CONTINUED OVERSIGHT OF INADEQUATE COST CONTROLS AT THE U.S. DEPARTMENT OF VETERANS AFFAIRS

HEARING

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

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WEDNESDAY, JULY 28, 2010

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10:04 a.m., in Room 334, Cannon House Office Building, Hon. Bob Filner [Chairman of the Committee] presiding.

Present: Representatives Filner, Michaud, Herseth Sandlin, Donnelly, McNerney, Adler, Kirkpatrick, Buyer, Stearns, Boozman, and Roe.

OPENING STATEMENT OF CHAIRMAN FILNER

The CHAIRMAN. Good morning. The Committee on Veterans' Affairs will come to order.

Before we get started, I ask unanimous consent that all Members may have 5 legislative days in which to revise and extend their remarks.

Hearing no objection, so ordered.

The U.S. Department of Veterans Affairs (VA) is the second largest agency in our system of government and each year they are authorized billions of dollars to care for our Nation's veterans.

Miscellaneous obligations, as they are called, are used by the VA to obligate funds in circumstances where the amount to be spent is uncertain. They are used to reduce administrative workload and to facilitate payment for contracted goods and services when quantities and delivery dates are unknown.

In 2008, the Subcommittee on Oversight and Investigations held a hearing to assess the Department's inadequate controls of these funds, shedding light on material weaknesses in VA financial management systems.

Today, we will examine exactly what actions the VA has taken since 2008 to ensure that these financial material weaknesses are corrected and that improvements are being made in its internal financial control reporting.

The Secretary's recent decision to cancel the Integrated Financial Accounting System project effectively eliminates the FLITE Program, that is the Financial and Logistics Integrated Technology Enterprise Program. FLITE was intended to integrate and standardize the agency's financial and asset management processes across all offices of the Department by 2014 at a cost of $570 million.

Though the FLITE Program was not the ultimate end all, VA had parallel efforts under way to fix the material weaknesses.

We are here today to make certain that the process is credible and ensure integrity of that process.

In fiscal year 2009, the VA spent almost $12 billion on miscellaneous obligations, which was doubled from the reported 2007 levels.

The U.S. Government Accountability Office (GAO) reviewed VA's financial reporting system and cited that the Department has made some improvements, but still have not fully addressed the specific control design flaws.

The GAO made four recommendations to the VA to develop and implement policies and procedures intended to improve overall control, including better oversight of miscellaneous obligations; segregation of duties; improved supporting documentation of these obligations; and, oversight mechanisms to ensure control policies and procedures were fully implemented.

We will hear today that the VA is making significant strides in its financial accounting employing policies and procedures to improve the oversight of the miscellaneous obligations and implement GAO's recommendations, but I am anxious to hear from the VA when they plan to fully implement these policies.

Effective oversight and review by trained, qualified officials is a key factor in identifying potential risk for fraud and waste.

It is obvious that without basic controls over these billions of dollars, the VA is at a significant risk of fraud, and effectively designed internal controls would help mitigate those concerns.

As we ensure there is more accountability in miscellaneous obligations, we do not want to infringe on VA's abilities to provide quality care to veterans.

While the VA's mission is to care for those who have sacrificed so much, we must ensure proper use of taxpayer money, and financial accountability.

I will now yield to our Ranking Member, Mr. Buyer.

[The prepared statement of Chairman Filner appears on p. 28.]

OPENING STATEMENT OF HON. STEVE BUYER

Mr. BUYER. Thank you, I appreciate you holding this hearing today, and as you know the Subcommittee on Oversight Investigations has held a number of hearings on cost control over the years.

During the 108th Congress, we held a series of three hearings, both at the Subcommittee and the full Committee level on eliminating the waste, fraud, and abuse, and mismanagement in veterans programs at the VA. Included in these hearings were discussions on the VA's purchase cards, as well as third-party billing.

In July 2008, the Subcommittee on Oversight Investigations followed with another hearing on the use of miscellaneous obligations and the problems that the VA has in accounting for funds spent when using this type of purchasing of products and services.

It remained clear that VA still did not have a means to determine where and how its funds were being spent. All VA could tell the Subcommittee at that time was that it had spent $5.7 billion through miscellaneous obligations and the use of the VA Form 4–1358.

I understand the fixes that VA tried to put in place to reduce this have failed, and now miscellaneous obligations have more than doubled to $12 billion. So we have gone from the $5.7 billion in 2008 to now $12 billion being spent under miscellaneous obligations.

Any business in the private sector would cease to exist I think under those types of conditions.

How does the VA have any confidence that it is not deficient on any given day?

The hearing today is truly timely in light of the VA's recent announcement to our offices that they plan to halt the development of what the Chairman just talked about, our Integrated Financial Accounting System, continuing the lack of adequate controls over the cost of the Department.

I frankly was surprised that the VA would take this step with the supposed blessing of the Office of Management and Budget (OMB), but without any real plan for the future other than to limp along. That is what surprised me most.

I anticipate hearing today what the VA is going to do to rectify the issue, and I am always interested in not only where you were now, but what your over the horizon vision is with regard to these cost controls.

Without a working financial system to track the spending, how can the VA get a grip on their expenditures? It is almost as if the VA is purposefully refusing to integrate transparency into its budget and does not want Congress or the public to know exactly how inefficient its procurement practices are.

If a chief financial officer (CFO) in the private sector didn't use a system to track where the money is going, that person would no longer be the chief financial officer. The government should take the same type of care and precaution when using funds it takes from the Nation's treasury. We should treat these funds as sacred trust and invest them wisely and full accountability is warranted.

By the continuing use of miscellaneous obligations and the overuse of VA Form 4–1358 when making purchases, the VA has absolutely no idea where it is spending its funding, opening itself to a widespread fraud, waste, and abuse that the Chairman referred to, and I think we can better utilize these dollars.

And where is the transparency in government? What is the VA doing in the cost controls when it doesn't even know where the funds are being spent? I think this is unacceptable.

Mr. Chairman, I want to thank you for working with my staff, along with the Subcommittee—your Subcommittee staff on the Acquisition Reform Bill.

In your statement that you just made, you talked about the need for better oversight and its mechanisms, and I think the Acquisition Reform Bill that we are working on puts together the structure and hopefully the internal controls for which you are referring.

I yield back.

The CHAIRMAN. I hope we do that before we adjourn for the year in September.

Mr. BUYER. We have to get it to the Senate.

The CHAIRMAN. All right, I will work with you.

Mr. BUYER. Okay.

The CHAIRMAN. We will keep him in.

If the first panel will please come forward? Ms. Susan Ragland is the Director of Financial Management and Assurance at the U.S. Government Accountability Office, and she is accompanied by Mr. Glenn Slocum, the Assistant Director for Financial Management and Assurance at GAO.

Thank you both for being here today. Your complete written statements will be made part of the record. You will be given 5 minutes for an oral statement.

Ms. Ragland.

STATEMENT OF SUSAN RAGLAND, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; ACCOMPANIED BY GLENN SLOCUM, ASSISTANT DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

STATEMENT OF SUSAN RAGLAND

Ms. RAGLAND. All right.

Thank you Chairman Filner and Members of the Committee. I am pleased to be here to discuss the findings from our work relevant to this hearing on VA's internal controls.

I will discuss our reports on the Veterans Health Administration's (VHA's) use of miscellaneous obligations and VA's plans to correct financial reporting control deficiencies, and I will also provide a brief update on VA's internal inspections in its fiscal year 2009 financial audit report.

Starting with miscellaneous obligations.

In September 2008, we reported that VA policies and procedures were not designed to provide adequate controls over the authorization and use of miscellaneous obligations.

We made four recommendations, and VA developed policies and procedures in these areas in January of 2009.

The first area is oversight by contracting officials. Without control procedures for contracting review and approval, VHA is at risk that procurements do not have the necessary safeguards.

The second area was inadequate segregation of duties. Key duties and responsibilities need to be divided among different people to reduce the risk of error or fraud.

Third, VA's policies and procedures were not sufficiently detailed to require information such as purpose, vendor, and contract number that are needed to document that the obligation was for a legitimate use of Federal funds.

Our fourth area recommended that VA establish an oversight mechanism to ensure that the control policies and procedures are fully and effectively implemented.

VA's Management Quality Assurance Service (MQAS) evaluated compliance with VA's policies and procedures for using miscellaneous obligations, and they found that continuing control problems exist in each of these areas that we identified.

Many miscellaneous obligations were not submitted for the required contracting review and approval, there was inadequate segregation of duties, a lack of supporting documentation, and facilities still needed to institute quarterly reviews of their miscellaneous obligations as VA policies call for.

According to VA officials, VHA facilities are in the process of taking corrective actions to address these recommendations.

Turning to VA's long-standing material weaknesses.

In November of 2009, we reported that VA had three long-standing material weaknesses in internal control over financial reporting.

Financial management oversight has been reported as a material weakness since fiscal year 2005. This includes recording financial data without sufficient review and monitoring.

Financial management system functionality has been reported as a material weakness since fiscal year 2000. That is linked to VA's outdated legacy financial systems and affects VA's ability to prepare and analyze financial information that is timely and reliable.

The third weakness, information technology (IT) security controls, has also been reported since 2000. That includes the need for better controls over access and changes, and as well as for segregation of duties.

While we found that VA had corrective action plans, the plans did not contain detail needed to provide VA officials with assurance that the plans could be effectively implemented in a timely manner on schedule.

A rigorous framework for designing and overseeing these plans and top leadership support will be essential in ensuring the timely resolution of VA's internal control weaknesses.

VA concurred with the three recommendations that we made and said it is taking action to address these.

VA's most recent financial report, fiscal year 2009, again included these three material weaknesses. Furthermore, the timetable for correcting them has slipped.

VA reported in its 2009 performance and accountability report that the financial management oversight weakness will be resolved in 2012, and the IT security controls weakness in 2010; however, in 2008 VA had anticipated that these two weaknesses would have been resolved in 2009.

So in summary, VA's internal inspections and most recent financial audit report indicate that the serious, long-standing deficiencies that we discussed in our 2008 and 2009 reports are continuing.

Effectively addressing the root causes and resolving these issues will require well designed plans and diligent and focused oversight by senior VA officials.

Until VA's management fully addresses our recommendations VA will continue to be at risk of improper payments, waste, and mismanagement.

This concludes my prepared statement. I am pleased to be accompanied by Glenn Slocum, the Assistant Director, who worked on both of these reports, and we are happy to respond to any questions that you may have.

Thank you.

[The prepared statement of Ms. Ragland appears on p. 29.]

The CHAIRMAN. Thank you very much.

Before I call on Mr. Donnelly, if you had to give a grade between your initial report and now what would you give? I am a teacher, so——

Ms. RAGLAND. I guess I would say somewhere C plus or B minus, somewhere in there.

The CHAIRMAN. Sounded like an F to me, but what do I know. Mr. Donnelly, do you have any questions?

Mr. DONNELLY. No questions, Mr. Chairman.

The CHAIRMAN. Mr. McNerney.

Mr. MCNERNEY. Well, thank you, Mr. Chairman.

One of the things that I have heard over and over this morning is the risk. I mean there is a certain risk of fraud, things aren't well controlled, there is going to be opportunity for abuse.

Is there any evidence of actual abuse, or is this just speculative at this point?

Ms. RAGLAND. Well, there has been a combination of factors. Because if you have—on the miscellaneous obligation side—if you are not checking from the contracting review and then you have one person who was able to make all of the decisions about what to purchase and is authorizing that and signing off on that, which is a very basic tenant of internal controls, then that is very risky. And so VA is working to address that, but that would be one area that I would say is a clear risk. And so that would be an important area to fix.

Mr. MCNERNEY. I mean, it seems obvious to me that if there is that level of risk then there is going to be some fraud going on now that is unacceptable. I mean any fraud is unacceptable, but a level that would be scandalous and would reflect badly on the VA and this Committee and the whole bit, so, I mean we need to look into that and find out who those people are, if there are people committing fraud and bring that to light before the press does, before outside activities do.

What steps will require Congressional action as opposed to regulatory action to improve the situation?

Ms. RAGLAND. Well the basic thing that I would say is the continuing oversight. Because one of the things that we see generally is that if there is top level attention to an issue then there is improvement, but it is uneven.

And so progress, even though some of the areas may be declining in terms of non-compliance at that point, it is not just a straight line down, it is uneven, and sometimes it may be coming back up.

And so having the focus and the ongoing attention I think is very important.

Mr. MCNERNEY. Okay. Well, what did the GAO find regarding the extent to which the VA has adequate plans and timetables for fixing them? I mean you mentioned 2012 and 2011. I mean those seem a little bit far off.

Ms. RAGLAND. Yes, sir. Well, what we found was that the corrective action plans that VA had didn't have the necessary information. They didn't have milestones in some cases for specific actions. And we also, as you say, we saw that the plans had slipped.

So one of the things is that for the financial management oversight area, that is going to be 3 years longer than they had said it might be in 2008.

There is also another material weakness that has been added in fiscal year 2009, and there is no timetable yet set that we know of to address that area of compensation, pension, and burial liabilities.

And as Members here have said, it is too soon to tell what the impact of the cancellation of FLITE components will have on VA's ability to fully remediate some of these financial management weaknesses.

Mr. MCNERNEY. Okay. So your written testimony has specific recommendations and guidelines, is that correct?

Ms. RAGLAND. Yes, sir.

Mr. MCNERNEY. So I assume that the Committee is going to make sure that the VA follows up on this.

The CHAIRMAN. Well, they will be on the second panel, so we will be checking with them.

Mr. MCNERNEY. Okay. Oh, that is right. Okay, I yield back.

The CHAIRMAN. Mr. Roe.

Mr. ROE. Thank you, Mr. Chairman.

Just a couple of things. One, a little bit of frustration. Yesterday we hear—I took an amendment to the bill we are going to vote on today to the Rules Committee, and it was to use some unused funds from the FLITE Program to adequately fund the Office of Inspector General (OIG). If you looked at what the OIG returned us last year in oversight and fraud, or I guess it was 2009, it was $38 to $1.

So you are correct, Ms. Ragland, that there were—and I guess the bill was ruled—the amendment was ruled non-germane. But I think we should have increased—used some unused funds to be able to get some accountability and oversight.

What Ranking Member Buyer just said a moment ago about accountability is extremely important. And what are the penalties if you recognize these things?

And I think you ought to set reasonable timelines. I think it is unfair to give an organization as large as the VA, here, by 6 months you have to have it done, but some reasonable timelines to get it done with, and if that doesn't happen what happens to the people who are in charge of this when it doesn't happen?

And then you find out when—for instance in CBOCs (Community-Based Outpatient Clinics) we don't review them but once every 20 years in the VA.

So the question is what happens to those? Who is accountable and what happens to them when we find out these problems exist?

Ms. RAGLAND. Well, I think that is an excellent question.

I know on some of the corrective action plans one of the elements that we called for was to have a person who would be responsible so that you would be able to identify who should you go to to find out what happened and why isn't progress being made on that?

Mr. ROE. Now, I would think when you have a—and obviously $12 billion is a lot of money and it is a lot to look after, but there should be a plan that when this isn't implemented and you don't find it, someone ought to be held accountable and heads ought to roll.

And clearly what Congressman Buyer said in the private sector, that is clearly what happens. People get fired.

Ms. RAGLAND. Yes.

Mr. ROE. Is that what happens here or do we just don't do anything or what do we do?

Mr. SLOCUM. I would just say that OMB circular A–50 addresses this point. You know, one of the things that it talks about is holding people accountable for the remediation of these problems, but we have not looked at the extent to which that is actually has taken place. It is part of a monitoring mechanism that should be there, but we haven't looked at that.

Mr. ROE. And I agree with Congressman McNerney, my colleague, is that it reflects poorly on the VA, which they don't want to be. I mean, I understand that they want to do a good job, and this Committee, if we allow that to happen, and if we come back a year or 2 years from now and the same thing is going on what happens?

Ms. RAGLAND. Yes.

Mr. ROE. Is there any corrective action that can be taken in your recommendation, Ms. Ragland?

Ms. RAGLAND. I think that the only thing that we have is to come back to you all and point that out, that is our role.

Mr. ROE. Okay. Thank you.

I yield back, Mr. Chairman.

The CHAIRMAN. Thank you. Mr. Roe, if you would get that amendment to us I want to track that down. It sounds good to me.

[Congressman Roe provided the Chairman with a copy of the amendment later in the day.]

The CHAIRMAN. Mr. Donnelly.

Mr. DONNELLY. Thank you, Mr. Chairman.

Given the various compliance issues that GAO found and the problems that we have seen and the attempt to fix it, what—do you have a new timeline as to when these problems can get resolved, what we are looking at?

Ms. RAGLAND. We don't have a new timeline. We would look to the VA to set a timeline——

Mr. DONNELLY. Have they given you any information on that?

Ms. RAGLAND. Just the information about the material weaknesses dates. That is the basic information that we have.

Mr. DONNELLY. With various components of FLITE being terminated, what financial management initiatives are being considered instead?

Ms. RAGLAND. That is a question that we would ask VA.

Mr. DONNELLY. And they haven't given you any information?

Ms. RAGLAND. No, we have just seen that they do have initiatives in place that were intended to remediate some of these weaknesses, but we have a question in terms of how fully they will be able to do that without the implementation of FLITE

Mr. DONNELLY. So there is still a whole bunch of information that you need that the VA has not gotten to you at this time?

Ms. RAGLAND. Right. We just got general information.

Mr. DONNELLY. Okay. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Donnelly.

Mr. Stearns.

Mr. STEARNS. Thank you, Mr. Chairman.

Ms. Ragland, you gave this exercise a B minus. Now the report in 2008 was roughly $5.7 billion miscellaneous obligations that were unable to be identified as how they were spent, and now it is $12 billion in 2009. I mean, so it looks like it has jumped twice. So the problem has gotten twice as——

Ms. RAGLAND [continuing]. Twice as big.

Mr. STEARNS. Twice as big. And wouldn't that mean that they flunked? I mean, wouldn't you have to be honest to yourself and say it appears to me that nothing has been done?

I mean if the thing had—if you couldn't get $6 billion and find out where it was spent in 2008 and now it is $12 billion, following this extrapolation it will be $24 billion, $25 billion when you come back here again with your GAO report.

At what point don't you think that they are—how can you say they are passing?

Ms. RAGLAND. Well, you are making a very good point, and really the thinking that I had behind my response was that I do think that VA is making efforts in these areas. And so even though the risk may be——

Mr. STEARNS. So they get a B minus because they are making efforts when it doubles?

Ms. RAGLAND. Well——

Mr. STEARNS. Would you have a student that——

Ms. RAGLAND. They do have the policies and procedures in place, and they are taking actions to monitor them, and that is the information that we got from the Management Quality Assurance Service service—that they are doing inspections and finding these things, which is what we would look for.

Mr. STEARNS. Well, I understand you are being diplomatic.

In reading the summary in your report, you said there are serious long-standing deficiencies we identified that are continuing. So here in 2008–2009 you say these deficiencies—serious long-standing deficiencies are continuing.

Ms. RAGLAND. Yes.

Mr. STEARNS. And that is not very optimistic to me.

And then you went on to say that there are serious weaknesses that continue to raise questions concerning whether VA management has established the appropriate tone at the top necessary to ensure that these matters receive the full, sustained attention.

So in both the statements I gave you it appears that the management is not connecting, that you have identified long-standing deficiencies that continue, and these serious weaknesses raise further questions.

So I think you have done your job, I think you have to be woman enough to say these folks are flunking, and you have to be a little bit more draconian in your statement.

Now let me ask you this question. You mention in your report they have outdated systems. Does the VA have the technological capability to do this? What do you mean by outdated systems?

Mr. SLOCUM. VA's systems sometimes revert to manual processes in order to produce its year-end financial——

Mr. STEARNS. So they haven't used computers, they haven't used the internet, they haven't——

Mr. SLOCUM. No, they do have all that, but some of the reconciliations that they may need to do at year end, they have a MINIX system, which is used to produce their year-end statements. They have——

Mr. STEARNS. They are done manually then?

Mr. SLOCUM. It is not manually, but there is—it is not totally manually, but there are reconciliations that take place that in a better world would be more automated, and it effects their inventory systems at pharmacies, and that is what we are talking about.

Mr. STEARNS. In 2008, did you bring that to their attention with this same statement that they had outdated systems?

Mr. SLOCUM. Well, there are two reports. You know, there is one with miscellaneous obligations, and I think that is the one that——

Mr. STEARNS. Okay.

Mr. SLOCUM [continuing]. Ms. Ragland gave them a B minus on. The other report dealt with a financial reporting control deficiencies, and those with the problems that have been around since 2000 or longer, and maybe there would be a—maybe you would give them a lower grade on that. I am not sure.

Mr. STEARNS. Okay. Well, then the statement says lack of sufficient personnel.

Have you found that the personnel is one of the serious problems that they have? Personnel that either don't have the appropriate knowledge and skills, or they just don't have the personnel?

Ms. RAGLAND. That has been one of the independent public auditor's findings in the financial reports.

Mr. STEARNS. Uh-huh.

Ms. RAGLAND. And that has been over years.

Mr. STEARNS. And was that true in 2008, that same conclusion?

Ms. RAGLAND. I am not positive. I believe so.

Mr. STEARNS. Okay.

