



Report to the Chairman, Subcommittee  
on Oversight and Investigations,  
Committee on Veterans' Affairs, House  
of Representatives

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July 2015

# VETERANS AFFAIRS CONTRACTING

## Improved Oversight Needed for Certain Contractual Arrangements

# GAO Highlights

Highlights of [GAO-15-581](#), a report to the Chairman, Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs, House of Representatives

## Why GAO Did This Study

VA spent about \$19 billion to buy goods and services in fiscal year 2014—partly through agreements where other agencies award contracts on VA's behalf. VA also uses FFRDCs—government-funded entities that have relationships with federal agencies to perform certain tasks. These arrangements can help VA meet its needs and take advantage of unique expertise.

In light of questions about VA's use of interagency agreements and FFRDCs, GAO was asked to look at how VA uses and manages these methods of procuring goods and services. This report assesses (1) the extent of use and effectiveness of VA's award and oversight of interagency agreements for fiscal years 2012 through 2014, and (2) the extent of use and effectiveness of VA's management of FFRDCs during this same period. GAO reviewed VA procurement policies, federal acquisition regulations, VA contract data, a sample of 21 interagency agreements and 10 FFRDC task orders, chosen, in part, based on obligation amounts; and interviewed officials from VA, other agencies, and MITRE, the primary FFRDC with which VA does business.

## What GAO Recommends

GAO recommends, among other things, that VA revise its policies on interagency agreements so that it can better record and track them; provide training on their use; and ensure that all FFRDC actions are centrally reviewed and appropriately documented. VA agreed with GAO's recommendations.

View [GAO-15-581](#). For more information, contact Michele Mackin at (202) 512-4841 or [mackinm@gao.gov](mailto:mackinm@gao.gov).

July 2015

## VETERANS AFFAIRS CONTRACTING

### Improved Oversight Needed for Certain Contractual Arrangements

## What GAO Found

The Department of Veterans Affairs (VA) cannot document the extent to which it used interagency agreements in fiscal years 2012 through 2014 due to incomplete information. GAO reviewed data from VA's contract management system and found that VA obligated about \$1.7 billion to other government agencies via such agreements. However, GAO's analysis of data from VA's accounting system found that the total amount transferred to other agencies over this period was between \$2.3 billion and \$2.6 billion, a difference of \$600 million to \$900 million for the same period. GAO found that VA's contract management system data are incomplete due to several shortcomings. For example, no direct link exists between this system and VA's accounting system. Thus, actions can be initiated directly in the accounting system without being recorded in the contract management system. In addition, VA recently revised its policy to exclude interagency transactions—also a form of interagency agreements in which VA funds are obligated for services provided by another agency—from being entered into the contract management system, further limiting its visibility into the full extent of its use of interagency agreements. Moreover, VA's management of the award and oversight of the interagency agreements GAO reviewed varied, and in some cases did not comply with its policy. Nearly half of the 21 interagency agreements GAO reviewed were missing items such as documentation of VA's reasons for using an interagency agreement instead of another procurement approach, for example. This places VA at increased risk of incurring additional costs such as service fees to other agencies that perform work for VA. Some contracting officials were not aware of policy requirements, in part due to an absence of training opportunities. VA has begun developing training, but it may not cover all who need it.

VA obligated over \$244 million to Federally Funded Research and Development Centers (FFRDC) from fiscal years 2012 through 2014, and has opportunities to improve documentation and oversight. Almost all of these obligations were to FFRDCs operated by the MITRE Corporation (MITRE). Contracts with FFRDCs can be advantageous, but are noncompetitive, which can pose risks to the government in that it lacks the leverage to negotiate that it would otherwise have in a competitive environment. VA used MITRE for strategic and technical management support and other consulting services. GAO found that VA has processes to review individual FFRDC task order requirements, but not all awards are subject to these reviews, as VA does not centrally track contract actions to non-MITRE FFRDCs. As a result, VA is missing opportunities to provide more effective oversight for all of its FFRDC awards. In addition, all 10 MITRE task orders GAO reviewed complied with VA's basic requirements. However, these contract files contained limited documentation of some of the factors VA is to consider during pre-award reviews to determine the appropriateness of an FFRDC, and for some awards the contract files did not fully explain how VA determined that the contractor's proposed price was acceptable. Without this information, contracting officials who later revisit the file to make modifications will be limited in their abilities to make well-informed decisions.

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## Abbreviations

CAMH	Centers for Medicare & Medicaid Services Alliance to Modernize Healthcare
CEM	Center for Enterprise Modernization
Choice Act	Veterans Access, Choice, and Accountability Act of 2014
DLA	Defense Logistics Agency
eCMS	Electronic Contract Management System
FAR	Federal Acquisition Regulation
FFRDC	Federally Funded Research and Development Center
HCA	Head of Contracting Activity
IAA	interagency agreement
IDIQ	indefinite-delivery indefinite-quantity
SAC	Strategic Acquisition Center
TAC	Technology Acquisition Center
VA	Department of Veterans Affairs
VHA	Veterans Health Administration

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July 2, 2015

The Honorable Mike Coffman  
Chairman  
Subcommittee on Oversight and Investigations  
Committee on Veterans' Affairs  
House of Representatives

Dear Mr. Chairman:

The Department of Veterans Affairs (VA) obligated about \$19 billion to buy goods and services in fiscal year 2014. Part of this overall amount is spent through interagency agreements (IAA), in which other agencies award contracts on VA's behalf or perform services for VA. This arrangement can help VA take advantage of unique expertise, but recent reviews by the VA Inspector General found that the department had not provided sufficient oversight of these IAAs to ensure that funds were spent efficiently and effectively. VA also uses Federally Funded Research and Development Centers (FFRDC), which are government-funded entities that have long-term relationships with one or more federal agencies to perform research and development and related tasks. FFRDCs are operated by private firms or other nongovernmental organizations (such as universities). FFRDCs are intended to meet special, long-term research and development needs that cannot be met as effectively by existing in-house or contractor resources. Because FFRDCs have unique access to agency information and resources beyond what a commercial contractor would commonly be allowed, the Federal Acquisition Regulation (FAR) does not allow FFRDCs to compete with private sector contractors.

In light of questions about VA's use of IAAs and FFRDCs, you asked us to look at how VA uses and manages these methods of procuring needed services and goods. This report determines (1) the extent to which VA used IAAs in fiscal years 2012 through 2014, (2) the effectiveness of VA's management of the award and oversight of its IAAs, (3) the extent to which VA used FFRDCs in fiscal years 2012 through 2014, and (4) the effectiveness of VA's management of the contract award and oversight process for FFRDC support.

To do this work, we analyzed data from VA's Electronic Contract Management System (eCMS) on its obligations to other federal agencies

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via interagency agreements and to FFRDCs operated by the MITRE Corporation (MITRE) in fiscal years 2012 through 2014.<sup>1</sup> As discussed in this report, VA does not centrally track contract actions to non-MITRE FFRDCs; therefore, we identified VA contract actions to non-MITRE FFRDCs through our own analysis of Federal Procurement Data System-Next Generation data. We assessed the reliability of eCMS data by reviewing existing information about the data and the system that produced them, interviewing agency officials knowledgeable about the data, and comparing the data with total obligations reported to VA's Integrated Funds Distribution Control Point Activity Accounting & Procurement, the accounting system VA uses to initiate transfers of funds to external entities. We determined that the eCMS data on IAAs were not sufficiently reliable to determine VA's use of IAAs for the period of our review. We present this data for illustrative purposes only to demonstrate issues related to the completeness of the data. However, we determined that the eCMS data on FFRDC contracts were sufficiently reliable for the purposes of this report. To assess the effectiveness of VA's management of the award and oversight of interagency agreements and FFRDC support, we reviewed the FAR and relevant VA policies and guidance. Based on eCMS data as well as interviews with VA contracting officials, we selected 21 interagency agreements and 10 FFRDC task orders for our review, based on those with the highest dollar values, among other factors. To assess whether these awards complied with the FAR and VA's policies and guidance for award and oversight, we evaluated interagency agreements and contract file documentation including determinations and findings documents, which explain VA's reasoning for using an interagency agreement instead of another procurement approach. We also looked at request and justification documents, cost estimates, and price negotiation memorandums. To support work on all four objectives, we interviewed officials from VA responsible for contracting and oversight of IAAs and FFRDCs, and officials from other agencies, such as Department of Defense agencies that provide services to VA under IAAs. We also interviewed representatives from MITRE, the primary FFRDC with which VA does business. Appendix I provides a more detailed description of our scope and methodology.

We conducted this performance audit from June 2014 to July 2015 in accordance with generally accepted government auditing standards.

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<sup>1</sup>eCMS is VA's electronic system for recording contracting actions.

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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.

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## Background

VA serves veterans of U.S. armed forces and had a discretionary budget of about \$64 billion in fiscal year 2014. Through its three organizational administrations—the Veterans Health Administration (VHA), Veterans Benefits Administration, and National Cemetery Administration—it provides health, pension, burial, and other benefits. The VHA is by far the largest administration, with a fiscal year 2014 budget of \$56.3 billion; it provides medical care to veterans through 21 regional networks of health care facilities. The facilities in each regional network share common leadership and administration functions, including contracting. VA also has a number of headquarters offices that serve functions across the entire agency, such as the Office of Information and Technology, which is responsible for information technology development and operations across all parts of VA.

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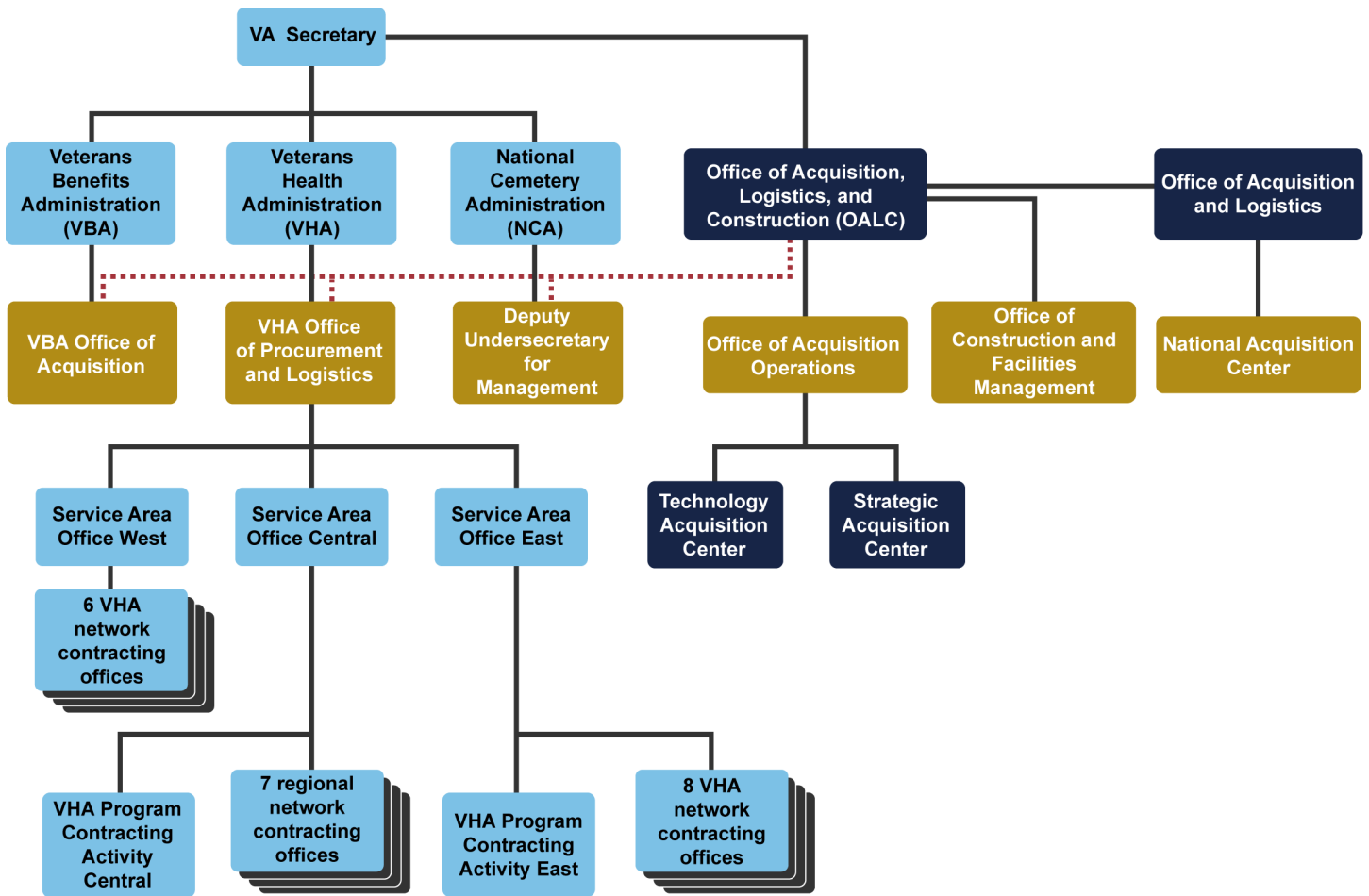
## VA's Acquisition Function

VA's acquisition function is spread across a number of organizations. The Office of Acquisition and Logistics is responsible for oversight of contracting across VA, including for IAAs and FFRDC contracts. This office sets policy and issues warrants to contracting officers across the department.<sup>2</sup> The warranted contracting officers who are responsible for awarding and administering contracts reside in six different VA organizations. Each of these organizations has an individual designated as Head of Contracting Activity (HCA), who holds responsibility for managing the contracting activity of that office in accordance with the FAR. Figure 1 depicts VA's acquisition organization.

