



Highlights of [GAO-10-307T](#), a testimony before the Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs, House of Representatives

## Why GAO Did This Study

In September 2008, GAO reported internal control weaknesses over the Veterans Health Administration's (VHA) use of miscellaneous obligations to record estimates of obligations to be incurred at a future date. GAO was asked to testify on its previously reported findings that focused on (1) how VHA used miscellaneous obligations, and (2) the extent to which the Department of Veterans Affairs' (VA) related policies and procedures were adequately designed. GAO also obtained an update on the status of VA's activities to improve controls over its use of miscellaneous obligations.

GAO's testimony is primarily a summary of its prior report (GAO-08-976), and also includes follow-up work to obtain information on the status of VA's efforts to implement our prior recommendations.

## What GAO Recommends

In its September 2008 report, GAO made four recommendations to VA to develop and implement policies and procedures to improve internal control. VA agreed with GAO's recommendations and has since taken action to develop the recommended policies and procedures. GAO will monitor the effectiveness of VA's implementation of these new policies and procedures.

[View GAO-10-307T](#) or [key components](#). For more information, contact Kay L. Daly at (202) 512-9095 or [dalykl@gao.gov](mailto:dalykl@gao.gov).

# VETERANS HEALTH ADMINISTRATION

## Inadequate Controls over Miscellaneous Obligations Increase Risk over Procurement Transactions

### What GAO Found

In September 2008, GAO reported that VHA recorded over \$6.9 billion of miscellaneous obligations for the procurement of mission-related goods and services in fiscal year 2007. VHA officials stated that miscellaneous obligations were used to facilitate payment for goods and services when the quantities and delivery dates are not known. According to VHA data, almost \$3.8 billion (55.1 percent) of VHA's miscellaneous obligations was for fee-based medical services for veterans and another \$1.4 billion (20.4 percent) was for drugs and medicines. The remainder funded, among other things, state homes for the care of disabled veterans, transportation of veterans to and from medical centers for treatment, and logistical support and facility maintenance for VHA medical centers nationwide.

In 2008, GAO found that VA policies and procedures were not designed to provide adequate controls over the authorization and use of miscellaneous obligations with respect to oversight by contracting officials, segregation of duties, and supporting documentation for the obligation of funds. Collectively, these control design flaws increased the risk of fraud, waste, and abuse. These control design flaws were confirmed in GAO's case studies at VHA medical centers in Pittsburgh, Pennsylvania; Cheyenne, Wyoming; and Kansas City, Missouri. For example, in all of the 42 obligations reviewed, GAO found no documented approval by contracting officials. The systems used did not have a mechanism for contracting officials to electronically document their review of miscellaneous obligations and no manual documentation procedures had been developed. Furthermore, in 30 of the 42 obligations reviewed, one official performed two or more of the following functions: requesting, creating, approving or obligating funds for the miscellaneous obligation, or certifying delivery of goods and services and approving payment. Without proper segregation of duties, risk of errors, improper transactions, and fraud increases. Lastly, GAO found a lack of adequate supporting documentation at the three medical centers we visited. In 8 of 42 instances, GAO could not determine the nature, timing, or the extent of the goods or services being procured from the description in the purpose field. As a result, GAO could not confirm that these miscellaneous obligations were for bona fide needs or that the invoices reflected a legitimate use of federal funds.

In January 2009, VA issued volume II, chapter 6 of VA Financial Policies and Procedures—Miscellaneous Obligations which outlines detailed policies and procedures aimed at addressing the deficiencies GAO identified in the September 2008 report. Full and effective implementation of this new guidance will be critical to reducing the government's risks associated with VA's use of miscellaneous obligations. GAO has not yet evaluated the extent to which these new policies have been fully and effectively implemented.