April 23, 2007

The Honorable Stephanie Herseth  
Chairwoman  
The Honorable John Boozman  
Ranking Minority Member  
Subcommittee on Economic Opportunity  
Committee on Veterans’ Affairs  
House of Representatives  

Subject: VA Vocational Rehabilitation and Employment: Service Contract Management Is Improving, but Challenges Remain

The Department of Veterans Affairs’ (VA) Vocational Rehabilitation and Employment (VR&E) program provides services such as vocational counseling and job training to assist veterans with service-connected disabilities obtain and maintain suitable employment and achieve maximum independence in daily living. In fiscal year 2006, the VR&E program obligated about $702 million and served about 89,000 veterans.

The Veterans Benefits Administration (VBA), which administers the VR&E program, provides some services to veterans through two types of contracts—national contracts and local contracts. In fiscal year 2003, VA adopted the National Acquisition Strategy (NAS) to award contracts at the national level to ensure that veterans have access to the same quality and types of VR&E services across regional offices. These national contracts, once awarded, are implemented by VA’s regional offices. Services available under these national contracts include initial evaluations, case management, and employment placement assistance. In fiscal year 2006, VR&E spent about $15 million through national contracts. There are 165 national contracts currently active in fiscal year 2007. Regional offices also can negotiate and implement local contracts for services that are not provided through national contracts such as tutoring and computer skills evaluations. In fiscal year 2006, VR&E spent about $12 million through local contracts. VR&E contracting officers are responsible for negotiating the terms of local contracts. Contracting officer’s technical representatives, often VR&E counselors themselves, assist in managing both national and local contracts.

Recent studies of the VR&E program have raised concerns about its contracting practices. In March 2004, the VR&E Task Force recommended that VA enhance VR&E contracting practices by taking several actions, including revising the scope of national contracts and developing contracting training and hiring contracting specialists to improve the contracting expertise of VR&E staff. According to the VR&E Task Force, VR&E’s capacity to manage its contracts could be further
improved by enhancing the usefulness of its case management data system. For example, the VR&E Task Force recommended that VA improve its case management data system so that purchased contract services could be tracked by the counselor who orders the services or by the veteran that receives the services. In February 2005, the VA Inspector General recommended that existing national contracts be renegotiated to better reflect market rates for services because VA was at risk of paying excessive prices for VR&E services purchased through its current national contracts. The report also noted that VA should strengthen regional office oversight and management of contracts.

To address your interest in VR&E contract management, we conducted a study to determine how VA has improved VR&E contract management practices and identify challenges VA continues to face. Specifically, you asked us to answer the following questions: (1) What progress has VA made in implementing selected recommendations on contracting for VR&E services made by the VR&E Task Force and the VA Inspector General? (2) What are VA’s key challenges in improving its management of VR&E service contracting?

On March 29, 2007, we briefed your staff on the results of our study of VR&E service contract management (see app. I). This report formally conveys the information provided during that briefing. In summary, we found that:

- VA reports progress in implementing contracting-related recommendations made by the VR&E Task Force and VA Inspector General. However, some key recommendations have not yet been implemented. Specifically:
  - VA regional offices requested and obtained lower prices under existing national contracts.
  - VA has taken steps to increase regional office VR&E staff contracting expertise.
  - VA has taken steps to develop additional regional office internal control policies and procedures for contracting activities.
  - VA’s efforts to address issues with contracting data are on hold.
  - VA has not yet awarded new national contracts.