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<sup>2</sup>A warrant to contracting officers certifies that they are authorized to obligate funds on the government's behalf.

**Figure 1: Structure of Veterans Affairs' Acquisition Function**



..... OALC's oversight of the acquisition function in each Administration.

■ Heads of contracting activity (HCA)

Source: GAO analysis of VA organizational charts and policy. | GAO-15-581

As shown in the figure, three acquisition organizations are part of VA's three administrations, while three others—Office of Acquisition Operations, the Office of Construction and Facilities Management, and the National Acquisition Center—serve customers across the agency.

VA's Office of Acquisition Operations conducts procurement for organizations across VA, and charges fees for the services it provides. Two of its primary operating divisions are particularly relevant to VA's use of FFRDCs and IAAs:



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- The Technology Acquisition Center (TAC) is designated by VA policy to conduct the vast majority of information-technology-related purchasing for customers VA-wide, as well as all FFRDC contracting.
  - The Strategic Acquisition Center (SAC) is responsible for certain contracting functions, including managing IAAs for some organizations across VA.

All contracting offices are generally required by VA policy to use the department's eCMS when making awards, including FFRDC contracts and some IAAs. Information from this system feeds into the government's federal procurement database. Within VA, eCMS is intended to act as a repository for all contract actions and their supporting documentation, and data are used by VA to provide oversight of its contracting. However, the VA Inspector General has found serious problems with the completeness of documentation in eCMS. Its 2014 report found that contracting officers did not consistently include a complete history of contract actions in eCMS. These findings echoed those in an earlier, 2009 report, which found that eCMS was not used effectively and that procurement information was incomplete. In that report, the Inspector General recommended that VA implement an oversight program to ensure that all procurement actions were recorded in eCMS.<sup>3</sup> In response to prior Inspector General findings, VA has committed to making guidance, training, and system changes to improve eCMS.

To obligate funds to another agency or a contractor, VA officials use a VA accounting system. In the case of IAAs, requests to transfer funds to other agencies are managed by VA's Financial Services Center, which uses a system operated by the Treasury Department to complete the transfer.

VA has statutory authority that grants preferences for contracting with veteran-owned small businesses, including service-disabled veteran-owned small businesses.<sup>4</sup> VA sets aside some of the contracts it awards

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<sup>3</sup>Department of Veterans Affairs Inspector General, *Audit of VA Electronic Contract Management System*, (Washington, D.C.: July 30, 2009); and *Veterans Health Administration: Audit of Support Service Contracts*, (Washington, D.C.: Nov. 19, 2014). This latter report had findings related to eCMS, but did not have additional recommendations specific to the system.

<sup>4</sup>38 U.S.C. §§ 8127 and 8128.

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specifically to these businesses under certain conditions. For example, in 2013, according to VA's small business office, the department awarded about \$3.4 billion (19 percent) of its contract spending to such firms.

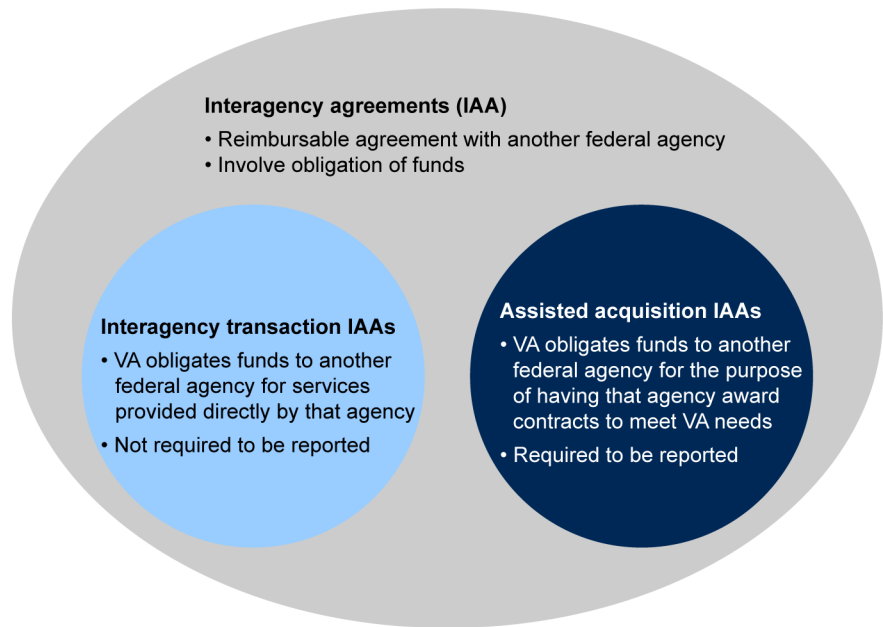
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## Interagency Agreements

An interagency agreement (IAA) is a written agreement between federal agencies. The agency seeking goods or services under an IAA—VA in this case—is known as the requesting agency. The agency providing the goods or services to VA, known as the servicing agency, is reimbursed by VA. Interagency agreements include acquisitions under different statutory authorities and can take different forms (see fig. 2), for example:

- *Interagency Transaction: Obligation of VA funds for services provided by another agency.* Agreements involve obligation of funds for services or goods provided by another agency. For example, VA obligates funds to the Department of Health and Human Services for Medicare claims adjudication services. VA procurement policy refers to this type of agreement as an interagency transaction IAA. These transactions are not required to be centrally reported in eCMS.
- *Assisted Acquisition: Another agency awards contracts on VA's behalf.* In other cases, VA obligates funds to other agencies to award contracts on VA's behalf. VA procurement policy refers to these as assisted acquisition IAAs and they are required to be centrally reported in eCMS. For purposes of this report, we use the term "IAA" to refer to these assisted acquisition IAAs unless otherwise noted.

**Figure 2: Types of Interagency Agreements Used by Department of Veterans Affairs**



Source: GAO analysis of VA policy. | GAO-15-581

IAAs have many similar characteristics to contracts and are awarded by contracting officers, but they are not contracts. The contract ultimately awarded by the servicing agency to provide goods or services to VA under an assisted acquisition is between the contractor and the servicing agency, not VA. The Economy Act, which authorizes agencies to enter into agreements to obtain supplies or services from another agency, is the primary statutory authority that allows VA and other agencies to enter into IAAs.<sup>5</sup> The FAR establishes certain documentation requirements that must accompany an assisted acquisition IAA, such as preparation of an Economy Act Determination and Findings documenting that the interagency acquisition is in the government’s best interest.<sup>6</sup>

VA’s financial policies, issued by VA’s Office of Management, contain additional requirements for IAAs. For example, IAAs are required to reflect the duration of the agreement, and data elements—such as the

<sup>5</sup>31 U.S.C. §1535.

<sup>6</sup>FAR 17.502-2 (c).

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value of the agreement and the identification number of the servicing agency—must be included before any obligation of funds can be processed. In addition, two Office of Acquisition and Logistics policies governing how VA contracting offices use IAAs were in place during the period covered in our review.

- An Information Letter policy, released in 2009, applied to assisted acquisitions and interagency transaction IAAs. It required a Determination and Findings, a statement of the work to be accomplished, and a certified funding document to be included in the eCMS record.
- A Policy Memorandum, released in April 2013, replaced the previous Information Letter policy. This new policy increased the documentation requirements for IAA awards, adding legal review and a Best Procurement Approach memorandum to the existing requirements. Significantly, the policy also removed interagency transaction IAAs from the IAA policy. As a result, these types of IAAs are no longer required to be awarded by contracting officers or entered into eCMS. They can now be entered into and managed directly by a VA medical center, for example.

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## Federally Funded Research and Development Centers

FFRDCs are entities that are sponsored under a broad charter by a government agency to perform, analyze, integrate, support or manage basic or applied research and development. FFRDCs receive 70 percent or more of their financial support from the federal government.<sup>7</sup> According to the FAR, an FFRDC is intended to meet a special long-term research or development need which cannot be met as effectively by the agency itself or other contractors. FFRDCs, to perform their responsibilities to the sponsoring agency, have access to agency and supplier data beyond that which is common to the normal contractual relationship, as well as to agency employees and facilities. For example, FFRDCs are permitted to have closer relationships with agencies than other contractors, and have special access to agency data, employees, and facilities. According to the FAR, FFRDCs are required to operate with objectivity and independence and be free from organizational conflicts of interest. Although FFRDCs are entirely federally funded, or nearly so, the organization operating them is regarded as a contractor and not an agency of the United States.

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<sup>7</sup>FAR 2.101.

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FFRDCs are operated, for example, by universities, or other not-for-profit or nonprofit organizations.<sup>8</sup>

As part of their special relationship with the government, the FAR requires that FFRDCs be sponsored by a specific agency. For example, VA is a co-sponsor of the Center for Enterprise Modernization (CEM), along with the Internal Revenue Service. CEM is operated by MITRE, a not-for-profit corporation that also operates several other FFRDCs. VA also has contractual relationships with other FFRDCs, but CEM is by far the largest. The FAR encourages long-term relationships between FFRDCs and their sponsoring agencies; VA has been a co-sponsor of CEM since 2008. The designated core competencies for CEM, according to its sponsorship agreement with VA, are

- strategic management,
- program and project management,
- technical management,
- independent evaluation and audit, and
- procurement support and evaluation.

VA's primary FFRDC policy document is its Governance Plan, which provides guidelines and procedures for ensuring compliance with the government-wide policies on FFRDCs in the FAR and with the agency's sponsoring agreement. It was first released at the outset of VA's co-sponsorship of CEM in 2008, and was updated in January 2015. This most recent update applies not only to VA's use of CEM, but also to any VA contracts with other FFRDCs. The Governance Plan

- defines roles, processes for awarding and monitoring task orders, and documentation requirements for VA's use of FFRDCs,
- designates the Technology Acquisition Center (TAC) as the contracting office responsible for all FFRDC actions across the agency, and

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<sup>8</sup>GAO has previously reviewed FFRDC management; see [GAO-14-593](#) and [GAO-09-15](#).

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- lists key documents that must be prepared by the program office that is requesting FFRDC support for each task order issued under an FFRDC contract. This documentation is to include a request and justification for use of VA's FFRDC (which documents the decision to use an FFRDC to meet a particular need), a work statement, a cost estimate, and a plan for monitoring the work.

VA's 2015 Governance Plan applies to program offices anywhere in VA that seek to use the services of an FFRDC. For example, the TAC leads teams responsible for reviewing all proposed task orders before solicitation to determine if the work is appropriate for an FFRDC, and for assessing FFRDC performance.

The FAR prohibits FFRDCs from competing with commercial contractors. Accordingly, VA's Governance Plan requires that all proposed task order requirements meet several criteria before award to an FFRDC, including the following: VA must determine that the work (1) requires the special FFRDC relationship, (2) is within the FFRDC's core competencies, and (3) cannot be performed by a commercial contractor.

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## The Extent to Which VA Used IAAs Is Unknown Due to Incomplete Information

According to available data we reviewed from VA's eCMS, for fiscal years 2012 through 2014, VA obligated about \$1.7 billion to other federal agencies via IAAs. However, we believe that this amount may be inaccurate due to significant limitations with the data.<sup>9</sup> Based on the data that are available, about a third—over \$570 million—went to three servicing agencies: the Office of Personnel Management, the Department of Transportation, and the Army Corps of Engineers. For example, among the 10 IAA orders we reviewed from two different VHA regional networks, 8 were with the Army Corps of Engineers, which then awarded contracts on VA's behalf for management of minor construction projects at medical facilities. VHA officials explained that limits on how much work their engineering staff could oversee at a given time led them to look to the Army Corps to provide this assistance, particularly to award contracts with additional construction funds received through the American Recovery and Reinvestment Act.

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<sup>9</sup>The \$1.7 billion figure excludes the General Services Administration and several other agencies to which VA routinely obligates funds but which are not for the types of contracting activities that are the focus of this report. For a full explanation of how we calculated this figure as well as the methodology of which federal agencies were included, see Appendix I.

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However, we found that the obligation data in eCMS are incomplete due to several shortcomings.

