedule Program and the revenue stream generated by the Industrial Funding Fee to its Supply Fund, which funds a large part of VA's Acquisition operations, and all of VA's Office of Small and Disadvantaged Business Utilization, to include VA's Center for Verification and Evaluation.

This is but only a couple of examples of the nature of VA's decentralized and competing acquisition program, where one contracting element does not appear to communicate with another. VA must be held to account for its acquisition operations, and demanded to improve.

With regards to VA's organizational procurement structure's inefficiencies, VHA has established three "Service Area Offices" also known as "SAOs" all of which appear to be competing within the greater VA procurement community to show the "value" they, too, add. It is our sincere hope the draft bill will begin to address the long overdue overhaul necessary of VA's procurement structure and operations, to improve efficiency, accountability to the American taxpayers, while improving opportunities for SDVOSBs and VOSBs. It would seem only legislation will resolve this decades-old problem.

Lastly, for as confusing as VA's decentralized and dysfunctional procurement structure is to even VA personnel in many cases, imagine the significant confusion this causes for the SDVOSB and VOSB community at large. While the SAC appears to be moving away from the FSS Program, VA NAC continues to award FSS contracts. Throw the SAOs into the mix, SDVOSBs and VOSBs realize the duplicative and competing organizational efforts make contracting with VA confusing and administratively cumbersome. Additionally, how does a SDVOSB or VOSB determine which contracting opportunities to pursue which will result in the best return on their investment? Fortunately, a for-profit SDVOSB or VOSB would never operate their respective procurement operations the way VA does. Congress must resolve this dysfunction, waste and inefficiency, as VA continues to demonstrate it is incapable of doing so.

H.R. 2781 addresses participation by service-disabled veteran-owned and veteran-owned small business in contracts under the Federal Strategic Sourcing Initiative. Our concern is how VA will implement this legislation. VA demonstrated in implementing its Veterans First Contracting Program under Public Law 109-461, the Veterans Benefits, Healthcare and Information Technology Act of 2006, its conservative and contradictory stand on legislation benefiting Veteran small businesses. It took the Supreme Court of the United States to resolve this issue. In the case of H.R. 2871, we believe the Congress should explicitly state its intent in this and any other legislation addressing VA procurements in the context of Veteran small businesses, whereby nothing in the legislation should be construed as relieving VA's obligation of applying the "Rule of

Two” consistent with the court’s decision to all competitive VA procurements. Not to do so, we believe, will likely result in another misguided VA implementation which provides VA with a loophole in applying the “Rule of Two.”

The coalition fully supports H.R. 2006, the “VA Procurement Efficiency and Transparency Act,” which we believe will add great utility in VA capturing and understanding its cost savings. Additionally, the use of standardized templates in the conduct of procurements VA-wide should improve the quality of VA solicitations and the contracts awarded resulting from those solicitations. It is clear from the quality of some solicitation issued, supervisory personnel are not monitoring or reviewing the quality of solicitations issued.

The National Veterans Small Business Coalition supports H.R. 2749, the “Protecting Business Opportunities for Veterans Act of 2017.” This legislation is consistent with the U.S. Small Business Administration’s amended regulations allowing for subcontracting of opportunities with “similarly situated” small business concerns, without said subcontracting counting against the prime contractor’s limitation on subcontracting. “Similarly situated” small business concerns are those with the same socioeconomic procurement preference program status, i.e., SDVOSB to SDVOSB, WOSB to WOSB, SDB to SDB, etc. We believe; however, H.R. 2749 would be strengthened by indicating in the context of VA procurements conducted pursuant to VA’s Veterans First Contracting Program (38 U.S.C. § 8127) that a “Similarly situated” SDVOSB or VOSB must have been verified by VA’s Center for Verification and Evaluation and listed in

VA's Vendor Information Pages (VIP) Database to be truly "similarly situated". This important distinction will ensure verified SDVOSBs and VOSBs do not subcontract to non-verified SDVOSBs and VOSBs, although those businesses are "similarly situated" in they have the same socioeconomic procurement preference program status. Under VA's program, an SDVOSB or VOSB is not recognized by VA as such, at the prime or subcontracting level, until the firm undergoes verification by VA's Center for Verification and Evaluation.

In closing, Mr. Chairman and Ranking Member Kuster, we would like to call to your attention VA has flatlined its SDVOSB and VOSB goals since Fiscal Year 2010, despite substantially exceeding these goals each year. We have provided a chart to the subcommittee which tracks VA's goals and accomplishments for the last 11 fiscal years. You can appreciate how disturbing this chart is to Veteran entrepreneurs and the coalition.

