



**Department of Veterans Affairs
Office of Inspector General**

**Review of Interagency Agreement
between the Department of
Veterans Affairs**

and

**Department of Navy, Space and
Naval Warfare Systems Center
(SPAWAR)**

To Report Suspected Wrongdoing in VA Programs and Operations

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Executive Summary

Introduction

At the request of the Secretary of Veterans Affairs and Ranking Minority Member of the House Committee Veterans' Affairs, we conducted a review of the Interagency Agreement (IAA) between the Department of Veterans Affairs (VA), Office of Information and Technology (OI&T), Office of Enterprise Development (OED), and the Space and Naval Warfare Systems Center (SPAWARSYSCEN), hereinafter referred to as SPAWAR.

The IAA was entered into in November 2007, under the authority of the Economy Act, 31 U.S.C. § 1535, to provide “government employee and contractor technical support for analysis, planning, program review and engineering services for Information Management/Information Technology (IM/IT) initiatives.”

Although the IAA does not include specific requirements or deliverables, VA obligated and transferred \$2.5 million to SPAWAR when the agreement was executed. According to the IAA, this was the total estimated funding needed for Fiscal Year 2008. Since the agreement was executed in November 2007 funding has increased from \$2.5 million to \$66 million. Twenty-two (22) amendments supporting 30 projects have been issued against the IAA. Sixteen (16) of the 22 amendments, totaling \$25,695,066, were issued in September 2008. Currently, there are 26 projects in the pipeline to be issued which will add an additional \$73 million to the IAA. VA obligates the funds to the IAA at the time each amendment is executed. The amount obligated represents the amount identified in the Independent Government Cost Estimate (IGCE) contained in the accompanying Statements of Work (SOW).

Results

We found that the IAA was entered into without an adequate analysis to determine that the “use of an interagency acquisition is in the best interest of the Government” as required by FAR 17.503. We also found that neither VA nor SPAWAR has complied with the terms and conditions of the IAA. We found that the SOW and the IGCEs that VA was supposed to develop were actually developed by SPAWAR and SPAWAR contractors. We also found that the SOW were often broad and general in nature and lacked specific deliverables. We also identified amendments that were outside the scope of the IAA as well as unauthorized work being performed on projects that were not within the scope of the amendments.

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Problems with the implementation of the IAA are due to poor administration by both OED and SPAWAR. OED was not performing adequate oversight to ensure that funds were spent appropriately. For example, VA was unaware that SPAWAR contracted out approximately 87 percent of the work requested through the IAA. OED could not tell us who was performing the work under the IAA, how many people were providing services, or where they were located. Although the amendments to the IAA indicate that SPAWAR anticipated employing the services of 295 FTE, the resource roster prepared by SPAWAR shows that only 217 FTE are providing services. Of the 217 FTE, 22 are SPAWAR employees and the remaining 195 FTE are working for contractors and subcontractors. The IAA does not address the issue of management fees paid to SPAWAR for providing services under the IAA and OED was unaware of the fees being charged by SPAWAR. Also, SPAWAR was unable to provide justification or authority to charge a 10 percent management fee.

We also attribute problems with the administration of the IAA to insufficient technical and legal reviews conducted by the Office of Acquisition, Logistics & Construction (OAL&C) and the Office of General Counsel (OGC), respectively. These reviews should have identified that amendments were outside the scope of the IAA and that the SOW did not include specific tasks or deliverables or were inconsistent with the corresponding amendment. We concluded that OED has relinquished its oversight role of financial performance and work performed under the IAA to SPAWAR.

In addition to problems with VA's failure to properly administer the IAA, we also identified deficiencies on the part of SPAWAR. We determined that SPAWAR did not ensure that VA paid fair and reasonable prices for the services provided. SOW for task orders that SPAWAR issued to contractors did not identify specific tasks or deliverables. We also found that SPAWAR contractors were subcontracting the work to other SPAWAR contractors at the direction of SPAWAR. This practice unnecessarily increases the cost because VA must pay an additional layer of management fees and overhead. In reviewing contracts that SPAWAR issued to vendors performing services under the IAA, we found that SPAWAR executed an option year more than 6 months prior to the expiration of the contract's base year. Because the option year prices were higher, VA unnecessarily incurred higher costs for the work performed by this contractor.

Neither the IAA nor any of the task orders issued by SPAWAR to its contractors that we reviewed contain the VA required system security and privacy requirement clauses for: Information Security, Cyber Security, and Privacy Policy. Absence of these requirements places VA systems and information at risk by SPAWAR and its contractors.

In addition, an Amendment that required SPAWAR to purchase IT equipment and software contained a provision requiring SPAWAR to comply with OI&T established policy requiring the use of NASA SEWP IV contracts for all IT acquisitions and that

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waivers must be requested and approved through the IT Tracker approval process. Amendment 20 to the IAA struck the requirement that SPAWAR use the SEWP contract. However, no one in VA was able to provide any documentation that a waiver was processed.

Suggestions

We suggest that VA take steps to re-evaluate the IAA and determine whether it is in the best interests of VA to continue obtaining services through this type of agreement. If it is determined to be in VA's interest to continue with an IAA to obtain services to support OED, we suggest issuing a new IAA that complies with the requirements of Information Letter (IL) 001AL-09-04, dated March 23, 2009. The IL establishes VA policy for Managing Interagency Acquisitions, and incorporates requirements contained in guidance issued by the Office of Federal Procurement Policy in a Memorandum dated June 6, 2008, titled "Improving the Management and Use of Interagency Acquisitions."

We also suggest that:

- The restructured IAA should emphasize training of VA personnel to better manage OED programs and operations and to learn to develop SOW and monitor contractor performance. It should also require VA personnel to actively participate in the development, award, and administration of contracts to third parties to provide services under the IAA.
- OAL&C contracting officers and OGC need to implement processes to improve their technical and legal reviews of the IAA, amendments or modifications thereto, and the SOW.
- VA should be required to prepare the SOW with specific tasks, deliverables, defined delivery dates, and performance measures.
- OED should be required to develop IGCEs as a method of determining the reasonableness of proposed cost estimates. The IGCEs should identify labor hours and labor categories by task. OED in conjunction with OAL&C should determine, on a task basis, whether it is in VA's best interest to enter into firm fixed-price contracts with third parties versus cost-reimbursement or time and materials contracts.
- OED should require SPAWAR, or any other Government entity that is party to an IAA, to provide financial reports that identify the hours worked by labor category and task, and indicate whether the employee is a Government or contract employee.
- All amendments and SOW should identify VA program managers who are actually performing those duties and responsibilities, and are accountable for the outcomes.

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- VA should establish policies and procedures for program managers to certify that they have reviewed monthly SPAWAR financial documents and progress reports and have concurred with them.
- VA should establish a single point of contact within OED to warehouse all documents and deliverables required under the IAA and amendments. In addition, all VA program managers and project officers should be required to maintain all documents provided by SPAWAR under the IAA and Amendments.
- Costs associated with Program Management Support provided by SPAWAR should be proposed and reported under a separate amendment.
- VA should cease issuing amendments with multiple unrelated projects and multiple amendments for the same project/work. Previously issued amendments can be modified to add additional tasks, and such tasks can be tracked and reported by SPAWAR.

(original signed by:)
MICHAEL GRIVNOVICS
Director, Division B
Office of Contract Review

Introduction

Purpose

At the request of the Secretary of Veterans Affairs and Ranking Minority Member of the House Committee Veterans' Affairs, we conducted a review of the Interagency Agreement (IAA) between the Department of Veterans Affairs (VA), Office of Information and Technology (OI&T), Office of Enterprise Development (OED), and the Space and Naval Warfare Systems Center (SPAWARSYSCEN), hereinafter referred to as SPAWAR. Our review objectives included an assessment of:

- The IAA's administrative requirements
- Compliance with the terms and conditions of the IAA
- VA's management and oversight of the IAA
- SPAWAR's management of the IAA
- Services or products delivered
- Other matters affecting the IAA

Background

On November 7, 2007, OI&T, OED entered into a one year IAA with SPAWAR under authority of the Economy Act, to provide "government employee and contractor technical support for analysis, planning, program review, and engineering services for Information Management/Information Technology (IM/IT) initiatives."