Mr. BUYER. Mr. Stearns, would you yield?

Mr. STEARNS. Yes, I would be glad to yield to the Ranking Member.

Mr. BUYER. Based off of the question just asked. Do you believe there would be any value in doing an updated audit of the VA's controls over its contracting?

Ms. RAGLAND. I believe that it would be valuable to look at VA's contracting procedures and the organizational structure.

Mr. STEARNS. Well, I will just close, Mr. Chairman.

You know, this might be something that we would ask the VA, since they have had a continuing long-term problem here, is to maybe subcontract this out so that we get a little bit more efficiency and this problem doesn't continue.

Because, Ms. Ragland, based upon what these reports would indicate, in another year it could be $25 billion in miscellaneous obligation, and we can't have that.

Thank you.

Ms. RAGLAND. Thank you.

The CHAIRMAN. They may subcontract it out under miscellaneous obligations.

Mr. STEARNS. Right.

Mr. BUYER. Mr. Chairman, may I do a followup on that?

The CHAIRMAN. Please.

Mr. BUYER. The reason I asked this question about an audit, this is about the contracting officers. So we are all talking here in almost the nebulous. We are talking about oversight and we are throwing all these words around. These are the contracting officers that are overusing the miscellaneous obligations and they are doing it without sufficient documentation. This is not surgery, I am sorry, doctor. You know, this isn't really complex.

That is why I said every business out there, they have to know how they are spending their money and they have to document it. This isn't hard is it?

I mean, I am just getting annoyed here at the moment.

Ms. RAGLAND. Well, one of the things is that—one of the problems that VA's material weaknesses bring to bear is that they have to take heroic efforts at the end of the year to get the balances to account. And so what that really means is that for the day-to-day management information they need better financial management information to use to manage their programs.

The CHAIRMAN. Mr. Michaud.

Mr. MICHAUD. Thank you very much, Mr. Chairman and Mr. Ranking Member for having this very important hearing this morning. I have a few question.

When you talk about the serious weaknesses that the VA has constantly had it is a big concern that it appears and they are not addressing those weaknesses go all the way back to 2000.

So we have this hearing today, they will say they will do a better job, but we are back here again next year with the same weaknesses that they currently have.

Has the GAO looked at other agencies within the Federal Government? And if so, have other agencies had the similar problems, or are they willing to address it? And what is the root of the problem? Did you look at, for instance, the root of their problem?

I have heard that the U.S. Department of Defense (DoD) has an extensive standardized acquisition training and certification process that individuals involved in procurement and process must complete.

Did you look at that within the VA system? And if so, are they lacking there as well and that is what has caused the root of the problem?

Ms. RAGLAND. Well, we haven't looked at that at VA. I do know that, other agencies have different situations and circumstances, and so we, don't have a comparison across agencies, but other agencies experience similar kinds of internal control problems. And so it is just a question of what pressures or resources can be brought to bear to ensure that VA management does give the attention needed to fix the issues that they face.

For example, the miscellaneous obligations is a tool that VA has used for decades, and if they choose to use that tool then the important focus needs to be put on having the controls that they need to manage appropriately.

Mr. MICHAUD. Now, Mr. Slocum, you had stated in answering Mr. Roe's question about accountability, and you mentioned the A–50 as a way for it to be accountable. Exactly, can you explain what is A–50 and what can we do to make sure that VA is held accountable in those regards as it relates to the A–50?

Mr. SLOCUM. Well, A–50 speaks to setting up a monitoring framework that would begin with having a positive tone at the top for addressing these issues, having a framework to make sure that recommendations are addressed with good corrective action plans, having senior officials in place to monitor the implementation of those plans to make sure that the problems have been addressed and remediated and fixed and having validation activities. And the final thing that is laid out in A–50 is holding people accountable to make sure that this is being done.

Mr. MICHAUD. Thank you.

Once again, Mr. Chairman and Mr. Ranking Member, one of the things that I have been talking with staff about is my concern is the fact that when you look at pharmacy, you look at nursing homes, and look at all the money that we are putting into the VA system, that it be used effectively and efficiently. My concern is that has not been the case.

And we have been discussing with the private sector ways that they have been working, particularly in pharmacy and the nursing home areas, and what we should do in the VA area as well. I'm not asking for an internal review within the VA system, because my concern is we are going to get the same old stuff that we have been getting over and over again, but actually have an outside group look at what is happening internally on a pilot program to see where we might be able actually to do things differently.

We are still in the early discussion stages of that, but I think it is very important that we actually look at the outside as far as have a different set of eyes to look at these issues versus what is happening currently, and that is one of the problems I see we are having here today when you look at some of the recommendations that were made way back in 2000, they are still not being complied with.

Mr. BUYER. Will the gentleman yield?

Mr. MICHAUD. Yes.

Mr. BUYER. We have, the Chairman and I and some others are working on the Acquisition Reform Bill. I think that is a vehicle for us. Why don't we get it to you and put your eyes into it. Because there might be an opportunity here to do what you are seeking.

And Mr. Stearns also had mentioned that, Mr. Chairman, from an outside view. I just throw that out on the table.

The CHAIRMAN. We should work on that before, or after the August recess.

Mr. BUYER. Yeah, during the August recess.

The CHAIRMAN. Where we can look at the acquisition issue. The Secretary has proposed legislation and we have legislation. That will be the time, I think. That is a very good suggestion.

Mr. MICHAUD. I would like to thank the Chairman and Ranking Member as well.

Mr. BUYER. Yeah, we are building the framework and the structure and you are going right to a specific detail, so if you get it to us we can talk to the Administration too and see if it can be part of the bill.

Mr. MICHAUD. Great. Thank you very much.

The CHAIRMAN. Thank you.

Mrs. Kirkpatrick.

Mrs. KIRKPATRICK. Thank you, Mr. Chairman.

You know, it sounds to me like there is just a complete lack of internal checks and balances. And as Mr. Buyer said, you know, any business owner has a standard accounting policy or procurement policy, and so I am trying to just understand.

Is it the lack of policy? Is it the lack of trained personnel or sufficient personnel?

For instance, I am thinking about the Form 4–1358, which you mention and that is used for miscellaneous obligations and you cite some examples of very, very vague language in that form. Is no one reviewing those forms? So is it lack of personnel to actually review those?

The fact that there is not documentation astounds me. How hard is it to attach a vending order or a receipt or something to the form? So could you address that for me, please?

Ms. RAGLAND. Okay. Well, one of the things that we found is that is still the case. And so, part of it is that VA does have policies and procedures, but when you go to look at the implementation, when VA went and looked at the implementation, they found that the policies and procedures weren't being followed in all cases and that people didn't have a good awareness of what they should be doing. That is one of the things that needs better explanation, better communication.

Mrs. KIRKPATRICK. So that sounds like a training issue. So they have personnel, they have policies, but the personnel are not following the policies, and maybe because they don't know what they are.

Ms. RAGLAND. Yes.

Mrs. KIRKPATRICK. So a training component has to be part of this.

Ms. RAGLAND. That is a good point.

Mrs. KIRKPATRICK. Now does the VA have an internal system for auditing that is effective? Or do they just gloss over the problems when they find them?

Mr. SLOCUM. No, VA has these inspections that Ms. Ragland was referring to. They are through an Office of Business Oversight (OBO). And so once the policies and procedures were put in place, the Office of Business Oversight, and within that office there is a Management Quality Assurance Service, (there are three services within that office) and that particular service had done a number of inspections as part of their work. During fiscal year 2009, they went to a number of facilities and found these types of problems.

So they do have that internal mechanism to followup to see if policies and procedures are being implemented, and that is how we know that there has been some progress, but not enough progress.

Mrs. KIRKPATRICK. All right. And so they find that they are not being implemented, but it sort of stops. As you said, there is no accountability in terms of personnel.

Mr. SLOCUM. They found problems with implementation, and then they make recommendations.

And we haven't been able to verify this, but we have received some information that they make recommendations to each of the facilities where these problems have been found, and then the facility is responsible for putting together corrective action plans. The corrective action plans are to address the specific problems that each of the inspections identified. And the OBO tracks when the corrective action plans are coming in and if the facilities are accepting or concurring with the recommendations.

And it seems—from the preliminary information we have gotten—that they have concurred with the recommendations and they are taking actions to address them. The problem is that that just hadn't happened yet, and so those problems are still out there.

Mrs. KIRKPATRICK. Okay. Well, thank you very much for reporting to the Committee.

And Mr. Chairman, I share the sentiment of the other Members of the Committee, this is a serious problem that we really need to stay on top.

Thank you.

The CHAIRMAN. Thank you, Mrs. Kirkpatrick.

Mr. Buyer.

Mr. BUYER. Let me ask a question about the—we are in a decentralized model without controls or accountability to the degree for which we would desire. I mean right now if you look back in the last three or four secretaries, I mean they have since 2000 increased these directives without execution.

So if you moved from a decentralized to a more centralized model in contracting is that something that you would endorse?

Ms. RAGLAND. We haven't done work on that issue. I will say that that is something that the auditor has reported as being one of the root causes is decentralization.

Mr. BUYER. Thank you very much for that answer.

Let me ask about the—with regard to the canceling of the FLITE Program. You want to talk about that a little more, please?

Ms. RAGLAND. Well we——

Mr. BUYER. Let me just say this, I don't have a problem if someone with authority is going to cancel out the program, but tell me what you are going to do to replace it. What is your plan? And I am kind of in the nebula.

Ms. RAGLAND. Well, I think that is a good question, and that is the same question that we have.

We have seen some press releases that FLITE has been canceled. We have very little sketchy information in terms of what the initiatives are that VA has in mind to be able to continue to address the serious problems that exist.

Mr. BUYER. Why do you think the VA's own audits have been showing a continuing disregard for your recommendations?

Ms. RAGLAND. I think that, as I said initially, I think that VA is making some efforts. We have seen a memo from top management on the segregation of duties issue. So I feel that they are making efforts to try to address the recommendations that we have made. I don't think they are there yet, but I do think that they have made some efforts.

Mr. BUYER. But two really big issues. Transparency and the lack of documentation on miscellaneous obligations. You know, a lot of these dollars—I am quite certain, I am confident—I don't know if I should use the word confident—but I feel comfortable that a lot of these dollars are being spent for exactly what they are being spent for. But when you don't have the documentation then it just—right? Opens the VA up to all types of——

Ms. RAGLAND. Right.

Mr. BUYER [continuing]. Allegations.

Ms. RAGLAND. Right.

Mr. BUYER. And then there are the bad apples——

Ms. RAGLAND. Right.

Mr. BUYER [continuing]. Who can then take advantage of that, you know.

Ms. RAGLAND. That is right.

Mr. BUYER. And so bringing in the internal controls, having the transparency is a pretty good thing, wouldn't you agree?

Ms. RAGLAND. Definitely. Definitely agree.

Mr. BUYER. All right.

The CHAIRMAN. Thank you, Mr. Buyer.

I would like to thank the GAO for its efforts and the questions it continues to ask and the reports it gives us.

I would just say as an introduction to the next panel, we have all been polite here and we have a lot of bureaucratic words and processes. I would not underestimate the anger that my colleagues feel on this—on both sides of the aisle.

When an account doubles that was under scrutiny for unaccountability, and other things that GAO has mentioned today, I would not underestimate the sense that we are pretty mad. There has to be some answers. For some of the legislation that is coming forward you might see things that you won't like but that we have to do in order to get some control over this.

Mr. BUYER. Mr. Chairman, may I ask just one quick question?

The CHAIRMAN. I will yield, yes.

Mr. BUYER. There has to be something here. I don't know, I am not getting it.

The miscellaneous obligations, these contracting officers, in other words when the medical director of the medical center, I don't know, they are out of something or they need something, right? Chief of medicine has come to them and said I have to have blah, blah, and I got to have this tomorrow. Great. Go to the contracting officer, get it done, get satisfied. How do they do it quickly? We will just put it under miscellaneous obligations. Right? Fine.

You know, if it makes you do your business—I don't know the details. The VA is going to be up here, they can tell us all that, but there has to be something going on out there in the operations—within operations to have such a doubling of the miscellaneous account.

And we are just asking questions about what is happening out there, how is this happening? And when you don't have these directives being followed, that is why we are all upset.

When you did your review are you finding something out there that is—why did this double like this? What is going on in operations in the medical centers?

Ms. RAGLAND. You know, we haven't done that work so we don't know.

Mr. BUYER. Okay.

Ms. RAGLAND. That is the question that we would like to hear the answer to.

Mr. BUYER. We will ask the next panel then.

All right, thank you.

The CHAIRMAN. Thank you, Mr. Buyer.

Okay, thank you again for your——

Ms. RAGLAND. Thank you.

The CHAIRMAN [continuing]. Contribution today, and we will call the next panel forward.

Joining us from the Department of Veterans Affairs is the Deputy Assistant Secretary for Finance, Mr. Edward Murray, who is accompanied by Paul Kearns, who is the Chief Financial Officer, Fred Downs, the Chief Procurement and Clinical Logistics Officer, and Mr. Jan Frye, the Deputy Assistant Secretary of the Office of Acquisition and Material Management.

We have your written statement, Mr. Murray, and look forward to your oral presentation.

STATEMENT OF EDWARD MURRAY, DEPUTY ASSISTANT SECRETARY FOR FINANCE, U.S. DEPARTMENT OF VETERANS AFFAIRS; ACCOMPANIED BY W. PAUL KEARNS III, FACHE, FHFMA, CPA, CHIEF FINANCIAL OFFICER, VETERANS HEALTH ADMINISTRATION, U.S. DEPARTMENT OF VETERANS AFFAIRS; FREDERICK DOWNS, JR., CHIEF PROCUREMENT AND LOGISTICS OFFICER, VETERANS HEALTH ADMINISTRATION, U.S. DEPARTMENT OF VETERANS AFFAIRS; AND JAN R. FRYE, DEPUTY ASSISTANT SECRETARY FOR ACQUISITION AND LOGISTICS, U.S. DEPARTMENT OF VETERANS AFFAIRS

STATEMENT OF EDWARD MURRAY

Mr. MURRAY. Mr. Chairman, Mr. Ranking Member, and Members of the Committee, thank you for inviting me to appear before you today to discuss what VA has done and plans to do to continue improving its oversight of miscellaneous obligations.

The CHAIRMAN. Is your microphone on? You have to press that button in front of you. It is a first step toward transparency.

Mr. MURRAY. Thank you, sir.

Mr. Chairman, Mr. Ranking Member, and Members of the Committee, thank you for inviting me to appear today to discuss what VA has done and plans to do to continue improving the oversight of miscellaneous obligations. These issues are cross-cutting, corporate issues that affect multiple VA organizations, as reflected in the witnesses invited to appear today.

VA primarily uses two different document types to obligate funds for goods and services; a VA Form 2237, a standard procurement requisition document; and a VA Form 1358, commonly known as a miscellaneous obligation. However, the word miscellaneous can be misleading.

In most cases we can clearly identify the purpose and vendor of these obligations. These obligations are supported by valid requirements.

I will note, however, that Form 1358 does not enforce internal control strictly.

The CHAIRMAN. I don't mean to interrupt, sir, but you said in most cases we can track back. Why is that not in all cases? If everybody has to fill out a form why isn't it in every case? You only said in most.

Mr. MURRAY. In a small number of cases, the supporting documentation cannot be located. We are working on that.

Form 1358 compliance relies heavily on review and oversight to identify a violation and is dependent on field mangers to review the compliance reports and take corrective actions where compliance problems are identified.

To address the two key Form 1358 findings in the Government Accountability Office's September 2008 report, VA has provided new tools for management and staff to use to monitor compliance.

VA has modified its Integrated Funds Distribution Control Point Activity System, known as IFCAP, to distinguish if a transaction originated on a Form 1358 or a Form 2237.

As of September 2009, this data is now sent to VA's financial management system to distinguish between these two types of transactions in our agency financial management system.

VA has developed two new IFCAP reports to help facilities accomplish their oversight responsibilities.

The Segregation of Duties Violations Report is used to ensure appropriate segregation of duties for approval functions involved in using a Form 1358, and an additional Missing Fields Report identifies where the vendor, contract number, or purpose data fields have not been entered.

In January 2009, VA's Office of Finance reissued policy for the use of miscellaneous obligations, including a prohibition against one individual performing more than one approval function.

Our policy also prohibits the use of miscellaneous obligations for other uses unless the head of the contracting authority's approval is obtained.

We are also ensuring that compliance with the policies is applied consistently throughout VA.

VA has established two review programs to mitigate the risks involved with miscellaneous obligations and to ensure adequate oversight and reviews are regularly performed.

The Management Quality Assurance Service, discussed previously, has expanded its site reviews to include miscellaneous obligations. The financial quality assurance managers at each VHA network review a percentage of all VHA station miscellaneous obligations for segregation of duties and documentation purposes.

Due to VA's efforts, current fiscal year 2010 results—and I think you all can see the graph—show an overall trend of substantial improvement since GAO's original report in 2008.

The percentage of completion of required fields on Form 1358 has improved. Segregation of duty violations have decreased, as have instances where miscellaneous obligations that require head of contracting review have not been sent as required.

The management quality assurance reviews in fiscal year 2010 have substantiated improvements in the separation of duty compliance rates.

For fiscal year 2010 to date Management Quality Assurance Service data indicates that 71 percent of sample transactions met the four person separation of duty standard, while 99 percent of sample transactions met the three person separation of duty standard.

In fiscal year 2009, only 49 percent of sample transactions met the four person standard, while 90 percent met the three person standard.

VA is also evaluating modifications to IFCAP, including changes to systematically enforce the segregation of duty requirements and route, where appropriate, miscellaneous obligations to the contracting office.

We are also considering requiring that our IFCAP system uniquely identify the type of obligation. If our IFCAP system uniquely identified the type of obligation we would effectively remove the "miscellaneous" aspect of these obligations.

VA is also taking interim action——

[The prepared statement of Mr. Murray appears on p. 35.]

The CHAIRMAN. So your solution to the problem is you are going change the way you call it, right?

I am going to stop your testimony. Is there anybody from Congressional Relations at VA here?

You know, we put you on a later panel so that maybe you will listen to what happened on panel number one and respond to it, and you are reading the same stuff that we all read.

Why don't you respond to a lot of the questions that our colleagues raised instead of reading this stuff?

The only reporter in the room walked out because he was so bored. You are not telling us anything.

Respond to the anger that I mentioned, respond to the questions that all my colleagues raised that were really good questions. We don't hear anything except that you are going to change now, take the name miscellaneous off the obligations.

We will go to questions, because you know your statement is just not very helpful.

I have a fantasy based on what you said, that the very people who did not fill out the Form 1358 are going to get a bonus because they decreased the excess paper that you are going to have in the VA bureaucracy. That is my fantasy in how you guys work.

Mr. McNerney.

Mr. MCNERNEY. Thank you, Mr. Chairman. Thank you for coming here to testify this morning.

We have heard a lot about the risks, but I don't have any specific instances in front of me of fraud, and that seems very odd to me.

As Mr. Stearns pointed out we have seen an increase from $5 billion to $12 billion in the use of Form 1358. It just seems to me that Form 1358 must be so easy to use that everybody in the VA wants to use it.

I mean is that why people are using it more? Is that why the—it is just easier to use, require, less discipline, less work? Is that what is happening?

Mr. MURRAY. The 1358 Form is used primarily—should be used primarily for non-Federal Acquisition Regulation (FAR) type procurement transactions, such as beneficiary travel, meal tickets, and purchase care under title 38 that do require a FAR-based contract.

Mr. BUYER. You just said should be. We are all getting really annoyed here. Please be responsive to the gentleman's question.

Mr. MURRAY. There are 23 approved uses for that form.

Mr. MCNERNEY. Right.

Mr. MURRAY. They have been vetted. They should only be used for those 23 approved uses.

Mr. MCNERNEY. I mean it just seems that to me that Form 1358 ought to be eliminated and Form 2237 ought to be expanded and used for everything, because look at the situation you are in right now.

I mean if 2237 requires more discipline then that is what people should be using. Do you have a way to respond to that?

Mr. KEARNS. Yes, sir. I think I would respond that we currently have 23 authorized uses for the 1358. Such things as purchase care fee care, particularly in rural areas, beneficiary travel, which Congress recently increased and we are very grateful for, prosthetic supplies, pharmaceuticals. These are all authorized items for the use of a 1358. We know exactly what they are used for.

Mr. MCNERNEY. So then if that is the case then why is there such a ballooning from $5 billion to $12 billion?

Mr. KEARNS. Because it went actually from $6.9 billion in 2007 to $11 billion in 2008, to $12 billion in 2009. We are on track this year to be right at about that same level. The number of transactions have actually decreased. The dollar amount has increased.

We know specifically what it is being used for, each of them. We can give you a detailed report. Like I said, there are certain examples. There are 23 different categories that are authorized.

Mr. MCNERNEY. But I mean, if you know what they are all being used for why is there such a disconnect between what the auditors are saying?

Mr. KEARNS. The auditors are telling you what is documented in the IFCAP system, which is the feeder system. We can then get the information out of the financial system. We know who has been paid for this, we know what it is for. By the OMB categories we categorize that and we can pull it out of the financial system.

It is true what the GAO has said, that the documentation is not 100 percent. We have a long way to go. We have made some improvements, we still have a long way to go. A lot of it requires manual oversight to comply, and we are training our people, reinforcing that, but we do know what the spending is for and we can report that.