- First, our review of this data found that, until recently, the technical design of eCMS was not suited to documenting IAAs as it did not contain data fields specifically designed for this purpose. As a result, VA contracting officials recorded IAA actions in data fields designed for contract actions, resulting in inconsistent recording of data. For instance, key details such as the servicing agency were sometimes captured in fields designated for other types of data. An upgrade occurred in 2014 providing for IAA-specific data fields.
- Second, eCMS is not integrated with VA's accounting system, which transfers funds to external recipients, including servicing agencies. As a result, actions could be initiated directly in the accounting system without being recorded in eCMS, leading to incomplete data. The VA Inspector General also reported on this issue in 2009, and recommended at the time that VA assess the feasibility of connecting eCMS to the accounting system to provide more robust internal controls.<sup>10</sup> VA agreed to assess the feasibility of taking this action, but to date the systems have not been integrated.
- Third, the VA Inspector General has reported multiple times on VA's inaccurate and incomplete eCMS data. For example, in 2009, it reported that some required actions were not entered into eCMS, and recent Inspector General reviews, such as its 2014 report, have continued to find that not all required actions are fully documented.<sup>11</sup>

Further, current VA policy does not require all IAAs to be entered into eCMS, and this policy has been implemented inconsistently. The system captures a subset of IAAs because, as noted above, a 2013 VA procurement policy excluded interagency transactions from eCMS. But we found that the extent to which these types of IAAs are included in eCMS varied, even for those entered into after this policy went into effect. Specifically, contracting officials in two VA offices told us they are continuing to treat their interagency transaction IAAs the same as assisted acquisition IAAs. For example, contracting officers at the Office of Construction and Facilities Management stated that they award all

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<sup>10</sup>See VA Inspector General Report, July 30, 2009.

<sup>11</sup>See VA Inspector General Reports, July 30, 2009 and November 19, 2014.

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interagency transaction IAAs and record these actions in eCMS. Likewise, contracting officers at the SAC continue to enter new interagency transactions into eCMS to provide greater internal controls and maintain access to records. But other offices do not enter these transactions into the system, per the new policy. VHA contracting officials, for example, provided us with documentation showing that they no longer enter interagency transaction IAAs into eCMS. Excluding interagency transaction IAAs from eCMS reporting, in conjunction with this variability in recording them, results in VA having limited visibility into the full extent of its dollars obligated through all IAAs.

We conducted additional analysis in an attempt to derive a more robust estimate of IAA obligations and estimate that the total amount transferred to other agencies is between \$2.3 billion and \$2.6 billion, a difference of \$600 to \$900 million from the actions included in eCMS for this same period.<sup>12</sup> We made this estimate by comparing the eCMS data to data from VA's accounting system. Though not designed to track IAAs, the accounting system is used to initiate nearly all actions that transfer VA funds to external entities, including other federal agencies.<sup>13</sup>

*Standards for Internal Control in the Federal Government* state that U.S. government agencies should clearly document transactions, ensure that documentation be readily accessible, and ensure that transactions are complete and accurate.<sup>14</sup> As described above, we found hundreds of millions of dollars worth of agreements in VA's accounting system that were not contained in eCMS. Because there is no direct connection between VA's accounting system and eCMS, VA lacks internal controls to prevent funding obligations under IAAs from being made directly in the accounting system, potentially bypassing eCMS, which is an important tool for managing VA procurement activity.

An official from VA's SAC, which oversees IAAs for a number of different offices across VA, said that in some cases, VA staff obligated funding

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<sup>12</sup>For a full explanation of how we calculated this figure as well as the methodology behind which federal agencies were included, see Appendix I.

<sup>13</sup>In order for VA funds to be obligated to outside entities, including other federal agencies, an action must be initiated in the accounting system.

<sup>14</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.; Nov. 1999).



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through the accounting system without reporting their actions in eCMS. Two offices within VA have actions underway that may address this shortcoming. For example, officials from VHA's Service Area Offices told us they regularly compare records from eCMS and the accounting system and address any actions that do not match. In addition, VA's Financial Services Center, which handles funding transfers to other agencies to support IAAs across VA, is implementing a new internal control in its financial system that will prevent VA offices from initiating these funding transfers unless a signed copy of the IAA is uploaded into a central repository. While this repository is separate from eCMS and does not directly address entry of IAAs into eCMS, to the extent that the process of reconciling IAAs with their supporting documentation is effective, VA's compliance with policy requirements may improve as a result.

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## Management of the Award and Oversight of IAAs Varied, and in Some Cases Did Not Comply with Policy

Nine of the 21 assisted acquisition IAA orders we reviewed were missing key documents that were required under the VA procurement policy in effect at the time they were awarded. Awareness of IAA policy requirements varied among VA officials, in part because most contracting officials seldom award IAAs, contributing to gaps in compliance with VA procurement policy. Responsibility for IAA award and oversight shifted between different organizations within VA several times in recent years, which also contributed to lack of awareness of IAA policies. Additionally, preferences for contracting with veteran-owned businesses are applied to varying degrees by servicing agencies.

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## Nearly Half of the IAA Orders We Reviewed Did Not Comply with Documentation Requirements

Almost half of the assisted acquisition IAA orders we reviewed—9 of 21—did not comply with VA procurement policy that was in effect at the time these orders were issued.<sup>15</sup> For instance, the FAR, as well as an Office of Federal Procurement Policy memorandum and VA policy, require that a Determination and Findings—which explains VA's reasoning for using an IAA instead of another procurement approach, such as a direct contract

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<sup>15</sup>As described above, VA issued a new IAA policy, Procurement Policy Memo 2013-06, in April 2013, which was effective on June 23, 2013. The policy was revised in July and December of 2013, but the documentation requirements for IAA orders, as stated in Table 1, remained the same. We analyzed IAAs awarded prior to the policy's effective date against the different documentation requirements of the previous policy, the VA's Information Letter IL001AL-09-04 of March 23, 2009. Further guidance for the policy is in OFPP's Memorandum, dated June 6, 2008, "Improving the Management and Use of Interagency Acquisitions."

with a private firm—be prepared and approved for any Economy Act IAA order.<sup>16</sup> In 5 cases, this document was not in the eCMS file. Additionally, in one instance, VA officials were not able to provide a copy of the IAA order itself—the document that establishes basic terms such as the estimated dollar value and period of performance. Table 1 shows cases in which required documents were missing from the IAA orders we selected for review.

**Table 1: Instances of Missing Documentation among Selected Interagency Agreement (IAA) Orders**

	Contracting office	Servicing agency	Required documents missing from file <sup>a</sup>				
			IAA order	Determination and findings	Work statement	Legal review	Best procurement approach memorandum
Orders subject to Information Letter policy	VHA network contracting office 8	Army Corps of Engineers				X	
	VHA network contracting office 8	Army Corps of Engineers				X	
	VHA network contracting office 8	Army Corps of Engineers					
	VHA network contracting office 8	General Services Administration		X	X		
	VHA network contracting office 8	Defense Logistics Agency	X	X	X	X	
	VHA network contracting office 22	Army Corps of Engineers					
	VHA network contracting office 22	Army Corps of Engineers					
	Strategic Acquisition Center	Office of Personnel Management		X			
	Strategic Acquisition Center	Office of Personnel Management					
	VHA Program Contracting Activity East	National Institutes of Health					

<sup>16</sup>The prior Information Letter policy required a Determination and Findings for any IAA, whether awarded under the Economy Act or another authority.

**Required documents missing from file<sup>a</sup>**

	Contracting office	Servicing agency	Required documents missing from file <sup>a</sup>				
			IAA order	Determination and findings	Work statement	Legal review	Best procurement approach memorandum
	VHA Program Contracting Activity East	Department of the Army				X	
Orders subject to procurement policy memo	VHA network contracting office 22	Army Corps of Engineers					X
	VHA network contracting office 22	Army Corps of Engineers		X		X	X
	VHA network contracting office 22	Army Corps of Engineers		X		X	X
	Technology Acquisition Center	U.S. Navy, Space and Naval Warfare Systems Command					<sup>b</sup>
	Technology Acquisition Center	U.S. Navy, Space and Naval Warfare Systems Command					<sup>b</sup>
	Technology Acquisition Center	U.S. Navy, Space and Naval Warfare Systems Command					<sup>b</sup>
	Technology Acquisition Center	U.S. Navy, Space and Naval Warfare Systems Command					<sup>b</sup>
	Technology Acquisition Center	Department of the Interior					
	Technology Acquisition Center	Department of the Interior					
Strategic Acquisition Center	Department of the Interior						

Source: GAO analysis of eCMS IAA files | GAO-15-581

<sup>a</sup>A Best Procurement Approach memorandum was not required by the 2009 Information Letter policy. VA policy also requires a certified funding document, but we did not include these in our review.

<sup>b</sup>These files did not contain Best Procurement Approach memoranda, but did contain documents explaining the contracting officer's determination that they were not necessary due to a determination by TAC legal counsel that the agreements with Navy were not formally assisted acquisition IAAs.

We spoke with VA contracting officials responsible for these assisted acquisition IAAs, and they stated that some of these documents may have been prepared at the time the IAAs and orders were awarded, but not entered into eCMS. Regardless of whether key documents were missing because they were misplaced or never prepared, the lack of

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documentation leaves contracting personnel unprepared to execute additional actions on them or perform proper agreement closeout.

We also found one instance where a VHA network contracting office had been obtaining medical imaging services through the Defense Logistics Agency (DLA) since 2008, obligating funds without understanding the terms of the agreement. In response to our request to review the base assisted acquisition IAA and the order, contracting officials stated that they were unable to locate an agreement with DLA; they acknowledged that they had been placing orders on the presumption that there was one in place. According to DLA officials, there was no specific agreement in place, but they were operating under a broad authority that allows them to contract on VA's behalf. The VHA network contracting office's lack of awareness of the terms meant that it was unaware of a change in DLA's fee for its services to VA. Specifically, in 2012, DLA raised the fee it charged VA from 2 percent to 2.5 percent, but because the network contracting office was not aware of the terms, the contracting official was surprised when the cost increased. The official questioned the increase and asked for justification, but according to correspondence included in the IAA file, DLA declined to provide it. DLA officials told us this was because they do not typically provide details on how their rates are established. In response to this situation, officials at the VHA network contracting office stated that they are in the process of making alternative arrangements to obtain medical imaging services from DLA through VA's National Acquisition Center for a lower fee of 1.4 percent.

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**Some Officials Responsible for IAAs Were Not Aware of Policy Requirements, in Part Due to Lack of Training**

We found that awareness of IAA policy requirements varied among VA officials, contributing to gaps in compliance with VA procurement policy. Officials from two of the five contracting offices we spoke with told us that they typically spend most of their time on contract actions and have limited experience with IAAs. As a result, they are less familiar with how to properly award them. This places VA at greater risk of noncompliance with its policies governing IAAs. Limited knowledge of IAAs among program officials also caused problems. For example, a program official at VA's Financial Services Center stated that his office had been awarding orders for administrative support on a base IAA originally awarded by a contracting office at VA headquarters, despite later finding out they lacked contracting authority to do so. This same official also told us that the office became aware of the requirements of the 2013 IAA policy over a year after it was issued, when their servicing agency, Department of the Interior, alerted them to it. This office's IAAs are now handled by TAC and SAC.

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Some localized IAA training efforts have taken place. One official with the VA Office of General Counsel who reviews IAAs from across the agency told us that he observed frequent gaps in knowledge of IAAs among program and contracting officials. In response, he developed informal training in 2009, which he has since provided to a number of different program and contracting office audiences when requested. Likewise, the Financial Services Center, which has a role in processing payments to other agencies for IAAs across nearly all VA offices, instituted training on IAAs for accounting staff VA-wide after a VA audit of interagency fund transfers found that the transactions were often not properly documented. The audit found that this problem stemmed in part from contracting and program officials not sharing sufficient IAA documentation with local accounting officials. Financial Services Center officials reported that compliance has improved as a result of this training.

Currently, VA does not provide agency-wide IAA training to VA staff, and some contracting officials have requested such training. VA's procurement policy requires staff to be properly trained, stating that HCAs shall develop and implement guidance ensuring only qualified individuals with appropriate training are assigned to all existing and future interagency acquisitions. During our review of selected IAA file documentation, we found correspondence showing that one contracting specialist who was asked to award a new IAA order initially refused because she had never dealt with IAAs and had no training. However, she ultimately processed the action when instructed to do so by her supervisor. Officials from this VHA headquarters contracting office stated that they had made requests to the VHA HCA for training. However, the VHA HCA officials told us that they do not plan to offer any additional training beyond the IAA standard operating procedure guidance they have already issued. During the course of our review, officials from the Office of Acquisition and Logistics told us that they were developing training on assisted acquisition IAAs to provide contracting officials with an overview of VA's policy requirements. These officials stated they are currently planning to offer this training to contracting officials VA-wide by fiscal year 2016, but plans for its implementation have not been finalized. It is not clear at this point whether program officials will also receive the training.