OED is a major organization within OI&T that serves as the chief advisor to the Assistant Secretary for Information and Technology for all enterprise application development activities. Development consists of planning, developing (or acquiring), and testing applications that meet VA's business requirements. It provides day-to-day direction over all solutions developed by OI&T for VA business units.

SPAWAR is a component of the United States Navy located in Charleston, South Carolina. SPAWAR provides knowledge superiority to joint warfighters and peacekeepers through the development, acquisition, and life cycle support of effectively integrated Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) systems, Information Technology (IT), and Space capabilities. The IAA is being performed by SPAWAR Charleston's Information Assurance and Engineering Division, Health Systems Organization (HSO). Within the HSO, the following structure has been established to provide services to VA under the IAA:

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- Program Manager (PM) has been designated to have direct authority over all VA related programs/projects
- Deputy PM of Execution – responsible for the day to day management and oversight of all VA operations and Program Support Office
- Program Support Office – service level support in project management, project planning, cost management, HR support, administration, and logistics
- OPERATIONS, IPRM and OED –Integrated Project Team Leads/Operations Managers responsible for cost, schedule, performance for all projects assigned

The scope of the IAA is to “provide VA with appropriate resources to assist VA with IM/IT program and software program and project management.” This includes support services for the following eight general tasks:

- Application Development Assessment
- Program Management and Training & Mentoring
- Workforce Competency
- Service Oriented Architecture
- Program/Project Management
- Information Assurance
- Development and Management of Secure Infrastructure
- IM/IT Project Engineering Assistance

Although each task in the IAA includes a broad description of the nature of the work to be performed, they are not written for a specific project or request for work.

The IAA is an overarching agreement that does not include a Statement of Work (SOW) or specific deliverables. SPAWAR provides the services listed above after receiving a formal tasking from VA via a Task Initiation Form (TIF). Under the IAA, VA is responsible for issuing the TIF and an accompanying SOW. Once received and accepted by SPAWAR, SPAWAR representatives will countersign the TIF and provide a signed copy to VA. The IAA requires that in addition to the TIF, each SOW submitted by VA will have a designated Point of Contact (POC) identified for the planning and implementation of the SOW. The IAA specifies that “development of the TIF, and its accompanying SOW, is VA’s opportunity to shape and define the project.” The IAA further provides that once collaboration is complete and agreement is reached concerning the terms and conditions of the TIF and SOW, resulting project management and execution is within the *exclusive purview* of SPAWAR.

The IAA sets forth a process for modification of the project identified in the TIF and accompanying SOW. The formal stage of this process is required to be accomplished and documented through the use of a Project Change Request (PCR) to the existing

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SOW. The IAA also delineates the requirements for a SOW and a PCR or modified SOW. A SOW must include the scope of the tasks, a detailed description of deliverables to be produced by SPAWAR, a delivery schedule, major milestones, performance measurement parameters, acceptance criteria, estimated total cost for the SOW, and security requirements. A PCR or modified SOW is required to change information contained within the original SOW including changes to tasking and cost estimates. Although there were changes to the projects, no PCRs were issued.

Although the IAA does not include any specific requirements or deliverables, VA obligated and transferred \$2.5 million to SPAWAR when the agreement was executed. According to the IAA, this was the total estimated funding needed for Fiscal Year 2008. Since the agreement was executed in November 2007 funding has increased from \$2.5 million to \$66 million. Twenty-two (22) amendments supporting 30 projects have been issued. Sixteen (16) of the 22 amendments, totaling \$25,695,066, were issued in September 2008. Currently, there are 26 projects in the pipeline to be issued which will add an additional \$73 million to the IAA. VA obligates the funds to the IAA at the time each amendment is executed. The amount obligated represents the amount identified in the Independent Government Cost Estimate (IGCE) contained in the accompanying SOW. These funds are transferred to SPAWAR when the amendment is executed.

Each amendment to the IAA identifies the number of resources or Full Time Equivalents (FTE) required to provide the requested services. The total number of FTE requested by VA through Amendment 22 is 295. A resource roster provided by SPAWAR indicates that VA funds have been used to purchase the services of 217 FTE of which 22 are SPAWAR employees. The remaining FTE are contract employees procured by SPAWAR or by SPAWAR contractors through subcontracts. As of March 31, 2009, 87 percent of the VA funds expended by SPAWAR were for contractor and subcontractor effort that includes materials and services.

On September 11, 2008, the parties executed Amendment 3, which extended the IAA through September 2013. Appendix A provides a listing of all projects under Amendments 1 through 22 with the project title, period of performance (POP), and funding.

Scope and Methodology

To address the objectives of this review, we reviewed the IAA, Amendments 1 through 22, SOW issued thereunder, and information contained in the project managers files as provided by OED. We also interviewed the Principal Deputy Assistant Secretary for Information & Technology, VA personnel in OED, Office of Acquisition, Logistics, and Construction (OAL&C), Office of General Counsel (OGC), SPAWAR, and SPAWAR

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contract employees. In addition, we conducted a site visit to the SPAWAR, South Carolina facility to review SPAWAR project manager files, contract documents, funding documents, and to hold discussions with SPAWAR management to obtain information concerning the SPAWAR management and operation of the IAA.

Results

We conclude that neither VA nor SPAWAR has complied with the terms and conditions of the IAA relating to the administration of the agreement. We also identified two amendments that were outside the scope of the IAA as well as work that was being done under another amendment that was outside the scope of the amendment. We also conclude from that the manner in which the IAA is administered that OED appears to have relinquished its responsibilities for program management and support to SPAWAR and SPAWAR's contractors and subcontractors. In addition, because neither VA nor SPAWAR has implemented any cost controls, VA may be paying more than necessary to obtain the required services.

Issue 1: Compliance with Interagency Agreement Terms and Conditions

The structure of the IAA requires VA to order work via TIFs and accompanying SOW. This has been done by issuing amendments to the IAA. Each Amendment is a standalone document in that it should include all documents required by the IAA and documents showing that the Amendments reflect the exercising of the contracting officer's and program manager's fiduciary responsibility. We reviewed the Amendments awarded under the IAA, and SOW issued under the Amendments. We also interviewed OED and SPAWAR personnel to obtain an understanding of the processes used to award amendments. We identified several areas where OED and SPAWAR were not in compliance with the terms and conditions of the IAA.

Determination and Findings

The IAA states that FAR 17.503 and DFARS 217.504 require that a Determination and Findings (D&F) be included as part of the IAA process. Our review of the IAA documents disclosed that the D&F signed by the contracting officer to support the use of the IAA does address the specific requirements of FAR 17.503 (b), which are:

If the Economy Act order requires contract action by the servicing agency, the D&F must also include a statement that at least one of the following circumstances applies:

- (1) The acquisition will appropriately be made under an existing contract of the servicing agency, entered into before placement of the order, to meet the requirements of the servicing agency for the same or similar supplies or services;

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(2) The servicing agency has capabilities or expertise to enter into a contract for such supplies or services which is not available within the requesting agency; or

(3) The servicing agency is specifically authorized by law or regulation to purchase such supplies or services on behalf of other agencies.

In addition, OAL&C was unable to provide documentation to support statements included in the D&F. The D&F states that, “Use of an interagency acquisition is in the best interest of the Government” and “supplies or services cannot be obtained as conveniently or economically by contracting directly with a private source.” OAL&C was unable to produce any analysis or other documentation to support these statements.

OAL&C is also responsible for review of each amendment and the accompanying SOW to ensure compliance with applicable laws and regulations. Each amendment bears the signature of a contracting officer documenting concurrence. During discussions with the contracting officer, we were informed that his reviews of the first 20 Amendments were cursory, at best, as his focus was “mission oriented.” We noted, however, that when the contracting officer did raise issues on the sufficiency of later amendments, particularly the lack of deliverables, he received push-back from OED. In one e-mail, the Deputy Chief Information Officer (CIO), OED stated that SPAWAR would cancel all work on the project if the amendment was not processed.

OGC performed a legal sufficiency review of the IAA, including the D&F and all amendments. The IAA review in November 2007 included an effective date through September 30, 2008, for a total value of \$2.5 million. The POP was extended under Amendment 3 through September 20, 2013, and the total funding of the IAA through Amendment 22 is \$66 million. There is no evidence that OGC questioned the applicability of the November 2007 D&F that supported use of a \$2.5 million agreement or the additional \$64 million in funding.