- Key challenges remain to improving VA’s management of VR&E service contracting. Specifically, we found that:
  - Regional offices are not fully applying VA’s contracting guidance.
  - Current training does not adequately prepare contracting officers to manage contracts.
  - Regional offices report delays in communication with VA headquarters on contracting questions, but VA is taking actions to address these concerns.
  - VA’s management of VR&E contracting is limited by inadequate reporting capabilities.
  - Inadequate internal controls over contracting data raise reliability concerns.
To assess VA’s progress in implementing contracting-related recommendations made by the VR&E Task Force and the VA Inspector General and identify the challenges VA has experienced in improving management of VR&E service contracting, we (1) conducted site visits of four diverse regional offices to interview VR&E officials and review contract files, (2) conducted telephone interviews with officials from a fifth regional office, (3) interviewed officials at VA headquarters knowledgeable about contracting practices and policies, (4) analyzed VR&E contract-related management data, and (5) reviewed contract files at VA’s Office of Acquisition and Materiel Management (OA&MM) to determine the maximum prices allowed for services available from national contracts used by the regional offices we visited. We assessed the reliability of VR&E contracting data captured by VR&E’s case management data system—Corporate WINRS—through several methods, including comparing these data against local data provided to us by the four regional offices we visited and by reviewing existing evaluations of VR&E’s case management data system. While we identified accuracy limitations with the contracting data captured by VR&E’s case management data system—discussed in the slide entitled “Objective 2: Management Data: Inadequate Internal Controls over Contracting Data Raise Reliability Concerns” in appendix I (page 30)—we found that generally VR&E’s contracting data are sufficiently reliable for the purposes of our study. We conducted our work from March 2006 to February 2007 in accordance with generally accepted government auditing standards. (See app. II for more details on our objectives, scope, and methodology.)

Conclusions

Contracting is a valuable tool for the VR&E program. A well-managed contracting system can help VA provide VR&E services to veterans in several ways, such as by gathering the information needed to make entitlement decisions. Several regional offices felt that prices were too high for services available through national contracts and subsequently requested and obtained lower prices. VA has positioned itself to be at less risk of overpaying this time around, because VA has conducted market research in preparation for issuing its new national contracts, something it did not do last time. VA’s oversight and communication with regional offices are a work in progress, but in the absence of continued improvement, regional offices may be putting VA at risk for overpaying local contractors. Given their current level of training, regional VR&E officials may continue to use noncompetitive contracts even when they are not necessarily appropriate. While negotiating competitive contracts requires greater contracting expertise, these contracts may also provide better prices and outcomes. Gains from improved contract management will be minimized without an information system to provide usable and reliable data on contract use. VA plans to improve the reporting capabilities of Corporate WINRS, but without improvements to internal controls and data reliability, reports produced by the system will not be as fully useful as they could be.
Recommendations for Executive Action

To address the key challenges we identified that VA faces in improving its management of VR&E contracting, we recommend that the Secretary of Veterans Affairs direct the Under Secretary for Benefits to take the following actions:

(1) Conduct a management review to assess how regional offices are implementing VA’s contracting guidance and take necessary actions to make needed improvements. For example, VA could clarify to VR&E employees how existing VR&E guidance on contract file maintenance applies to local contracts.

(2) Require regional offices to report on the efficacy of contracting training and take necessary actions to make needed improvements. For example, VA could develop VR&E-specific contracting training.

(3) Improve VA management of VR&E contracting by improving Corporate WINRS reporting capabilities and its internal controls over contracting data.

Agency Comments

We provided a draft of this report to the Department of Veterans Affairs for review and comment. On March 23, 2007, VA provided written comments agreeing with our conclusions (See app. III). However, while VA concurred with our recommendations, we have concerns about the actions it reported it will take to respond to two of the recommendations.

In response to our first recommendation, VA said that it will continue to assess regional office performance through its site visits to 12 regional offices per year. VA also stated that it will reiterate that its file maintenance guidance applies to both national and local contracts. While these actions are useful in helping to ensure that regional offices are following contracting guidance, in our view they are insufficient. We believe that a systematic, one-time review of all regional office practices is needed. This review would allow VA to identify the full extent of compliance with contracting guidance and determine the needs for additional or clarified guidance.

VA also said that it will continue to provide specific annual VR&E contract training as well as conduct specialized VR&E contract training to VR&E regional office staff responsible for managing contracts. However, our second recommendation was for VA to require regional offices to report on the efficacy of VA’s training and take necessary actions to make needed improvements. We maintain that contracting training could benefit from a systematic effort to obtain information from regional VR&E staff on the efficacy of existing training.