We also found a few instances that demonstrated the challenges VA faced in awarding and monitoring IAAs. For one assisted acquisition IAA order we reviewed between VHA and the Army Corps of Engineers, we interviewed a VHA contracting official who told us that the Army Corps revised plans for its deliverables (facility renovations at a VA medical

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center) after the IAA award. Officials at the VHA network contracting office told us they went along with the changes because the Army Corps had already begun performing the work. VA had submitted a design for the renovation, but a VHA official responsible for this project stated that the Army Corps used its own contractor to develop a different design. According to an Army Corps official, the original design could not be constructed within the budget VA allocated for the project, and a program official at the medical center approved a change in approach, but program officials did not communicate this to the VHA contracting officials managing the IAA order. According to a VHA network contracting office official, the project was originally budgeted to cost \$4.56 million, but ultimately cost \$4.61 million, and did not meet the original specifications. Army Corps officials responsible for this project stated that the primary change was a reduction in office space, and the revised design included all key features of VA's original design. The VHA contracting official also stated that VA had to terminate for convenience the contract of the architecture and engineering firm hired to develop the original design.

In another case, an internal investigation by a VA investigation board found problems with how VHA proceeded with a project under Army Corps IAAs. Two IAA orders were originally awarded to the Army Corps in 2008 and 2009 for renovation of a medical center operating room. A VA investigation board later found that the VHA regional network had, in effect, split up a single major project into two parts, avoiding the congressional committee notice required for such projects.<sup>17</sup> While the VHA regional network represented these as separate projects, it had provided the Army Corps with a single set of plans. A subsequent IAA order was awarded to the Army Corps in 2012 to combine the earlier IAAs and complete the project.

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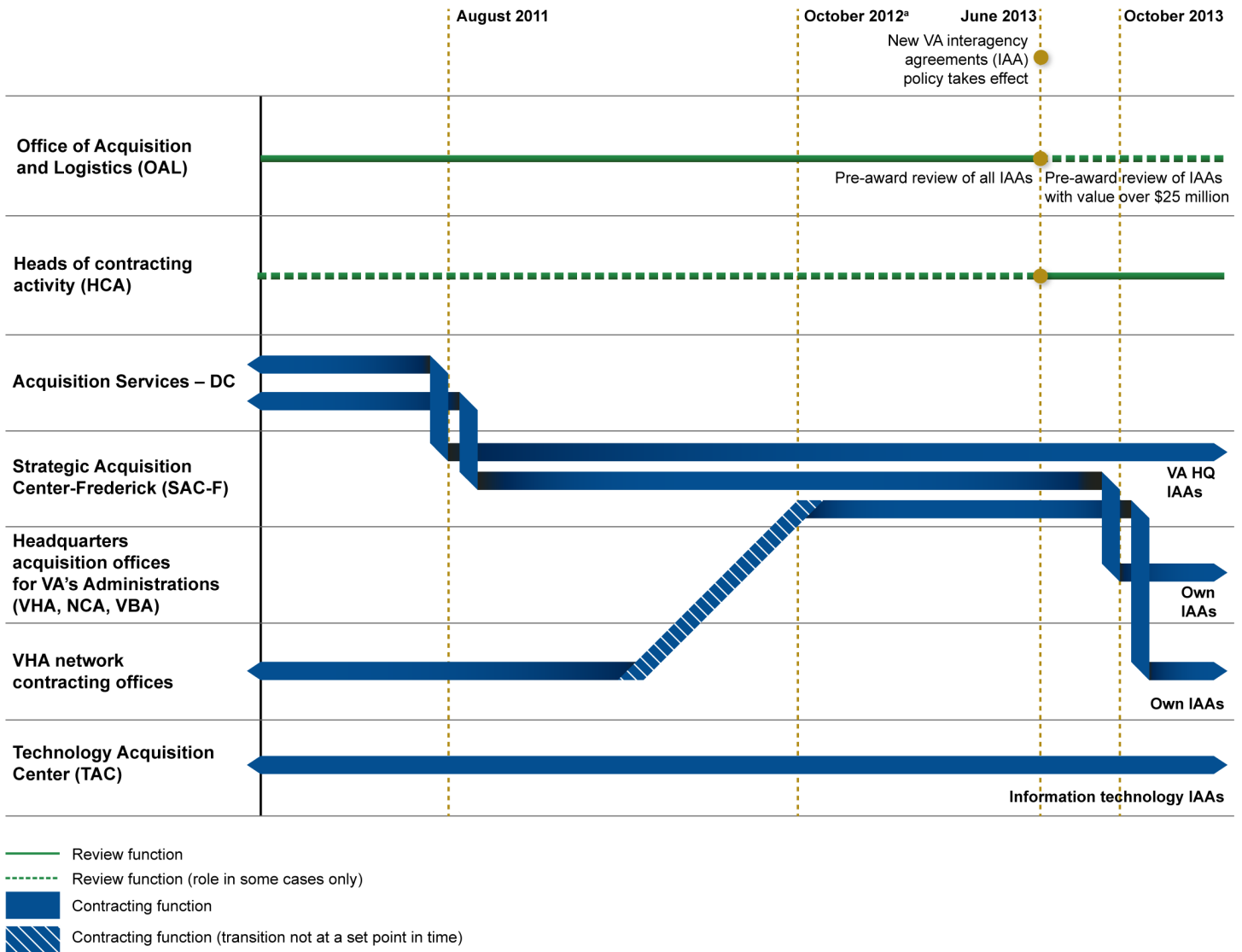
<sup>17</sup>Under 38 U.S.C. § 8104, VA is required to provide notice to certain congressional committees of major medical facility construction project acquisitions over \$10 million—as the combined project was in this case—are overseen by VA's Office of Construction and Facilities Management, not individual VHA regional networks.

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Responsibility for IAAs  
Has Moved Between  
Several Different VA  
Organizations,  
Contributing to Gaps in  
Compliance with Policy

Responsibility for assisted acquisition IAA award and oversight shifted between different organizations within VA several times in recent years, which contributed to lack of awareness regarding requirements for award, review, and recording of IAAs. Figure 3 depicts these changes from 2011 to 2013.

**Figure 3: Shifts in Responsibility for Contracting and Review of Assisted Acquisition Interagency Agreement (IAA) Awards, 2011-2013**



NCA: National Cemetery Administration  
VBA: Veterans Benefits Administration  
VHA: Veterans Health Administration

Source: GAO analysis of VA policies and interviews with VA officials. | GAO-15-581

<sup>a</sup>We did not identify any formal policy decision regarding transfer of IAAs to SAC-F, but both VHA network contracting offices we visited reported that SAC-F took over processing of their IAAs between October 2011 and October 2012.



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While one reason cited by the Office of Acquisition Operations HCA for the 2011 shift of responsibilities away from the Acquisition Services office was to address VA Inspector General recommendations to strengthen oversight of IAAs, that transition and subsequent ones have caused confusion. For example, the 2013 shift in contracting responsibility for IAAs was a surprise to some HCAs. We met with all six VA HCAs or their deputies, and in some cases they stated that they had not expected to receive this additional responsibility, which was an increase in workload. While some HCA officials stated that they were able to develop processes for IAAs, some aspects of this transition were challenging. For instance, VHA HCA officials received a list of 247 IAAs that were being transferred from SAC, but they stated that basic information, such as the VHA customer and contracting office, were missing. These officials told us that they spent a period of months reviewing eCMS files to find needed information. In some cases, they said they could not initially identify the VA customer based on available information. Eventually, many of the IAAs were found to no longer be in use. The officials also said that they determined others to be interagency transaction IAAs that, based on the 2013 policy, did not require contracting personnel, and thus were referred to program offices. Still others were identified as continuing needs and taken up by VHA contracting offices.

The multiple transfers of IAAs over time also led to inconsistent documentation. For example, IAA files we reviewed that were initially awarded at SAC but later transferred to a VHA contracting office were documented using different protocols and formats than the VHA network contracting offices' own IAA awards. Likewise, according to SAC officials, the IAAs they received from the Acquisition Services office in 2011 were poorly organized and in paper format; officials stated that they spent two months logging the files and scanning them into eCMS, but were unable to locate complete documentation in many cases. By contrast, IAAs maintained by the TAC, which has had responsibility for IT-related IAAs since 2011, had files with more complete documentation. None of the six TAC assisted acquisition IAA orders we reviewed lacked any of the key documents that were required by the applicable VA guidance.

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## Servicing Agencies Varied in the Extent to Which They Applied Contracting Preferences for Veteran-Owned Businesses

Preferences for contracting with veteran-owned small businesses and service-disabled veteran-owned small businesses were applied to varying degrees by the servicing agencies in our review. VA has statutory preferences for contracting with such firms.<sup>18</sup> Additionally, all federal agencies have the ability to apply preferences for various types of small businesses in their contracts, including service-disabled veteran-owned small businesses.<sup>19</sup>

VA's acquisition regulations require servicing agencies using assisted acquisition IAAs to apply preferences for veteran-owned small businesses and service-disabled veteran-owned small businesses in their contracts on VA's behalf "to the maximum extent feasible."<sup>20</sup> Almost all of the VA IAAs we reviewed with the Army Corps and the Navy Space and Naval Warfare Systems Command included a clause requiring them to do so.<sup>21</sup> But we found differences in the extent to which these agencies awarded contracts to such firms on VA's behalf. For example, of the 8 Army Corps orders for construction management that we reviewed, officials told us contracts for 6 had been awarded to service-disabled veteran-owned contractors. In contrast, the Space and Naval Warfare Systems Command General Counsel stated that this command did not award contracts to veteran-owned or service-disabled veteran-owned small businesses for the four IT development and operation IAAs we reviewed. The issue of contracting preferences under assisted acquisition IAAs is complex because multiple agencies are involved; as agreed with your office, we will undertake a more in-depth review of this issue.

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<sup>18</sup>38 U.S.C. §§8127 and 8128.

<sup>19</sup>See, for example, 15 U.S.C. 644(g).

<sup>20</sup>Veterans Affairs Acquisition Regulation Subpart §817.502.

<sup>21</sup>One Navy Space and Naval Warfare Systems Command IAA did not include this language.

## VA Obligated Over \$244 Million to FFRDCs with Significant Increases for Two VA Organizations

From fiscal years 2012 through 2014, VA obligated over \$244 million to FFRDCs. The vast majority of these obligations, about \$241 million, were to two MITRE FFRDCs. In addition, VA obligated a relatively small amount to three non-MITRE FFRDCs, as shown in table 2 below. VA co-sponsors the Center for Enterprise Modernization (CEM), which is its primary source of FFRDC support. During this period, VA issued 58 task orders to CEM. In contrast, VA issued one task order to the Centers for Medicare & Medicaid Services Alliance to Modernize Healthcare (CAMH).

**Table 2: Veterans Affairs Obligations to Federally Funded Research and Development Centers, Fiscal Years 2012 through 2014**

Federally Funded Research and Development Center	Total obligations <sup>a</sup>	Task orders issued during the period
MITRE Center for Enterprise Modernization (CEM)	\$210,915,546	58
MITRE Centers for Medicare & Medicaid Services Alliance to Modernize Healthcare (CAMH)	\$29,971,302 <sup>b</sup>	1
Non-MITRE Operated Federally Funded Research and Development Centers	\$3,561,440	— <sup>c</sup>
<b>Total</b>	<b>\$244,448,288</b>	

Source: GAO analysis of U.S. Department of Veterans Affairs and Federal Procurement Data System-Next Generation data. | GAO-15-581

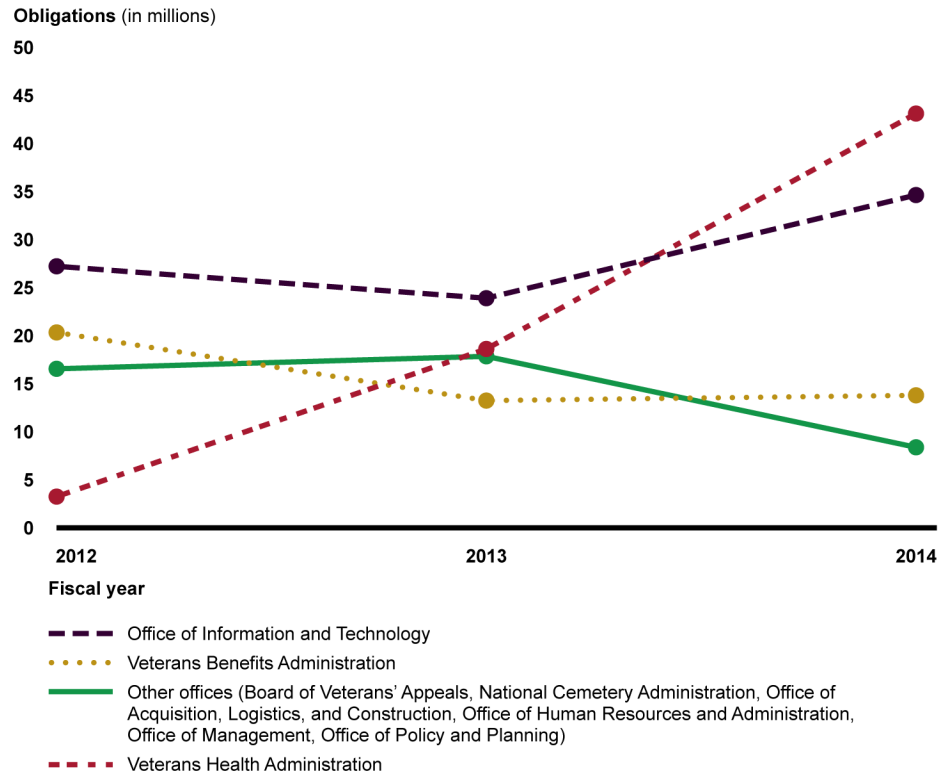
<sup>a</sup>Total obligations include dollars obligated through new tasks orders and task order modifications.