In addition, the OGC attorney who performed the reviews of the IAA and subsequent amendments stated the legal sufficiency review included determining whether the proposed amendment was within the IAA scope, and that funding was available. Review of the SOW is not included for the purposes of determining legal sufficiency. Even with this limited review, OGC did not identify that Amendments 10 and 19 contained requirements that were outside the scope of the IAA. OGC did not recognize that some amendments were really modifications of prior amendments and that it was inconsistent with the terms of the IAA to modify amendments in this manner.

Task Initiation Forms (TIF)

The IAA states that each formal tasking under the IAA will be accomplished via a TIF. The IAA requires that the TIF be prepared by VA. As stated in the IAA, the TIF is the VA's opportunity to shape and define the project. It is to be signed and issued by the VA and countersigned by SPAWAR. It must identify the principal participants for both VA and SPAWAR, the dollar value of the task, POP, description of the task, and expected high level deliverables. Our review disclosed that TIFs were written by SPAWAR, and were limited to a project description, task description, and project impact and estimated cost statement. VA program officials did not have copies of the TIFs and told us that it was SPAWARs responsibility to prepare them.

Statements of Work

The IAA specifies that each TIF will be accompanied by a SOW. Although it is VA's responsibility to prepare the SOW, to include an IGCE, for all projects, we concluded that SPAWAR and SPAWAR contractors have been primarily responsible for the preparation of the SOW.

Neither OED personnel nor SPAWAR representatives were able to definitively tell us who prepared the SOW and both claimed it was a collaborative effort. Discussions with OED disclosed that, at most, OED only prepares Section 8 of the SOW which identifies task requirements. One SPAWAR representative indicated that SPAWAR assisted VA and collaborated in drafting SOW. We were also informed by a VA employee that SPAWAR contractors participated in preparing the SOW. Although we could not confirm this statement through our interviews, we identified other evidence to support the statement. We noted that the cover page on the SOW indicated the SOW was prepared by SPAWAR or on behalf of SPAWAR. None of the SOW indicated that they were prepared by VA personnel. The cover page for one SOW specifically stated that it was prepared by a SPAWAR contractor. In addition to the fact that this is inconsistent with the terms of the IAA, contractors who could eventually work under an amendment should not be involved in preparing the SOW as it could represent a conflict of interest.

Although collaboration between OED and SPAWAR to achieve a final SOW is within the terms and conditions of the IAA, as the customer, VA should be responsible for serving as the lead on writing all SOW.

We also found that, with few exceptions, the SOW were very broad and general in nature and none of them included major milestones that serve to indicate level of progress as required by the terms and conditions of the IAA. Although the work was to be paid for

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on a time and materials or cost-reimbursement basis, the SOW did not include the number of personnel, qualifications, or hours needed to complete the project.

The IAA also specifies that SOW will include signatures of the SPAWAR and VA POCs to evince that agreement is reached with regard to all SOW terms and conditions. Our review disclosed that most SOW did not include signatures. We found that VA POCs were not identified at all or were individuals who were not serving in the role as a VA program manager for the initiative addressed in the SOW. In one case, when we attempted to contact the individual listed as the program manager, we found that he had left VA and was working for another agency. When we contacted the individual at his new place of work, he told us that he was never the program manager.

Deliverable Schedules

The SOW were essentially a boilerplate format that we were told was provided by SPAWAR. Section 8 of each SOW, Specific Tasks, was supposed to identify the specific requirements for the SOW. Section 10 of the SOW was to identify deliverables and set forth a delivery schedule.

We found several SOW that described deliverables in Section 8 that were not identified in the corresponding Schedule of Deliverables contained in Section 10. For example, in the SOW for Amendment 21, Chapter 33 Post 9/11 GI Bill, Section 8 identifies the following deliverables:

- Enterprise Master Data Management (MDM) Strategy
- Interface Control Documents (ICD)
- Establishment and Operation of a Secure (B2B) Data Connection
- Design, Develop, Implement and Operate an Integrated Data Mart
- Design, develop, and modify interfaces to extract key data from VA legacy systems
- Develop a site accreditation package for the installed configuration, suitable for incorporation into the System Security Authorization Agreement

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However, Section 10.1 Deliverable Schedule does not specifically address any of these deliverables. It only states the following:

10.1 Deliverables Schedule

1	PROJECT MANAGEMENT PLAN and PROJECT DOCUMENTATION	7.1.6.x 8.1.1	Sixty (60) working days after receipt of award.
	Project Management Plan		
	Work Breakdown Structure (WBS)		
2	MONTHLY REPORT	7.1.6.x	Initial report: Within forty-five (45) business days after award Monthly Report: On or before the 20th day of the following calendar month
	Material Purchasing Report		
	Monthly Financial Reports		
3	WEEKLY STATUS REPORT / Project Status Review	7.1.6.x	Weekly basis
4	Phase-in/Phase-Out Transition Plan	7.2	Within 90 days of notification by sponsor that effort has been terminated

The above example shows that even when a report is required, the contents of the report are either non-specific or do not address the specific tasks and deliverables. The lack of specificity makes it difficult, if not impossible, to monitor performance to ensure VA has obtained the services that it has paid for.

We also found that almost all the Deliverable Schedules in Section 10 of the SOW identified deliverables that are only required if requested by the project officer. One example, on the next page, is the deliverable schedule from Amendment 11, Data Get Well Plan:

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#	DELIVERABLE	SOW REFERENCE	DELIVERY DESCRIPTION
1	PROJECT MANAGEMENT PLAN and PROJECT DOCUMENTATION	7.1.6.x 8.1.1	Sixty (60) working days after receipt of award.
	Project Management Plan		
	Work Breakdown Structure (WBS)		
2	MONTHLY REPORT	7.1.6.x	Initial report: Within forty-five (45) calendar days after award Monthly Report: On or before the 20th day of the following calendar month
	Material Purchasing Report		
	Monthly Financial Reports		
3	WEEKLY STATUS REPORT	7.1.6.x	Weekly basis
5	Meeting Minutes	8.1	Within one (1) calendar day after scheduled meetings and briefings
6	Project Status Review	8.1	As needed

In addition to the fact that there are no requirements that the reports address the tasks identified in Section 8 of the SOW, there was a footnote to the requirements for the Meeting Minutes and Project Status Review deliverables stating that they were to be provided if requested by the Project Officer.

Identifying deliverables on an “as requested” basis creates an issue relating to the cost of the work being procured. The IGCE in the SOW represents the estimate of cost for the project, and is the basis for funding by VA. If the cost estimate included time and materials needed to prepare these reports and the reports were never required, the costs were overestimated. During our review, SPAWAR provided OAL&C with volumes of documents including a number of reports that VA personnel in OED did not have. VA appears to be paying for deliverables that SPAWAR or SPAWAR contractors prepared but VA never requested. We were unable to fully evaluate this issue because there are no invoices from SPAWAR or their contractors or subcontractors that associate costs with deliverables. VA did not make this a requirement in the IAA, amendments, or SOW.

Independent Government Cost Estimates (IGCE)

The IAA requires that each TIF define the dollar value of the task. However, as noted above, the TIF is prepared by SPAWAR, not VA. The amendments prepared by VA

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contain a dollar amount that is used to fund the amendment. Although not required by the IAA, Section 14 of each SOW includes an IGCE. Each IGCE breaks down costs by tasks identified in Section 8 and by labor, travel, materials, and project management costs.

Although VA should be preparing the IGCE, no one was able to provide us with any documentation showing that the IGCEs were prepared by VA personnel. Based on the lack of documentation and our interviews with VA and SPAWAR personnel, we concluded that the IGCEs are being prepared by or on behalf of SPAWAR.

Based on discussions with OED personnel, we learned that VA provides SPAWAR a total amount budgeted for each project prior to the development of the IGCE. This amount is then used by SPAWAR, or its contractors, to allocate costs to labor, materials, travel, and program management for tasks identified in Section 8 of the SOW.

The IGCE included in the SOW is at a summary level only. There is no breakdown by labor categories or hours as usually used to prepare an IGCE. Upon request, SPAWAR was able to provide an example of support for their cost estimates that shows hours by task and the types of labor categories. We also requested such information from VA personnel. VA personnel could not provide any detail support for the IGCE contained in each SOW.

Including hours or skill mix in the IGCE provides a necessary tool for a program manager to determine if the proposed hours by labor category meet the tasks as defined in the SOW.