In response to our third recommendation, VA said that it will modify the VR&E case management system to incorporate additional internal controls and reporting capabilities. VA stated that this would be done in an upgrade to Corporate WINRS, scheduled for fiscal year 2008. VA reported that the upgrade project is currently in VA’s internal project prioritization process.
In addition, VA provided technical comments, which are incorporated as appropriate. After our briefing of your staff, we made further technical corrections to the slides based on the comments we received from VA on a draft of the information (concerning price reductions requested and obtained by VA regional offices) we sent to you on April 11, 2007. The pricing information was requested by your staff during the March briefing.

We are sending copies of this report to the Secretary of Veterans Affairs, relevant congressional committees, and other interested parities and will make copies available to others upon request. In addition, this report will be available at no charge on GAO’s Web site at www.gao.gov. If you or your staff have any questions about this report, please contact me on 202-512-7215 or fantone@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Brett S. Fallavollita (Assistant Director), Greg Whitney (Analyst-in-Charge), Irene J. Barnett (Senior Analyst), Avrum Ashery, Jessica Botsford, Irene Chu, Jennifer Lutzy McDonald, Walter Vance, and Charles Willson also made significant contributions to this report.

Sincerely yours,

Denise M. Fantone
Acting Director, Education, Workforce, and Income Security Issues
VA Vocational Rehabilitation and Employment: Service Contract Management Is Improving, but Challenges Remain

Briefing for the Staff of the Subcommittee on Economic Opportunity, Committee on Veterans’ Affairs
House of Representatives
March 29, 2007
Objectives

The House Subcommittee on Economic Opportunity, Committee on Veterans’ Affairs, asked that we conduct this study. We answered the following questions:

1. What progress has the Department of Veterans Affairs (VA) made in implementing selected recommendations on contracting for Vocational Rehabilitation and Employment (VR&E) services made by the VR&E Task Force and the VA Inspector General?

2. What are VA’s key challenges in improving its management of VR&E service contracting?
Key Findings

- VA Reports Progress in Implementing Recommendations on VR&E Service Contracting, but Some Key Recommendations Are Not Yet Implemented

- Guidance Application, Training, Communication, and Management Data Are Key Challenges to Improving VA’s Management of VR&E Service Contracting
To Address Our Research Objectives, We Took Several Approaches

- Focused on contracting-related recommendations in the VR&E Task Force report (March 2004) and the VA Inspector General report on VR&E contracting (February 2005). Specifically, we focused on recommendations related to
  - national contracts—revise scope of and award new contracts;
  - human capital issues related to contracting—increase regional office contracting expertise,
  - regional office internal controls over contracting activities—improve documentation of contracting actions and controls over payments to contractors, and
  - contracting data—enhance the usability of VR&E’s management data system for internal control and financial management.
To Address Our Research Objectives, We Took Several Approaches (continued)

- Interviewed VA officials on the implementation status of the VR&E Task Force and VA Inspector General contracting-related recommendations.
- Analyzed data on contracted services from VR&E’s Corporate WINRS data system to identify the types of services and the amounts spent on contracts.
- Conducted case study reviews of the Boston, Denver, Houston, and St. Petersburg regional offices, which were selected to provide diversity in geography, veteran workload, types of contracts, and expenditures. At each office, we interviewed VR&E officials, obtained contracting data, and reviewed national and local contract files. We also interviewed Waco regional office VR&E officials because, like Houston, Waco was a pilot for national contracts.
- Reviewed contract files maintained by VA’s Office of Acquisition and Materiel Management for the national contracts available to our case study sites, to calculate the ranges of prices allowed.
Case Study Sites (Fiscal Year 2006 Data)

Regional Office-Denver
- Number of veterans served by Regional Office: 2,825
- Number of national contracts: 8
- Payments for national contracts: $592,000
- Number of local contracts: 12
- Payments for local contracts: $604,000

Regional Office-Houston
- Number of veterans served by Regional Office: 4,921
- Number of national contracts: 9
- Payments for national contracts: $0
- Number of local contracts: 64
- Payments for local contracts: $627,000

Regional Office-St. Petersburg
- Number of veterans served by Regional Office: 4,977
- Number of national contracts: 114
- Payments for national contracts: $1,394,000
- Number of local contracts: 17
- Payments for local contracts: $128,000

Regional Office-Boston
- Number of veterans served by Regional Office: 1,011
- Number of national contracts: 3
- Payments for national contracts: $148,000
- Number of local contracts: 17
- Payments for local contracts: $17,000

Source: GAO analysis.
Data Reliability

- We interviewed officials about the completeness and accuracy of contracting data and reviewed existing documentation and VA’s internal evaluation of its data system.