The fact that the label is miscellaneous does not mean that we don't know what we are purchasing, and we can report it with transparency.

Mr. MCNERNEY. Well, I mean, that is what I am getting at. If that label is getting us into this problem and it is going to—I mean it could end up in the media or whatever, why don't we correct that by creating a form that is more transparent?

Mr. KEARNS. I think that is what Mr. Murray was referring to. And it is not just to change the name, it is to correctly articulate what we are buying. In other words——

Mr. MCNERNEY. Right, it needs to be more transparent.

Mr. KEARNS [continuing]. Part of these purchases—and we can show—are for fee-basis care. You cannot run those through a contracting officer. We wouldn't be able to respond to the veterans' needs. Part of them are pharmaceuticals, are drugs and supplies for a big item. Part of them are beneficiary travel where we have to pay each veteran when they come for care. The beneficiary travel can't go through a contracting officer.

Mr. MCNERNEY. Now you have recently terminated the Financial and Logistics Integrated Technology Enterprise, is there a better system that is going to be in place that will help track what is missing here?

Mr. MURRAY. What we are doing is making a number of changes to our subsidiary systems. As the Deputy Assistant Secretary for Finance, my office is responsible for internal control. We do our year-end financials working with the auditors, and as such we constantly work within the paradigm of systems and processes we have to make these improvements to be responsive to GAO, our auditors, Deloitte, now Clifton Gunderson, and the OIG. We are constantly looking at things that could improve the state of our financial stewardship of these assets given those tools we have now.

What I am trying to make clear is that we have always had a parallel track to make improvements, these are existing structures and resources.

Mr. MCNERNEY. Well, we are running out of time.

Mr. BUYER. Will the gentleman yield to me for a second?

Mr. MCNERNEY. Yes.

Mr. BUYER. You mentioned in response to his question about the 23 categories on miscellaneous obligations. How much was spent outside of the 23 categories under miscellaneous obligations?

Mr. MURRAY. Based on the fiscal year 2010 audit, the Management Quality Assurance Service sampled 271 transactions at 16 different stations. And I might add, that is a judgmental sample where they looked for suspicious transactions. I think it was one-half of 1 percent of the total revenues that did not receive head of contracting authority approval.

Mr. BUYER. One-half of 1 percent outside of the 23 categories. Okay. How much money are we talking about?

Mr. MURRAY. I have to take that and go back and look.

[The VA subsequently provided the information in the answers to Questions #1 and #2 in the Post-Hearing Questions and Responses for the Record submitted by Congressman Buyer, which appear on p. 55.]

Mr. BUYER. One-half of 1 percent. Is it all right for me to assume that we are talking about one-half of 1 percent of $12 billion? This is like real money, okay?

Mr. MURRAY. I have to be clear here. They did not do what I call a random sample. When the Management Quality Assurance Service looks at these stations and pull samples where they are looking for suspicious activity. Therefore, you can't actually extrapolate the one half of 1 percent to the entire population.

Mr. BUYER. Okay.

Mr. MURRAY [continuing]. Overly high.

Mr. BUYER. Mr. McNerney, I want to thank you for your line of questions, but I want to share with my colleagues, look what we have witnessed here in response to the question so far.

You have VHA responding to the questions. You have the Deputy Assistant Secretary of the Office of Acquisition has not commented yet. And why would he not comment? Because he doesn't have oversight over them.

Therein lies our great challenge, and therein lies what the Administration has given us some proposals on the centralizing so we empower you, sir, with greater authority over the health side of the business, and they are not going to like that, and I understand that. But I think the centralizing of that oversight, Mr. Chairman, is going to be pretty important.

I want to thank Mr. McNerney for yielding to me.

Mr. MCNERNEY. I yield back.

The CHAIRMAN. Mr. Roe.

Mr. ROE. I thank the Chairman. And once again, I appreciate you taking a look at the amendment that we had. The more I have heard today the more I realize that we need to do that.

I looked at the OIG when we were looking at the entire budget of the VA $125 billion, we are talking about .01 percent to return 38 times the amount spent on it, and I see now that the FLITE Program is gone and we are using basically current software and current procedures.

And let me just get down to the real world. I would get a patient sent to me from the VA or for instance in Montana where 85 percent of the mental health is provided outside of a VA system because it is too far to travel. It makes sense to do that. What oversight do you have on those dollars, those fee service dollars being spent? Can you tell us how many they are?

Because what that would do for the VA would be able to tell you how many personnel, for instance, in a more urban area, that you might need to hire where you are short.

Do you have that information?

Mr. KEARNS. Yes, sir, we do.

Mr. ROE. And you tell us—in other words you can tell the VA right now that with certainty that you need—maybe it is psychological help or more psychologists or associate workers or whatever?

Mr. KEARNS. We can tell how much we are spending in your example in Montana for mental health to what providers and how many transactions, you know, how many visits, that type of thing.

The evaluation of whether we would want to put staff in-house to do would be an economic decision, that it may not be cost effective to do it.

In other words, actually going to civilian providers may be the most cost effective way to do it, and also the best for the veterans.

Mr. ROE. No, I agree with that. In some areas in Montana you have to travel 6 to 8 hours maybe by car or something or train or whatever to get to a facility. I agree with that 100 percent.

One of the frustrations that I have had since I have been here is that we in the private world, which I spent my entire life until 2 years ago here, I don't know how hundreds of millions of dollars was spent on this FLITE Program, and $10 billion I think spent on a medical record program with the Department of Defense and the VA and they can't talk to each other. We can't do that in the private world. You go out of business. You just go broke and you are done.

And unfortunately here it seems like we spend millions of dollars or billions of dollars and we don't know where the billions of dollars go. And just the short time I have been here I see this panel after panel. And I guess that is some of the frustration that we have, that I have, is we can't make the same errors and then look back a year from now and say that well, we are doing the same thing over and nobody is accountable for what happened. I guess that is just a bit of frustration I have.

I won't take anymore time, Mr. Chairman, I yield back.

The CHAIRMAN. Thank you.

Mr. Boozman, do you have any questions?

Mr. BOOZMAN. Thank you, Mr. Chairman.

I guess my question is a couple things. First of all, I would like to know how the VA facilities in Arkansas are doing in relation to the GAO report? If we could get that sent to us at some time that would be really helpful.

Mr. KEARNS. We will provide that for the record, sir.

Mr. BOOZMAN. Now, my understanding is—so you have the 1358 Form and then you have these 23 categories that you can use it for. And so is it correct in saying that you should theoretically list those 23 categories with the dollar amounts to each one?

Mr. KEARNS. Yes, sir, we can provide that report.

[The VA subsequently provided the information in the answers to Questions #3 in the Post-Hearing Questions and Responses for the Record submitted by Congressman Buyer, which appears on p. 56.]

Mr. BOOZMAN. Okay. I guess, in the interest of transparency, I guess I don't understand why you are not doing that rather than lumping such a large figure together.

As we try and figure out what is going on as you all do your planning, certainly purchase care is a huge deal, as we try and make these decisions. The travel, we have significantly increased that it is helpful to know.

The first thing I look at in a budget is month to month, you know what has jumped out, what is out of line, and then year to year. But if you don't have that information, and it sounds like you do it, okay?

Mr. KEARNS. We do have it, sir. And I think a summary sheet was provided to the Committee staff. We have the detail that backs that up, probably about a seven-page list for each year that breaks it been line item.

Mr. BOOZMAN. Right. And then our concern is the past that is not accounted for.

Mr. KEARNS. I understand, sir.

Mr. BOOZMAN. You know, which is about you said one-half of 1 percent, and that is about how much? What does that translate to?

Mr. KEARNS. We would have to give you the dollar amount. I don't know that it is——

Mr. BOOZMAN. But you should know that.

Mr. KEARNS. Yes, sir.

Mr. BOOZMAN. And that is a concern that you can't tell us that figure.

So again you do need to break it down, you do need to—like I said, I can't imagine that you couldn't give us that figure, because that is important. So that is kind of where we are at.

And then the other thing is, is that as you follow through, what is your follow through mechanism in the sense that you said, you identified these that you found you are 200 and some odd whatevers that you investigated that were kind of, what happens at that point?

Mr. MURRAY. What happens, sir, is at a facility where the Management Quality Assurance Service does an audit and has findings they produce a set of recommendations. The facility has to concur with the recommendations and they invariably do. They have 30 days to provide an action plan as to how they are going to remediate the findings. If they don't we elevate it up the chain.

We receive a report on how they are going to remediate the problem at that facility. Then we follow up to make sure that it has been remediated and request documentation to show remediation.

Mr. BOOZMAN. So have we ever had to fire anybody or prosecute anybody in the course of this in the last few years?

Mr. MURRAY. Not that I am aware of, sir.

Mr. BOOZMAN. Okay. And that is a problem also. Again, not in the catch you type situation, but we really are talking about a lot of money, and you do have to hold people accountable. And certainly if there are things going on that shouldn't be going on, but the very basic of that is knowing how much money out there is unaccounted for. So again, it is a real concern that you can't give us that figure.

So thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Boozman. We share your frustration.

By the way, if the half percent was based on $12 billion I could give you that figure. Then Mr. Murray says we should not extrapolate. I don't know why you do a sample if you can't extrapolate. What is the point? You may as well do every one. You tell me you took a sample, but I extrapolate from it.

Mr. BOOZMAN. But Mr. Chairman, if you will let me interrupt.

I guess what I want to know is, is that when you do those 23 categories and you have all of that figured out, it is easy to know how many you just subtract. You don't have to extrapolate at all.

The CHAIRMAN. But these guys are all at the Secretary and Assistant Secretary level, and I guess they don't do that.

Mr. Buyer.

Mr. BUYER. You know, Dr. Boozman, I can imagine if you took your CFO or a deputy CFO from Wal-Mart just down the street from you and brought them and had them listen to this today.

You know, it is almost as if there has to be an off the shelf—a private sector off the shelf accountability system. Is there one that you could utilize within the VA, or is our procurement such a mess that you couldn't do that? Jan?

Mr. FRYE. I think we are talking about the financial accountability system here.

Mr. BUYER. Yes.

Mr. FRYE. And that is what this is. And I just want to make sure that we are clear in that this is a financial accountability system, whether it is a 2237 or a 1358, miscellaneous obligation, that can be used to fund a FAR-based contract. And at least half of this $12 billion in revenue is used to fund FAR-based contracts. Those are contracts that are put in place by warranted contracting officers, they just happen to be funded with miscellaneous obligations.

Now, I think we could all argue the point that perhaps we are shooting ourselves in the foot by funding these FAR-based contracts with a miscellaneous obligation vice a 2237, but the reason it was done is because of the financial system that is currently in place.

The financial system at the transaction level was designed around a 1358 some years ago. Again, FLITE was supposed to come in and fix all that. So out of necessity, so to speak, they used this antiquated system, this system that we call an aged system, to fund these FAR-based contracts.

There are some issues that have recently come to light in the way the contracts are funded by the use of the 1358's that we have to look at, but you know, as long as it is a system that has been blessed by the financial community, the contracting community doesn't care how we finance the contracts.

Mr. BUYER. All right, you are the policy guy, okay? I don't care if this is the VA or this is the school board running the local school, you don't have the one person identify, authorize, and obligate. One person. I guess if I had owned my own firm that is what I am going to do, right? I would do that. But we don't do that with the taxpayer's money. We bring transparency to it so people get to know how we make our judgments and how we make decisions and were they the right ones done. It is the ultimate of collusion. It is one person. From a policy standpoint how do we allow that to happen?

I don't have a problem—seriously, I don't have a problem with them if we say we have gone from $5 billion to $12 billion under miscellaneous obligations. You can just throw that out, no, no, that is not what my problem is. My problem is the lack of transparency and the internal controls, and you don't have the ability to identify. My gosh, you know, 25 percent here, you don't even know who the vendor was. I mean from a policy standpoint, Mr. Frye.

Mr. FRYE. Well, I would agree with you, Mr. Buyer, that when a document, a 1358 goes to a contracting officer and the contracting officer obligates that document there are supposed to be fields that are filled out on that 1358. And technically our rules say that it should never even get to the contracting officer if those fields aren't filled out. In some cases they do, and those should be turned around. They shouldn't be used to finance a contract.

But again, I want to emphasize, the majority of those cases I believe are outside of the contractual arena, because as Mr. Kearns pointed out, these 1358's are used to finance contracts, FAR-based contracts, and they are also used to finance things such as fee care for patients, travel, and those types of things.

The CHAIRMAN. But that is the point that we are trying to make. If you don't have all those filled out and if you don't know where they are somebody could be using them for something else, right? You keep saying they are all being used for the right purpose, but we don't have any proof of that.

Mr. FRYE. Well, again, Mr. Chairman, I am not saying they are all being used for the right purpose. I think the GAO report has clearly shown that there are some problems. I am just trying to draw the distinction between those used for contracts and those that aren't used to contracts.

The CHAIRMAN. We understand, and that is the point. You must have accountability for those very kinds of transactions, and it seems to be missing.

Mr. FRYE. Agreed, sir.

Mr. BUYER. We recognize that Congress has sought to be responsive to the American people's demands to provide medical services to your wounded warriors and to do it as efficiently and as quickly and as best we possibly can as a Nation, and more money has been put into that pipeline to do that, and as we stress the system to be responsive we have had an escalation in the fee for service.

Now we recognize that the system is being responsive to the public's demand, but you have to have the internal controls, you have to do that. I mean Congress is going to continue to put more money in, but we have to have these internal controls.

And so as we—that is why this Acquisition Reform Bill, and the Secretary recognizes that, and gentlemen I have spoken with you about this, I think it is timely, it is ripe and it is timely to do this and empower you and to centralize the system.

Mr. Murray, of the 23 categories, would you be able to tell us where the escalation came from?

Mr. MURRAY. We could break it out by facility and by category.

Mr. BUYER. So what is it?

Mr. MURRAY. I would have to get back to you. We would have to do the analysis.

[The VA subsequently provided the information in the answers to Questions #1 and #2 in the Post-Hearing Questions and Responses for the Record submitted by Congressman Filner, which appear on p. 42.]

Mr. BUYER. Has anybody ever looked?

Mr. KEARNS. Yes, sir. I don't have the specific figures here, but the areas would be fee care, pharmaceuticals, beneficiary travel, home oxygen, those types of things that have increased in terms of dollar amounts from 2008 to 2009 to half way through 2010 that we have the data for.

Mr. BUYER. Have you looked at that before?

Mr. KEARNS. Yes. Yes, sir, we have.

Mr. BUYER. So do you remember—the fee for service, was that—tell me what the biggie is?

Mr. KEARNS. That is one of——

Mr. BUYER. The fee for service has to be.

Mr. KEARNS. Fee is one of them, yes, sir.

Mr. BUYER. And the pharmaceutical.

Mr. KEARNS. And beneficiary travel.

Mr. BUYER. And beneficiary travel.

Mr. KEARNS. You know, where we have to——

Mr. BUYER. Yes.

Mr. KEARNS [continuing]. You know, pay mileage.

Mr. BUYER. On to per diems.

Mr. KEARNS. In other words, and it is not practical to run those types of things through a procurement office. I mean, it is not cost effective.

Mr. BUYER. And I don't have a problem with it.

Mr. KEARNS. Yes.

Mr. BUYER. See what I am saying, I don't have a problem with that.

Mr. KEARNS. So we can——

Mr. BUYER. Just document it.

Mr. KEARNS [continuing]. Actually give transparency and report this. It is just that it is—the document that we use is a 1358.

Now we would be probably smarter to call it beneficiary travel, beneficiary travel obligations rather than a miscellaneous obligation, because we know exactly what it is for. The same thing with pharmaceuticals. We know these, it is just that the document that is used is miscellaneous obligation document.

As Mr. Frye said, it was something that was developed years ago and has been part of our system the way it is developed.

Now certainly that can be changed, but as far as transparency and reporting and what it is for we can provide that information.

[The VA subsequently provided the information in the answers to Questions #1 and #2 in the Post-Hearing Questions and Responses for the Record submitted by Congressman Buyer, which appear on p. 55.]

Mr. MCNERNEY. Will the Ranking Member yield?

Mr. BUYER. Yes. Yes.

Mr. MCNERNEY. Part of the problem that I perceive is that there are several fields in this form that either can't be filled out or inherently can't be filled out, or either that or they should be required to fill out.

I mean can we ask you here today to require every form to have all the fields filled out or are you going to be able to tell me that there are some that we just can't fill out because the situation is too specific to the case involved?

Mr. KEARNS. No, sir, I would tell you we will attempt to have them all filled out, but our system right now will process a document without all those fields being filled out. What it does, it then generates an after the fact report of this exception. Locally we have to then go in and review that, and the only way to fix it in the system is to cancel the order and re-issue the order.

So one of our problems right now is the way our automated systems are designed they won't reject the transaction if all those fields aren't filled. That is the ideal that we would like to have.

Mr. MCNERNEY. So you can't right now, if you go back to the office you can't say okay, anyone that fills out a form 1358, we will reject your form if you don't fill out every field? You can't do that today.

Mr. KEARNS. Our system will not allow us. It will report to us after the fact, after it is done. We have report generators that will say you have submitted this document and all the fields aren't filled, or fewer than four people—the separation of duties didn't comply with——

Mr. MCNERNEY. It seems like that ought to be a priority.

I yield back.

Mr. BUYER. You know, it is the Administration that is asking for the contracting authority on the fee for service. You asked us. So we are going to do that so you don't use this form for it.

One of the things we don't realize is, you know, you have a medical center—break this down, bubba-size it. I mean, I am a bubba, okay? If you bubba-size it, you say all right, you have that wounded warrior, you have a particular—sometimes I wish I were a doctor—some medical procedure needs to be done and it is highly technical and they are going to refer it out in the community. You know, sometimes we don't have the internal to say, okay let us look at what is the provider network, what is the TRICARE provider, what is the—you know, the negotiated price? Sometimes we move quickly, we don't even do that, immediately fill out your form, and the particular doc just down the road is going to do it, and he is charging what he wants to charge, and we don't have anybody that then even looks at the contract. You know, 50 percent of them getting looked at.

Mr. Kearns? I mean, so I can understand why you are asking us to say hey we are going to do this fee for service by contract.

Mr. KEARNS. No, the fee care, sir, is specifically authorized.

Now normally the first priority is to make sure we have a quality provider, then it is a cost effective. In other words, cost isn't the first consideration, it is the quality of the provider and the care and the access.

But we look at all of those things in authorizing care to be provided in the civilian community.

Mr. BUYER. All right. Mr. Kearns, I created TRICARE for Life, you don't have to explain that to me. When I created these programs you create these networks. And I agree, you look at quality. But by golly it is quality and its price, and you just don't say we give you a blank check.

Mr. KEARNS. Oh, absolutely, sir, no, I agree with you.

Mr. BUYER. Okay.

Mr. KEARNS. I am saying it is not just price though.

Mr. BUYER. Right, I agree.

The CHAIRMAN. Thank you, Mr. Buyer, and Mr. McNerney for being here. We also thank the panel.

I must say I hope you will report back to the Secretary that we did not find the testimony to be very responsive. You didn't respond to the anger that was up here, you didn't respond to specific questions that our colleagues asked and you didn't give us any real assurance that things are being taken care of. You have a form that may change and you may change the name of the categories.

This was not a good response to the issues, and we are going to pursue them. If we have to have your bosses here to get answers, we are going to do that.

I want you to report back to the Secretary that we did not find your testimony responsive and that we are going to continue to look at this.

This hearing is adjourned.

[Whereupon, at 11:28 a.m., the Committee was adjourned.]

A P P E N D I X

Prepared Statement of Hon. Bob Filner, Chairman, Committee on Veterans' Affairs

Good morning. The U.S. Department of Veterans Affairs is the second largest agency in our system of government; and each year, they are authorized billions of dollars to care for our Nation's veterans.

Miscellaneous obligations are used by the VA to obligate funds in circumstances where the amount to be spent is uncertain. They are used to reduce administrative workload and to facilitate payment for contracted goods and services when quantities and delivery dates are unknown.

In 2008, the Subcommittee on Oversight and Investigations held a hearing to assess the Department's inadequate controls of these funds, shedding light on material weaknesses in VA financial management systems.

Today, we will examine what actions the VA has taken since 2008 to ensure that these financial material weaknesses are corrected and that improvements are being made in its internal financial control reporting.

The Secretary's recent decision to cancel the Integrated Financial Accounting System project effectively eliminates the Financial and Logistics Integrated Technology Enterprise (FLITE) program, which was intended to integrate and standardize the agency's financial and asset management processes across all offices of the Department by 2014 at an estimated cost of $570 million.

Though the FLITE program was not the ultimate end all, VA had parallel efforts under way to fix the material weaknesses. We are here today to make certain that the process is credible and ensure integrity of the process.

In fiscal year 2009, the VA spent almost $12 billion on miscellaneous obligations, up nearly $6 billion from reported fiscal year 2007 levels.

The Government Accountability Office reviewed VA's financial reporting system and cited that the Department has made some improvements, but they still have not fully addressed the specific control design flaws.