Clearly, for all intent of purposes, such low goals are truly meaningless and call into question the strength and effectiveness, if not legitimacy, of VA's advocacy on behalf of Veteran small businesses. VA's Fiscal Year 2014 goals were not communicated to VA personnel until only 38 days remained in the fiscal year. A recent Freedom of Information Act Request revealed VA's Secretary did not issue any goaling memoranda for Fiscal Years 2015 and 2016, and the Fiscal Year 2017 goals were not issued until May 25, 2017, with only 128 days remaining in Fiscal Year 2017. We ask and hope you will use your considerable influence to encourage the Subcommittee on Economic

Opportunity to hold a hearing for VA to explain and account for its goals and advocacy to the subcommittee and America's Veterans.

This completes my statement and I will be happy to answer any questions you may have.

**[END OF STATEMENT]**

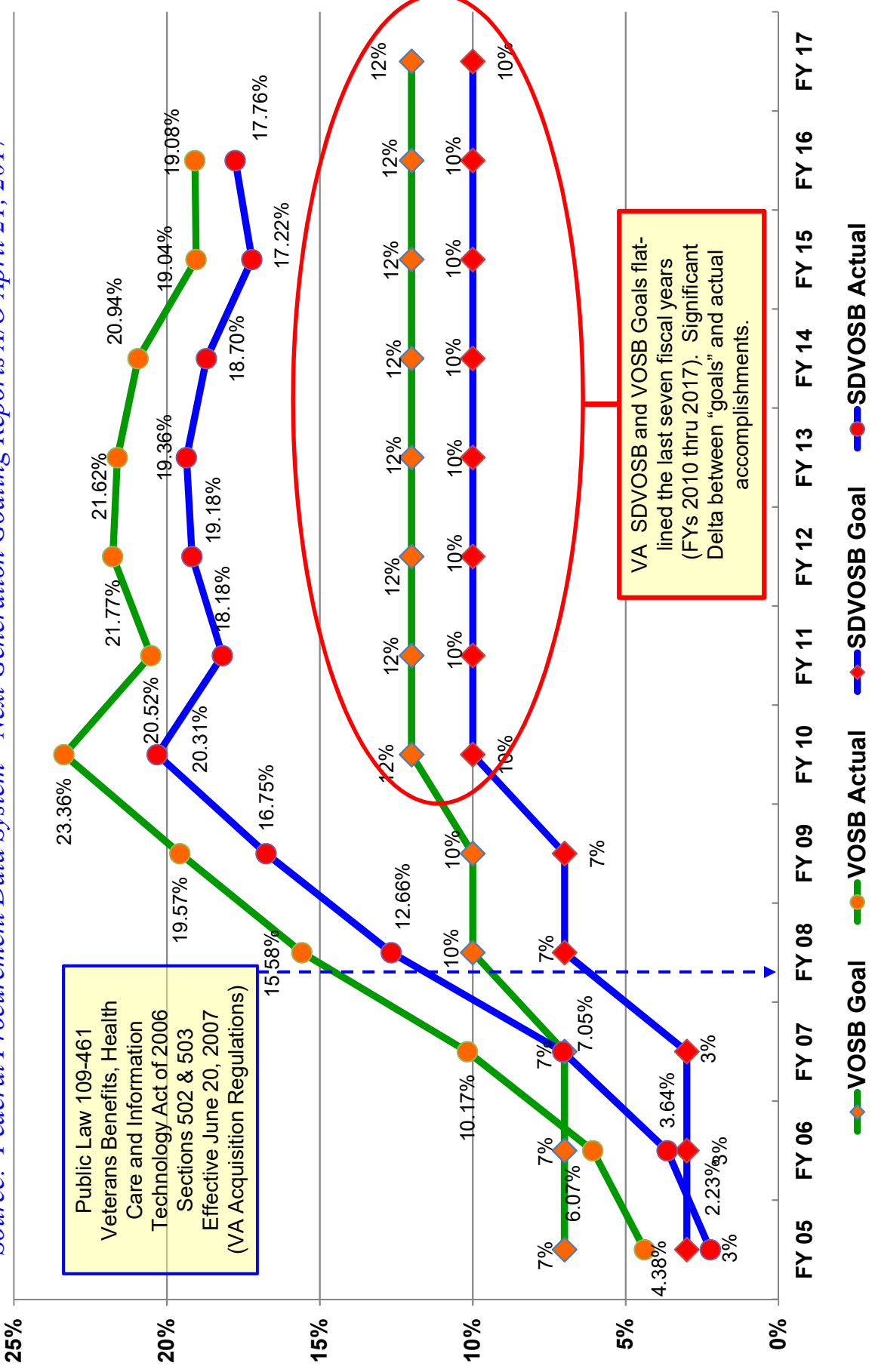
Note: The chart detailing VA's SDVOSB and VOSB Goals and Accomplishments for Fiscal Years 2005 through 2016 referenced in this testimony is incorporated by attachment and made a part of this statement.



# U.S. Department of Veterans Affairs

## FY 2005 – FY 2016 SDVOSB & VOSB Goaling & Accomplishments\*

Source: *Federal Procurement Data System—Next Generation Goaling Reports A/O April 21, 2017*



\*FY 2016 Data has not been finalized by SBA as of 4/21/2017