- We compared the Corporate WINRS contracting data we obtained from VA headquarters to data we obtained from the four regional offices we visited.

- We found the data to be sufficiently reliable for our purposes, with some exceptions as discussed under Finding 2.

- Our work was conducted from March 2006 to February 2007 in accordance with generally accepted government auditing standards.
VR&E Provides Services to Veterans with Disabilities

- To assist veterans with service-connected disabilities obtain suitable employment and achieve maximum independence in daily living, services such as vocational counseling and job training services are generally provided by VR&E counselors at VA’s 57 regional offices.

- Contracts are used when
  - The demand for VR&E services exceeds a regional office’s capacity to provide the services in-house.
  - Specific services cannot be provided by VR&E staff.
  - Veterans living far from regional office locations cannot be reasonably served by regional office VR&E counselors.
For fiscal year 2003, VA awarded 241 contracts for VR&E services under a National Acquisition Strategy. The objective of this strategy was to standardize the provision of services and procurement strategies across VR&E offices. The contracts awarded under the National Acquisition Strategy were fixed price, indefinite delivery, indefinite quantity contracts.

- Each contract was awarded for a base year (fiscal year 2003) and four 1-year options, with fiscal year 2007 being the last option year.
- A total of 165 national contracts remain available to provide services in fiscal year 2007.

Although negotiated and awarded nationally, each contract only applies to the particular regional offices for which contractor proposals were accepted and awarded.
Contracting Officers in the Regional Offices Can Negotiate Local Service Contracts

- Regional office Contracting Officers can negotiate local contracts when services are not available through a national contract.

- Regional office VR&E Contracting Officers are responsible for negotiating the terms of local contracts, including services and prices.
- Contracting Officers hold warrants allowing them to negotiate contracts for specific amounts (to a maximum of $100,000).
- Contracting Officer’s Technical Representatives, often VR&E counselors themselves, assist in managing contracts.
Different Types of Services Are Available through National and Local VR&E Contracts

National contracts (about $15 million in fiscal year 2006)

- Standard services
  - Initial evaluation/assessment
  - Case management/rehabilitative services
  - Employment services

- Discrete services, such as:
  - Independent living assessment
  - Job coaching
  - Behavioral counseling

Local contracts (about $12 million in fiscal year 2006)

- Services such as:
  - Ergonomic assessment
  - Tutoring services
  - Functional capacity evaluation
  - Computer skills evaluation

Source: GAO analysis.
Background: The Contracting Process

1. Veteran seeks VR&E services

2. VR&E services
   VR&E counselor meets with veteran to determine entitlement.
   If the veteran is entitled to services, the VR&E counselor meets with veteran to develop a service plan.

3. VR&E counselor determines if the veteran’s service needs can be provided in-house by a VR&E counselor or should be provided by a contractor.

4a. Counselor initiates services through a national contract.

4b. If a service is not available through a national contract, a local contract is negotiated or an existing local contract is used.

5. Monitoring
   Veteran receives the service from the contractor and the contractor’s performance is monitored by VR&E counselor.

6. Contractor submits invoice
   VA pays contractor for services provided to the veteran.

Steps for contracting

Source: GAO analysis.
VA Reports Progress in Implementing Recommendations on VR&E Service Contracting, but Some Key Recommendations Are Not Yet Implemented

Progress has been reported:

- VA regional offices requested and obtained lower prices under existing national contracts.
- VA has taken steps to increase regional office VR&E staff contracting expertise.
- VA has taken steps to develop additional regional office internal control policies and procedures for contracting activities.