<sup>b</sup>The total estimated value of this task order (base award and all options) is \$73 million. VHA's initial award of nearly \$30 million at the end of fiscal year 2014 is included in the scope of our review; however, since VHA funded this work over a period of two fiscal years, VHA's subsequent obligation of nearly \$40 million in fiscal year 2015 to fully fund this work is not included in the scope of our review.

<sup>c</sup>As discussed below, VA only centrally tracks contract actions to MITRE FFRDCs. We identified actions to three non-MITRE FFRDCs through our own analysis of Federal Procurement Data System-Next Generation data. During our review, we also identified that VA had a contract worth approximately \$5.9 million with a fourth non-MITRE FFRDC via one of the interagency agreements that we reviewed. We could not ascertain the VA obligations or number of task orders issued under this contract because the VA files did not contain this information.

VA obligations to MITRE FFRDCs increased by about 48 percent during the period—from about \$67 million in fiscal year 2012 to nearly \$100 million in fiscal year 2014. Overall, nine VA organizations used MITRE FFRDCs. As shown in figure 4, two VA organizations account for most of the increase in obligations—VHA and the Office of Information and Technology.

**Figure 4: Obligations to MITRE Federally Funded Research and Development Centers by Veterans Affairs Organization Fiscal Years 2012 through 2014**



Source: GAO analysis of U.S. Department of Veterans Affairs Electronic Contract Management System data. | GAO-15-581

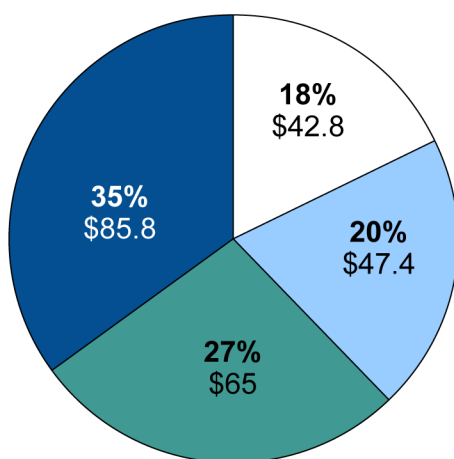
The significant increase in VHA obligations to MITRE during the period is largely attributed to a \$30 million task order issued to CAMH in September 2014 to conduct and integrate independent assessments of VA healthcare processes as required by the Veterans Access, Choice, and Accountability Act of 2014 (Choice Act).<sup>22</sup> VHA officials told us CAMH is the only private sector entity that meets the statutory requirements for

<sup>22</sup>Section 201(a) of the Choice Act requires VA to enter into one or more contracts with a private sector entity or entities to conduct twelve independent assessments of the hospital care, medical services, and other health care furnished in medical facilities of the Department. According to VHA officials, CAMH is conducting 11 of the 12 assessments, and the Institute of Medicine is conducting one assessment that was in progress when VHA awarded the task order to CAMH.

healthcare expertise and experience in managing large scale activities for health care delivery systems.<sup>23</sup> The Office of Information and Technology provides information technology tools and support department-wide; therefore, FFRDC support procured by this office is generally on behalf of another VA organization. Among the nine VA organizations that used MITRE FFRDCs over this period, the Office of Information and Technology and VHA obligated the largest amounts, as shown in Figure 5.

**Figure 5: Total Obligations to MITRE Federally Funded Research and Development Centers by Veterans Affairs Organization Fiscal Years 2012 through 2014**

Total obligations fiscal years 2012 - 2014 (in millions)



- Other offices (Board of Veterans' Appeals, National Cemetery Administration, Office of Acquisition, Logistics, and Construction, Office of Human Resources and Administration, Office of Management, Office of Policy and Planning)
- Veterans Benefits Administration
- Veterans Health Administration
- Office of Information and Technology

Source: GAO analysis of U.S. Department of Veterans Affairs Electronic Contract Management System data. | GAO-15-581

<sup>23</sup>Section 201(b) of the Choice Act establishes qualifications for the private sector entities conducting the independent assessments, including experience with VA health care delivery systems and implementing large-scale organizational and cultural transformations, especially with respect to health care delivery systems.

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All of VA's obligations to MITRE FFRDCs from fiscal years 2012 through 2014 were for services. For CEM specifically, VA awards large, multiple year noncompetitive indefinite-delivery indefinite-quantity (IDIQ) contracts for general FFRDC support, and then issues task orders for specific services.<sup>24</sup> For example, the two IDIQ contracts that VA awarded to CEM in 2008 and 2014 had a six year period of performance, and a maximum value of \$89.5 million and \$380 million respectively.<sup>25</sup>

Across the 10 task orders that we reviewed, VA used MITRE for a variety of services, including strategic management support, technical management support, and acquisition support. These task orders were issued off of five noncompetitive IDIQ contracts. Table 3 provides additional information on the 10 task orders that we reviewed, including a description of task order requirements.

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<sup>24</sup>IDIQ contracts do not specify a firm quantity (other than a minimum or maximum) and provide for the issuance of task orders (services) or delivery orders (supplies) during the contract period. FAR §§ 16.501-1, 16.504. Prior to extending a contract or sponsoring agreement for an FFRDC, the FAR requires that the federal sponsor conduct a comprehensive review of the use and need for the FFRDC at least every five years. FAR § 35.017-4.

<sup>25</sup>These are the maximum values of the underlying contracts under which orders are issued over time, and VA may not necessarily reach the maximum value. The maximum value can be increased via a contract modification. For example, in 2011 VA issued a modification increasing the maximum value of the 2008 IDIQ contract to \$102.5 million.

**Table 3: Summary of GAO’s Sample of 10 Veterans Affairs Task Orders to MITRE Corporation**

<b>Veterans Affairs organization</b>	<b>Award date</b>	<b>Total estimated value</b>	<b>Description of requirement</b>
Veterans Health Administration	9/30/2014	\$73,094,170	Independent evaluation and integration of 12 independent assessments of the VA healthcare delivery system and management processes as required by the Veterans Access, Choice, and Accountability Act of 2014. <sup>a</sup>
Office of Information and Technology	7/11/2014	\$20,539,973	Strategic and technical management support for 12 individual projects to assist the Office of Information and Technology Product Development in establishing a multi-year road map for developing software services using a common information technology infrastructure in the delivery of benefits, healthcare, and cemetery services.
Veterans Benefits Administration	11/1/2013	\$10,257,696	Strategic management and acquisition support for five individual Veterans Benefits Administration projects.
Office of Human Resources and Administration	8/19/2013	\$7,519,190	Strategic management support for five different offices within the Office of Human Resources and Administration, including development of an information architecture identifying data critical to management of the office, and assisting the VA Learning University in defining a competency-based curriculum framework.
Veterans Health Administration	9/17/2013	\$5,440,482	Strategic consulting services to help the Office of Strategic Integration translate the Veterans Health Administration FY13-FY15 strategic plan into tactics to achieve strategic goals outlined in the plan.
Office of Information and Technology	9/26/2014	\$5,163,920	Strategic, technical, and acquisition support to help the Office of Architecture, Strategy, and Design meet its product planning/management and information technology strategic planning goals.
Veterans Health Administration	7/26/2013	\$3,457,543	Technical management support for the Office of Information and Analytics in preparing a prototype of a tool to transform existing VA data into the electronic format required for clinical quality measure reporting.
Office of Information and Technology	7/10/2012	\$3,039,871	Technical management support for the Office of Information and Technology Product Development in conducting studies to identify issues, risks, and technical recommendations regarding VA’s preparedness initiative including Homeland Security Presidential Directive 12 activities and VA employee identification card issuance.
Office of Information and Technology	9/10/2013	\$2,677,283	Technical management support for a National Cemetery Administration electronic records initiative as it prepares to select and implement a modern replacement for an existing system.
Office of Acquisition Operations	2/28/2014	\$228,329	Acquisition support for the Strategic Acquisition Center - Frederick and Enterprise Program Management Office in the award of a new indefinite-delivery indefinite-quantity contract, including technical evaluation and audit of vendor proposals.

Source: GAO analysis of U.S. Department of Veterans Affairs contract file information. | GAO-15-581

Note: Total estimated value includes the base award and all option years.

<sup>a</sup>Of the 10 MITRE task orders that we reviewed, this is the only order that VA issued to MITRE’s CAMH. The other nine MITRE orders included in the table above were issued to MITRE’s CEM.

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## Not All Contract Actions Are Subject to VA's FFRDC Governance Plan, and While Task Orders Met Basic Plan Requirements, VA Has Opportunities to Improve Contract File Documentation

VA has established a Governance Plan for managing and using FFRDCs, including key reviews to monitor FFRDC use and oversight at the strategic level department-wide, and at a tactical level for individual task orders. The Governance Plan is intended to apply to all FFRDC awards; however, TAC officials—who are responsible for all FFRDC awards—were not aware of awards made by other contracting offices to non-MITRE FFRDCs. As a result, VA is limited in providing effective oversight of all its FFRDC awards. The 10 MITRE task orders that we reviewed complied with the basic requirements in VA's Governance Plan for award and oversight. However, we found that contract files contained limited documentation of the pre-award review for each task order intended to determine that only an FFRDC could provide the needed services. In addition, some contract files did not fully explain how VA determined that MITRE's proposal was acceptable. Without supporting information for key decisions, particularly in this noncompetitive environment, other contracting officials who later revisit the file to make modifications will not have visibility into all the factors considered. Further, VA uses cost reimbursement contracts for FFRDC support and pays fixed fee on nearly all costs, including travel. While TAC officials consider travel costs low risk, VA has not considered excluding travel costs from the 4 percent fixed fee VA is paying to MITRE. As a result, VA may be missing opportunities for cost savings.

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## VA Has Established a Governance Plan for Managing and Using FFRDCs, but Not All Actions Are Subject to Governance Plan Requirements

In January 2015, VA updated its Governance Plan for managing and using FFRDCs. The updated Governance Plan formalized key processes that VA implemented in 2012 to enhance its existing mechanisms to monitor FFRDC use and oversight—including pre-award reviews of all potential FFRDC task order requirements and oversight of FFRDC awards at both a strategic level department-wide, and a tactical level for individual task orders. At a strategic level, the FFRDC Executive Requirements Council reviews and prioritizes VA's yearly FFRDC requirements with a focus on planning for future use. This Council is chaired by the VA Office of Policy and Planning Principal Deputy Assistant Secretary and includes officials at this same level from all VA administrations and staff offices. Also at the strategic level, the Strategic Management Team includes officials from TAC, program offices, and VA's Enterprise Program Management Office, and is intended to gather