We also found that the costs cited in the IGCE did not always support the corresponding task. The following is the IGCE for Amendment 21, Chapter 33 Post 9-11 GI Bill:

Task #	Task Title	Labor	ROM			Total
			Travel	Materials	PM Costs ¹	
8.1	Project Management and Subject Matter Expertise	\$2,250,000.00	\$120,000.00	\$20,000.00	\$0	\$2,390,000
8.2	Data Discovery & Documentation Effort	\$700,000.00	\$25,000.00	\$12,500.00	\$74,200	\$811,700
8.3	Develop and Maintain Interface Control Documents	\$400,000.00	\$0.00	\$12,500.00	\$74,200	\$486,700
8.4	Establish and Opearte a Secure (B2B) Data Connection	\$200,000.00	\$0.00	\$550,000.00	\$74,200	\$824,200
8.5	Design, Develop, Implement and Operate Data Orchestration	\$1,500,000.00	\$15,000.00	\$12,500.00	\$74,200	\$1,601,700
8.6	Design, Develop, Implement and Operate an Integrated Data Mart	\$950,000.00	\$15,000.00	\$0.00	\$74,200	\$1,039,200
8.7	Identify, Design, Develop and Modify Interfaces	\$1,300,000.00	\$15,000.00	\$12,500.00	\$74,200	\$1,401,700
8.8	Interface Testing	\$745,000.00	\$15,000.00	\$0.00	\$74,200	\$834,200
8.9	Independent Validation and Verification	\$850,000.00	\$0.00	\$0.00	\$74,200	\$924,200
8.1	Information Assurance and Security	\$780,000.00	\$20,000.00	\$0.00	\$74,200	\$874,200
8.11	Procure, Install & Test Hardware & Software for SPAWAR Host Site	\$0.00	\$0.00	\$1,988,000.00	\$74,200	\$2,062,200
¹ SPAWAR Program Management Costs:						
Total Cost		\$9,675,000.00	\$225,000.00	\$2,608,000.00	\$742,000.00	\$13,250,000.00

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The table shows labor costs of \$2.25 million for Task 8.1, Project Management and Subject Matter Experts. However, a review of Task 8.1 shows that the task is for the services of one “seasoned project manager.” Although the Project Manager may utilize the services of “other experts when needed,” the SOW does not provide an estimate on the number of potential experts, the number of hours their services may be required, or the associated fees. The cost of \$2.25 million for the services of one individual and possibly the services of experts should have been questioned by VA personnel. However, the amount was funded by VA when Amendment 21 was executed. Subsequent to issuing and funding the amendment, no one in VA has any visibility as to how the money was spent. Therefore, no one in VA knows whether the \$2.25 million was used to fund the Project Manager or whether the services of experts were required.

Out of Scope Purchases of Equipment and Software

The scope of the IAA is limited to services. However, Amendments 10 and 19 requested SPAWAR to purchase hardware and software, which is outside the scope of the IAA.

The IAA states that “SPAWARSYSCEN Charleston will provide VA with appropriate resources to assist VA with IM/IT program and software program and project management. Specific tasks are described within this document.” The specific tasks are:

- Application Development Assessment
- Program Management Training & Mentoring
- Workforce Competency
- Service-Oriented Architecture
- Program/Project Management
- Information Assurance
- Development and Management of Secure Infrastructure
- IM/IT Project Engineering Assistance

The IAA also states that the IAA can be modified by an addendum to the IAA that will be attached thereto. However, the scope of the modification must be limited to the purpose of the IAA and modifications that exceed the scope are null and void.

Amendment 10 provided for the purchase of I-Log software licenses to support rules-based processing of education claims and maintenance of the systems. The SOW stated that, “OED engineering has reviewed this product and recommends it for the initial [The Education Expert System] implementation.” The purchase of software licenses for VA was outside the scope of the IAA, which should have made the Amendment null and void.

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Amendment 19, OI&T Region 5 Benefits IM/IT Support Projects, provided funding in the amount of \$14,151,850 for eight additional resources (FTE) to perform the basic eight tasks listed in the IAA. The Amendment states that payment will be funded through two obligations, the first of which, \$4,338,850.00, is for the OI&T Region 5 Benefits IM/IT Support projects and includes a list of services. The second obligation, for \$9,815,000.00, was for the “acquisition and technical refreshment of hardware/software materials required in order to deliver secure and cost effective technology services to VA, OI&T Region 5 infrastructure.” The Amendment states that this hardware/software may include (but is not limited to): Local Area Network (LAN) servers; LAN printers; scanners; bar code readers/printers; notebook laptops; Cisco network components, and Citrix software licenses.” The inclusion of hardware and software in this Amendment is outside the scope of the IAA and should have made the Amendment null and void. The fact that the purchase of commodities was outside the scope of the IAA was not addressed by OAL&C or OGC during the legal and technical reviews conducted prior to executing the Amendments.

We also noted that the IGCE in the SOW for Amendment 10 showed \$1,544,030 for procurement of the I-Log equipments and \$49,624.31 in program management fees to be paid to SPAWAR. Similarly, documentation provided by SPAWAR indicates that VA was charged approximately \$40,000 for SPAWAR to use its acquisition staff to procure the hardware listed in the SOW for Amendment 19. The products purchased under both Amendments were standard off-the-shelf commercial products and licenses. If OED had requested OAL&C to procure the I-Log software and the hardware and software identified in Amendment 19, VA would have saved the \$49,624 it paid in program management fees to SPAWAR and the \$40,000 it paid in acquisition fees.

With regard to Amendment 19, we also noted that OI&T failed to require SPAWAR to comply with VA policy when purchasing the equipment and software. The Amendment states:

In support of this effort OI&T will request SPAWAR to purchase and deploy this material. Accordingly, SPAWAR will adhere to VA CIO established policy effective June 15, 2007 – VA Use of NASA SEWP IV Contracts (WebCIMS 378171) that all VA IT acquisitions (hardware and/or software solution) shall be procured utilizing this government wide contract.

This provision required SPAWAR to comply with existing VA policy regarding the purchase of IT hardware and software. On June 1, 2007, the former Assistant Secretary for Information and Technology issued a memorandum “VA Use of NASA SEWP IV Contracts (WebCIMS 378171),” which states that VA offices must use the SEWP IV

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contracts for all IT acquisitions. The memorandum provides for waivers to be requested through the IT Tracker approval process.

Amendment 20 to the IAA, Captain James A. Lovell Federal Health Care Project, strikes the requirement for SPAWAR to use SEWP. We have not been provided any documentation by VA to show that a waiver was processed. According to SPAWAR officials, SPAWAR checked with the Assistant Secretary for Information and Technology (005) on whether SPAWAR was “required” to use SEWP or to use “the best value to the government” approach. SPAWAR stated the determination was to remove the VA CIO policy language for purchases made by SPAWAR. Therefore, Amendment 20 states: “SPAWARSYSCEN Atlantic acquisitions (hardware and/or software) for VA shall follow SPAWAR acquisition policies and will be guided by the principle of best value to the government.” Amendment 20 was used by SPAWAR to effectively modify Amendment 19 and remove the requirement to use the SEWP IV contract for IT purchases.

The use of Amendment 20 to change the terms and conditions of Amendment 19 is inconsistent with the terms and conditions of the IAA. Amendment 19 should have been modified to remove the restrictions to comply with the June 2007 memorandum issued by the Assistant Secretary and a copy of the waiver showing the process was followed should have been included in the file. Each amendment is a standalone contract action. In addition, there is no documentation in the file showing that this was the best value to the Government.

Performance of Work without Official Authorization

During our discussions with an OED Program Manager we discovered that it is not an unusual practice for SPAWAR to perform work for anticipated projects prior to issuance of an amendment or modification to a SOW. For example, we were informed that work has begun on the Chapter 33 — Long Term Solution for the Post 9/11 GI Bill. Because neither an amendment or SOW were executed for this anticipated project and funds have not been obligated, the cost incurred for work performed is being improperly charged to Amendment 21 the Chapter 33 —Short Term Solution for the Post 9/11 GI Bill.

Excess Funding of Amendments

During our review of the amendments, we noted that Amendments 2 and 3 were essentially modifications to Amendment 1. Again, all amendments should be standalone documents reflecting new work. Under the terms of the IAA, additional work requirements under a previously issued amendment should be processed as modifications or PCRs to the amendment and should not be ordered as a new amendment. This resulted in the task being overfunded by \$664,200.