Action remains to be taken:

- VA’s efforts to address issues with contracting data are on hold.
- VA has not yet awarded new national contracts.
## Objective 1: Status of Recommendations

### VR&E Task Force and VA Inspector General Recommendations

<table>
<thead>
<tr>
<th>Area of focus</th>
<th>VR&amp;E Task Force</th>
<th>VA Inspector General</th>
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<tbody>
<tr>
<td>National contracts</td>
<td>- Revise the scope of current national contracts.</td>
<td>- Revise the scope of and award new contracts.</td>
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<tr>
<td>Human capital issues</td>
<td>- 1. Create and staff contract specialist positions at regional offices.</td>
<td>- Provide contracting staff with appropriate training and contract warrant authority.</td>
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<td></td>
<td>- 2. Develop a contract training program for VR&amp;E staff involved with contract oversight.</td>
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<tr>
<td>Regional office internal controls</td>
<td>- Enhance VA’s capacity to manage contracts.</td>
<td>- 1. Require regional offices to maintain documentation in contract files, including decisions to use a higher-priced contractor over a lower-priced vendor</td>
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<tr>
<td>Contracting data</td>
<td>- 1. Enhance the usability of Corporate WINRS data to improve the financial and programmatic management of contracting activities.</td>
<td>- 2. Implement adequate contract payment internal controls.</td>
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<td>- 2. Speed up the development and implementation of financial and process enhancements in Corporate WINRS</td>
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### Status of Recommendations

- **Completed**
- **In progress**
- **Not addressed**

Source: GAO analysis
15

VA Regional Offices Requested and Obtained Lower Prices under Existing National Contracts

- VA’s Inspector General noted that VA did not conduct market research before awarding national contracts in 2002, and was at risk of paying excessive prices.

- Officials at the three regional offices we visited that use national contracts said that some contractors’ original prices were too high, based on previous experience contracting for comparable services.

- These offices requested and obtained price reductions for individual services provided by 8 of their 20 national contracts. Reductions under these contracts ranged from less than 5 percent to 81 percent of the original individual service price. For example, one regional office obtained a reduction from $395 to $76 (81 percent) for an individual case management service.
VA Has Taken Steps to Increase Regional Office VR&E Staff Contracting Expertise

- In an effort to increase contracting expertise, VA’s goal is to have at least two Contracting Officers and two Contracting Officer Technical Representatives (COTR) at each regional office by the end of fiscal year 2007.

- At the end of fiscal year 2006, VA reported having at least one Contracting Officer and one COTR at each regional office.

- As of February 2007, VA reported that it has hired VR&E contracting specialists for 11 of its 57 regional offices and warranted them as Contracting Officers.

- VA’s proposed fiscal year 2008 budget includes a request for increased funding to hire more contract specialists.

- VA has established contracting training requirements for regional VR&E staff.
  - VA reports tracking the completion of training requirements by regional office staff in fiscal year 2007.
VA Has Taken Steps to Develop Additional Regional Office Internal Control Policies and Procedures for Contracting Activities

- In September 2005, VA issued guidance on documentation that must be maintained in contract files. For example, when a regional office uses a higher-priced contractor over others providing the same service, it must document its reasons, which may include better contractor performance or greater capacity to provide services in a timely manner.

- VA officials told us that, as part of VA’s periodic quality assurance reviews, they now track how contract files are maintained by reviewing all contract files during regional office site visits to ensure that the files are being maintained in accordance with VA policy and Federal Acquisition Regulations.

- VA assembled a Business Process Reengineering team to study how to best improve controls over VR&E payments, including payments to contractors. As part of this effort, VA is considering consolidating payment processing from all regional offices into fewer regional offices.
VA Efforts to Address Issues with Contracting Data Are On Hold

- The VR&E Task Force recommended that VA improve the capability of Corporate WINRS to provide data for program management.

- In response to the Task Force’s recommendations, VA plans to develop a new version of Corporate WINRS with improved reporting capabilities, including reporting of contracting data. At the time of our review, this effort was on hold, as VA has not requested funding to upgrade the system in its fiscal year 2007 or 2008 budgets.
VA Has Not Yet Awarded New National Contracts

• VA did not meet its own deadline to award new contracts by October 1, 2006, so it exercised the fourth and final option year for the current national contracts, through fiscal year 2007. VA expects to award new contracts by August 31, 2007 for fiscal year 2008 (10/1/07). According to VA, if it cannot award new contracts by then, it has the option to extend the current national contracts through March 2008.