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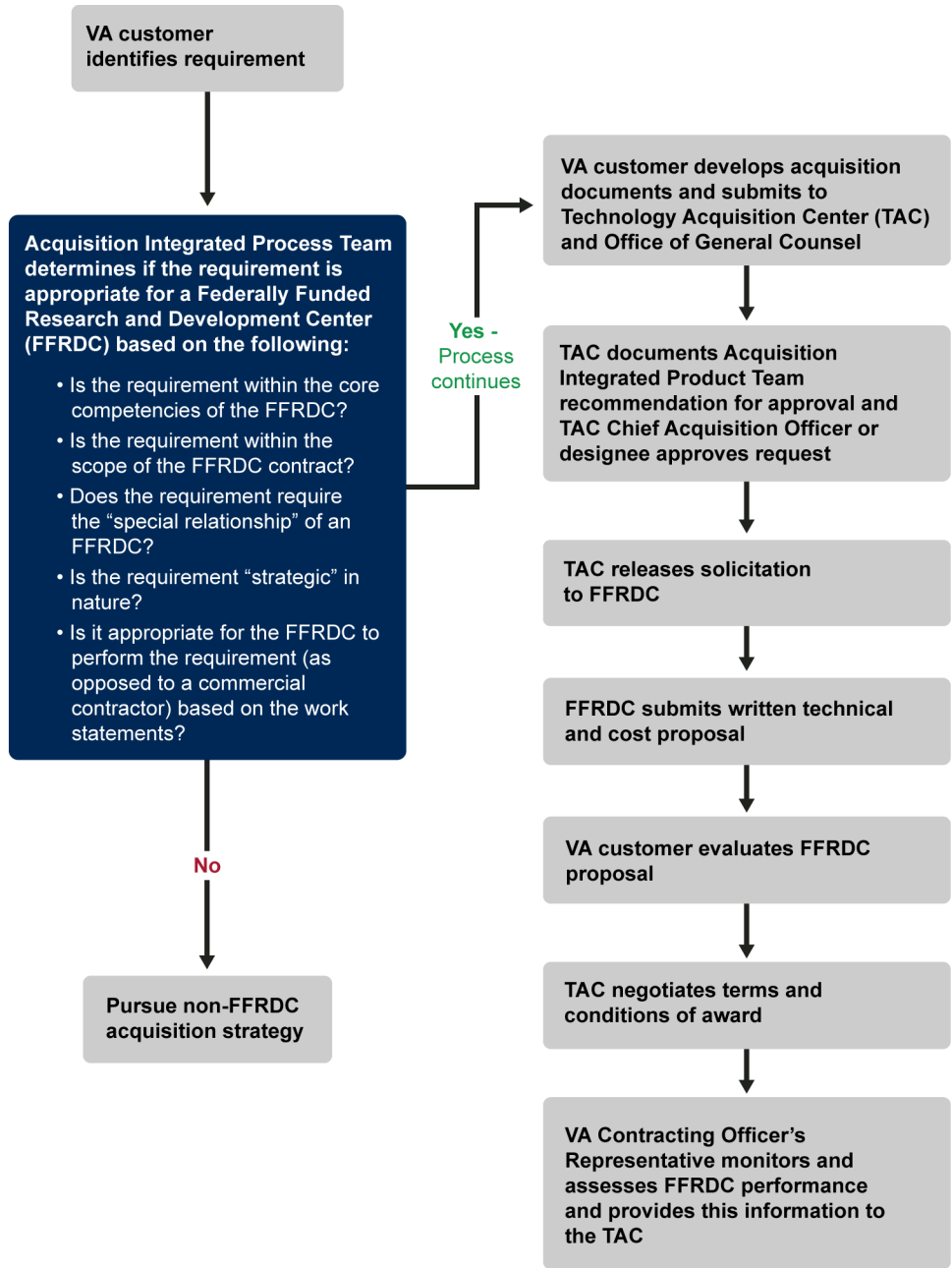
information on FFRDC support across VA in order to identify opportunities to use FFRDCs more effectively.<sup>26</sup>

At a tactical level, VA's Governance Plan requires the Acquisition Integrated Process Team to review all potential FFRDC task order requirements to determine whether the proposed work meets VA's criteria for award to an FFRDC. TAC leads this team, and participants include the FFRDC representative from the VA Enterprise Program Management Office, the Office of General Counsel, and program officials from the VA office requesting FFRDC support. In addition, the Governance Plan establishes a separate team to provide oversight of FFRDC task orders department-wide. This team meets monthly to discuss MITRE's performance on two to four randomly selected task orders with a focus on cost, schedule, and performance. TAC also leads this team, which includes the FFRDC representative from the VA Enterprise Program Management Office, program officials from the VA offices using FFRDC support, and FFRDC personnel. Figure 6 sets forth VA's processes for awarding and monitoring FFRDC task orders.

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<sup>26</sup>The VA Enterprise Program Management Office within the Office of Policy and Planning is VA's FFRDC program management office. The Enterprise Program Management Office is responsible for gathering all potential FFRDC requirements at a strategic level department-wide to identify opportunities for integration and synchronization of future requirements and to establish linkages to VA's priorities.

**Figure 6: Veterans Affairs' Processes for Awarding and Monitoring FFRDC Task Orders**



Source: GAO analysis of VA policy. | GAO-15-581

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The updated Governance Plan is intended to apply to all administrations and offices within VA that seek to use the services of an FFRDC; however, we found that VA does not centrally track contract actions to non-MITRE FFRDCs. TAC officials, who are responsible for all FFRDC awards, were not aware of awards made by other contracting offices to three non-MITRE FFRDCs, which according to our analysis totaled over \$3.5 million from fiscal years 2012 through 2014. In addition, during our review we identified that VA had a contract worth approximately \$5.9 million with a fourth non-MITRE FFRDC via one of the interagency agreements that we reviewed.<sup>27</sup> As a result of this lack of comprehensive information, VA is limited in providing effective oversight of these awards. For instance, TAC officials told us that FFRDC support on individual VA projects is not intended to be ongoing, and as part of the pre-award review process they work to ensure that program offices have a clear plan in place to transition performance from the FFRDC to VA staff or another contractor. Through our analysis, however, we found that this was not the case for a non-MITRE FFRDC task order that had been issued via one of the Air Force IAAs we reviewed. According to VHA program officials, the wide-ranging FFRDC support they obtain from the Carnegie Mellon Software Engineering Institute through this IAA has been ongoing for about 10 years.

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## Documentation of Pre-Award Reviews Is Not Comprehensive

The 10 task orders we reviewed were all deemed appropriate for an FFRDC through the pre-award review process; however, the contract files contain limited documentation of Acquisition Integrated Process Team reviews of individual task order requirements to determine that the proposed work meets VA's criteria for award to an FFRDC. As shown in figure 6 above, VA's Governance Plan requires that this team review several criteria, including whether the requirement can be met by a commercial contractor—which is especially important as FFRDC awards are noncompetitive. TAC officials told us that they do not document these pre-award reviews directly. But if the Acquisition Integrated Process Team determines that the task order requirement is appropriate for FFRDC performance, this outcome is reflected in the request and

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<sup>27</sup>VHA has a contract worth approximately \$5.9 million with a Department of Defense FFRDC through an interagency agreement. Since this FFRDC action was awarded via an interagency agreement, it did not appear in our search of VA FFRDC actions in Federal Procurement Data System-Next Generation. We could not ascertain the VA obligations for this contract because the files we reviewed did not contain this information.

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justification document prepared by the program office after the pre-award review, and TAC documents the team's recommendation for approval in an executive decision memo to the Chief Acquisition Officer or designee—both of which are included in the contract file for each award.

While the contract files for the 10 task orders we reviewed contain these documents, they only capture some of the factors VA used to determine that the work was appropriate for an FFRDC, and certain details about the pre-award review were not reflected. For example, these documents do not indicate when the pre-award review was held and who participated. Most importantly, they do not include a discussion of changes in the scope of proposed work or determination that a requirement, or portions of a requirement, are not appropriate for FFRDC performance. TAC and program officials told us that they discuss these types of changes during Acquisition Integrated Process Team reviews, but these discussions are not being documented. Without documentation of the pre-award review in the contract file for individual FFRDC task orders, other contracting officials who later revisit the file to make modifications will not know all of the factors the team used to determine that the work was appropriate for an FFRDC, or if the team determined that portions of the requirement were not appropriate. VA's Governance Plan does not require VA to document Acquisition Integrated Process Team pre-award reviews in this detail; however, because FFRDC awards are noncompetitive, it is important that VA document how it determined whether proposed task order requirements were appropriate for an FFRDC or for a commercial contractor. This documentation is important to allow comparison of any changes to existing work to ensure that they align with the original rationale for issuing the task order to an FFRDC.

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### Task Orders Complied with Basic Requirements for Award and Oversight, but VA Has Opportunities to Strengthen Contract File Documentation on Pricing

Task Orders Met Basic Requirements for Award and Oversight

The 10 MITRE FFRDC task orders that we reviewed complied with VA's Governance Plan basic requirements for award. For example, all of the contract files contained key acquisition documents including a performance work statement that defines the support that the program

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office is seeking from an FFRDC and a quality assurance surveillance plan to monitor performance and inform oversight, among other documents. The 10 task orders also met VA's Governance Plan basic requirements for oversight in that the contract files contained monthly status reports and invoices—key deliverables for managing cost, schedule, and performance.

We spoke with six program offices that had used MITRE task orders for a variety of services. They told us that they are generally satisfied with MITRE's performance. For one of the VHA task orders in our review, however, officials were not satisfied with the timeliness and quality of a presentation that MITRE had developed for senior VA leadership. In addition, as part of the review of MITRE's monthly status report and invoice, the program office rejected an invoice for MITRE billing for staff not directly working on the project, and conveyed its concerns to TAC officials and the contracting officer. During a subsequent meeting with MITRE's leadership to discuss the issue, TAC officials told us that MITRE explained its practice of ensuring its ability to maintain the required staff skills and knowledge to support VA, even when a specific task order workload does not support the staff's time. The TAC contracting officer advised MITRE that it is not authorized to charge VA for staff hours if that staff is not performing a directly related task. TAC officials considered this issue resolved, and the contracting officer's representative certified the initial \$404,192 invoice submitted by MITRE for payment.

#### Contract Files for Some Task Orders Did Not Fully Explain How VA Determined That MITRE's Price Proposal Was Acceptable

All 10 task orders we reviewed were issued for the exact dollar value of MITRE's proposal. In six cases, the award amount was more than VA's cost estimate, by an average of about 12 percent. In the other four cases, the award amount was less than VA's cost estimate, by an average of about 0.2 percent. In the six instances where MITRE's proposal was higher than VA's cost estimate, VA accepted MITRE's proposal, and we found no evidence of negotiation for these awards—specifically regarding the number of labor hours needed and the experience level of MITRE staff members. Neither the FAR nor VA's Governance Plan require VA to document how it determined that an FFRDC's price proposal was acceptable in the contract file for individual task orders. However, because this is a noncompetitive environment, the government lacks the leverage it would otherwise have to negotiate in a competitive environment. Thus, it is important that evidence of price negotiation be well-documented in the file. While in all six instances the task order awards met Governance Plan basic requirements, in three cases we found that the contract files did not fully explain how VA determined that MITRE's price proposal was acceptable:

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- The contract file for a task order issued to MITRE in 2012 to provide VA assistance with its preparedness initiative, including Homeland Security Presidential Directive 12 activities, does not clearly describe how VA determined MITRE's proposal, while higher, was acceptable.<sup>28</sup> While the price negotiation memo shows that VA confirmed MITRE's rates and calculations, there is no mention of any differences between VA's estimate and MITRE's proposal. Further, the analysis of labor hours and price in the technical evaluation memo are inconsistent with supporting documentation. Specifically, the technical evaluation memo states that MITRE's proposed labor hours were lower than VA's estimate; however, based on our review of contract file documentation, MITRE proposed 3,540 more hours than VA anticipated. In addition, the technical evaluation memo incorrectly states that MITRE's overall price is approximately 3 percent or \$91,907 lower than VA's estimate. In fact, MITRE's overall price was approximately \$145,000 higher than the VA's estimate.
  - The contract files for two other task orders issued to MITRE in 2013 and 2014 for the precise amount proposed by MITRE, where VA's estimated costs were lower, do not fully describe how VA determined that MITRE's proposal was acceptable. As discussed above, all of the task orders we reviewed were for services; therefore, the number of labor hours and mix and experience of MITRE staff are the most significant cost drivers. In these two instances, VA determined that the number of labor hours and experience level of staff in MITRE's proposal—while different from VA's—were acceptable and consistent with other projects of similar technical complexity. While the contract files for these task orders clearly describe the differences in labor hours and staff mix between VA's estimate and MITRE's proposal, it is not clear what analysis, if any, VA used to determine that MITRE's proposal was acceptable. TAC officials told us that it was a common practice to rely on the technical evaluator's recommendation for pricing in the past, and that TAC has now implemented process improvements to conduct a more thorough analysis of MITRE's proposal for pricing purposes.

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<sup>28</sup>Homeland Security Presidential Directive 12, Policies for a Common Identification Standard for Federal Employees and Contractors, was issued in August 27, 2004 and calls for a mandatory, government-wide standard for secure and reliable forms of ID issued by the federal government to its employees and employees of federal contractors for access to federally-controlled facilities and networks.

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TAC officials explained that negotiations with MITRE on the number of labor hours needed and the mix and experience level of MITRE staff members are not documented in the price negotiation memorandum, in part because they do not necessarily consider that part of price negotiation given that MITRE's labor rates are set. TAC officials further explained that these negotiations with MITRE take place during pre-solicitation conferences, which are scheduled after requirements are well-defined, and prior to VA providing the formal solicitation to MITRE. TAC officials told us that during these meetings the parties discuss the task order requirement and level of effort required; therefore, negotiations are generally limited as MITRE has a full understanding of the requirement when it submits its formal proposal to VA. Nevertheless, because these task orders are issued noncompetitively to MITRE, it is especially important for VA to document in the contract file how it evaluated MITRE's pricing. Without sufficient documentation on how VA determined that MITRE's proposal was acceptable, it is not clear whether VA effectively negotiated with MITRE to ensure that the cost is appropriate for the level of effort required.