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Amendment 1 was issued on June 2, 2008, for the purpose of providing project management and technical services support to VA OED. Specifically, Amendment 1 requested Project Management Support, Technical Services Support-Common Services and Technical Services Support-Scheduling Project. The IGCE included in the SOW for Amendment 1 is as follows:

Task #	Task Title	ROM			
		Labor	Travel	Materials	Total
Task 8.1	Project Management	\$34,000	\$6,000	\$1,000	\$41,000
Task 8.2	Technical Services - Common Services	\$351,000	\$114,000	\$20,000	\$485,000
Task 8.3	Technical Services - Scheduling Project	\$148,000	\$54,000	\$10,000	\$212,000
SPAWAR Program Management Costs: 10%					\$74,000
Total Cost:					\$812,000

Amendment 2, issued on July 10, 2008, added Task 8.4 — “Technical Services (HITS) Sharing Project.” The costs associated with this task were shown in the IGCE under Task 8.4 in the amount of \$144,320. The IGCE included in the SOW for Amendment 2 is as follows:

Task #	Task Title	ROM				Total
		Labor	Travel	Materials	PM Costs ¹	
Task 8.1	Project Management	\$34,000	\$6,000	\$1,000	\$4,100	\$45,100
Task 8.2	Technical Services - Common Services	\$351,000	\$114,000	\$20,000	\$48,500	\$533,500
Task 8.3	Technical Services - Scheduling Project	\$148,000	\$54,000	\$10,000	\$21,200	\$233,200
Task 8.4	Technical Services - Health IT Sharing (HITS) Project	\$91,200	\$30,000	\$10,000	\$13,120	\$144,320
SPAWAR Program Management Costs: 10%						
Total Cost:						\$956,120

Tasks 8.1 through 8.3 were identical to those in the IGCE in the SOW for Amendment 1 except the program management fees that were originally added to the total estimated costs of the SOW were now added at the individual task level.

The SOW for Amendment 3, issued on September 11, 2008, added Task 8.5 for “Technical Services Support — Health Information Sharing (HITS) Clinical/Health Data Repository (CHDR) Project.” Although the task is defined in Section 8.5 of the SOW, the cost associated with Task 8.5 was added to the cost identified for Task 8.4 of Amendment 2. The following is the IGCE in the SOW for Amendment 3:

Task #	Task Title	ROM				Total
		Labor	Travel	Materials	PM Costs ¹	
Task 8.1	Project Management	\$34,000	\$6,000	\$1,000		\$41,000
Task 8.2	Technical Services - Common Services	\$351,000	\$114,000	\$20,000	\$48,500	\$533,500
Task 8.3	Technical Services - Scheduling Project	\$148,000	\$54,000	\$10,000	\$21,200	\$233,200
Task 8.4	Technical Services - Health IT Sharing (HITS) Project	\$682,000	\$30,000	\$35,000	\$74,700	\$821,700
SPAWAR Program Management Costs: 10%						
Total Cost:						\$1,629,400

The difference in cost between Task 8.4 in the SOW for Amendment 2 and the SOW in Amendment 3 is \$677,380. Although the total costs for Amendments 1 through 3 per the IGCE in the SOW for Amendment 3 are \$1,629,400, our review of VA’s funding

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documents shows that the total funding VA provided to SPAWAR to fund Amendments 1 through 3 was \$2,293,600. VA overfunded the work to be performed on these amendments for these tasks by \$664,200.

It is important to note that the SOW and IGCE were prepared by SPAWAR supposedly “in collaboration” with VA personnel. In this instance, neither VA personnel nor SPAWAR personnel noted the discrepancies in funding nor properly identified the additional work in the IGCE. More importantly, neither party complied with the terms of the IAA that required such changes to tasks and in cost estimates in a SOW to be done via a PCR or modified SOW. Instead these modifications occurred using a series of amendments to the IAA and new SOW for each amendment. This example demonstrates a deficiency in the administration of the IAA.

Program Management Support and Labor Costs

The IAA states that it was entered into under the authority of the Economy Act, Title 31 U.S.C. § 1535. Interagency agreements entered into under the authority of the Economy Act require full cost recovery to the servicing agency. To comply with the Act, the IGCE for each project includes a separately identified Program Management fee (PM). SPAWAR was unable to provide documentation supporting the calculation of the 10 percent PM cost that VA was charged. However SPAWAR representatives identified the following types of cost included in the development of the 10 percent factor: SPAWAR contracting and financial costs, IAA and administrative costs not associated with a specific VA IAA project. We were also informed that the 10 percent is not a fixed amount, rather a target. The IAA does not include a fee for PM or any other costs and we were not provided any documents showing that PM fees in general or the specific rates that VA was to be charged were addressed by the parties prior to executing the IAA. It appears that SPAWAR has proposed PM fees in the IGCEs and VA has merely accepted what SPAWAR proposed. No OED or OAL&C personnel ever requested SPAWAR to substantiate the proposed 10 percent fee. This identifies another weakness in the administration of the IAA.

We also found that SPAWAR is inconsistent in its application of the 10 percent PM fee. For example, in Amendment 1, SPAWAR calculated PM fees based on 10 percent of labor, material, and travel but in Amendment 19, PM fees were calculated based only on labor. We also noted on Amendment 14 SPAWAR did not allocate any PM cost to the project.

We noted that since Amendment 1, there has been no decrease in the rate even though the anticipated work under the IAA has grown from \$2.5 million to \$66 million. Given the fact of the substantial increase in work ordered by VA, we would expect that some economies of scale would be achieved to decrease the PM fee.

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We were also informed by SPAWAR that labor costs for SPAWAR employees are billed at an average rate based upon the employees' labor classification with the appropriate overhead rates and general & administrative rate. The rates charged are in accordance with the Navy Working Capital Fund Rates for SPAWAR Charleston as determined by the Commanding Officer, SPAWAR, Charleston. The labor costs charged to projects are never adjusted to actual cost at the end of the fiscal year. As the Economy Act only allows for full cost recovery incurred by the servicing agency, a reconciliation should be performed and appropriate adjustment made to costs billed by the servicing agency.

Appearance of Conflict of Interest

As previously stated, our review has disclosed that SPAWAR and its contractors play a significant role in preparing the SOW and IGCE. The IAA terms and conditions allow for SPAWAR to work with VA in determining the final SOW, but the initial SOW must be prepared by VA to mitigate appearance of conflict of interest by SPAWAR or its contractors. Significant participation by SPAWAR in development of SOW may unduly influence the amount of work it and its contractors receive from VA.

Issue 2: Poor Administration of the IAA

Lack of Management Oversight by VA Management

Based on our review of documents provided by OED and interviews and discussions with OED personnel, we concluded that OED has not established an oversight process to (1) ensure that VA is receiving the best value for its investment, and (2) receiving the services and products identified under the IAA. We concluded that OED has essentially relinquished its responsibilities to SPAWAR and SPAWAR's contractors and subcontractors.

OED personnel told us that oversight functions are not being performed by VA. For example, neither the Deputy CIO, OED nor anyone else in OED could tell us how many FTE were providing services under the IAA, what percentage were Government versus contractor personnel, or where they were working, e.g., VA, SPAWAR, or other sites. We had to ask SPAWAR to prepare a resource roster for us. Even for those contract employees working at VA sites, VA does not monitor the hours worked or verify the invoices the contractors submit to SPAWAR, and SPAWAR does not request that VA verify hours worked on-site at VA facilities for invoice verification. It is evident from our interviews that oversight is viewed as unnecessary because of the Government-to-Government relationship. We were told that the oversight of the SPAWAR contractor personnel performing effort for projects under this agreement is the responsibility of SPAWAR. However, for those contractor employees working at VA sites, no SPAWAR personnel are present to monitor the level of effort.

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When we asked the Deputy CIO, OED what role OED took in the award and administration of contracts that SPAWAR awarded to contractors, we were told none. He also told us that he learned that some OED personnel were reviewing resumes of proposed contractor personnel but that he stopped that practice because this was SPAWAR's responsibility.

We also learned during our interviews with the Director, Acquisitions Division, OED Program Administration Office, that the financial reports that SPAWAR told us they provided to the Acquisition Division, OED were not forwarded to OED Program Managers or maintained by OED. We were unable to confirm whether anyone in OED actually received these reports.