The GAO made four recommendations to the VA to develop and implement policies and procedures intended to improve overall control, including: improved oversight of miscellaneous obligations by contracting officials; segregation of duties; improved supporting documentation of miscellaneous obligations; and, oversight mechanisms to ensure control policies and procedures are fully and effectively implemented.

We will hear today that the VA is making significant strides in its financial accounting employing policies and procedures to improve its oversight of miscellaneous obligations and implement GAO's recommendations. However, I am anxious to hear from the VA when they plan to implement these policies.

Effective oversight and review by trained, qualified officials is a key factor in identifying potential risk for fraud and waste.

It is obvious that without basic controls over these billions of dollars in miscellaneous obligations, the VA is at a significant risk of fraud, and effectively designed internal controls would help mitigate these concerns.

As we ensure there is more accountability in miscellaneous obligations, we do not want to infringe on VA's abilities to provide quality care to veterans.

While the VA's mission is to care for those who have sacrificed so much, we must also ensure proper use of taxpayer money, and financial accountability.

Prepared Statement of Susan Ragland, Director, Financial Management and Assurance, U.S. Government Accountability Office

DEPARTMENT OF VETERANS AFFAIRS: Long-standing Weaknesses in Miscellaneous Obligation and Financial Reporting Controls

GAO Highlights

Why GAO Did This Study

In September 2008, GAO reported internal control weaknesses over the Veteran Health Administration's (VHA) use of $6.9 billion in miscellaneous obligations in fiscal year 2007. In November 2009, GAO reported on deficiencies in corrective action plans to remediate financial reporting control deficiencies. This testimony is based on these previous reports that focused on (1) VHA miscellaneous obligation control deficiencies and (2) Department of Veterans Affairs (VA) financial reporting control deficiencies and VA plans to correct them.

For its review of VHA miscellaneous obligations, GAO evaluated VA's policies and procedures and documentation, interviewed cognizant agency officials, and conducted case studies at three VHA medical centers. For its review of financial reporting control deficiencies, GAO evaluated VA financial audit reports from fiscal years 2000 to 2008 and analyzed related corrective action plans.

What GAO Recommends

In its September 2008 report, GAO made four recommendations to improve VA's internal controls over miscellaneous obligations. In its November 2009 report, GAO made three recommendations to improve VA corrective action plans to remediate financial reporting control deficiencies. VA generally concurred with these recommendations and has since reported taking actions to address the recommendations.

What GAO Found

In September 2008, we reported that VHA recorded over $6.9 billion of miscellaneous obligations for the procurement of mission-related goods and services in fiscal year 2007. We also reported that VA policies and procedures were not designed to provide adequate controls over the authorization and use of miscellaneous obligations, placing VA at significant risk of fraud, waste, and abuse. We made four recommendations with respect to (1) oversight by contracting officials, (2) segregation of duties, (3) supporting documentation for the obligation of funds, and (4) oversight mechanisms. In January 2009, VA issued new policies and procedures aimed at addressing the deficiencies identified in GAO's September 2008 report.

In November of 2009, we reported that VA's independent public auditor had identified two of VA's three fiscal year 2008 material weaknesses—in financial management system functionality and IT security controls—every year since fiscal year 2000 and the third—financial management oversight—each year since fiscal year 2005. While VA had corrective action plans in place that intended to result in near-term remediation of its internal control deficiencies, many of these plans did not contain the detail needed to provide VA officials with assurance that the plans could be effectively implemented on schedule. For example, 8 of 13 plans lacked key information about milestones for steps to achieve the corrective action and how VA would validate that the steps taken had actually corrected the deficiency. While VA began to staff a new office responsible for, in part, assisting VA and the three administrations in executing and monitoring corrective action plans, we made three recommendations to improve corrective action plan development and oversight. VA concurred with our recommendations and took some steps to address them.

In fiscal year 2009, VA's own internal VA inspections and financial statement audit determined that the internal control deficiencies identified in our prior reports on miscellaneous obligations and material weaknesses identified in prior financial audits continued to exist. VA conducted 39 inspections, which identified problems with how VHA facilities had implemented VA's new miscellaneous obligation policies and procedures. Similarly, VA's independent auditor reported that VA continued to have material weaknesses in financial management system functionality, IT security controls, and financial management oversight in fiscal year 2009. To the extent that the deficiencies we identified continue, it will be critical that VA have an effective "tone at the top" and mechanisms to monitor corrective actions related to deficient internal controls.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the findings from our prior work that are relevant to the subject of this hearing on VA internal controls. Specifically, I will highlight findings from our reports on (1) Veterans Health Administration's (VHA) use of miscellaneous obligations,[1] and (2) the Department of Veterans Affairs (VA) plans to correct financial reporting control deficiencies. In September 2008, we reported on VHA's use of miscellaneous obligations and identified related control deficiencies.[2] Although the VA developed new policies and procedures in response to our recommendations, recent internal VA inspections indicate that the deficiencies we identified have not yet been corrected. In November 2009, we reported that VA had long-standing financial reporting control deficiencies.[3] These deficiencies continue to be reported by VA's independent public auditor.

My testimony today summarizes findings of these prior two engagements. I will also provide an update regarding the information we have obtained from VA concerning recent internal inspections on the use of miscellaneous obligations and pertinent sections of VA's fiscal year 2009 financial audit report.

For our prior work regarding VHA's use of miscellaneous obligations, we obtained and analyzed a copy of VHA's Integrated Funds Distribution, Control Point Activity, Accounting and Procurement (IFCAP) database of miscellaneous obligations.[4] We also reviewed VA policies and procedures, interviewed financial management and procurement officials, and conducted case studies at three VHA medical centers. For our review of VA corrective actions to remediate financial reporting control deficiencies, we analyzed financial statement audit reports from fiscal years 2000 to 2008, interviewed VA and Office of Inspector General (OIG) officials and VA's independent auditor, and reviewed VA documents and independent auditor work papers. We also analyzed VA corrective action plans to remediate significant deficiencies underlying two of the three financial reporting material weaknesses. Appendixes to our prior reports provide additional details on our scope and methodologies.

We conducted the work for the report on VHA miscellaneous obligations from November 2007 through July 2008, and the work for the report on VHA corrective action plans to remediate financial reporting control deficiencies from November 2008 to November 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audits 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. We also summarize information VA provided us on its actions to address our recommendations in these two reports, as well as pertinent sections from VA's independent public auditor's report on the VA fiscal year 2009 financial statements. Because of the relatively short time between the request to testify and the hearing date, we did not have sufficient time to validate VA's information on the status of actions taken to address our prior recommendations.

Background

VHA provides a broad range of primary and specialized health care, as well as related medical and social support services through a network of more than 1,200 medical facilities. In carrying out its responsibilities, VHA uses "miscellaneous obligations" to obligate (or administratively reserve) estimated funds against appropriations for the procurement of a variety of goods and services when specific quantities

[1] An obligation is a definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States. Payment may be made immediately or in the future.

[2] GAO, *Veterans Health Administration: Improvements Needed in Design of Controls over Miscellaneous Obligations,* GAO–08–976 (Washington, D.C., Sept. 11, 2008).

[3] GAO, *Department of Veterans Affairs: Improvements Needed in Corrective Action Plans to Remediate Financial Reporting Material Weaknesses,* GAO–10–65 (Washington, D.C., Nov. 16, 2009).

[4] IFCAP is used to create miscellaneous obligations at VA and serves as a feeder system for VA's Financial Management System, the department's financial reporting system of record used to generate VA financial statements and other reports.

and time frames are uncertain.[5] According to VA policy,[6] miscellaneous obligations can be used to record estimated obligations to facilitate the procurement of goods and services, such as fee-based medical and nursing services and beneficiary travel.

In fiscal year 2007, VHA recorded over $6.9 billion of miscellaneous obligations for the procurement of mission-related goods and services. According to VHA fiscal year 2007 data, almost $3.8 billion (55.1 percent) of VHA's miscellaneous obligations was for fee-based medical services and another $1.4 billion (20.4 percent) was for drugs and medicines. The remainder funded, among other things, state homes for the care of disabled veterans, transportation of veterans to and from medical centers for treatment, and logistical support and facility maintenance for VHA medical centers nationwide.

Miscellaneous Obligation Control Deficiencies

In September 2008, we reported that VA policies and procedures were not designed to provide adequate controls over the authorization and use of miscellaneous obligations with respect to (1) oversight by contracting officials, (2) segregation of duties, and (3) supporting documentation for the obligation of funds. Collectively, these flaws increased the risk of fraud, waste, and abuse. Our case studies at three medical centers showed, for example, that VA did not have procedures in place to document any review by contracting officials, and none of the 42 obligations we reviewed had such documented approval. Effective oversight and review by trained, qualified officials is a key factor in helping to ensure that funds are used for their intended purposes. Without control procedures to help ensure that contracting personnel review and approve miscellaneous obligations prior to their creation, VHA is at risk that procurements do not have the necessary safeguards. In addition, our analysis of VA data identified 145 miscellaneous obligations, amounting to over $30.2 million, that appeared to have been used in the procurement of such items as passenger vehicles; furniture and fixtures; office equipment; and medical, dental and scientific equipment. VA officials told us, however, that the acquisition of such assets should be done by contracting rather than through miscellaneous obligations.

Our 2008 report also cited inadequate segregation of duties. Federal internal control standards provide that for an effectively designed control system, key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.[7] These controls should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and accepting any acquired assets. In 30 of the 42 obligations reviewed, one official performed two or more of the following functions: requesting, approving, or recording the miscellaneous obligation of funds, or certifying delivery of goods and services and approving payment. In two instances involving employee grievance settlements, one official performed all four of these functions. In 2007, the VA OIG noted a similar problem in its review of alleged mismanagement of funds at the VA Boston Health care System.[8] For example, according to OIG officials, they obtained documents showing that a miscellaneous obligation was used to obligate $200,000. This miscellaneous obligation was requested, approved, and obligated by one fiscal official. The OIG concluded that Chief of the Purchasing and Contracting Section and four other contracting officers executed contract modifications outside the scope of original contracts and the Chief of the Fiscal Service allowed the obligation of $5.4 million in expired funds. In response to the OIG recommendations, VA officials notified contracting officers that the practice of placing money on a miscellaneous obligation for use in a subsequent fiscal year to fund new work was a violation of appropriations law, and that money could no longer be "banked" on a miscellaneous obligation absent a contract to back it up. Similarly, an independent public accountant's July 2007 report found, among other things, that the segregation

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[5] A miscellaneous obligation can be used as a funds control document to commit (reserve) funds that will be obligated under a contract or other legal obligation at a later date. VA Office of Finance Directive, VA Controller Policy MP–4, part V, chapter 3, section A, paragraph 3A.01 states in pertinent part that "it will be noted that in many instances an estimated miscellaneous obligation (VA Form 4–1358) is authorized for use to record estimated monthly obligations to be incurred for activities which are to be specifically authorized during the month by the issuance of individual orders, authorization requests, etc. These documents will be identified by the issuing officer with the pertinent estimated obligation and will be posted by the accounting section to such estimated obligation."

[6] Department of Veterans Affairs, *VA Financial Policies and Procedures, Volume II, Chapter 6—Miscellaneous Obligations* (January 2009).

[7] GAO, Standards for Internal Control in the Federal Government, (Washington, D.C.: November 1999).

[8] Department of Veterans Affairs, Office of Inspector General, *Audit of Alleged Mismanagement of Government Funds at the VA Boston Healthcare System,* Report No 06–00931 (Washington, D.C.: May 31, 2007).

of duties for VA's miscellaneous obligation process was inadequate.[9] Without the proper segregation of duties, risk of errors, improper transactions, and fraud increases.

Our 2008 case studies also identified a lack of adequate supporting documentation at the three medical centers we visited. Specifically, VA policies and procedures were not sufficiently detailed to require the type of information needed such as purpose, vendor, and contract number that would provide crucial supporting documentation for the obligation. In 8 of 42 instances, we could not determine the nature, timing, or the extent of the goods or services being procured from the description in the purpose field. As a result, we could not confirm that the miscellaneous obligations were for bona fide needs or that the invoices reflected a legitimate use of Federal funds.

Our report concluded that without basic controls in place over billions of dollars in miscellaneous obligations, VA is at significant risk of fraud, waste, and abuse. In the absence of effectively designed key funds and acquisition controls, VA has limited assurance that its use of miscellaneous obligations is kept to a minimum, for bona fide needs, and in the correct amounts. We made four recommendations, concerning review by contracting officials, segregation of duties, supporting documentation, and oversight mechanisms. These recommendations aimed at reducing the risks associated with the use of miscellaneous obligations.

In response to our recommendations, in January of 2009, VA issued Volume II, Chapter 6, of VA Financial Policies and Procedures—Miscellaneous Obligations, which outlines detailed policies and procedures aimed at addressing control deficiencies identified in our September 2008 report. Key aspects of the policies and procedures VA developed in response to our four recommendations included:

- Review of miscellaneous obligations by contracting officials—The request and approval of miscellaneous obligations are to be reviewed by contracting officials, and the contracting reviews are to be documented.[10]
- Segregation of duties—No one official is to perform more than one of the following key functions: requesting the miscellaneous obligation; approving the miscellaneous obligation; recording the obligation of funds; or certifying the delivery of goods and services or approving payment.
- Supporting documentation for miscellaneous obligations—New procedures require providing the purpose, vendor, and contract number fields before processing obligation transactions, including specific references, the period of performance, and the vendor name and address.[11]
- Oversight mechanism to ensure control policies and procedures are fully and effectively implemented—Each facility is now responsible for performing independent quarterly oversight reviews of the authorization and use of miscellaneous obligations. Further, the results of the independent reviews are to be documented and recommendations tracked by facility officials. The policies and procedures also note that the Office of Financial Policy is to conduct quarterly reviews of VA miscellaneous obligation usage to ensure compliance with the new requirements.

Recent VA Inspections Identify Continuing Control Problems

As part of its fiscal year 2009 review activities, VA's Office of Business Oversight (OBO)[12] Management Quality Assurance Service (MQAS) evaluated VA compliance with new VA policies and procedures concerning the use of miscellaneous obliga-

[9] Grant Thornton, *Department of Veterans Affairs, OMB Circular A–123, Appendix A—Findings and Recommendations Report (Procurement Management)* (July 18, 2007).

[10] Review is required except for those miscellaneous obligations used for previously approved purposes listed on an Exception List attached to the new policies and procedures.

[11] The vendor name and address must be provided, except in the case of multiple vendors; and the contract number must be included on the miscellaneous obligation document.

[12] The OBO, created in February 2004, consolidated VA review organizations and functions that once existed across the department. The OBO has a Director's Office, located in Washington, D.C., and three supporting services located in Austin, Texas: (1) the Management Quality Assurance Service (MQAS), (2) the Systems Quality Assurance Service (SQAS), and (3) the Internal Controls Service (ICS). The MQAS has oversight responsibility, under the purview of the Assistant Secretary for Management, to ensure VA officials comply with laws, policies, and directions from OMB, the Treasury, GAO, and the Congress. MQAS is to perform quality assurance oversight for the financial, capital asset management, contracting, logistics, and inventory operations. The SQAS serves as the primary office for managing and overseeing the independent verification and validation of internal control areas for financial and interfacing automated information systems within VA. The ICS is to plan and conduct departmentwide reviews of internal controls over financial reporting and departmentwide financial management system reviews. This includes testing internal controls over financial reporting, which forms the basis for VA's annual statement of assurance on the effectiveness of internal controls.

tions—*Financial Policies and Procedures, Volume II, Chapter 6, Miscellaneous Obligations.* According to its executive summary report, the MQAS reviewed 476 miscellaneous obligations at 39 different medical centers, health care systems, and regional offices in fiscal year 2009. The MQAS found 379 instances of noncompliance with the new policies and procedures. Examples include:

- Inadequate oversight of miscellaneous obligations by contracting officials—Many miscellaneous obligations were not submitted for the required approval by the Head of Contracting Activity. Further, some miscellaneous obligation were used for invalid purposes, including employee tuition, utilities, general post, lab tests, and blood products.
- Segregation of duties—Many miscellaneous obligations had inadequate segregation of duties concerning the requesting, approving, and recording of miscellaneous obligations, and the certifying receipt of goods and services and approving payment. For example, the MQAS identified 48 instances where two individuals performed all four of these functions.
- Supporting documentation for miscellaneous obligations—Some miscellaneous obligations also lacked adequate supporting documentation concerning the vendor name, performance period, and the contract number.

These noncompliance issues were similar to those we identified in our September 2008 report on VHA miscellaneous obligations.

Overall, MQAS found that there was a lack of timely dissemination of the new miscellaneous obligation policy, and issued 34 recommendations to VA facility officials. Fiscal year 2010 facility-level recommendations included the need to develop standard operating procedures for implementing the policy, to provide training for new accounting personnel, to require documentation establishing segregation of duties, and to institute facility-level quarterly reviews. According to the MQAS Associate Director, VHA facilities are in the process of taking corrective actions to address the MQAS recommendations.

VA Has Had Long-standing Material Weaknesses in Financial Reporting

In November of 2009, we reported that VA had three long-outstanding material weaknesses [13] in internal control over financial reporting identified during VA's annual financial audits.[14]

- Financial management oversight—reported as a material weaknesses since fiscal year 2005. This issue was also identified as a significant deficiency [15] in fiscal years 2000 through 2004. This weakness stemmed from a variety of control deficiencies, including the recording of financial data without sufficient review and monitoring, a lack of sufficient human resources with the appropriate skills, and a lack of capacity to effectively process a significant volume of transactions.
- Financial management system functionality—reported since fiscal year 2000—is linked to VA's outdated legacy financial systems affecting VA's ability to prepare, process, and analyze financial information that is timely, reliable, and consistent. Legacy system deficiencies necessitated significant manual processing of financial data and a large number of adjustments to the balances in the system.
- IT security controls—also reported since fiscal year 2000—resulted from the lack of effective implementation and enforcement of an agencywide information security program. Security weaknesses were identified in the areas of access control, segregation of duties, change control, and service continuity.

We also found that while VA had corrective action plans in place intended to result in near-term remediation of its significant deficiencies, many corrective action plans did not contain the detail needed to provide VA officials with assurance that the plans could be effectively implemented on schedule. Eight of the 13 plans we reviewed lacked key information regarding milestones for completion of specific ac-

[13] A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

[14] GAO, *Department of Veterans Affairs: Improvements Needed in Corrective Action Plans to Remediate Financial Reporting Material Weaknesses,* GAO–10–65 (Washington, D.C.: Nov. 16, 2009).

[15] A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

tion steps and/or validation activities. Consequently, VA managers could not readily identify and address slippage in remediation activities, exposing VA to continued risk of errors in financial information and reporting. VA recognized the need to better oversee and coordinate agencywide oversight activities for financial reporting material weaknesses, and began to staff a new office responsible for, in part, assisting VA and the three administrations and staff offices in executing and monitoring corrective actions plans. Our report concluded that actions to provide a rigorous framework for the design and oversight of corrective action plans will be essential to ensuring the timely remediation of VA's internal control weaknesses, and that continued support from senior VA officials and administration CFOs would be critical to ensure that key corrective actions are developed and implemented on schedule. We made three recommendations to help improve corrective action plan development and oversight. VA concurred with the recommendations and said that it took some actions to address the recommendations, including developing a manual with guidance on corrective action planning and monitoring, creating a corrective action plan repository, and establishing a Senior Assessment Team of senior VA officials as the coordinating body for corrective action planning, monitoring, reporting, and validation of deficiencies identified during financial audits.

Recent VA Financial Reporting Indicates Continuing Material Weaknesses

VA's independent auditor fiscal year 2009 financial audit report included the three material weaknesses that have been reported as deficiencies since 2000. In addition, it also included a new material weakness concerning compensation, pension, and burial liabilities.[16] Furthermore, VA's reporting indicated remediation timetables for the previously reported material weaknesses appear to be slipping. In the fiscal year *2009 Performance and Accountability Report,* VA officials noted that in fiscal year 2009 they had closed 10 of the underlying significant deficiencies reported in fiscal year 2008, but that their timetables had slipped for remediating the IT security controls and financial management oversight material weaknesses to 2010 and 2012, respectively.[17] In addition, milestones for remediating the new material weakness—compensation, pension, and burial liabilities—had yet to be determined.

According to the independent auditor, the causes for the fiscal year 2009 material weaknesses related to

- outdated systems,
- challenges to implement security policies and procedures,
- a lack of sufficient personnel with the appropriate knowledge and skills,
- a significant volume of transactions, and
- decentralization.

These findings are consistent with those we identified in our 2009 report and are all long-standing issues at the VA. The auditor noted that VA did not consistently monitor, identify, and detect control deficiencies. The auditor recommended that VA assess the resource and control challenges associated with operating in a highly decentralized accounting function, and develop an immediate interim review and monitoring plan to detect and resolve deficiencies.

In summary, while we have not independently validated the status of VA's actions to address our 2008 and 2009 reports' findings concerning VA's controls over miscellaneous obligations and financial reporting, VA's recent inspections and financial audit report indicate that the serious, long-standing deficiencies we identified are continuing. Effective remediation will require well-designed plans and diligent and focused oversight by senior VA officials. Further, the extent to which such serious weaknesses continue raises questions concerning whether VA management has established an appropriate "tone at the top" necessary to ensure that these matters receive the full, sustained attention needed to bring about their full and effective resolution. Until VA's management fully addresses our previous recommendations, VA will continue to be at risk of improper payments, waste, and mismanagement.