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**VA Uses Cost Reimbursable FFRDC Contracts and Pays Fixed Fee on Nearly All Costs Incurred**

The 10 task orders we reviewed are a type of cost reimbursement contract known as cost-plus-fixed-fee. Under a cost-plus-fixed-fee task order, the government pays the contractor's allowable costs, plus an additional fee that was negotiated at the time of contract award. According to the FAR, cost reimbursement contract types are suitable when uncertainties in requirements and contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed price contract.<sup>29</sup> We previously concluded that these contracts, while sometimes appropriate, are considered high risk for the government because of the potential for cost escalation and because the government pays a contractor's allowable cost of performance regardless of whether the requirement is fulfilled.<sup>30</sup>

For task orders issued to MITRE's CEM during the period of our review, VA is paying MITRE a fixed fee of 4 percent on nearly all costs estimated,

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<sup>29</sup>FAR §16.301-2(a)(1) & (2).

<sup>30</sup>GAO, *Contract Management: Extent of Federal Spending under Cost-Reimbursement Contracts Unclear and Key Controls Not Always Used*, [GAO-09-921](#) (Washington, D.C.: Sept. 30, 2009).

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including travel. VA, as a co-sponsor of CEM, negotiates general contract terms, including contract type and fixed fee, at the base IDIQ contract level. For example, the base MITRE CEM IDIQ contracts for the task orders that we reviewed specify that task orders will be issued on a cost-plus-fixed-fee basis, and that the agreed-upon fixed fee for the base IDIQ contract applies to all task orders issued under the contract. This is not how the Centers for Medicaid & Medicare Services' contract with MITRE's CAMH is structured. The CAMH IDIQ on which the task order in our sample was issued allows for various types of pricing arrangements, including, but not limited to, firm-fixed-price and cost reimbursement type pricing arrangements. This CAMH IDIQ does not establish the percentage of fixed fee for cost reimbursable task orders; rather, the fixed fee is negotiated for each task order as appropriate. Under the CAMH task order in our sample, VA is paying MITRE a fixed fee of five percent.

Across the 10 task orders we reviewed, MITRE is eligible to receive about \$5.5 million in fixed fee. Of this total potential fee, \$50,092 are for travel costs. While the negotiation of a fee for an FFRDC's work is consistent with the FAR guidance on the establishment and use of fees provided by the ordering agencies, in certain circumstances other federal agencies have made decisions not to pay fixed fee on contractor travel costs.<sup>31</sup> For example, we identified several Space and Naval Warfare Systems Command cost-plus-fixed-fee task orders for professional support services, such as acquisition support, systems engineering and technical services, and program management support, where the government did not pay fixed fee on contractor travel costs. Under these task orders, the government pays the contractor fixed fee on labor hours, but it reimburses the contractor for actual, reasonable travel costs without any fee. This approach may allow the government to reduce its overall costs.

TAC officials told us that while travel costs are considered low risk, to their knowledge VA has not considered excluding travel costs from fixed fee. However, local travel costs were an issue during negotiations with MITRE for the current base IDIQ contract for FFRDC support, which was awarded in December 2014. Specifically, TAC officials had concerns regarding their ability to verify the accuracy or applicability of local travel costs under MITRE's current billing system. Under the current IDIQ

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<sup>31</sup>FAR 15.404-4 prescribes policies for establishing the profit or fee portion of the government pre-negotiation objective in price negotiations based on cost analysis.



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contract and subsequent task orders, VA will no longer pay MITRE's local travel costs; however, the parties agreed to an increase in fixed fee—from 4 percent to 4.5 percent. MITRE's local travel costs will essentially be absorbed by the increase in fixed fee.

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## Conclusions

To carry out its mission, VA obtains goods and services from other, non-VA entities, including other federal agencies and FFRDCs. In doing so, it is important that VA have clear policies and effective oversight of these contractual arrangements to ensure that its needs are being met and it is getting what it pays for. VA obligated about \$1.7 billion on IAAs in fiscal years 2012 through 2014, but the data available to agency leaders are incomplete, and from our analysis of VA's accounting system data, we found the total expenditures could be hundreds of millions of dollars more. Without a periodic assessment of the IAAs recorded into eCMS against VA's accounting system data, VA has limited visibility into the full extent of its use of IAAs.

Further, recently-revised policies and shifting responsibilities have not, in the near term, resulted in improvements to the use and oversight of IAAs, including a lack of clarity on which actions should be entered into eCMS. Rather, the new policy excludes interagency transactions from being recorded in the system, which means less visibility into VA's obligations to other agencies. In addition, implementation of the existing policy is uneven—some officials are entering interagency transactions and some are not. As a result, VA lacks visibility into obligations associated with these transactions. In addition, we found that some officials were not aware of policy requirements and that in some instances, files we reviewed lacked important documentation of required reviews and approvals. This lack of rigor could lead to an increased risk of VA incurring additional costs or not procuring the goods and services it needs. In an attempt to ameliorate the lack of awareness and documentation of IAAs, and in the absence of a department-wide training program, some VA entities have independently developed and implemented training. However, this training does not reach the full range of officials who need it. VA is developing department-wide training on IAAs which it plans to offer in fiscal year 2016, but plans for its implementation have not been finalized. At present, the training is planned for contracting officials, but it is not clear whether it will be extended to program officials, who could also benefit from it as they may be involved with IAAs at times.

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To guide its use and management of FFRDCs, VA has established policy through its recently-revised Governance Plan, in addition to existing federal regulations. VA has made improvements to its plan, for example by strengthening pre-award determinations that only an FFRDC can perform the required work. However, VA is not presently applying the Governance Plan to all FFRDCs with which VA does business, meaning that VA is missing opportunities to ensure that all FFRDC work is in line with agency-wide policies and priorities. In addition, the MITRE FFRDC task orders we reviewed complied with the basic requirements of the Governance Plan, but opportunities exist for better documentation in contract files, such as pre-award reviews and pricing assessments. Given that FFRDC awards are noncompetitive and obligations have increased significantly—by 48 percent during the period of our review—it is important that VA document in the contract file why an FFRDC was the appropriate choice to meet the requirement, and also that evidence of price negotiation is clearly documented. Finally, VA may have opportunities for cost savings by reassessing whether it wants to continue to pay a fixed fee on FFRDC contractor travel costs.

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## Recommendations for Executive Action

We are making the following five recommendations to the Secretary of Veterans Affairs.

To ensure consistent implementation and documentation of actions relating to interagency agreements, we are recommending that the Secretary of Veterans Affairs take the following two actions:

- Revise policies on interagency agreements to
  - clarify which interagency transactions must be recorded in eCMS, and
  - improve the completeness of interagency agreements recorded in eCMS, which could include implementing procedures to routinely check eCMS data against transaction data in VA's accounting system.
- Ensure that planned training on interagency agreements reaches the full range of program and contracting officials, particularly those who only occasionally award interagency agreements.

To ensure consistent implementation and documentation of actions relating to FFRDC task orders, we are recommending that the Secretary of Veterans Affairs take the following three actions:

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- Develop a strategy to ensure that all FFRDC contract actions, including those awarded to non-MITRE FFRDCs outside the Technology Acquisition Center, are reviewed according to the requirements of VA's FFRDC Governance Plan.
  - Require contracting officers to document in the contract files
    - pre-award reviews to determine whether proposed task order requirements meet VA's criteria for award to an FFRDC,
    - how they determined the FFRDC's proposed pricing was acceptable, and
    - any price negotiation.
  - Re-assess whether to continue paying a fixed fee on travel costs for FFRDC contracts and task orders.

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## Agency Comments and Our Evaluation

We provided a draft copy of this report to the Departments of Veterans Affairs and Defense for their comment. In written comments, VA concurred with all of our recommendations and provided information on actions taken or planned to address them. However, VA did not address one component of our first recommendation. While VA agreed to revise its procurement policy to clearly identify which interagency transactions must be recorded in eCMS, VA did not address how it would improve the completeness of IAAs recorded in eCMS. We believe it is important that VA make an effort to obtain a more complete picture of IAAs; as we suggested, one way to do so would be to routinely check eCMS data against transaction data in VA's accounting system. VA's written comments are reprinted in appendix III. Two of the Department of Defense entities involved in our review—Army Corps of Engineers and Space and Naval Warfare Command officials—provided a few technical comments in e-mail form, which we incorporated as appropriate. Additionally, we provided relevant excerpts of the draft report to representatives from MITRE and incorporated their technical comments as appropriate.

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As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate

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congressional committees, the Secretaries of Veterans Affairs, and other interested parties. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at (202) 512-4841 or by e-mail at [mackinm@gao.gov](mailto:mackinm@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix IV.

Sincerely yours,

A handwritten signature in black ink that reads "Michele Mackin". The signature is written in a cursive, flowing style.

Michele Mackin  
Director  
Acquisition and Sourcing Management

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# Appendix I: Objectives, Scope, and Methodology

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The objectives of this review were to determine (1) the extent to which the Department of Veterans Affairs (VA) used interagency agreements (IAA) in fiscal years 2012 through 2014, (2) the effectiveness of VA's management of the award and oversight of its IAAs, (3) the extent to which VA used Federally Funded Research and Development Centers (FFRDC) in fiscal years 2012 through 2014, and (4) the effectiveness of VA's management of the contract award and oversight process for FFRDC support.

To determine the extent of VA's use of IAAs, we analyzed data from VA's Electronic Contract Management System (eCMS) on its obligations to other federal agencies via interagency agreements in fiscal years 2012 through 2014. VA officials obtained this data for our analysis from eCMS using a query for actions related to IAAs. We reviewed the "vendor" field in this data and identified a number of entries that appeared to represent actions that did not meet our definition of interagency agreements, including funds obligated by VA organizations to other VA organizations, commercial contracts, and agreements with state and local governments. Additionally, we removed actions with several government entities not included in the scope of our review, including the General Services Administration and the Government Publishing Office. In cases where certain values in the "vendor" field were ambiguous as to whether they fell within our scope, we retained them for inclusion in our analysis. We calculated total obligations and obligations by servicing agency for fiscal years 2012 through 2014. Based on our review of the data, reviews of selected IAA files, and interviews with VA officials, we determined that these data are not sufficiently reliable, as discussed in this report. We present data on VA obligations for illustrative purposes only.

Because of the issues that we identified with the completeness of eCMS data, we also analyzed data on fund transfers from VA's Integrated Funds Distribution Control Point Activity Accounting & Procurement, an accounting system VA uses to transfer funds to external entities. These data were retrieved from the system by VA using a search for fund transfers to entities identified as federal agencies. As with our analysis of eCMS, we identified a number of entries that fell outside the scope of our review, and reviewed the list of values in the "vendor" field to remove the same categories described above. We then calculated total fund transfers for fiscal years 2012 through 2014 to determine the bottom of the range of our estimated total fund transfers. This calculation did not include cases where the values in that data field were ambiguous as to whether they fell within our scope; we separately calculated the total fund transfers for those entries and added this total to the total we calculated for entries

determined to be within our scope to determine the top of the range of our estimated total fund transfers. We then compared this range of estimated total transfers to the total obligations we calculated in our analysis of eCMS data. We found the accounting system data sufficiently reliable for the purposes of this report, based on how the system is used by VA and interviews with VA officials.

To determine the effectiveness of VA's management of the award and oversight of interagency agreements, we reviewed the Federal Acquisition Regulation (FAR) and relevant VA policies and guidance. Based on eCMS data as well as interviews with VA contracting officials, we selected a non-generalizable sample of 21 interagency agreement orders for our review. Specifically, we first selected the Office of Acquisition Operations and the Veterans Health Administration (VHA) as our focus based on their much larger IAA obligations than other VA entities during the fiscal year 2012 through 2014 period. We then analyzed eCMS data to identify the contracting offices with the largest IAA obligations over that period. Two Office of Acquisition Operations offices, the Technology Acquisition Center and the Strategic Acquisition Center, had made IAA obligations during this period. We selected both for inclusion. Within VHA, we selected three contracting offices to review, based on those with the largest IAA obligations over the period and those representing a variety of servicing agencies. Within each contracting office, we made a non-generalizable sample of three to seven IAA orders, focusing on those with the largest obligations, for a total of 26 orders. In the course of our review of the selected IAA files, we determined that four of the IAA orders were interagency transactions, rather than the assisted acquisition IAAs that our review focused on, and removed them from our sample. Additionally, in its review of our draft report, VA identified that one of the files we reviewed was for a modification of an existing order, and we also removed this file from our sample.

To assess whether these awards complied with VA's policies and guidance for award and oversight, we obtained the contents of the eCMS files for the base IAA and the IAA order from the contracting offices.<sup>1</sup> We reviewed the documentation in each file. As part of this review, we

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<sup>1</sup>VA policy designates eCMS as the official repository for all documentation of contracting actions, including IAAs.

determined whether key documents required by the Information Letter and/or Procurement Policy were present, including

- IAA order (Form 7600B or alternative),
- Determination and Findings for an Economy Act order,
- legal review,
- Best Procurement Approach memorandum, and
- work statement.