• VA completed market research for the new national contracts.

• VA organized its regional offices into 26 sub-areas for the purpose of awarding new national contracts. In order to be competitive, contractors must demonstrate the capacity to provide services to all regional offices in a given sub-area.
Guidance Application, Training, Communication, and Management Data Are Key Challenges to Improving VA’s Management of VR&E Service Contracting

- Regional offices are not fully applying VA’s contracting guidance.
- Current training does not adequately prepare Contracting Officers to manage contracts.
- Regional offices report delays in communication, but VA headquarters is taking actions to address these concerns.
- In addition to having inadequate reporting capabilities, inadequate internal controls over contracting data raise reliability concerns.
Regional Offices Are Not Fully Applying VA’s Contracting Guidance

• VA quality assurance reviews of 10 regional offices in fiscal year 2006 found that some regional offices were not fully implementing VA’s contracting guidance. For example, some regional offices were not maintaining their contract files in accordance with VA’s contract file maintenance guidance or requiring staff with contractor oversight responsibilities to complete contracting training.

• During our site visits to four regional offices, we found that no offices had implemented all aspects of the contract file maintenance guidance.

• Some regional offices said they were not sure under which circumstances the guidance applies to local contracts.
Objective 2: Training

Current Training Does Not Adequately Prepare Contracting Officers to Manage Contracts

Required contracting training does not provide local officials with an adequate level of contracting expertise to manage contracts.

- Contracting Officers at three of the five sites we contacted said that VA’s training has not prepared them to adequately manage contracts.

- A few Contracting Officers do not feel adequately prepared to handle larger, more complex contracts that must be competed among several vendors. Consequently, they are purchasing services through smaller, noncompetitive contracts.
Regional Offices Report Delays in Communication, But VA Headquarters Is Taking Actions to Address These Concerns

- Regional office officials told us that VR&E headquarters is not always timely in responding to questions or requests to clarify contracting-related guidance, resulting in service delays to veterans and misuse of inactive contracts, among other problems.

- VR&E headquarters officials said that they are aware of these concerns, and VA is taking actions to address them.
  - VR&E headquarters hired an additional contracting specialist who will act as the primary liaison to regional offices.
  - VA established an electronic mailbox for all regional office contracting questions.
  - VA will continue allocating time during regular VR&E Officer call-in sessions for contract-related questions.
VA’s Management of VR&E Contracting Is Limited by Inadequate Reporting Capabilities

- Corporate WINRS was originally designed to capture case management information on veterans. As the Task Force noted, the system is now used to collect program management data as well. Currently, Corporate WINRS can
  - provide data for a range of automated reports to track certain activities such as regional offices’ caseloads, the case status of veterans by counselor, and contractor timeliness.

- However, automated reports that would facilitate contract management have not yet been fully developed. Currently, Corporate WINRS cannot
  - readily track contracting activities such as contractor costs by regional office and
  - readily and reliably separate spending on national versus local contracts.
Inadequate Internal Controls over Contracting Data Raise Reliability Concerns

- VR&E officials at all five regional offices we contacted told us that Corporate WINRS lacks adequate internal controls, a condition that could lead to errors, including
  - obligating funds to expired contracts and
  - obligating funds from an incorrect funding source.
- VA officials recognize that current restrictions in Corporate WINRS affect the integrity of any process used to measure the exact payments or pending obligations on any contract.
- When we compared contracting data provided by the regional offices we visited to data provided by VA, we found some discrepancies—potentially affecting data reliability—in the
  - number of contracts used,
  - type of contract used (national versus local), and
  - amount paid to contractors.
Conclusions

- Contracting is a valuable tool for the VR&E program. A well managed contracting system can help VR&E provide services to veterans by
  - gathering the information needed to make entitlement decisions and evaluate veterans’ employability,
  - supplementing services provided by VA staff, and
  - obtaining services at the best value to the government.

- Because several regional offices felt that prices were too high under the current national contracts, they requested and obtained lower prices. Because VA has conducted market research in preparation for issuing its new national contracts, which it did not do last time, VA has positioned itself to be at less risk of overpaying this time around.
Conclusions (continued)

- VA’s oversight and communication with regional offices is a work in progress, but in the absence of continued improvement, regional offices may be putting VA at risk for overpaying local contractors.