OED does not maintain a single POC knowledgeable of the administrative aspects of the IAA. For example, without the assistance of SPAWAR and SPAWAR contract employees, OED was unable to provide the following basic information:

- SOW for all projects initiated
- Listing of VA project managers by project
- The number of DoD contract personnel working on-site at VA locations
- The amount or percentage of work being performed by SPAWAR employees and SPAWAR contractors
- Copies of deliverables received (i.e. weekly status reports, monthly financial reports)

Throughout our review we experienced great difficulty in obtaining documents and other information from OED. Initially, we requested documents from the Chief of Staff, OED who was listed as the program manager and point of contact in the IAA. Our request for IAA documents was forwarded to the Director, Acquisitions Division, OED, Program Administration Office. However, compliance with our request was slow. During a subsequent interview with the Deputy CIO, OED, we informed the Deputy of problems getting documentation requested and were referred back to the Director, Acquisitions Division. Eventually, the Deputy CIO, OED intervened and instituted daily meetings with his staff to assist us in obtaining the records needed for the review.

As previously stated, VA was unable to comply with our requests for information without the assistance of SPAWAR personnel. Even with assistance from SPAWAR, producing the requested information took a significant amount of time, and produced multiple versions of the same documents, none with 100 percent accuracy. For instance, when we attempted to contact program managers as listed in the documents provided, we discovered some of those individuals were no longer employed at VA. One of the program managers listed told us that he was never the program manager for the project.

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When we spoke with the acting program manager, she told us that she was not the program manager and also would be leaving OI&T.

Our review disclosed that during the life of a project, the same project was referred to by different names as new versions of the SOW were issued or new amendments were established to expand projects under previous amendments. The modification to the project names, without documentation contained on the cover page (i.e. formerly XYZ Project) or within the SOW, prevents the ability to track the full life of a project. In addition, we found that several amendments and/or their corresponding project SOW contained requirements that were similar to those in prior amendments and/or SOW. The similarity in requirements allows for work to be inappropriately funded by more than one amendment. This is illustrated in the monthly financial reports produced by SPAWAR containing a Cumulative Funding Profile that identifies each project and the amount of funding by amendment number and total funding. We observed that some projects are grouped together with funding from multiple amendments being combined to produce one grand total funding amount for all three projects. For example, under the SPAWAR VA OED Monthly Financial Report (Task 8.8) dated January 2009, Section 1.2 SPAWAR VA OED Financial Overview/Summary, three projects, (Replacement Scheduling Activity —Enrollment System Application (RSA-ESR), Common Services 09 Bridge (CS), Interagency Identity and Access Management (IAM) [Healthiest Technical Services Support (Common Services)]), established under three different amendments are grouped together to represent one grand total for funds committed and one grand total for funds available. The purpose of this reporting methodology is unclear as each project is funded by amendment, and should be tracked by project and amendment. This SPAWAR reporting methodology presents the appearance that if funds are no longer available under one of the projects included in a grouping, funds from another project may be available to continue work.

As previously discussed, OED is unaware of the cost basis or authority for the SPAWAR Program Management fee of approximately 10 percent. The PM fees are just accepted without supported justification or written explanation.

IGCEs are not being prepared in the level of detail that promotes cost control management by the VA project managers. Each IGCE is presented at summary level for the cost elements: (1) labor, (2) travel, (3) materials, and (4) project management cost. The IGCE in the SOW does not provide the labor hours by task or labor categories to help facilitate oversight of the amendments.

Inconsistent Statements of Work

During our review we identified inconsistencies between documentation maintained by VA and documentation maintained by SPAWAR. For example, we were provided OED's copy and SPAWAR's copy of SOW version VA-3.1-00008-08-v1.0 for Amendment 22 Interagency Identity and Access Management (IAM) Technical Consultation and Engineering Services. A comparison of the documents showed that although the SOW version number was identical for both documents, Section 8.0 Specific Tasks and Section 10.1 Deliverables Schedule contained different information.

As another example, we found that Section 8, Table of Contents for Amendment 9, contains a listing of tasks that is completely different from the tasks identified in Section 8 of the SOW. The Table of Contents appears to have been cut and pasted from a different Amendment but not revised to be consistent with work being requested in Amendment 9.

SPAWAR provided us with the SOW for Amendment 21, Chapter 33 Post 9/11 GI Bill, Technical Consultation and Engineering Services, dated October 22, 2008. The SOW version identified on the cover page is identified as VA-OED-8.8.4.2-00008-09-v1.0, however, on each following page the version is identified as VA-3.1-80.003-09-v1.0. The SOW provided to us by VA for Amendment 21, Chapter 33 Post 9/11 GI Bill, Data Integration, Technical Consultation and Engineering Services, dated October 22, 2008 is identified as VA-OED-8.8.0-00005-09-v1.0. Although the total estimated amount included in Section 14.1, Independent Government Cost Estimate, of both documents is the same, the individual cost categories and cost per task do not reconcile.

Issue 3: Lack of Cost Controls

As previously discussed, VA failed to implement any cost controls to ensure that it pays fair and reasonable prices and that the work is performed. This is evidenced by VA's failure to develop the SOW and the IGCEs, to question the 10 percent PM fees charged by SPAWAR, or to be involved in any manner in which the IAA is administered. We also concluded that SPAWAR had not implemented any cost controls.

Because the tasks and deliverables in the Amendments and accompanying SOW were so general in nature and we learned that much of the work was contracted out by SPAWAR, we expected to find more detailed SOW and deliverables in the contracts or task orders awarded by SPAWAR. We also expected that competition would have the effect of keeping prices fair and reasonable.

During our site visit to SPAWAR, we learned that the contracts or task orders were issued against existing SPAWAR contracts. There was no competition involved that

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could result in lower prices. We also reviewed the SOW for these contracts and task orders and found that they did not identify specific tasks or deliverables.

During our review of selected contractor invoices (cost reimbursable), we noted that the contract and invoices did not contain the indirect rates for billing purposes. In our discussions with SPAWAR, we were told that indirect rates are not identified in invoices due to concerns over the potential that confidential and proprietary information may be accidentally disclosed to contractor personnel on site at SPAWAR Charleston. Also, SPAWAR stated they rely on DCAA to conduct the final audits of contractor's indirect rates or potentially an adjustment of indirect rates at the end of the contractor's fiscal year. One process of reviewing invoices is to verify that the proper indirect rates were billed. Without the indirect rates listed on an invoice or in the contract, one cannot determine what indirect rates are being billed.

Subcontractor Cost and Level of Effort

Our review disclosed that the majority of services provided by SPAWAR through SPAWAR contractors are paid for on a time and material or cost-reimbursement basis for actual man hours performed. Each amendment to the IAA includes a number of FTE expected to provide services. Based on the resource roster prepared by SPAWAR, as of January 2009, there were 195 contractor and subcontractor FTE supporting VA projects.

Based on our discussions with SPAWAR and review of a contract and task orders issued by SPAWAR to contractors under Amendments 1-5, 12, 15, 17-19, 21, and 22, we determine that approximately 87 percent of the level of effort performed under this IAA is attributed to contractor personnel. In addition, we identified task orders that included significant costs that were passed through to subcontractors (second tier contractors). Of the 55 task orders we reviewed, we identified 27 (49 percent) that included subcontract cost.

We also noted that some of SPAWAR's vendors served as prime contractors and as subcontractors under the IAA to fulfill VA's requirements. We asked SPAWAR officials to explain their decision to indirectly contract with a vendor who had an established prime contract. SPAWAR officials stated that the reason for having a prime contractor participate as a subcontractor is due to the ceiling capacity of the prime contractor's contract. Each contract has a ceiling on the amount of services that can be ordered through the contract. When the contract's capacity is no longer available on the contract, SPAWAR awards the task order to another prime contractor who subcontracts the work to the originally planned contractor. SPAWAR also explained that the labor category needed by VA may not be available on the prime contractor's contract.

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The effects of this type of downstream subcontracting increases costs to VA via increased profit and indirect rates for each contractor involved in the process. The prime contractor will also incur costs for program management of the task. Prime contractors, when including costs proposed by a subcontractor, only show a fully loaded rate, i.e. labor plus indirect rates plus profit. SPAWAR lacks privity of contract with subcontractors working for SPAWAR's prime contractors to see the indirect rates and profit used to calculate the proposed costs. It is common in Government contracts to pay a fee of 6 to 8 percent on cost reimbursable contracts and up to 10 percent on fixed price or fixed rate contracts.