In most cases, we met with cognizant contracting officials before reviewing these files. In all cases we conducted follow-up meetings with the contracting offices following our review to obtain clarifications; in some cases, officials subsequently provided additional documents that were not in the eCMS files we initially received. To better understand the process of managing IAA orders after award, we interviewed officials with seven program offices that used services provided under IAAs in our sample. We also interviewed officials with several servicing agencies, including the Army Corps of Engineers, the Naval Space and Warfare Systems Command, and the Defense Logistics Agency.

To obtain information on VA policies and processes related to IAAs, we interviewed officials from a number of other VA organizations, including

- Office of Acquisition and Logistics,
- all six VA Heads of Contracting Activity or their deputies,
- Office of Management,
- Office of Policy and Planning, and
- Financial Services Center.

To gather information on prior findings related to our review, we interviewed auditors from the VA Internal Controls Service and the VA Office of the Inspector General. We interviewed Inspector General officials involved in the audits and reviewed their scope and methodology; we determined that the methodology was sufficiently reasonable enough for us to rely upon for results.

To determine VA's usage of FFRDCs, we used eCMS and Federal Procurement Data System-Next Generation data to identify VA contract actions and obligations to FFRDCs from fiscal years 2012 through 2014.<sup>2</sup> VA centrally tracks contract actions to FFRDCs operated by the MITRE Corporation (MITRE) via eCMS and provided GAO a list of these actions. However, as discussed in this report, VA does not centrally track contract actions to non-MITRE FFRDCs; therefore, we identified VA contract actions to non-MITRE FFRDCs through our own analysis of Federal Procurement Data System-Next Generation data. To determine the types of goods and services VA procured from FFRDCs during the period, we analyzed Federal Procurement Data System-Next Generation data on product and service codes for all actions that we identified. Based on our review of the data, reviews of selected FFRDC task orders, and interviews with VA officials, we determined that these data were sufficiently reliable for the purposes of this report.<sup>3</sup> However, as discussed in this report, we did identify one award to an FFRDC that was not captured in either data set as the award was made via an IAA.

To assess the effectiveness of VA's management of the award and oversight process for FFRDC task orders, we reviewed a non-generalizable sample of 10 task orders issued to MITRE FFRDCs from fiscal years 2012 through 2014. To select specific task orders for review, we obtained a list of task orders issued to MITRE FFRDCs from VA. Initially, we selected a non-generalizable sample of five task orders using the following characteristics

- size of award;
- type of services procured; and
- VA organization.

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<sup>2</sup>The National Science Foundation maintains the master government list of FFRDCs, and we used Federal Procurement Data System-Next Generation to identify VA obligations to these entities.

<sup>3</sup>Although we found eCMS data on IAAs not sufficiently reliable for the purposes of this report, eCMS data on FFRDCs differ in several ways that led us to determine it was sufficiently reliable, including being maintained by a single contracting office.



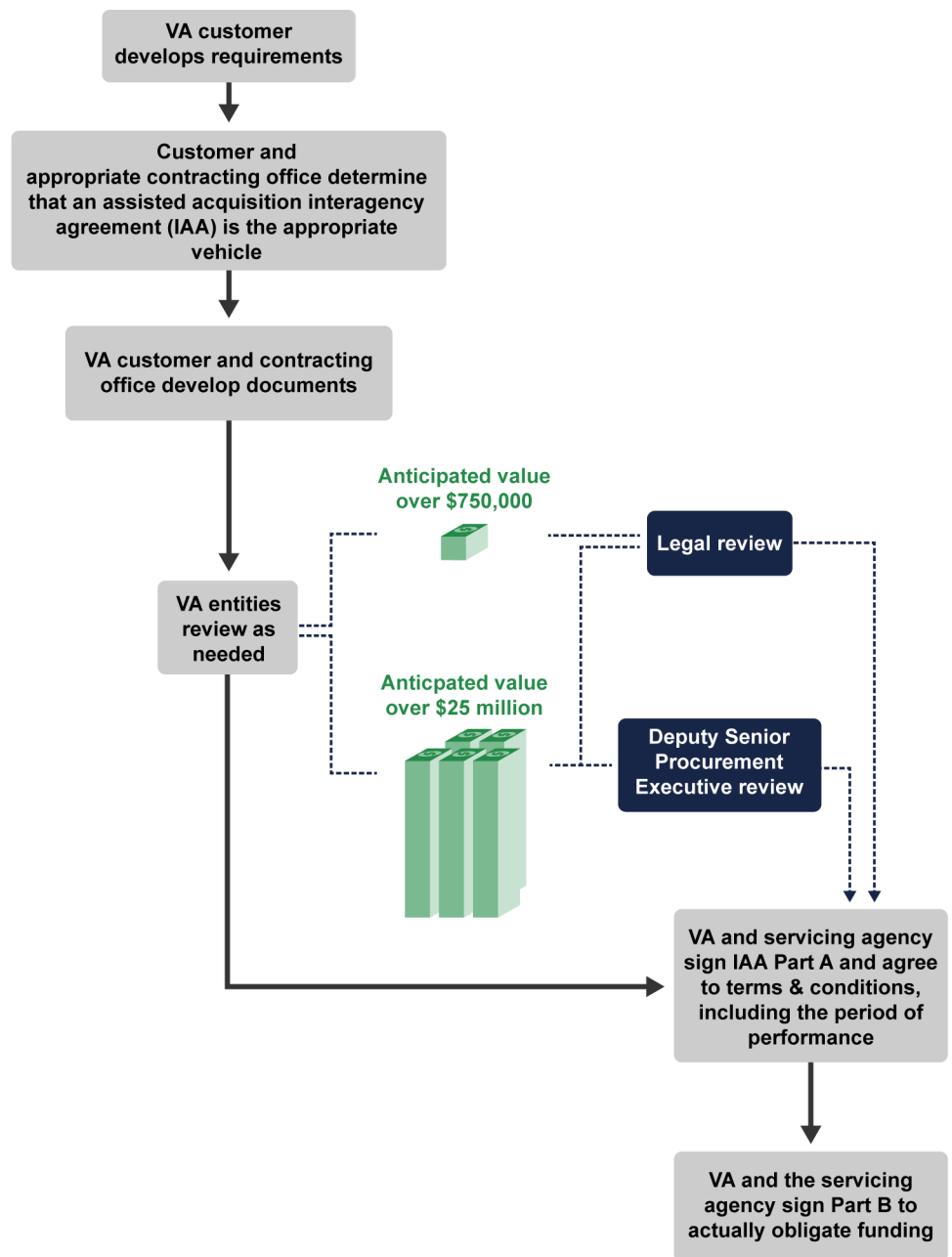
We selected an additional five task orders using a random sample of all MITRE FFRDC task orders stratified by fiscal year for a combined total of 10 MITRE FFRDC task orders.

For the 10 MITRE task orders in our sample, we obtained and reviewed contract file documentation, including key acquisition and oversight documents such as request and justification documents, performance work statements, cost analyses, quality assurance surveillance plans, and MITRE deliverables used to assess progress on the task order. We reviewed these contract files to determine whether the task orders complied with VA Governance Plan basic requirements for award and oversight. In particular, we assessed whether program offices prepared the required acquisition documents for award to an FFRDC, and if the task orders were reviewed and approved appropriately. In addition, we reviewed the contract files to determine if MITRE provided VA with monthly deliverables used to assess cost, schedule and performance. We interviewed contracting officials at the Technology Acquisition Center who were responsible for these task orders. To gain additional insight into VA's processes for award and oversight of FFRDC task orders, we conducted interviews with program offices for 6 out of 10 task orders included in our sample. We selected these six offices using the following characteristics: task orders issued for a large dollar amount, type of services procured, and VA organization.

We also interviewed officials with roles in VA policy and governance for FFRDCs, including those in the Office of Acquisition and Logistics, the Office of Acquisition Operations, and the Enterprise Program Management Office. Additionally, we interviewed MITRE officials to obtain information about their processes and relationship with VA.

We conducted this performance audit from June 2014 to July 2015 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.

# Appendix II: Typical Award Process for an Assisted Acquisition Interagency Agreement



Source: GAO analysis of VA policy. | GAO-15-581

# Appendix III: Comments from the Department of Veterans Affairs



DEPARTMENT OF VETERANS AFFAIRS  
WASHINGTON DC 20420

June 24, 2015

Ms. Michele Mackin  
Director, Acquisition and  
Sourcing Management  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Mackin:

The Department of Veterans Affairs (VA) has reviewed the Government Accountability Office's (GAO) draft report, "**VETERANS AFFAIRS CONTRACTING: Improved Oversight Needed for Certain Contractual Arrangements**" (GAO-15-581). VA generally agrees with GAO's conclusions and concurs with GAO's recommendations to the Department.

The enclosure specifically addresses GAO's recommendations and provides technical comments on the draft report. VA appreciates the opportunity to comment on your draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Nabors II".

Robert L. Nabors II  
Chief of Staff

Enclosure

Department of Veterans Affairs (VA) Response to  
Government Accountability Office (GAO) Draft Report  
***“VETERANS AFFAIRS CONTRACTING: Improved Oversight Needed for Certain  
Contractual Arrangements”***  
(GAO-15-581)

**GAO Recommendation:** To ensure consistent implementation and documentation of actions relating to interagency agreements, GAO is recommending that the Secretary of Veterans Affairs take the following two actions:

- **Recommendation 1:** Revise policies on interagency agreements to:
  - Clarify which interagency transactions must be recorded in eCMS.
  - Improve the completeness of interagency agreements recorded in eCMS, which could include implementing procedures to routinely check eCMS data against transaction data VA’s accounting system.

**VA Comment:** Concur. The Department of Veterans Affairs (VA) will revise its Procurement Policy Memorandum 2013-06, “Interagency Acquisitions (IAs), Guidance, and Procedures” to clearly identify which interagency transactions must be recorded in eCMS.

- **Recommendation 2:** Ensure that planned training on interagency agreements reaches the full range of program and contracting officials, particularly those who only occasionally award interagency agreements.

**VA Comment:** Concur. Collaboratively, the Offices of Acquisition, Logistics, and Construction (OALC), Management, and General Counsel are currently developing training that is robust and reaches the intended audience.

To ensure consistent implementation and documentation of actions relating to FFRDC task orders, GAO is recommending that the Secretary of Veterans Affairs take the following three actions:

- **Recommendation 3:** Develop a strategy to ensure that all FFRDC contract actions, including those awarded to non-MITRE FFRDCs outside the Technology Acquisition Center, are reviewed according to the requirements of VA’s FFRDC governance Plan.

**VA Comment:** Concur. Revisions made to the January 2015 VA Governance Plan for use of a Federally Funded Research and Development Center (FFRDC) expand the applicability to all FFRDC requirements within VA to include the use of FFRDCs sponsored by other Government agencies. OALC will also enforce FFRDC Governance compliance via an executive memorandum to all Heads of Contracting Activities within the Agency.

- **Recommendation 4:** Require contracting officers to document in the contract files:

Enclosure

Department of Veterans Affairs (VA) Response to  
Government Accountability Office (GAO) Draft Report  
***“VETERANS AFFAIRS CONTRACTING: Improved Oversight Needed for Certain  
Contractual Arrangements”***  
(GAO-15-581)

- **All factors considered during pre-award reviews to determine whether proposed task order requirements meet VA’s criteria for award to an FFRDC,**
- **How they determined the FFRDC’s proposed pricing was acceptable, and**
- **Any price negotiation.**

**VA Comment:** Concur. OALC will require the inclusion of a memorandum in the file documenting the Acquisition Integrated Product Team meeting; all information used to determine the work is appropriate for an FFRDC; and that a commercial vendor would be appropriate to perform the work. The Price Negotiation Memorandum (PNM) will include an analysis of the level of effort and the mix of labor to perform the tasks being ordered, as well as a comparison of the proposed level of effort and labor mix to the independent Government cost estimate, to determine if the total estimated cost is reasonable. The PNM will also include a discussion of the results of any pre-solicitation conferences including the estimated rough order of magnitude provided by the FFRDC. In the event formal negotiations are conducted, the PNM will document the results of the negotiations.

- **Recommendation 5: Re-assess whether to continue paying a fixed fee on travel costs for FFRDC contracts and task orders.**

**VA Comment:** Concur. The contracting officer will enter into negotiations with the FFRDC with the intent to remove travel from the calculation of fee.

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# Appendix IV: GAO Contact and Staff Acknowledgments

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## GAO Contact

Michele Mackin, (202) 512-4841 or [mackinm@gao.gov](mailto:mackinm@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Lisa Gardner, Assistant Director; Laura Greifner; Janelle House; Julia Kennon; Katherine Lenane; Teague Lyons; Jean McSween; Kenneth Patton; Sylvia Schatz; Roxanna Sun; Eli Yani; and Andrea Yohe made key contributions to this report.

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