Mr. Chairman, this concludes my prepared statement. I would be happy to respond to any questions you or other Members of the Committee may have at this time.

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[16] Department of Veterans Affairs, *Department of Veterans Affairs Fiscal Year 2009 Performance and Accountability Report,* (Washington, D.C, Nov. 16, 2009).

[17] In its fiscal year *2008 Performance and Accountability Report,* VA reported that it planned to remediate the IT security controls and financial management oversight material weaknesses in 2009.

GAO Contact and Staff Acknowledgments

For further information about this testimony, please contact Susan Ragland, Director, Financial Management and Assurance at (202) 512–9095, or raglands@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. Major contributors to this testimony included Glenn Slocum, Assistant Director; Richard Cambosos; Debra Cottrell; Daniel Egan; Patrick Frey; W. Stephen Lowrey; David Ramirez; Robert Sharpe; and George Warnock.

Prepared Statement of Edward Murray, Deputy Assistant Secretary for Finance, U.S. Department of Veterans Affairs

Mr. Chairman, Mr. Ranking Member, and Members of the Committee, thank you for inviting me to appear before you today to discuss what VA has done and plans to do to continue improving its oversight of miscellaneous obligations. Today, I will discuss what we use currently to obligate VA funds, the policies that apply to use of miscellaneous obligations, and the ongoing work to improve accountability of the miscellaneous obligations process. As the Committee knows, these issues are cross-cutting, corporate issues that affect multiple VA organizations, as reflected in the witnesses invited to appear today. I am pleased to be accompanied today by Mr. Fred Downs, Chief Procurement and Logistics Officer, and Mr. Paul Kearns, Chief Financial Officer, both of the Veterans Health Administration (VHA); and Mr. Jan Frye, Deputy Assistant Secretary for Acquisition and Logistics.

Overview of Documents Used to Obligate Funds

VA primarily uses two different document types to obligate funding for goods and services: a VA Form 2237, a standard procurement requisition document; and a VA Form 1358, commonly known as a "miscellaneous obligation." However, the word "miscellaneous" can be misleading. In most cases, we clearly know the source of the actions using these obligation documents. They are usually for a specific purpose and apply to a specific vendor. These are not arbitrary obligations being created in the financial system; VA acts based on validated requirements.

I will note, however, that the process to execute a Form 1358 is generally considered less stringent than using Form 2237. The procedures for using Form 1358 do not apply as rigorous and proactive internal controls as strictly as those used with Form 2237. Thus, Form 1358 compliance must rely on data to track violations, reports based on those data, and the willingness of managers to review them. Recent policy changes have strengthened internal controls used with Form 1358.

Status of Corrective Actions

The Government Accountability Office's September 2008 report (GAO–08–976) identified two key findings about Form 1358. They were inadequate segregation of duties, and insufficient documentation of approval by contracting officials. To address these findings VA has strengthened policies and procedures, and provided new tools for management and staff use.

VA has modified its Integrated Funds Distribution Control Point Activity (IFCAP) system to identify whether a given purchasing transaction uses Form 1358 or Form 2237. As of September 2009, these data are now sent to VA's Financial Management System (FMS) to distinguish between these two types of transactions. This new capability identifies transactions originated on a Form 1358 and helps VA monitor the use of this form.

To assist field activities with monitoring compliance with policy, VA has developed two new IFCAP reports to help facilities accomplish their oversight responsibilities:

- A Segregation of Duties Violations Report is available for management in order to ensure appropriate segregation of duties between the approval functions involved in using a Form 1358, as described below; and
- An additional report identifies fields (vendor, contract number, purpose) that have not been completed as required.

With respect to segregation of duties, in January 2009, VA's Chief Financial Officer's Office of Finance reissued policy for use of miscellaneous obligations,[1] including a prohibition of any individual performing more than one of the following key approval functions:

- Requesting the miscellaneous obligation.
- Approving the miscellaneous obligation.
- Recording the obligation of funds.
- Certifying delivery of goods or services and approving payment.

This policy also requires the originating office obtain contracting approval for a miscellaneous obligation that is outside the narrow list of approved uses for Form 1358, and VHA updated their guidance accordingly. This policy clearly specifies that a miscellaneous obligation shall not be used unless the Head of Contracting Activity (HCA) has determined that a purchase order or contract is specifically not required, or the obligation is for a specifically defined purpose determined to be acceptable for this type of obligation. However, because Form 1358 is not generated by a contracting official, the HCAs have no knowledge when such a document is being used. Currently, they must rely on the offices creating the document to determine if the Form 1358 is to be used for other than predetermined purposes and HCA approval is required.

We have prohibited the use of miscellaneous obligations for other uses, and we are certain the policies are clear.

Policy Adherence and Enforcement

Although we are certain VA's policies are clear, we must take the needed steps to assure that compliance with the policies is applied consistently throughout VA. In FY 2009, the Management Quality Assurance Service (MQAS) reviewed 476 individual miscellaneous obligations processed at 39 field stations and found 51 percent of the actions did not comply with the segregation of duties requirement set forth in VA policy.

In addition, because VA systems are aging, it is difficult to modify them to automate and enforce internal controls on segregation of duties requirements. VA has already completed the analysis and identified the system requirements necessary to affect needed changes and is aggressively pursuing the modification of IFCAP to eliminate this shortfall.

VA has and will continue to address these through technological changes as well as enforcement practices such as the Secretary of Veterans' Affairs recent mandate, described further below.

System Changes

These changes include modifying IFCAP to enforce systematically the segregation of duties, verifying that a system user has only one distinct role in each key action required to process a miscellaneous obligation. Changes will also require data elements such as Purpose, Vendor, and Contract Number to be documented on all miscellaneous obligations. The IFCAP system will also be modified to route any miscellaneous obligations to the contracting office for determination of proper use if other than those pre-approved.

We are also considering a programming change that would provide a "drop down" menu of the allowable exceptions for using a miscellaneous obligation, as detailed in VA policies, requiring an entry that would specifically identify the type of miscellaneous obligation. This change is important as it would essentially remove the "miscellaneous" aspect of these obligations and provide for easier reporting of obligations by category.

In August 2009, we implemented a change in our systems to clearly flag miscellaneous obligations that are processed for later review or tabulation. This important change allows us to target our review of these transactions, determine total spend, and enhances oversight by identifying miscellaneous obligation transactions in our core financial system.

Until VA policies on segregation of duties and adequacy of documentation can be fully enforced by computer programming changes, VA has taken other measures to mitigate the risks involved with miscellaneous obligations and to ensure that adequate oversight and reviews are regularly performed.

[1] VA Financial Policies and Procedures, Volume II, Chapter 6, "Miscellaneous Obligations."

Risk Mitigation and Oversight

VA has established two review programs to mitigate the risks involved with miscellaneous obligations and to ensure adequate oversight and reviews are regularly performed:

1. MQAS has expanded their site visit reviews to include a review of miscellaneous obligations; and
2. VHA's Financial Quality Assurance Managers at each network review a percentage of all VHA stations miscellaneous obligations for segregation of duties and documentation of purpose, vendor, and contract number.

Both of these activities will continue for the indefinite future.

Current Trends

Current FY 2010 Year To Date (YTD) results from MQAS reviews show an overall trend of substantial improvement over the initial GAO findings in FY 2008. For example:

- In FY 2010 YTD, 4 percent of 1358s did not have the purpose field completed compared to 19 percent in FY 2008.
- In FY 2010 YTD, 13 percent of 1358s did not have the vendor field completed compared to 48 percent in FY 2008.
- In FY 2010 YTD, 10 percent of 1358s did not have the contract field completed compared to 38 percent in FY 2008.

Segregation of Duties violations continue to decrease. In FY 2008 the percentage was 71 percent; in FY 2009 it dropped to 51 percent; and in FY 2010 YTD, it has continued to decrease to 29 percent.

For FY 2010 YTD, miscellaneous obligations that require but were not submitted for HCA review show a continued decrease. For FY 2010, MQAS has reviewed 271 miscellaneous obligation actions. Of those, 257 were an authorized use of the Form 1358 instrument and did not require HCA review. The remaining 14 were required to have such review, and of these, 7 forms (50 percent) were not appropriately reviewed by contracting. By comparison, in FY 2008 the percentage was 100 percent not properly reviewed; in FY 2009 it dropped to 84 percent—so these FY 2010 YTD results demonstrate a continued improvement in compliance with policy.

These results demonstrate that VA's efforts to date have resulted in an overall improvement of the situation from the 2008 GAO review.

Additional Efforts

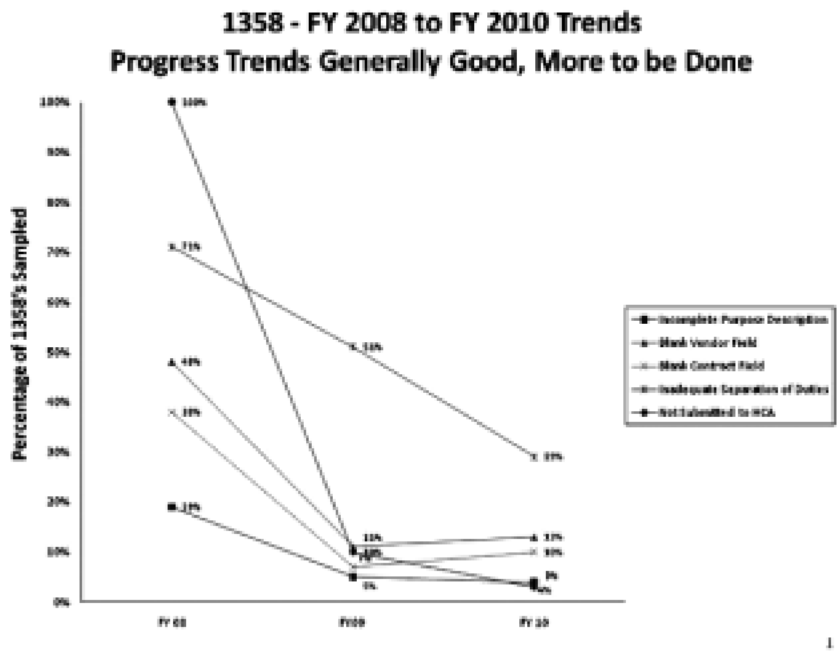
Recognizing that efforts to date were not improving the situation quickly enough, VA is taking interim action to strengthen oversight of the segregation of duties requirement. On June 29, 2010, the Secretary of Veterans Affairs mandated that facility directors certify quarterly that their facility meets the four levels for segregating duties (described above) as defined by VA policy. For the quarter ending September 30, 2010, and every quarter thereafter, each facility director will be required to verify that the four functions have been separated.

The Information Security Officer is also required to certify the report. As a result of the Secretary's certification mandate, VA is currently enhancing its miscellaneous obligations policies[2] to provide facilities with guidance for implementation, to ensure that the quarterly certification requirements are met and reported timely. We expect this policy will be completed in August, 2010. Concurrently, VA's MQAS and VHA's Financial Quality Assurance Managers will continue to review miscellaneous obligations to measure field facilities' compliance with policy. The Secretary of Veterans Affairs also directed that a long-term plan be developed by September 1, 2010, to provide a longer-term IFCAP system solution, requiring the software changes (discussed previously) necessary to enforce the segregation of duties and other findings. The Office of Information and Technology will lead this effort, collaborating closely with VHA, VA's Chief Financial Officer, and the Office of Acquisition, Logistics, and Construction.

Mr. Chairman and Members of the Committee, VA has made significant policy changes to address the concerns you have raised about our use and oversight of miscellaneous obligations. VA has tightened requirements to enforce segregation of duties and to ensure proper review of Form 1358. New reports and data are available to help managers conduct the proper oversight, and the Secretary's mandate requires them to exercise this oversight quarterly and certify the results for every facility. VA will continue to pursue technological solutions as well, but I am pleased to report that VA has made significant improvements, as recent data show.

[2] VA Financial Policies and Procedures, *ibid.*

Thank you for the opportunity to share this report of VA's progress in this area. This concludes my statement. I would be pleased to answer any questions you may have.



MATERIAL SUBMITTED FOR THE RECORD

Committee on Veterans' Affairs
Washington, DC.
July 29, 2010

Gene L. Dodaro
Acting Comptroller General
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Gene:

In reference to our Full Committee hearing entitled "Continued Oversight of Inadequate Cost Controls at the U.S. Department of Veterans Affairs" on July 28, 2010, I would appreciate it if you could answer the enclosed hearing questions by the close of business on September 10, 2010.

In an effort to reduce printing costs, the Committee on Veterans' Affairs, in cooperation with the Joint Committee on Printing, is implementing some formatting changes for materials for all full Committee and Subcommittee hearings. Therefore, it would be appreciated if you could provide your answers consecutively and single-spaced. In addition, please restate the question in its entirety before the answer.

Due to the delay in receiving mail, please provide your response to Debbie Smith by fax at 202–225–2034. If you have any questions, please call 202–225–9756.

Sincerely,

BOB FILNER
Chairman

MH:ds

United States Government Accountability Office
Washington, DC.
September 9, 2010

The Honorable Bob Filner
Chairman
House Committee on Veterans' Affairs
335 Cannon House Office Building
Washington, DC 20515

Dear Chairman Filner:

As requested in your letter of July 29, 2010, enclosed are responses to follow-up questions from your committee's hearing, "Continued Oversight of Inadequate Cost Controls at the U.S. Department of Veterans Affairs" held July 28, 2010. As noted in our testimony before your committee, and in the enclosed responses, the Department has not yet remediated its financial reporting and internal control weaknesses. Until VA fully addresses our recommendations in this area, it will not have the quality financial information managers need on a day-to-day basis, and VA's use of miscellaneous obligations will be at an increased risk of improper payments and mismanagement.

Thank you for your continued interest in these matters. We will continue to follow up on VA's actions to implement our recommendations. Please contact me at (202) 512–8486 or raglands@gao.gov if you have questions or if I can be of further assistance.

Sincerely yours,

Susan Ragland
Director, Financial Management and Assurance

Enclosure

cc: Brian Mullins

Question 1: Please explain why VA has a clean financial statement yet they have four material weaknesses?

Response: In fiscal year 2009, VA received a clean opinion on its financial statements, signifying that they were fairly presented in all material respects. Although VA's financial statements were fairly presented, VA still had serious problems in its ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles. Such problems can at times necessitate near "heroic" efforts to get financial statements to a "clean" condition. Furthermore, until these weaknesses are corrected, VA officials will not have the quality financial information they need on a day-to-day basis—the end goal of the Chief Financial Officer's Act (CFO Act) of 1990. [1]

Question 2: In November 2009, GAO reported that VA had long-standing financial reporting control deficiencies. These deficiencies continue to be reported by VA's independent public auditor. Why do you think these deficiencies continue?

Response: VA's serious, long-standing material weaknesses in financial reporting, that significantly increase the risk of misstatements in financial information reported to Congress and used by VA to manage its operations, are at times the result of a combination of outdated systems and a lack of mechanisms in place to consistently monitor, identify and detect control deficiencies. Furthermore, the extent to which these serious weaknesses continue raises questions concerning whether VA management has established an appropriate "tone at the top" necessary to ensure that these matters receive the full, sustained attention needed to bring about their full and effective resolution. Remediation of these material weaknesses will require a rigorous framework and a sustained commitment to the design and oversight of corrective action plans, including continued support and oversight from senior VA officials and administration CFOs. The VA framework should (1) include a periodic analysis of audit recommendations and corrective action to determine trends and system-wide problems, (2) assure that performance appraisals of appropriate officials reflect their effectiveness in resolving and implementing audit recommendations, and (3) provide for an evaluation of VA's audit follow-up system.

Question 3: In your testimony, you state that in the absence of effectively designed key funds and acquisition controls, VA has limited assurance that its use of miscellaneous obligations is kept to a minimum, for bona fide needs, and in the correct amounts. Should this be a concern for VA?

Response: Yes. According to VA policy, [2] except for specifically delineated purposes, miscellaneous obligations should not be used as an obligation control document unless the Head of Contracting Activity has determined that a purchase order or contract is not required. In fiscal year 2007, VA recorded nearly $9.8 billion in miscellaneous obligations (with $6.9 billion recorded by VHA). Also, VA policies and procedures were not designed to provide adequate controls over the authorization and use of miscellaneous obligations. In particular, we identified deficiencies in oversight by contracting officials, segregation of duties, and supporting documentation for the obligation of funds. Taken together, these miscellaneous obligation control deficiencies increase the risk of fraud, waste and abuse. In fiscal year 2009, according to documents provided by VA to GAO, VA increased its use of miscellaneous obligations to nearly $12.5 billion. Meanwhile, inspections by the VA Office of Business Oversight Management Quality Assurance Service that year showed that internal control deficiencies continued. Until VA's management fully addresses our recommendations, VA use of miscellaneous obligations will be at increased risk of improper payments, waste, and mismanagement.

Question 3(a): What are the real world consequences that can adversely impact VA if these effectively designed key fund and acquisition controls remain absent?

Response: The problems with inadequate review by contracting officials, segregation of duties, and documentation identified in our 2008 report and confirmed by the recent VA inspections can have real world consequences. For example,

- Without control procedures to help ensure that contracting personnel review and approve miscellaneous obligations prior to their creation, VHA will be unable to ensure that all procurements are competitively priced and that VA gets the best value for its money. For example, in one case study at the VA Pittsburgh Medical Center, we found 12 miscellaneous obligations, totaling about

[1] Pub. L. No. 101–576, 104 Stat. 2838 (Nov. 15, 1990).
[2] Department of Veterans Affairs, *VA Financial Policies and Procedures, Volume II, Chapter 6—Miscellaneous Obligations,* (Washington, D.C.: January 2009).

$673,000, used to pay for laboratory services provided by the University of Pittsburgh Medical Center (UPMC), which should have been procured through purchase orders backed by reviewed and competitively awarded contracts. The Chief of Acquisition and Materiel Management for the VA Pittsburgh Medical Center stated that she was not aware of the UPMC laboratory testing service procurements and would review these testing services to determine whether a contract should be established for these procurements. Subsequent to our review, VA changed its policies and procedures in January 2009 to require officials to procure laboratory testing services through purchase orders backed by reviewed and competitively awarded contracts.

- Without adequate segregation of duties for key steps associated with miscellaneous obligation transactions, VA is at risk of error, fraud, and mismanagement. Segregation of duties helps ensure that transactions are properly authorized and reviewed, and helps guard against mismanagement. For example, there was an inadequate segregation of duties with miscellaneous obligations in one case reported by the VA OIG involving the mismanagement of funds at the Boston Health care System from 2002 to 2006.[3] The OIG concluded that VA officials had used expired funds in violation of appropriations law, and that contracting officials had executed contract modifications outside the scope of original contracts. According to VA OIG officials, documentation showed that a miscellaneous obligation for $200,000 at the VA Boston Health care System was requested, approved, and obligated by the same fiscal official. In our 2008 report, we identified 11 instances where the same official requested and approved a miscellaneous obligation, and then certified receipt of goods and services.
- Another tenet of an effectively designed control system is that all transactions need to be clearly documented and all documentation and records should be properly managed and maintained. Adequate documentation is essential to support an effective funds control system. During our case studies, we found many instances where VA did not have records supporting key elements of miscellaneous obligation transactions—such as the purpose, vendor, and contract number As a result, VA could not effectively demonstrate that these miscellaneous obligations were for bona fide needs, that estimated obligation amounts were properly calculated, that the authorized vendor was paid, or whether VA received the appropriate type and quantity of goods and services at the correct price.

Question 4: In 2009, the VA's Office of Business Oversight Management Quality Assurance Service found that out of 476 miscellaneous obligations at 39 different medical centers, health care systems, and regional offices there were 379 instances of noncompliance with the new policies and procedures. These noncompliance issues were similar to those GAO identified in your September 2008 report on VHA miscellaneous obligations. Why did the Office of Business Oversight report similar findings?

Response: The VA Office of Business Oversight Management Quality Assurance Service (MQAS) 2009 report identified several causes for the continuing noncompliance issues it identified concerning the use of miscellaneous obligations that were similar to problems we identified in our September 2008 report. First, the MQAS report identified a lack of timely dissemination of the new miscellaneous obligation policy. Consequently, the VA had little assurance that all VA's widespread locations received notification of the new policies and procedures in force concerning the use of miscellaneous obligations. The MQAS noted that this cause had often been identified in other MQAS review areas, indicating a potential systemic issue associated with the general dissemination of policies throughout VHA. In addition, the MQAS report disclosed that some VHA facilities had not yet developed standard operating procedures for implementing the new miscellaneous obligation policy, provided training for new accounting personnel, required documentation establishing segregation of duties, and instituted facility-level quarterly reviews.

[3] Department of Veterans Affairs, Office of Inspector General, *Audit of Alleged Mismanagement of Government Funds at the VA Boston Health care System,* Report No. 06–00931–139 (Washington, D.C.: May 31, 2007).

Committee on Veterans' Affairs
Washington, DC.
July 29, 2010

Honorable Eric K. Shinseki
Secretary
U.S. Department of Veterans Affairs
810 Vermont Avenue, NW
Washington, DC 20420

Dear Mr. Secretary:

In reference to our Full Committee hearing entitled "Continued Oversight of Inadequate Cost Controls at the U.S. Department of Veterans Affairs" on July 28, 2010, I would appreciate it if you could answer the enclosed hearing questions by the close of business on September 10, 2010.