Our review of selected contracts and task orders issued by SPAWAR indicated that the profit/fee charged by prime contractors was approximately 6.5 percent of the prime contractor's cost, which was decreased to 3 percent when they subcontracted the work. VA is ultimately charged this 3 percent in addition to the 6 to 10 percent fee that is already embedded in the subcontractor costs. As a result, VA is paying at least 3 percent higher costs due to high levels of subcontracting. At a maximum, VA could be paying as much as 13 percent in fees and profits.

During our review of contracts used by SPAWAR for the IAA, we noted SPAWAR awarded a fixed price labor hour Indefinite Quantity contract on May 20, 2008, to a consulting firm. The POP was the date of contract award through one year and contained a one-year option period to commence from the date of expiration of the previous performance period. On November 3, 2008, more than six months before the base year was to expire, the contract was modified to exercise the first option period and to replace the POP for option period 1 from November 3, 2008, through November 2, 2009.

We questioned a SPAWAR contracting officer as to why the option was exercised before the end of the base year and why the POP was moved forward to November 2008 from May 2009. Since this was a fixed rate contract, we also questioned if the option period rates, which were higher, were effective November 2008 instead of May 2009. The SPAWAR contracting officer stated the capacity of hours under the base period were ordered or planned to be ordered and that since the contract was a fixed rate, the option period rates would be effective immediately.

Exercising the option period prior to May 2009 resulted in increased cost to users of the contract and provided additional profit to the contractor. The option period rates are higher due to the contractor anticipating higher labor rates in option period 1 originally set to start in May 2009. By moving option period 1 rates to November 2008, the contractor is billing the higher rates that were not supposed to take effect until May 2009. Since these additional costs are ultimately borne by the customer, not SPAWAR, there is no incentive for SPAWAR to keep costs down.

Lack of Specificity in Subcontractor's SOW

During our site visit to the SPAWAR, South Carolina facility, we reviewed a sample of SOW for task orders issued by SPAWAR to contractors who perform services in support of the IAA with VA. With few exceptions, we found these SOW to be very broad and general in nature and included arbitrary language such as “when requested,” “as required,” or “as needed.”

For example, under the SOW titled, “DCA OED Process Standardization Training,” one task states, “As required, the contractor shall support OED Process Management in the ongoing alignment of the OED Process Standardization training activities to other improvement initiatives.”

Similarly, under a SOW for System of Systems Project Management Support, the following unspecific requirements are identified, “The contractor shall provide technical advice and support to the VA SOS Project Manager in the areas of Risk Management,” “The contractor shall provide technical advice . . . area of Configuration and Change Management,” and “The contractor shall provide technical advice . . . area of Software Development Lifecycle Support.”

Under a SOW titled, “Federal Health Care Center (FHCC) Integrated Information Technology (IT) Systems Development,” the SPAWAR contractor is tasked with serving as “SPAWAR interface to the customer as needed for development or refinement of these requirements and resources,” “shall purchase hardware, software, and tools as required to complete the Project Management (PM), requirements gathering, development, and testing of the applications.”

All the SOW we reviewed that were issued by SPAWAR to the contractors include only generic deliverables such as conference, meeting minutes, and presentation reports as required; technical reports as required; monthly status reports, and monthly financial reports.

Issue 4: Other Matters to be Reported

Insufficient Legal and Technical Reviews by OAL&C and OGC

In accordance with VA policy, OED processed the IAA and subsequent amendments through the OAL&C and OGC for legal and technical review prior to executing and providing final documents to SPAWAR. When we discussed our findings with the Principal Deputy Assistant Secretary for OI&T, he raised the issue that the IAA and amendments had been reviewed and approved by OAL&C and OGC and stated that he

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relied on these approvals as an indication that they were legally and technically sufficient. Based on his comments, we addressed the issue in our review.

We found that throughout the process of preparing and awarding amendments, each subsequent level of review relied upon the previous level. OGC relied on the contracting officer to review the SOW and supporting documentation. OED management relied on the contracting officer and OGC's sign-off on the amendments as acceptance that the amendments were accurate and reflected sound contracting procedures. And the contracting officer relied on OED for determining that the amendments and accompanying SOW accurately reflected VA's needs. Deficiencies at all these levels resulted in the problems identified with the administration of the IAA.

Coaching & Mentoring

The Principal Deputy Assistant Secretary of OI&T told us that one of the reasons for using the IAA was that OI&T personnel lack skills in managing, cost control, developing IT projects, and writing SOW, and the IAA was to help VA personnel develop those skills. Based on our review of the IAA, the amendments, and SOW, and the manner in which the IAA is administered and on our discussions with VA and SPAWAR personnel, VA OI&T employees are not receiving training and mentoring in writing SOW. Although coaching and mentoring is being provided in the area of program management, we found that training is still needed in the area of writing SOW in order for OED to achieve its goal of becoming a high performing performance-based IT organization.

If OED cannot develop program managers who can write SOW then VA will continue to need the services from contractors and will need the services of SPAWAR or other contracting entities to issue contracts on their behalf or to off-load contracting work. This decreases VA's ability to properly oversee how its funding is utilized.

Personal Services

FAR 37.104 defines a personal services contract as "characterized by the employer-employee relationship it creates between the Government and the contractor's personnel." Paragraph (c) (1) (ii) of FAR 37.104 states that this employer-employee relationship occurs when, as a result of "the manner of its administration during performance, contractor personnel are subject to the relatively continuous supervision and control of a Government officer or employee." Government contracts for services cannot be for personal services absent specific statutory authority. OGC has determined that VA does not have this contracting authority. We also understand that SPAWAR does not have personal services contracting authority.

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We found that a number of SPAWAR contract employees were working at VA sites under the direction of VA employees. We identified instances in which SPAWAR contract employees were identified in the VA Outlook database as being direct reports to VA personnel. We also found it difficult to discern between Government employees and contract employees during our review. For example, we called a VA employee who was identified as a program manager for several amendments to the IAA. His voice mail message informed us that he was on travel and if we needed to get in touch with him to contact a specific person, whose phone number was provided in the message. We called that individual and asked if she could get in touch with the Program Manager and ask him to call us. She proceeded to ask a number of questions regarding the reasons we needed to speak to the Program Manager. It was only after we told her about the review and the information that we sought from the Program Manager that she indicated she was associated with SPAWAR as a contractor employee. We found that many of the contract employees that we spoke with refer to themselves as a SPAWAR employee.

To determine VA's extent of interaction with SPAWAR contractors we conducted interviews with contractor employees who were providing services in functions such as administrative assistants or special assistants to VA managers and executives. These contractors stated they receive their daily tasking directly from the VA employees and perform such tasks as preparing memorandums, scheduling meetings, recording minutes of meetings, and preparing Congressional correspondence. This was consistent with what we were told by the Deputy CIO, OED. We did not see evidence that management controls had been established to avoid the performance of inherently governmental functions and appearance of personal services. In addition, all of the contract employees we interviewed said they had not received training or even been briefed by SPAWAR as to what actually is a personal service. We also noted that cubicles occupied by contractors did not identify those spaces as belonging to contractors. OED and others in OI&T told us that contractor personnel were being used to support OED program and operations because OI&T could not hire Government employees because of an FTE ceiling. However, no one was able to provide us with more specific information, such as a law, regulation, or policy, to explain the basis for the FTE ceiling.

Lack of Incorporation of Appropriate Security Clauses

Although the SOW contain requirements for IT security, the task orders we reviewed that SPAWAR issued to its contractors did not contain the VA required system security and privacy requirement clauses for: Information Security, Cyber Security, and Privacy Policy. Absence of these requirements places the VA systems at risk when accessed by SPAWAR contractors. We recommend the IAA as well as any task orders issued by SPAWAR under this IAA incorporate the VA Information and Information System Security/Privacy Requirements for IT Contracts dated August 2008 which states: "All

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contractors and contractor personnel shall be subject to the same Federal laws, regulations, standards and VA policies as VA, and VA personnel, regarding information and information system security.”

Conclusions and Suggestions

Based upon our review of the IAA, Amendments 1 through 22, the accompanying SOW, and supporting documentation received from OED, OAL&C, OGC and SPAWAR, we concluded that:

- The IAA signed in November 2007 and funded in the amount of \$2.5 million was entered into without an adequate analysis, as required by FAR 17.503, to determine that “use of an interagency acquisition is in the best interest of the Government,” and that “the supplies or services cannot be obtained as conveniently or economically by contracting directly with a private source.” In addition, the 22 amendments that provided an additional \$63.5 million in funding were not supported by additional Determinations and Findings to justify the additional use of the IAA for these specific projects.
- OED and SPAWAR failed to comply with terms and conditions of the IAA. The problems identified during our review were due in significant part to the fact that no one in OI&T or OED appears to be responsible for the administration of the IAA or any of the amendments issued against it. These problems were also caused by the lack of adequate legal and technical reviews prior to the execution of the IAA and the amendments by OGC and OAL&C.
- The terms and conditions of the IAA and the manner in which it has been administered resulted in OED having limited participation, ownership, or accountability in the planning, development, and the accomplishment of stated projects. OED has not implemented any management controls and relies heavily on SPAWAR for all management aspects of this IAA. OED appears to have relinquished its duties and responsibilities to SPAWAR, only to have SPAWAR contract out the work to its contractors.
- SOW and the IGCEs included in the SOW are not prepared by OED but are a “collaborative” effort with SPAWAR and SPAWAR contractors. Without a cost estimate independently developed by VA, OED cannot determine if the estimate of cost prepared by SPAWAR is reasonable.
- OED is not performing sufficient oversight of this agreement to provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. OED’s view of the IAA is that this is a Government -to- Government procurement and SPAWAR has responsibility for oversight.
- SPAWAR has not implemented adequate oversight measures or controls to protect the interests of the VA.

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- Purchasing of software and hardware is outside the scope of the IAA. In addition, VA incurred increased costs by having SPAWAR use their contracting officers to procure the hardware and software instead of OAL&C contracting officers.
- SPAWAR contractors working at VA facilities appear to be providing personal services. Neither VA nor SPAWAR has authority to enter into personal services contracts.

We suggest that VA take steps to re-evaluate the IAA and determine whether it is in the best interests of VA to continue obtaining services through this type of agreement. If it is determined to be in VA's interest to continue with an IAA to obtain services to support OED, we suggest issuing a new IAA that complies with the requirements of Information Letter (IL) 001AL-09-04, dated March 23, 2009. The IL establishes VA policy for Managing Interagency Acquisitions, and incorporates requirements contained in guidance issued by the Office of Federal Procurement Policy in a Memorandum dated June 6, 2008, titled "Improving the Management and Use of Interagency Acquisitions."

We also suggest that:

- The restructured IAA should emphasize training of VA personnel to better manage OED programs and operations and to learn to develop SOW and monitor contractor performance. It should also require VA personnel to actively participate in the development, award, and administration of contracts to third parties to provide services under the IAA.
- OAL&C contracting officers and OGC need to implement processes to improve their technical and legal reviews of the IAA, amendments or modifications thereto, and the SOW.
- VA should be required to prepare the SOW with specific tasks, deliverables, defined delivery dates, and performance measures.
- OED should be required to develop IGCEs as a method of determining the reasonableness of proposed cost estimates. The IGCEs should identify labor hours and labor categories by task. OED in conjunction with OAL&C should determine, on a task basis, whether it is in VA's best interest to enter into firm fixed-price contracts with third parties versus cost-reimbursement or time and materials contracts.
- OED should require SPAWAR, or any other Government entity that is party to an IAA, to provide financial reports that identify the hours worked by labor category and task, and indicate whether the employee is a Government or contract employee.

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- All amendments and SOW should identify VA program managers who are actually performing those duties and responsibilities, and are accountable for the outcomes.
- VA should establish policies and procedures for program managers to certify that they have reviewed monthly SPAWAR financial documents and progress reports and have concurred with them.
- VA should establish a single point of contact within OED to warehouse all documents and deliverables required under the IAA and amendments. In addition, all VA program managers and project officers should be required to maintain all documents provided by SPAWAR under the IAA and Amendments.
- Costs associated with Program Management Support provided by SPAWAR should be proposed and reported under a separate amendment.
- VA should cease issuing amendments with multiple unrelated projects and multiple amendments for the same project/work. Previously issued amendments can be modified to add additional tasks, and such tasks can be tracked and reported by SPAWAR.

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Appendix A

Projects Identified Under Amendments 1 Through 22

Amendment	Project	Period of Performance	Funding
Initial Amendment	None for Initial Performance	11/7/2007-9/20/2013	\$2,500,000
Amendment 1	Technical Services	Award Date - 9/30/08	\$812,000
Amendment 2	National Health Information Network (NHIN)	Award Date - 9/30/08	\$817,600
Amendment 3	HealtheVet Application Clinical Data Repository/Health Data Repository (CHDR)	Award Date - 9/30/08	\$664,000
Amendment 4	Office of Enterprise Development (OE) Improvement Plan	Award Date - 9/30/09	\$667,565
Amendment 4	HeV Life-Cycle Cost Validation	10/1/07 - 9/30/09	\$959,640
Amendment 5	Benefits Delivery Network (BDN)	10/1/07 - 9/30/08	\$148,000
Amendment 5	HealtheVet (Hev) Application System of Systems (SOS)	Award Date - 9/30/09	\$589,130
Amendment 5	Clinical Data Repository/Health Data Repository (CHDR) Technical Executability Review	8/13/08-9/30/09	\$180,000
Amendment 5	Pharmacy Technical Executability Review	8/13/08-9/30/09	\$180,000
Amendment 5	Tiger Team	Award Date - 9/30/09	\$336,050
Amendment 6	Financial and Logistics Integrated Technology Enterprise (FLITE)	10/1/07 - 9/30/08	\$775,000
Amendment 6	Paperless Delivery of Veterans Benefits	Award Date - 9/30/09	\$750,000
Amendment 6	Bi-Directional Health Information Exchange (BHIE)	Award Date - 9/30/09	\$658,000
Amendment 6	VistA Blood Establishment Computer System (VBECS) Implementation	10/1/08 - 9/30/09	\$440,000
Amendment 7	Enterprise Security solution Service Integration Test Laboratory	Receipt of Funds - 9/30/09	\$1,323,810
Amendment 8	eBenefits Portal architecture Project Management Services	Award Date - 9/30/09	\$4,777,788

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Projects Identified Under Amendments 1 Through 22

Amendment	Project	Period of Performance	Funding
Amendment 9	Office of enterprise Development (OED) Improvement Plan	Award Date - 9/30/09	\$1,815,000
Amendment 9	Office of enterprise Development (OED) Improvement Plan (HEV RSA SRP)	Award Date - 9/30/09	\$1,345,800
Amendment 10	Education Expert system Acquisition (ILOG)	Receipt of Funds - 9/30/09	\$1,593,654
Amendment 11	Data Get Well Plan	Award Date - 9/30/09	\$800,000
Amendment 12	Service Oriented Architecture Enablement and Implementation	Award Date - 9/30/09	\$2,100,000
Amendment 13	Veterans Services Network (VETSNET) Technical Services – Batch application Testing	8/13/08-9/30/09	\$707,850
Amendment 13	Identity Management	Award Date - 9/30/09	\$550,000
Amendment 14	Veterans Services Network (VETSNET) Production Support Services	Award Date - 9/30/09	\$2,000,000
Amendment 15	IA Web Portal	Award Date - 9/30/09	\$437,680
Amendment 16	Processing Modeling Service Center (PMSC) (Business Modeling Project)	Award Date – 12 months	\$595,380
Amendment 17	Chapter 33 Program Management	9/1/08 - 9/30/09	\$487,000
Amendment 18	Benefits Program Executive Office Project	Award Date - 9/30/09	\$813,719
Amendment 19	OI&T Region 5 Benefits IM/IT Support Projects	Award Date - 9/30/09	\$14,151,850
Amendment 20	Captain James A. Lovell Federal Health Care Project	Award Date - 9/30/09	\$3,732,177
Amendment 21	Chapter 33 Post 9/11 GI Bill	Award Date - 9/30/09	\$13,250,000
Amendment 22	Inter-agency Identity and Access Management (IAM)	Award Date - 9/30/09	\$5,000,000

OIG Contact and Staff Acknowledgments

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