In an effort to reduce printing costs, the Committee on Veterans' Affairs, in cooperation with the Joint Committee on Printing, is implementing some formatting changes for materials for all full Committee and Subcommittee hearings. Therefore, it would be appreciated if you could provide your answers consecutively and single-spaced. In addition, please restate the question in its entirety before the answer.

Due to the delay in receiving mail, please provide your response to Debbie Smith by fax to Debbie at 202–225–2034. If you have any questions, please call 202–225–9756.

Sincerely,

BOB FILNER
Chairman

MH:ds

Questions for the Record
The Honorable Bob Filner, Chairman, House Committee on Veterans' Affairs, "Continued Oversight of Inadequate Cost Controls at VA"

July 28, 2010

Question 1: Why has VA gone from $6.9 billion in recorded miscellaneous obligations during fiscal year 2007 to around $12 billion currently?

Response: The $6.9 billion of recorded miscellaneous obligations in FY 2007 was the amount reported by the GAO in their report No. 08–976, dated, September 2008, and was attributable to the 21 VISNs (No. 1 thru 23) but did not include amounts attributable to other VHA and VA organizations. The $12 billion of recorded miscellaneous obligations in FY 2009 was the amount attributable to the 21 VISNs plus the other VHA and VA organizations. The attached spreadsheet report shows the details of the recorded miscellaneous obligations by budget object code (BOC) for FY 2007 compared to FY 2009. The first comparison shows the amounts recorded by the 21 VISNs: $6.905 billion in FY 2007 compared to $8.480 billion in FY 2009. The second comparison shows amounts recorded by the other VHA/VA organizations: $2.876 billion in FY 2007 compared to $3.982 billion in FY 2009. The final comparison shows the total recorded amounts: $9.782 billion in FY 2007 compared to $12.476 billion in FY 2009.

Question 2: Regarding corrective actions planned, VA implemented several policies to combat material weakness deficiency, yet implementation of these policies continues to be a troubling issue at the VA. For example, the VA's Management Quality Assurance Service found that 51 percent of VA's actions did not comply with the segregation of duties requirement set forth in VA policy. What consequences do violators of VA policy face, if any?

Response: Enforcement of VA policy is a shared leadership responsibility. Violations of VA policies within a medical center would be dealt with at the local medical center level in collaboration with their Human Resources Department (H.R.). Violations by medical center directors would be dealt with at the Veterans Integrated Service Network (VISN) level, and the Network Director is held accountable to the Deputy Under Secretary for Health for Operations and Management. H.R. refers to the Table of Disciplinary Offenses and Penalties when advising supervisors, managers, and directors.

For the example cited, the segregation of duties within miscellaneous obligations is audited by the Financial Quality Assurance Managers and reported to Network and Facility Directors. This oversight responsibility became part of the Network Director's Performance Plan in 2010.

Question 3: The Secretary has recently decided to cancel the Integrated Financial Accounting System (IFAS). This effectively eliminates the Financial and Logistics Integrated Technology Enterprise (FLITE) program. What impact does the cancellation of FLITE have on ensuring the integrity of the VA's ability to fulfill the critical need for a modernized and integrated financial and asset management process?

Response: VA will implement lower-cost, short-term improvements to VA's current financial management system (FMS). This system has resulted in a clean audit opinion on our financial statements for 11 years in a row. It only costs $15 million to operate. There is relative low risk with maintaining the system for the foreseeable future. On the other hand, the FLITE/IFAS solution would have cost an estimated $500 million and carried very high implementation risks. We will reevaluate our financial system environment in another 2 to 3 years and then decide whether to undertake a replacement of FMS.

Question 4: On June 29, 2010, the Secretary mandated that facility directors certify quarterly that their facility meet the four levels for segregating duties as defined by VA policy. Why is the Information Security Officer also required to certify the report?

Response: The Information Security Officer (ISO) is required to certify the report along with the facility director for two reasons. It gives each security officer visibility into the state of compliance at their assigned facility. The ISOs are generally more familiar with this type of certification and can look for patterns or trends that need correction. ISO certification is also appropriate because a key function of the ISO is to ensure the integrity of information technology systems, including system segregation of duties and access controls. These individuals serve locally and provide oversight over an assigned facility(ies); however, they report to the Department's IT organization. This separate chain of command further enhances the integrity of the certification.

Recorded Miscellaneous Obligations by Budget Object Code (BOC) for FY 2007 Compared to FY 2009

Attachment to Question #1

		VISNs 1 to 23	VISNs 1 to 23	VISNs 1 to 23	Other VHA/ VA	Other VHA/ VA	Other VHA/ VA	Total	Total	Total
BOC	BUDGET OBJECT CODE (BOC) DESCRIPTION	FY 2007	FY 2009	Change	FY 2007	FY 2009	Change	FY 2007	FY 2009	Change
	Personal Services & Benefits									
1101	Regular Pay (Includes merit pay)	$28,057	$17,789	($10,268)		$2,841,009	$2,841,009	$28,057	$2,858,798	$2,830,741
1122	RETENTION ALLOWANCE		$3,680	$3,680		$0	$0	$0	$3,680	$3,680
1128	Incentive Awards, Cash or Non-Cash					$1,500	$1,500	$0	$1,500	$1,500
1204	Office of Workers Compensation Program Payments	$43,729,171	$60,682,464	$16,953,294	$1,751,204	$5,493,957	$3,742,753	$45,480,375	$66,176,421	$20,696,046
1208	Subsistence and Temporary Miscellaneous Moving Expenses	$4,284		($4,284)		$0	$0	$4,284		($4,284)
1215	FSA-Adm Fees-Dep Care	$55,030	$85,970	$30,940	$1,885	$1,981	$96	$56,915	$87,951	$31,036
1217	Flexible Spending Account	$452,109	$1,090,943	$638,835	$14,285	$31,338	$17,053	$466,394	$1,122,281	$655,887
1218	Federal Employees Health Benefits—VA Share		$13,125	$13,125		($0)	($0)	$0	$13,125	$13,125
1221	STUDENT LOAN REPAYMENT		$27,087	$27,087		$0	$0	$0	$27,087	$27,087
1283	Childcare Subsidy				$5,446,134	$3,636,533	($1,809,601)	$5,446,134	$3,636,533	($1,809,601)
1284	TRANSIT BENEFIT PRETAX		$372,200	$372,200		$0	$0	$0	$372,200	$372,200
1285	Direct Subsidy Transit Benefit Program	$3,620,880	$7,067,169	$3,446,290	$2,544,153	$14,405,233	$11,861,080	$6,165,033	$21,472,402	$15,307,369
1286	Liability Insurance Reimbursement Program	$19,715	$16,978	($2,737)	$1,662	$14,207	$12,545	$21,377	$31,185	$9,808
1287	EDRP	$6,959,080	$8,465,768	$1,506,687		$1	$1	$6,959,080	$8,465,768	$1,506,688
1302	Unemployment Compensation Payments								$11,210,885	$11,210,885
		$54,868,325	$77,843,174	$22,974,848	$9,759,323	$26,425,757	$16,666,434	$64,627,648	$115,479,816	$50,852,168
	Travel and Transportation of Persons									
2101	Permanent Duty Travel	$6,307	$583	($5,725)		$0	$0	$6,307	$583	($5,724)
2102	PCS House Hunting Travel	$52	$90	$38		$0	$0	$52	$90	$38
2103	Employee Training or Temporary Duty Travel	$360,868	$401,869	$41,001	$5,036	$80,000	$74,964	$365,904	$481,869	$115,965

Recorded Miscellaneous Obligations by Budget Object Code (BOC) for FY 2007 Compared to FY 2009—Continued

Attachment to Question #1

		VISNs 1 to 23	VISNs 1 to 23	VISNs 1 to 23	Other VHA/ VA	Other VHA/ VA	Other VHA/ VA	Total	Total	Total
BOC	BUDGET OBJECT CODE (BOC) DESCRIPTION	FY 2007	FY 2009	Change	FY 2007	FY 2009	Change	FY 2007	FY 2009	Change
2104	Employee Administrative Travel	$342,876	$326,400	($16,476)	$121,314	$377,755	$256,441	$464,190	$704,155	$239,965
2111	Employee Medical Travel	$635,922	$506,765	($129,157)		$0	$0	$635,922	$506,765	($129,157)
2112	Inter-Facility Travel	$37,723,748	$40,167,301	$2,443,552	$7,000	$0	($7,000)	$37,730,748	$40,167,301	$2,436,553
2119	Beneficiary Travel—Other than Mileage	$158,624,532	$130,093,662	($28,530,869)		($0)	($0)	$158,624,532	$130,093,662	($28,530,870)
2120	Beneficiary Travel—Mileage	$62,148,628	$285,823,505	$223,674,876		$341,061	$341,061	$62,148,628	$286,164,566	$224,015,938
2121	Local Transportation of Employees	$992,087	$835,314	($156,773)	$1,329	$8,715	$7,386	$993,416	$844,029	($149,387)
2128	Non-medical Beneficiary Travel	$29,354	$12,390	($16,964)		($0)	($0)	$29,354	$12,390	($16,964)
2130	Rental of GSA Passenger Vehicles from Government Motor Pools	$24,278,045	$30,942,261	$6,664,216	$1,352,847	$1,423,872	$71,025	$25,630,892	$32,366,133	$6,735,241
2140	Commercial Transportation Charges	$272,889	$100,148	($172,741)		$0	$0	$272,889	$100,148	($172,741)
2150	Reimbursable Travel Expense	$331,093	$24,333	($306,760)		$16,097	$16,097	$331,093	$40,430	($290,663)
		$285,746,401	$489,234,620	$203,488,219	$1,487,526	$2,247,501	$759,975	$287,233,927	$491,482,121	$204,248,194
	Transportation of Things									
2210	Shipment of Bodies	$64,363	$261	($64,103)	$253,646	$0	($253,646)	$318,009	$261	($317,748)
2220	Other Shipments	$1,769,284	$337,401	($1,431,883)	$2,990,662	($337,401)	($3,328,063)	$4,759,946		($4,759,946)
2230	Shipment of Household Goods and Personal Effects	$1,500		($1,500)		$0	$0	$1,500		($1,500)
2240	Parcel Post Service	$280,411	$251,334	($29,077)	$1	$0	($1)	$280,412	$251,334	($29,078)
2250	Rental of Trucks from Government Motor Pools (GSA)	$12,864,641	$13,683,907	$819,266	$603,658	$818,641	$214,983	$13,468,299	$14,502,548	$1,034,249
2298	Service & Distribution Transportation					$1,533,361	$1,533,361	$0	$1,533,361	$1,533,361
2299	Transportation—Other than Service and Distribution Center	$88,050		($88,050)		$600,000	$600,000	$88,050	$600,000	$511,950
		$15,068,249	$14,272,902	($795,348)	$3,847,967	$2,614,602	($1,233,365)	$18,916,216	$16,887,504	($2,028,712)

Recorded Miscellaneous Obligations by Budget Object Code (BOC) for FY 2007 Compared to FY 2009—Continued

Attachment to Question #1

BOC	BUDGET OBJECT CODE (BOC) DESCRIPTION	VISNs 1 to 23 FY 2007	VISNs 1 to 23 FY 2009	VISNs 1 to 23 Change	Other VHA/ VA FY 2007	Other VHA/ VA FY 2009	Other VHA/ VA Change	Total FY 2007	Total FY 2009	Total Change
	Rent, Communications, and Utilities									
2301	Telephone—Long Distance—Commercial	$3,448,185	$2,045,447	($1,402,738)	$1,646,190	$852,706	($793,484)	$5,094,375	$2,898,153	($2,196,222)
2302	Telephone—Long Distance—GSA–Federal Telecommunications Service (FTS)	$8,796,965	$6,814,773	($1,982,191)	$10,384,608	$1,079,500	($9,305,108)	$19,181,573	$7,894,273	($11,287,300)
2303	Telephone—Recurring Costs—Commercial	$38,799,405	$13,902,505	($24,896,900)	$4,380,015	$1,784,178	($2,595,837)	$43,179,420	$15,686,683	($27,492,737)
2304	Telephone—Recurring Costs—GSA	$1,009,739	$1,044,952	$35,213	$876,092	$2,181,697	$1,305,605	$1,885,831	$3,226,649	$1,340,818
2305	Telephone—Non-recurring Costs	$5,920,529	$742,912	($5,177,618)	$141,832	$7,792	($134,040)	$6,062,361	$750,704	($5,311,657)
2307	Data Communications Services	$6,325,727	$2,769,279	($3,556,449)	$34,087,238	$42,487,970	$8,400,732	$40,412,965	$45,257,249	$4,844,284
2310	Wireless Services	$4,167,828	$2,297,692	($1,870,137)	$538,312	$712,872	$174,560	$4,706,140	$3,010,564	($1,695,576)
2312	Communications—Other	$1,403,450	$16,836	($1,386,614)	$263,631	$2,000	($261,631)	$1,667,081	$18,836	($1,648,245)
2313	Integrated Data Communication Utility (IDCU)				$42,092		($42,092)	$42,092		($42,092)
2320	Regular Mail Service	$13,427,289	$3,073,912	($10,353,377)	$109,783,949	$147,564,140	$37,780,191	$123,211,238	$150,638,052	$27,426,814
2321	Express Mail Service	$10,911,696	$1,961,922	($8,949,774)	$13,168,109	$14,947,523	$1,779,414	$24,079,805	$16,909,445	($7,170,360)
2324	Software rental and License Fees				$30,000	$444,703	$414,703	$30,000	$444,703	$414,703
2330	Real Property Rental—Commercial	$12,270,569	$1,093,770	($11,176,799)	$7,796,711	$13,340,645	$5,543,934	$20,067,280	$14,434,415	($5,632,865)
2331	Rental Property Rental—GSA	$2,668,335	$3,101,222	$432,887	$53,775,780	$86,115,718	$32,339,938	$56,444,115	$89,216,940	$32,772,825
2334	Rent, Communications, and Utilities—Marketing—Franchise Fund	$294,420	$207,912	($86,508)		$291,077	$291,077	$294,420	$498,989	$204,569
2341	Equipment Rentals	$22,899,204	$3,547,443	($19,351,761)	$64,588	$20,646	($43,942)	$22,963,792	$3,568,089	($19,395,703)
2345	Telecommunications Equipment Rental	$16,403		($16,403)	$338	$0	($338)	$16,741		($16,741)
2350	Audio/Video Media Rentals	$1,128		($1,128)		$0	$0	$1,128		($1,128)
2389	Purchased Chilled Water	$1,615,275	$3,808,454	$2,193,179	$1,873	($0)	($1,873)	$1,617,148	$3,808,454	$2,191,306
2390	Utility Services	$31,652,712	$2,939,736	($28,712,977)	$103,751	$33,493	($70,258)	$31,756,463	$2,973,229	($28,783,234)

Recorded Miscellaneous Obligations by Budget Object Code (BOC) for FY 2007 Compared to FY 2009—Continued

Attachment to Question #1

		VISNs 1 to 23	VISNs 1 to 23	VISNs 1 to 23	Other VHA/ VA	Other VHA/ VA	Other VHA/ VA	Total	Total	Total
BOC	BUDGET OBJECT CODE (BOC) DESCRIPTION	FY 2007	FY 2009	Change	FY 2007	FY 2009	Change	FY 2007	FY 2009	Change
2391	Electricity—Buildings	$248,491,319	$255,722,609	$7,231,289	$2,435,769	$2,787,675	$351,906	$250,927,088	$258,510,284	$7,583,196
2392	Water	$23,156,266	$25,439,358	$2,283,092	$1,938,566	$2,243,132	$304,566	$25,094,832	$27,682,490	$2,587,658
2393	Purchased Steam, Heat, and Hot Water	$27,269,812	$24,281,877	($2,987,935)		$1	$1	$27,269,812	$24,281,877	($2,987,935)
2394	Natural Gas—Buildings	$145,440,716	$119,738,523	($25,702,193)	$317,847	$306,703	($11,144)	$145,758,563	$120,045,226	($25,713,337)
2395	Sewer	$17,747,038	$21,546,888	$3,799,851	$46,729	$56,416	$9,687	$17,793,767	$21,603,304	$3,809,537
2396	Purchased Renewable Electric Energy—Buildings	$3,250	$3,421	$171		$0	$0	$3,250	$3,421	$171
2399	Other Purchased Renewable Energy—Buildings		$64,534	$64,534		($0)	($0)	$0	$64,534	$64,534
		$627,737,260	$496,165,976	($131,571,285)	$241,824,020	$317,260,587	$75,436,567	$869,561,280	$813,426,563	($56,134,717)
	Printing and Reproduction									
2423	Forms and Form Letters	$150		($150)		$0	$0	$150		($150)
2424	Other Printing and Reproduction	$668,744	$591,335	($77,409)	$30,381	$18,790	($11,591)	$699,125	$610,125	($89,000)
		$668,894	$591,335	($77,559)	$30,381	$18,790	($11,591)	$699,275	$610,125	($89,150)
	Other Contractual Services									
2507	Data Processing Services and Information Technology Services—Other Than Federal Executive Branch Agency Suppliers	$3,438,387	$388,849	($3,049,538)	$5,305,278	$11,076,572	$5,771,294	$8,743,665	$11,465,421	$2,721,756
2510	Data Processing Services and Information Technology Support Services (Federal Executive Branch Agency Supplier)	$105,220		($105,220)	$20,436,795	$235,433,321	$214,996,526	$20,542,015	$235,433,321	$214,891,306
2511	Automated Data Processing Equipment Time/Data Processing Service (Commercial Supplier)	$234,128	$3,621	($230,507)	$49,274	$103,000	$53,726	$283,402	$106,621	($176,781)
2512	Other Contractual Services—Marketing—Enterprise Business Center Fund		$30	$30	$486,697	$150,000	($336,697)	$486,697	$150,030	($336,667)

Recorded Miscellaneous Obligations by Budget Object Code (BOC) for FY 2007 Compared to FY 2009—Continued

Attachment to Question #1

BOC	BUDGET OBJECT CODE (BOC) DESCRIPTION	VISNs 1 to 23 FY 2007	VISNs 1 to 23 FY 2009	VISNs 1 to 23 Change	Other VHA/ VA FY 2007	Other VHA/ VA FY 2009	Other VHA/ VA Change	Total FY 2007	Total FY 2009	Total Change
2513	ADP Operations and Maintenance Support Services (Commercial Supplier)	$870,916	$117,489	($753,427)	$1,489,307	$20,188,224	$18,698,917	$2,360,223	$20,305,713	$17,945,490
2515	Systems Analysis and Programming (Commercial Supplier)	$10,795,280		($10,795,280)	$33,630,164	$41,299,511	$7,669,347	$44,425,444	$41,299,511	($3,125,933)
2520	Repair of Furniture and Equipment	$1,817,334	$33,474	($1,783,860)	$21,184	$18,411	($2,774)	$1,838,518	$51,884	($1,786,634)
2521	Interest Payments—Back Pay Settlements	$687,232	$50,194	($637,038)		$4,728	$4,728	$687,232	$54,922	($632,310)
2523	FEE BASIC PURC CARD PMT	$165,740	$127,489	($38,250)		($0)	($0)	$165,740	$127,489	($38,251)
2528	Security service other than 2580	$22,490	$32,143	$9,653	$10,764,830	$12,202,047	$1,437,217	$10,787,320	$12,234,190	$1,446,870
2529	GOODS & SERVICES—1VA + FUND	$53,782	$1,192,575	$1,138,793	$3,298,045	$9,582,282	$6,284,237	$3,351,827	$10,774,857	$7,423,031
2532	Special services provided by GSA services, over and above the basic SLUC rental charges	$77,776	$1,112	($76,664)	$1,037,515	$1,852,484	$814,969	$1,115,291	$1,853,596	$738,305
2535	Interior Decorating Services	$174,363		($174,363)	$14,555	$0	($14,555)	$188,918		($188,918)
2536	Deactivated 10/1/05	$0		$0		$0	$0	$0		$0
2540	Laundry and Dry-cleaning Services	$5,428,355	$1,691	($5,426,663)	$13,250	($0)	($13,250)	$5,441,605	$1,691	($5,439,914)
2542	Cleaning and Janitorial Services for Buildings and Other Items	$7,080,784	$6,452,275	($628,509)	$207,274	$91,191	($116,083)	$7,288,058	$6,543,466	($744,592)
2543	Recurring Maintenance and Repair Services	$3,599,487	$765,345	($2,834,142)	$252,715	$171,262	($81,453)	$3,852,202	$936,607	($2,915,595)
2544	ADP Equipment and Computer Maintenance Contracts—Commercial Supplier	$1,492,298	$538,335	($953,963)		$969,965	$969,965	$1,492,298	$1,508,300	$16,002
2548	Utility Plant Operations	$58,741	$185,920	$127,179		($0)	($0)	$58,741	$185,920	$127,179
2549	Roads and Grounds Maintenance	$156,001	$178,570	$22,568	$359,865	$257,595	($102,271)	$515,866	$436,164	($79,702)
2551	Prosthetic Repair-Contract Services	$9,176,798	$9,196,078	$19,280	$102	$15,646,750	$15,646,648	$9,176,900	$24,842,828	$15,665,928
2552	Repair Services to Home Dialysis Equipment		$100	$100		$0	$0	$0	$100	$100
2553	Miscellaneous Contractual Services for Indigent Veterans	$194,626	$191,955	($2,671)		$0	$0	$194,626	$191,955	($2,671)

Recorded Miscellaneous Obligations by Budget Object Code (BOC) for FY 2007 Compared to FY 2009—Continued

Attachment to Question #1

BOC	BUDGET OBJECT CODE (BOC) DESCRIPTION	VISNs 1 to 23 FY 2007	VISNs 1 to 23 FY 2009	VISNs 1 to 23 Change	Other VHA/ VA FY 2007	Other VHA/ VA FY 2009	Other VHA/ VA Change	Total FY 2007	Total FY 2009	Total Change
2560	Medical Care Contracts and Agreements with Institutions and Organizations	$1,087,173,771	$1,399,761,144	$312,587,373	$38,026,578	$47,908,136	$9,881,558	$1,125,200,349	$1,447,669,280	$322,468,931
2561	Fee Basis—Physician Services (On-Station Only)	$26,661,723	$8,035,450	($18,626,273)	$2,030,000	$1,739,346	($290,654)	$28,691,723	$9,774,796	($18,916,927)
2562	Non-VA Medical and Nursing Service (Off-Station Only)	$754,590,259	$1,357,142,565	$602,552,307		$73,371,652	$73,371,652	$754,590,259	$1,430,514,217	$675,923,958
2563	Enhanced Sharing—Nursing (38 U	$8,491,593		($8,491,593)		$0	$0	$8,491,593		($8,491,593)
2564	Nursing Services (On-Station only)	$100,122		($100,122)		$0	$0	$100,122		($100,122)
2566	FEE BASIS OTHER THAN PHYSICIAN AND NURSING SERVICES	$320,722		($320,722)		$0	$0	$320,722		($320,722)
2567	ENHANCED SHARING OTHER HEALTH CARE SERVICES	$313,737	$28,713	($285,024)		($0)	($0)	$313,737	$28,713	($285,024)
2569	Emergency Treatment of Veterans	$192,766,066	$302,356,227	$109,590,161		($0)	($0)	$192,766,066	$302,356,227	$109,590,161
2570	Non-VA Dental Services—Off-Station	$74,555,913	$90,118,166	$15,562,253		($0)	($0)	$74,555,913	$90,118,166	$15,562,253
2571	Fee Dental Service, On-Station	$909,186	$712,423	($196,763)		$0	$0	$909,186	$712,423	($196,763)
2572	Services Purchased or Sold by a VHA Special Clinical Resource Center	$690,992	$458,323	($232,669)		$0	$0	$690,992	$458,323	($232,669)
2573	SERVICES PURCHASED OR SOLD BY VHA SPECIAL ADMIN RESOURCE CTR	$2,924	$27,484	$24,560		$15,143,749	$15,143,749	$2,924	$15,171,233	$15,168,309
2574	Home Oxygen—Contractual Agreement	$10,914,954	$15,143,749	$4,228,795		($15,143,749)	($15,143,749)	$10,914,954		($10,914,954)
2575	Other Contract Hospitalization	$100,455,112	$136,176,396	$35,721,283		$0	$0	$100,455,112	$136,176,396	$35,721,284
2576	Consultants and Attendings	$861,151	$265,392	($595,759)	$14,799,193	$13,038,940	($1,760,253)	$15,660,344	$13,304,332	($2,356,012)
2579	Scarce Medical Specialist Contracts	$121,075,482	$23,642,634	($97,432,848)	$442,821	$108,550	($334,271)	$121,518,303	$23,751,184	($97,767,119)
2580	Non-Medical Contracts and Agreements with Institutions and Organizations	$254,609,738	$179,147,047	($75,462,691)	$228,301,758	$318,936,733	$90,634,975	$482,911,496	$498,083,780	$15,172,284
2581	Contracts and Agreements with Individuals for Personal Services	$44,177,304	$48,244,758	$4,067,454	$1,139,008	$495,682	($643,326)	$45,316,312	$48,740,440	$3,424,128
2582	Incentive Therapy	$6,422,235	$6,946,780	$524,544		$0	$0	$6,422,235	$6,946,780	$524,545

Recorded Miscellaneous Obligations by Budget Object Code (BOC) for FY 2007 Compared to FY 2009—Continued

Attachment to Question #1

		VISNs 1 to 23	VISNs 1 to 23	VISNs 1 to 23	Other VHA/ VA	Other VHA/ VA	Other VHA/ VA	Total	Total	Total
BOC	BUDGET OBJECT CODE (BOC) DESCRIPTION	FY 2007	FY 2009	Change	FY 2007	FY 2009	Change	FY 2007	FY 2009	Change
2583	Tuition and Registration within the Government	$1,646,723	$990,382	($656,341)	$416,195	$545,599	$129,404	$2,062,918	$1,535,981	($526,937)
2584	Tuition and Registration outside the Government	$13,523,939	$24,817,432	$11,293,493	$169,057	$445,425	$276,368	$13,692,996	$25,262,857	$11,569,861
2585	College Work-Study Program	$308,198	$280,859	($27,339)		$1,071	$1,071	$308,198	$281,930	($26,268)
2586	Enhanced Sharing—Physicians in VA Facilities (38 U	$50,967,154	$26,297,159	($24,669,995)		($0)	($0)	$50,967,154	$26,297,159	($24,669,995)
2587	House Staff Contracts	$391,306,664	$457,471,644	$66,164,980	$7,202	($0)	($7,202)	$391,313,866	$457,471,644	$66,157,778
2589	Compensated Work Therapy	$43,530,386	$60,011,087	$16,480,700	$564,099	$963,151	$399,052	$44,094,485	$60,974,238	$16,879,753
2590	VA/DoD Sharing Agreement—38 U	$33,925,026	$49,429,837	$15,504,811		$157,163	$157,163	$33,925,026	$49,587,000	$15,661,974
2591	Enhanced Sharing—Physicians Outside the VA Facility (38 U	$575,321	$1,297,204	$721,883		($0)	($0)	$575,321	$1,297,204	$721,883
2592	Enhanced Sharing—Clinicians (Non-physicians) (38 U	$4,847,953	$7,072,830	$2,224,877		$0	$0	$4,847,953	$7,072,830	$2,224,877
2593	IRS COLLECTION FEE		$2,014	$2,014		$0	$0	$0	$2,014	$2,014
2594	C&P MEDICAL EXAMINATIONS		$4,268,645	$4,268,645		($0)	($0)	$0	$4,268,645	$4,268,645
2595	Education and Training Reporting Allowances—38 U	$17,868	$75,000	$57,132		$0	$0	$17,868	$75,000	$57,132
2597	Burial Costs for Unclaimed Bodies	$279,226	$9,700	($269,526)		$0	$0	$279,226	$9,700	($269,526)
2598	Non-VA Hospital and Outpatient Treatment	$568,529,740	$817,611,755	$249,082,015	$127,100,670	$130,531,175	$3,430,505	$695,630,410	$948,142,930	$252,512,520
		$3,840,180,922	$5,037,300,044	$1,197,119,122	$490,363,431	$937,289,964	$446,926,533	$4,330,544,353	$5,974,590,008	$1,644,045,655
	Supplies and Materials									
2610	Provisions	$76,213,618	$86,335,451	$10,121,833	$55,048	$167	($54,881)	$76,268,666	$86,335,618	$10,066,952
2620	Office Supplies	$1,878,032	$86,032	($1,792,000)	$3,563	$685	($2,878)	$1,881,595	$86,717	($1,794,878)
2623	Automated Data Processing Recording Media	$1,200		($1,200)		$0	$0	$1,200		($1,200)
2625	Computing parts and materials	$19,327	$30,150	$10,823	$650	$144	($506)	$19,977	$30,294	$10,317
2631	Drugs/Medicines	$1,221,387,050	$1,325,120,414	$103,733,364	$2,048,950,544	$2,364,290,096	$315,339,552	$3,270,337,594	$3,689,410,510	$419,072,917

Recorded Miscellaneous Obligations by Budget Object Code (BOC) for FY 2007 Compared to FY 2009—Continued

Attachment to Question #1

		VISNs 1 to 23	VISNs 1 to 23	VISNs 1 to 23	Other VHA/ VA	Other VHA/ VA	Other VHA/ VA	Total	Total	Total
BOC	BUDGET OBJECT CODE (BOC) DESCRIPTION	FY 2007	FY 2009	Change	FY 2007	FY 2009	Change	FY 2007	FY 2009	Change
2632	Other Medical and Dental Supplies (also Expendable Property)	$36,398,764	$27,788,064	($8,610,700)	$28,390,359	$37,331,642	$8,941,283	$64,789,123	$65,119,706	$330,583
2633	Chemical Supplies	$6,570,519	$2,203,061	($4,367,458)		$0	$0	$6,570,519	$2,203,061	($4,367,458)
2635	Blood Products	$59,856,232	$10,957,457	($48,898,775)		$0	$0	$59,856,232	$10,957,457	($48,898,775)
2636	Prescriptions	$6,029,609	$4,955,296	($1,074,313)		$0	$0	$6,029,609	$4,955,296	($1,074,313)
2645	Books, Periodicals, and Newspapers	$635,566	$64,811	($570,755)	$10,650	$14,900	$4,250	$646,216	$79,711	($566,505)
2647	Audio/video Media	$25,392	$783	($24,609)	$95	($0)	($95)	$25,487	$783	($24,704)
2650	Fuel Oil (Heating Oil/Diesel)	$4,398,742	$1,620,397	($2,778,345)	$47,696	$3,954	($43,742)	$4,446,438	$1,624,351	($2,822,087)
2651	COAL		$50,850	$50,850		($0)	($0)	$0	$50,850	$50,850
2652	Liquefied Petroleum Gas (LPG)/Propane—Heating and Cooking	$7,924	$5,298	($2,626)		($0)	($0)	$7,924	$5,298	($2,626)
2654	FUEL FOR FLEET VEHICLES ONLY	$511,631	$518,169	$6,537	$15,100	$103,717	$88,616	$526,731	$621,885	$95,154
2655	Auto Gasoline—Non-Fleet Vehicles & other Equipment	$138,262	$46,206	($92,056)	$12,547	$4,826	($7,721)	$150,809	$51,032	($99,777)
2656	Liquefied Petroleum Gas (LPG)/Propane—Non-Fleet Vehicles & Other Equipment	$3,831	$42,000	$38,169		$0	$0	$3,831	$42,000	$38,169
2657	Diesel/Distillate—Non-Fleet Vehicles & Other Equipment	$28,450		($28,450)	$9,500	$0	($9,500)	$37,950		($37,950)
2660	Operating Supplies and Materials	$14,157,669	$15,243,340	$1,085,670	$6,571,344	$6,188,207	($383,137)	$20,729,013	$21,431,547	$702,534
2665	Linen Items	$126,000	$438,020	$312,020		($0)	($0)	$126,000	$438,020	$312,020
2666	Employee Uniforms and Protective Clothing	$9,757	$4,881	($4,875)	$6,943	$375	($6,568)	$16,700	$5,256	($11,444)
2670	Maintenance Supplies and Materials	$341,630	$1,796	($339,835)	$33,563	$15	($33,548)	$375,193	$1,811	($373,382)
2674	Home Oxygen—Prosthetic Supplies/ Appliances	$266,562	$805,803	$539,241		$0	$0	$266,562	$805,803	$539,241
2680	Supply Fund -	$500		($500)		$0	$0	$500		($500)
2692	Prosthetic Supplies	$81,540,037	$111,545,205	$30,005,168	$342	$209,820,750	$209,820,408	$81,540,379	$321,365,955	$239,825,576
2693	Home Dialysis Equipment and Supplies	$54,356	$90,576	$36,220		$0	$0	$54,356	$90,576	$36,220

Recorded Miscellaneous Obligations by Budget Object Code (BOC) for FY 2007 Compared to FY 2009—Continued

Attachment to Question #1

		VISNs 1 to 23	VISNs 1 to 23	VISNs 1 to 23	Other VHA/ VA	Other VHA/ VA	Other VHA/ VA	Total	Total	Total
BOC	BUDGET OBJECT CODE (BOC) DESCRIPTION	FY 2007	FY 2009	Change	FY 2007	FY 2009	Change	FY 2007	FY 2009	Change
2696	Supply Fund Inventory—Held for Sale								$1,750,000	$1,750,000
		$1,510,600,661	$1,587,954,060	$77,353,399	$2,084,107,944	$2,617,759,477	$533,651,533	$3,594,708,605	$4,207,463,537	$612,754,932
	Equipment									
3110	Transportation Equipment, Passenger Vehicles—Capitalized	$73,712		($73,712)		$0	$0	$73,712		($73,712)
3111	Transportation Equipment, Passenger Vehicles—Non-Capitalized	$40,191		($40,191)		$0	$0	$40,191		($40,191)
3120	Furniture and Fixtures—Capitalized					$2,601,394	$2,601,394	$0	$2,601,394	$2,601,394
3121	Office Equipment—Capitalized		$4,062	$4,062		$0	$0	$0	$4,062	$4,062
3123	Automated Data Processing (ADP) Software—Capitalized				$2,252,024	$5,880,450	$3,628,426	$2,252,024	$5,880,450	$3,628,426
3124	Internal Use Software—Capitalized	$332,493		($332,493)	$5,157,976	$30,358,909	$25,200,933	$5,490,469	$30,358,909	$24,868,440
3126	Furniture and Fixtures—Non-Capitalized	$509,185	$3,553,131	$3,043,946	$9,022	$1,074,057	$1,065,035	$518,207	$4,627,188	$4,108,981
3127	Office Equipment—Non-Capitalized	$755		($755)	$37,456	$332,686	$295,230	$38,211	$332,686	$294,475
3128	Office Automation/Word Processing—Non-Capitalized				$89,997		($89,997)	$89,997		($89,997)
3129	Automatic Data Processing Equipment (ADPE)—Non-Capitalized	$1,288,738	$105,846	($1,182,891)	$850,747	$1,430,866	$580,119	$2,139,485	$1,536,712	($602,773)
3130	Medical, Dental, and Scientific Equipment—Capitalized	$392,305	$20,250	($372,055)		$0	$0	$392,305	$20,250	($372,055)
3131	Medical, Dental, and Scientific Equipment—Non-Capitalized	$700,073	$2,333,394	$1,633,321		$0	$0	$700,073	$2,333,394	$1,633,321
3133	Telecommunication Equipment—Non-Capitalized	$296,754	$14,097	($282,657)	$5,105	$1,246,000	$1,240,895	$301,859	$1,260,097	$958,238
3134	Automated Data Processing (ADP) Software—Non-Capitalized	$9,976		($9,976)		$75,339	$75,339	$9,976	$75,339	$65,363

Recorded Miscellaneous Obligations by Budget Object Code (BOC) for FY 2007 Compared to FY 2009—Continued

Attachment to Question #1

		VISNs 1 to 23	VISNs 1 to 23	VISNs 1 to 23	Other VHA/ VA	Other VHA/ VA	Other VHA/ VA	Total	Total	Total
BOC	**BUDGET OBJECT CODE (BOC) DESCRIPTION**	**FY 2007**	**FY 2009**	**Change**	**FY 2007**	**FY 2009**	**Change**	**FY 2007**	**FY 2009**	**Change**
3151	Utility and Operating Equipment—Non-Capitalized	$1,221		($1,221)		$0	$0	$1,221		($1,221)
3155	Hazardous Waste Clean-Up of Personal Property—Capitalized	$30,682	$790	($29,892)		$580	$580	$30,682	$1,370	($29,312)
3161	Equipment under Capital Lease Purchase Contracts—Non-Capitalized	$10,001	$35,607	$25,606	$83,055	$179,307	$96,252	$93,056	$214,914	$121,858
		$3,686,085	$6,067,176	$2,381,092	$8,485,382	$43,179,589	$34,694,207	$12,171,467	$49,246,765	$37,075,298
	Land and Structures									
3216	Improvements to Land—Non-Capitalized								$12,000	$12,000
3220	Buildings and Facilities—Capitalized	$5,606,001	$17,884,920	$12,278,920	$4,500,000	($0)	($4,500,000)	$10,106,001	$17,884,920	$7,778,919
3222	Land, Building, and Other Structures Acquired Under Lease Purchase Contracts—Capitalized	$5,006,261	$5,590,133	$583,871		$0	$0	$5,006,261	$5,590,133	$583,872
3223	Buildings and Facilities—Non-Capitalized	$358,037	$1,372	($356,665)		$0	$0	$358,037	$1,372	($356,665)
3224	Buildings Under Capital Lease—Non-Capitalized	$5,692	$14,556	$8,864		($0)	($0)	$5,692	$14,556	$8,864
3226	Telecommunication Equipment—Non-Capitalized	$430,266		($430,266)		$0	$0	$430,266		($430,266)
3230	Leasehold Improvements—Capitalized		$401,475	$401,475		$1,199,887	$1,199,887	$0	$1,601,362	$1,601,362
3231	Leasehold Improvements—Non-Capitalized	$82,575		($82,575)	$60,000	$1,202,970	$1,142,970	$142,575	$1,202,970	$1,060,395
3255	Hazardous Waste Clean-Up of Buildings and Other Structures—Not Capitalized	$2,000,000		($2,000,000)		$0	$0	$2,000,000		($2,000,000)
3310	Property Acquisitions	$463		($463)		$0	$0	$463		($463)
		$13,489,295	$23,892,457	$10,403,162	$4,560,000	$2,402,856	($2,157,144)	$18,049,295	$26,307,313	$8,258,018

Recorded Miscellaneous Obligations by Budget Object Code (BOC) for FY 2007 Compared to FY 2009—Continued

Attachment to Question #1

		VISNs 1 to 23	VISNs 1 to 23	VISNs 1 to 23	Other VHA/ VA	Other VHA/ VA	Other VHA/ VA	Total	Total	Total
BOC	**BUDGET OBJECT CODE (BOC) DESCRIPTION**	**FY 2007**	**FY 2009**	**Change**	**FY 2007**	**FY 2009**	**Change**	**FY 2007**	**FY 2009**	**Change**
	Grants, Subsidies, and Contributions									
4110	Grants, Subsidies, and Contributions to States	$541,571,009	$714,982,223	$173,411,213		$0	$0	$541,571,009	$714,982,223	$173,411,214
4120	Grants—Homeless Veterans	$11,409,121	$30,556,301	$19,147,180	$28,117,161	$30,663,004	$2,545,843	$39,526,282	$61,219,305	$21,693,023
		$552,980,131	$745,538,524	$192,558,393	$28,117,161	$30,663,004	$2,545,843	$581,097,292	$776,201,528	$195,104,236
	Insurance Claims and Indemnities									
4205	No Fear (EEO) Act Settlements		$5,000						$5,000	$5,000
4210	Pension Annuities and Ins		$7,230	$7,230	$2,674,790	$2,175,104	($499,686)	$2,674,790	$2,182,334	($492,456)
4220	Federal Tort Claims	$719,764	$1,022,225	$302,461	$69,342	$2,560	($66,782)	$789,106	$1,024,785	$235,679
4250	Reimbursement for Losses	$135,077	$352,401	$217,324		$0	$0	$135,077	$352,401	$217,324
4260	Administrative Expense—Insurance Programs	$655	$292	($363)		$0	$0	$655	$292	($363)
		$855,496	$1,387,148	$531,652	$2,744,132	$2,177,664	($566,468)	$3,599,628	$3,564,812	($34,816)
	Interest and Dividends									
4310	Interest Expense—Lease Purchase		$4,678	$4,678	$376,103	$356,982	($19,121)	$376,103	$361,660	($14,443)
	CASCA/GPF/SUPPLY FUND									
9999	Casca/GPF/Supply Fund	$81,078	$200	($80,878)		$0	$0	$81,078	$200	($80,878)
	Total	**$6,905,962,798**	**$8,480,252,293**	**$1,574,289,495**	**$2,875,703,370**	**$3,982,396,774**	**$1,106,693,404**	**$9,781,666,168**	**$12,475,621,952**	**$2,693,955,784**

Committee on Veterans' Affairs
Washington, DC.
July 30, 2010

The Honorable Eric K. Shinseki
Secretary
U.S. Department of Veterans Affairs
810 Vermont Avenue, NW
Washington, DC 20420

Dear Secretary Shinseki,

In reference to our Committee hearing of July 28, 2010, I would appreciate your response to the enclosed additional questions for the record by close of business Wednesday, September 1, 2010.

It would be appreciated if you could provide your answers consecutively on letter size paper, single spaced. Please restate the question in its entirety before providing the answer.

Thank you for your cooperation in this matter.

Sincerely,

Steve Buyer
Ranking Republican Member

SB:dwc

Enclosure

Questions for the Record
The Honorable Steve Buyer, Ranking Republican Member, House Committee on Veterans' Affairs, "Continued Oversight of Inadequate Cost Controls at the U.S. Department of Veterans Affairs"
July 28, 2010

Question 1: Please provide to the Committee a complete listing of the 23 categories Form 1358 should be used, as well as the amount spent with these 23 categories for FY 2009. For those purchases made using form 1358 that are not under the 23 approved categories, please provide the Committee the amount and type of these purchases.

Response: The table below lists the 23 categories and the dollar amount for each in fiscal year (FY) 2009. There were 9 of 23 categories that had no costs. The remaining 14 of 23 categories accounted for $11.2 billion (90 percent) of the total $12.5 billion in FY 2009. The balance of $1.3 billion (10 percent) was not in one of the 23 authorized categories.

Exception	Description	FY 2009 Total Obligations	Percent of Total
	Exceptions		
1	Nursing Homes/Adult Daycare	$539,352,030	4.32%
2	Fee Basis, including Fee Dental, Homemaker/ Home Health Aid, Non-VA Hospitalization	$3,570,650,185	28.62%
3	Standardized Obligations	$104,855,181	0.84%
4	Limited Open Travel Authority (LOTA) under $10.00	$0	
5	Research Studies	$0	
6	Inter-Library Loan Program	$0	
7	Affiliation Agreement for Interns/Residents	$457,471,644	3.67%
8	Tort Claims/EEO settlements; OIG Confidential Services	$3,619,734	0.03%

Exception	Description	FY 2009 Total Obligations	Percent of Total
	Exceptions		
9	Meal Tickets	$0	
10	Incentive Therapy/Compensated Work Therapy	$67,921,018	0.54%
11	Beneficiary Travel	$415,929,557	3.33%
12	Home Improvement Structural Alterations (HISA)	$4,932,949	0.04%
13	Outer Burial Receptacle	$0	
14	VBA Lease Agreement Overtime Charges	$0	
15	Home Oxygen Bills	$15,949,552	0.13%
16	Prosthetics—New or Repaired Items	$346,020,253	2.77%
17	Pharmacy and Subsistence Prime Vendor	$3,775,746,128	30.26%
18	Regulated Utilities	$523,565,607	4.20%
19	Tuition Reimbursement to VA Employees	$0	
20	Miscellaneous Non-Procurement Obligations	$1,247,407,534	10.00%
21	CHAMPVA, Spina Bifida Health, Children of Women Vietnam Veterans, Foreign Medical Program, and other Health Administration Center health care programs	$96,433,697	0.77%
22	Special Adaptive Housing Inspections	$0	
23	State Approving Agency	$0	
	Total Exceptions in FY 2009	$11,169,855,071	89.53%
	Total Non-Exceptions in FY 2009	$1,305,766,878	10.45%
	Total in FY 2009	$12,475,621,950	100%

Question 2: Please provide a breakdown in the dollar amounts used for each of the 23 approved categories for miscellaneous obligations.

Response: See VA's response to question 1 for the dollar amounts.

Question 3: Please provide a status on Arkansas facilities on the use of Form 1358 for miscellaneous obligations relative to the GAO report.

Response: The table below provides the data for the two facilities in Arkansas.

Exception	Description	FY 2009 Fayetteville Obligations	FY 2009 Little Rock Obligations	FY 2009 Total Arkansas Obligations	Percent of Total
	Exceptions				
1	Nursing Homes/Adult Daycare	$1,672,047	$3,242,910	$4,914,957	3.61%
2	Fee Basis, including Fee Dental, Homemaker/Home Health Aid, Non-VA Hospitalization	$28,187,329	$18,337,131	$46,524,460	34.19%
3	Standardized Obligations	$702,197	$1,763,532	$2,465,729	1.81%
4	Limited Open Travel Authority (LOTA) under $10.00	$0	$0	$0	
5	Research Studies	$0	$0	$0	
6	Inter-Library Loan Program	$0	$0	$0	
7	Affiliation Agreement for Interns/Residents	$29,274	$8,406,952	$8,436,226	6.20%

Exception	Description	FY 2009 Fayetteville Obligations	FY 2009 Little Rock Obligations	FY 2009 Total Arkansas Obligations	Percent of Total
	Exceptions				
8	Tort Claims/EEO settlements; OIG Confidential Services	$4,222	$5,334	$9,556	0.01%
9	Meal Tickets	$0	$0	$0	0.00%
10	Incentive Therapy/Compensated Work Therapy	$330,820	$736,056	$1,066,876	0.78%
11	Beneficiary Travel	$3,325,889	$10,191,629	$13,517,518	9.93%
12	Home Improvement Structural Alterations (HISA)	$44,414	$111,248	$155,662	0.11%
13	Outer Burial Receptacle	$0	$0	$0	
14	VBA Lease Agreement Overtime Charges	$0	$0	$0	
15	Home Oxygen Bills	$126,000	$0	$126,000	0.09%
16	Prosthetics—New or Repaired Items	$518,551	$2,116,551	$2,635,102	1.94%
17	Pharmacy and Subsistence Prime Vendor	$8,113,401	$21,489,504	$29,602,905	21.75%
18	Regulated Utilities	$463,348	$729,397	$1,192,413	0.88%
19	Tuition Reimbursement to VA Employees	$0	$0	$0	
20	Miscellaneous Non-Procurement Obligations	$2,642,964	$2,962,449	$5,605,413	4.12%
21	CHAMPVA, Spina Bifida Health, Children of Women Vietnam Veterans, Foreign Medical Program, and other Health Administration Center health care programs	$0	$0	$0	0.00%
22	Special Adaptive Housing Inspections	$0	$0	$0	
23	State Approving Agency	$0	$0	$0	
	Total Exceptions in FY 2009	$46,160,456	$70,092,693	$116,253,149	85.43%
	Total Non-Exceptions in FY 2009	$465,499	$19,359,928	$19,825,427	14.57%
	Total in FY 2009	$46,625,955	$89,452,621	$136,078,576	100.00%

Question 4: The private sector utilizes various accounting and financial systems to track their income and expenditures. Can the department utilize similar commercial off the shelf (COTS) products, and make a few modifications to build a readily usable program that will assist them in getting a better idea of its expenditures. If the answer is no, please provide the Committee with an explanation of the differences between the government and private sector that would prohibit the use of a COTS product.

Response: VA can use commercial off the shelf (COTS) products for financial and accounting transactions and reporting. There are a number of COTS products available which provide Federal Government financial and accounting software. Vendors typically work with agencies to configure or tailor the software to meet agency needs and satisfy specific requirements. COTS products that are not designed for Federal Government finance and accounting require much customization to accommodate the budgeting process unique to Federal agencies. Implementation of any COTS product, with VA's size and complexity, is high risk, tends to cost more than it should, and takes many years to deploy. Our current accounting system (as of FY 2010) provides us with the total amount of 1358 spending data. VA's Logistics Data Warehouse provides the breakout of 1358 spending data by category.

Question 5: It is apparent to the Committee that the Department needs an integrated financial management and logistics accounting system as mandated by OMB in 2001. Please provide the Committee with a detailed plan for the replacement system of the FLITE program, including a timeline for implementation, to include development timelines.

Response: In general, we agree that VA would benefit from replacing our current financial system with an integrated financial management system. In making the determination of when such a replacement should happen there are several key considerations. These considerations include: how well the current system is functioning today and is expected to function in the future; how much it costs to operate the current system; how much it will cost to replace the current system; how much risk there would be in implementing a new system; what other financial management challenges we face; and the relative priority and impact of other challenges versus the need to replace the current financial system.

Earlier this year when we reevaluated all of our financial management challenges, risks, and priorities, we considered all of these questions and determined that now was not the best time for tVA to replace the current financial system. Our current system has resulted in a clean audit opinion on our financial statements for 11 years in a row. It only costs $15 million to operate. There is relative low risk with maintaining the system for the foreseeable future. On the other hand, the Financial and Logistics Integrated Technology Enterprise (FLITE)/Integrated Financial Accounting System (IFAS) solution would have cost an estimated $500 million and carried very high implementation risks. We will reevaluate our financial system environment in another 2–3 years and then decide whether to undertake a replacement of VA's Financial Management System (FMS). At that time, if a decision is made to replace FMS, VA will develop a detailed plan for implementation.

The Honorable Cliff Stearns, Deputy Ranking Republican Member

Question 1: Two years ago the VA had $6.9 billion in miscellaneous obligations. Today there are $12 billion in miscellaneous obligations. What is the appropriate use of the miscellaneous obligations classification? Does the VA feel that $12 billion in miscellaneous obligations is the appropriate use of this code? What does the VA consider as an acceptable level of expenditure in the miscellaneous obligations category?

Response: According to VA records, miscellaneous obligations totaled $9.8 billion in FY 2007. The $6.9 billion in miscellaneous obligations cited in the Government Accountability Office (GAO) report for FY 2007 refers only to those miscellaneous obligations used by the 21 VISNs (No. 1 thru 23), but did not include amounts attributable to other Veterans Health Administration (VHA) and VA organizations in FY 2007. The GAO report cited an additional $2.9 billion during this same time frame applicable to miscellaneous obligations for drugs, medicines, and other supplies, and for various fee-based medical, dental, and other services. In FY 2008, the number of recorded miscellaneous obligations was $11.3 billion, and in FY 2009, the number was $12.4 billion. This represents an average growth rate of about 9 percent per year, which roughly corresponds to the annual increase in the VA budget along the same time frame.

The usage of the miscellaneous obligation form is defined by VA policy. VA may use Form 1358 as an obligation control document for any of the 23 approved uses, or when the Head of Contracting Activity (HCA) or contracting designee has determined that a contract is *not* required. A copy of the Appendix to VA policy detailing these approved uses is attached. In reviewing the transactions, the bulk of the items fall under fee care and pharmacy. Therefore, while we agree that internal controls must be strengthened and the type of use must be enumerated on the Form, VA believes that the current level of expenditure is appropriate. VA continues to examine the process for improvements.

Question 2: What steps is the VA taking to prevent the misuse of miscellaneous obligations from being used in future financial reporting? What steps is the VA taking to clarify current expenditures listed as miscellaneous obligations? How much expenditure would be classified as fraud or misuse within the miscellaneous obligations category?

Response: VA has established clear policy on the use of miscellaneous obligations. In January 2009, VA's Chief Financial Officer reissued policy for use of miscellaneous obligations, including a prohibition of any individual performing more than one of the following key approval functions:

- Requesting the miscellaneous obligation
- Approving the miscellaneous obligation
- Recording the obligation of funds
- Certifying delivery of goods or services and approving payment.

In addition, VA modified its Integrated Funds Distribution Control Point Activity (IFCAP) system to identify whether a given purchasing transaction uses Form 1358, *Use of Estimated Miscellaneous Obligation or Change in Obligation,* or Form 2237, *Request, Turn-In, and Receipt for Property or Services.* As of September 2009, these data are now sent to VA's Financial Management System to distinguish between these two types of transactions. This new capability identifies transactions originated on a Form 1358 (commonly referred to as a miscellaneous obligation) and helps VA monitor the use of this form. To assist field activities with monitoring compliance with policy, VA developed two new IFCAP reports to help facilities accomplish their oversight responsibilities:

- A *Segregation of Duties Violations Report* is available for management to ensure appropriate segregation of duties between the approval functions involved in using a Form 1358, and
- An additional report, the *Missing Fields Report,* identifies fields (vendor, contract number, purpose) that have not been completed as required.

The VA Secretary recently approved an additional measure to improve internal controls over the use of miscellaneous obligations. The new measure includes requiring facility directors to certify quarterly that their facility meets the four levels of segregation of duties as defined by VA policy. In completing the certification, the facility director must verify that he or she has reviewed the segregation of duties violations report in the IFCAP system. In addition, the facility Information Security Officer is required to certify the report. VA policy on miscellaneous obligations has been updated to include the quarterly certification requirements and related processes. During site visits where miscellaneous obligations are reviewed, VA's Management Quality Assurance Service (MQAS) will conduct an independent review of the facility's certifications to ensure they accurately represent the state of operations at that facility.

The Secretary has also directed that VA lay out a long-term plan to implement automated information technology controls to prevent segregation of duties issues and other issues surrounding the use of miscellaneous obligations. These changes will include modifying IFCAP to systematically enforce the segregation of duties, verifying that a system user has only one distinct role in each key action required to process a miscellaneous obligation. System changes will also force required data elements such as purpose, vendor, and contract number to be populated on all miscellaneous obligations. Lastly, the IFCAP system will also be modified to route any miscellaneous obligation to the contracting office for determination of proper use if it does not fall within one of the 23 pre-approved exceptions.

VA is also considering a programming change that would provide a drop-down menu of the allowable exceptions for using a miscellaneous obligation, as detailed in VA policy, requiring an entry that would specifically identify the type of miscellaneous obligation. This change is important as it would essentially remove the "miscellaneous" aspect of these obligations and provide for easier reporting of obligations by category.

Over the last two fiscal years (FY 2009 and FY 2010 year-to-date), MQAS reviewed a total of 747 miscellaneous obligations totaling $141.5 million at 55 sites within VA and found no instances of fraud. During that same time frame, MQAS found 25 of 747 instances (3.3 percent) totaling $1.1 million of $141.5 million reviewed (0.8 percent) where the site misused the Form 1358 for a purpose that is explicitly listed in VA policy as an "invalid use" of a miscellaneous obligation.

It should also be noted that since the 2008 GAO study, VA's efforts have significantly reduced practices inconsistent with VA policy. For example, in FY 2008, 71 percent of transactions sampled were in violation of the four-person Separation of Duties standard. In FY 2010, this has decreased to 29 percent. The number of sampled transactions with a blank vendor field has decreased from 48 percent in FY 2008, to 13 percent in FY 2010. The blank or incomplete data field problem is now in single digit percentages. While the remaining challenges are still large, and we are addressing them, the data shows significant progress.

Question 3: What is VA's plan to establish proper cost control and oversight? How is this plan different from 2 years ago from the last GAO report? How long will it take to implement this plan?

Response: In response to the GAO report from 2007, VA modified its IFCAP system to distinguish whether a transaction originated on a Form 1358 or Form 2237. As of September 2009, this data is now sent to VA's FMS to distinguish between these two types of transactions. VA has also developed two new IFCAP reports to help facilities accomplish their oversight responsibilities. The *Segregation of Duties Violations Report* is used to ensure appropriate segregation of duties for approval functions involved in using a Form 1358 and an additional *Missing Fields Report* identifies where the vendor, contract number, or purpose data fields have not been entered.

Also, in response to the GAO report, MQAS expanded their site reviews to include a review of miscellaneous obligations, and VHA's Financial Quality Assurance Managers at each network review a percentage of all VHA stations miscellaneous obligations for segregation of duties and documentation of vendor, contract number and purpose.

The VA response to GAO's report included a commitment from VA to establish policies and procedures regarding the proper segregation of duties, requiring proper documentation in IFCAP, and ensuring review by contracting officials for certain miscellaneous obligations.

As assured in our response to the GAO report, VA implemented the recommendations associated with establishing policies and procedures to enhance internal controls over financial reporting. However, the independent reviews conducted by MQAS indicated that policies and procedures were not enough to ensure compliance with strong internal controls. Recognizing the GAO recommendations did not improve the situation quickly enough, VA took additional action, over and above the recommendations made by GAO, to strengthen oversight of the segregation of duties requirement. In January 2009, VA's Office of Finance reissued policy for use of miscellaneous obligations reaffirming the prohibition against one individual performing more than one key function in the miscellaneous obligations process. The policy also prohibited the use of miscellaneous obligations for uses other than 23 accepted uses unless HCA approval is obtained.

VHA has also begun an aggressive communication campaign to ensure field stations are aware of requirements for use of miscellaneous obligations. VHA communicated the GAO findings, the continued MQAS findings associated with field station non-compliance with policy, and VA policy requirements during national VISN network director calls, national fiscal officer calls, and in writing via national email distribution groups for VHA facility and fiscal office leadership and staff.

On June 29, 2010, the Secretary mandated that facility directors certify quarterly that their facility meets the four levels for segregating duties. For the quarter ending September 30, 2010, and every quarter thereafter, each facility director is required to verify that the four functions have been separated. The facility Information Security Officer is also required to certify the report. As a result of the Secretary's certification mandate, VA updated its miscellaneous obligations policy to provide facilities with guidance on how to timely and accurately implement the quarterly certification requirements.

"VA's Office of Information and Technology, in collaboration with business stakeholders, has developed a plan to provide a longer-term IFCAP system solution that would automate many of the controls to enforce compliance within the system. The initial version of this plan was delivered on 1 September 2010. Following the tenets of the Program Management Accountability System (PMAS), this plan fully covered the first phase of work and laid out preliminary steps for the second and final phase. The plan will be updated again by 17 December 2010 to fully cover the second and final phase." This solution will replace the FLITE information technology solution originally included in our response to the 2007 GAO report.

To enhance oversight, during FY 2011 site visits where miscellaneous obligations are reviewed, MQAS will conduct an independent review of each facility's certifications to ensure they accurately represent the state of operations at that facility. MQAS is also planning a special, in-depth review of the use of miscellaneous obligations at one VISN and all of its associated medical facilities in FY 2011. The in-depth review will clearly identify the root causes of findings of non-compliance so that recommendations that correct the underlying root causes can be made and addressed by the Department. MQAS and VHA's Financial Quality Assurance Managers will also continue their existing reviews of miscellaneous obligations to measure field facilities' compliance with policy.

Since first receiving GAO's report 2 years ago, VA has made significant policy changes to address the concerns raised about VA use and oversight of miscellaneous obligations. VA has tightened requirements to enforce segregation of duties and to ensure proper review of Form 1358. New reports and data are available to help managers conduct the proper oversight. VA also established an independent review mechanism to measure compliance with policy on miscellaneous obligations and made additional changes to policy, such as the Secretary's mandate requiring quarterly facility certification. VA will continue to pursue technological solutions to automate the internal controls over miscellaneous obligations. These new efforts have the highest management attention and are being tracked by the VA Secretary and VA Chief Financial Officer.

Question 4: What is the penalty for a contracting officer when they fail to follow proper procedures as detailed in VAAR and other regulations? Does VA enforce these penalties? Should there be more penalties? How many employees have lost their jobs for not complying with regulations? How many employees have been transferred to non-contracting positions for not complying with regulations? What are the criteria that the VA uses to determine a contracting officer's employee performance? Does the VA use contractors for its contracting? If so, what steps are used to maintain proper oversight?

Response: Contracting officers who fail to comply with statute, regulation, policy, and/or procedures subject themselves to corrective, performance-based and/or disciplinary actions. Although some may consider these actions punitive, performance-based and disciplinary actions taken against government personnel, to include contracting personnel, are designed to correct or improve future behavior and performance. Labor-management agreement obligations require performance-based and disciplinary actions to be progressive in nature. Supervisory personnel and the HCS are charged with responsibility for taking these actions with respect to contracting personnel assigned to their respective organizations.

Prior to initiating formal performance-based or disciplinary action, most supervisors provide verbal and/or written counseling to employees. Performance-based actions include informal and formal counseling; placing the employee on a formal performance improvement plan, remedial training, coaching, and closer supervision to help the employee improve. Formal disciplinary actions include letters of admonishment and reprimand, and suspension from duty without pay. In addition, the potential exists for further adverse actions which could include suspensions of 14 days or greater, demotion in grade, or removal from Federal service. VA's Office of Acquisition, Logistics, and Construction (OALC) does not track disciplinary or performance-based actions taken against contracting personnel across the enterprise for failure to comply with statute, regulation, policy or procedures, as these actions are effected through a localized supervisory structure. OALC is unaware of any employees losing their jobs or being reassigned to non-contracting positions for failures in this regard. Government contractor personnel are used as contract specialists and consultants on a small scale and their performance is closely supervised and monitored by government personnel, also in a localized manner.

Though both types of actions occur locally, through training and Department-wide coordination via VA's Acquisition Reform Initiative, Acquisition Academy, Senior Procurement Council activities, VA will continue to foster enterprise management as necessary and develop the acquisition workforce to ensure that fewer and fewer of these instances occur.

Question 5: Does VA require all contracts to be signed off by a head contracting authority? Are contracts that have not been approved by all appropriate parties within the VA considered legal and valid? Would VA support legislation that would require all contracts over $100,000 must be approved by the contracting officer, the HCA and OGC to be considered a legal offer?

Response: VA does not require contracts be signed off by heads of contracting activities (HCAs). Warranted contracting officers, as the government's legal representative in contractual matters, are the only authorized authority to legally bind the government by contract. All contracts executed by authorized contracting officers are considered legally binding and valid. HCAs and legal counsel do not have authority to enter into contracts on behalf of the government.

VA believes adequate authority currently exists to establish the necessary policy and guidance on the execution of contracts over $100,000, and no additional legislation is needed to further enhance its acquisition program. VA Acquisition Regulation 801.695 delineates VA's appointment of HCAs, whose overall responsibility includes the management of the procurement program assigned to the activity. Office of Acquisition and Logistics (OAL) Information Letter (IL) 001AL–09–02, *Integrated Oversight Process (IOP),* establishes the various contract review thresholds. Contracts become legally binding once signed by an authorized contracting officer.

VA's contracting officers are warranted to sign contracts in accordance with the Office of Procurement Policy Letter 05–01, *Developing and Managing the Acquisition Workforce,* dated April 15, 2005. This policy has been codified in VA via OAL ILs 049–07–5, *Department of Veterans Affairs Acquisition Workforce Certification Program,* and 001AL–09–03, *Updates to Federal Acquisition Certification in Contracting (FAC–C) Program,* which define the implementation process for the Department and provides updates to the FAC–C training policy.

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