- Given their current level of training, regional VR&E officials may continue to use noncompetitive contracts even when they are not necessarily appropriate. Negotiating competitive contracts requires greater contracting expertise, but may also provide better prices and outcomes.

- Gains from improved contract management will be minimized without an information system to provide usable, reliable data on contract use. VA plans to improve the reporting capabilities of Corporate WINRS, but without improvements to internal controls and data reliability, reports produced by the system will not be as useful as they could be as management tools.
Recommendations for Executive Action

To help improve VA’s management of VR&E service contracting, both at the headquarters and regional office levels, we recommend that the Secretary of Veterans Affairs direct the Under Secretary for Benefits to:

- Conduct a management review to assess how regional offices are implementing contracting guidance and take necessary actions to make needed improvements. For example, VA could clarify to VR&E employees how existing VR&E guidance on contract file maintenance applies to local contracts.

- Require regional offices to report on the efficacy of contracting training and take necessary actions to make needed improvements. For example, VA could develop VR&E-specific contracting training.

- Improve VA management of VR&E contracting by improving Corporate WINRS reporting capabilities and its internal controls over contracting data.
Appendix II: Objectives, Scope, and Methodology

We examined (1) the progress VA has made in implementing selected recommendations on contracting for VR&E services made by the VR&E Task Force and VA Inspector General reports, and (2) the key challenges in improving its management of VR&E service contracting. To address these issues, we identified contracting-related recommendations from the 2004 VR&E Task Force and 2005 VA Inspector General reports, interviewed officials from VA headquarters, conducted case studies of four VA regional offices, analyzed VR&E contract-related management data, and reviewed contract files at VA’s Office of Acquisition and Materiel Management (OA&MM). We conducted our work from March 2006 to February 2007 in accordance with generally accepted government auditing standards.

To identify contract-related recommendations from the 2004 VR&E Task Force and 2005 VA Inspector General reports, we examined all recommendations from both reports, selecting recommendations related to (1) national contracting, (2) human capital issues related to contracting activities, (3) internal controls over contracting activities at the regional office level, and (4) data on contracting. Overall, we identified 10 recommendations to include in our review (table 1). To obtain information on the status of contract-related recommendations and to determine the changes VA has made to its VR&E contracting policies and procedures in response to these recommendations, we interviewed VA officials, including officials from the VR&E Service. Additionally, we obtained updated status reports on VR&E Task Force and VA Inspector General recommendations from VA headquarters.
Table 1. VR&E Task Force and VA Inspector General Contracting-Related Recommendations

<table>
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<th>Area of focus</th>
<th>VR&amp;E Task Force recommendations</th>
<th>VA OIG recommendations</th>
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<tbody>
<tr>
<td><strong>National contracts</strong></td>
<td>Revise the scope of current national contracts.</td>
<td>Revise the scope of and compete new contracts.</td>
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<tr>
<td><strong>Human capital issues</strong></td>
<td>(1) Create and staff a new position for contract specialists at regional offices and implement a training program for these staff.</td>
<td>Provide contracting staff with appropriate training and contract warrant authority.</td>
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<td></td>
<td>(2) Develop a contract training program for all VR&amp;E staff with direct responsibility for contract oversight.</td>
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<tr>
<td><strong>Regional office internal controls over contracting activities</strong></td>
<td>Enhance VA's capacity to manage contracts.</td>
<td>(1) Require that regional offices maintain documentation related to the following: contracts used by the office, instances when one contractor is used instead of another despite the fact that a higher price is being paid for services, and instances when actions are taken to address identified quality assurance review deficiencies.</td>
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<td>(2) Implement adequate contract payment internal controls.</td>
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<tr>
<td><strong>Contracting data</strong></td>
<td>(1) Enhance the usability of Corporate WINRS for internal control and financial management purposes and to manage and monitor all contractor services.</td>
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<td></td>
<td>(2) Elevate funding priority of Corporate WINRS and accelerate the development and adoption of financial and process enhancements.</td>
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Source: GAO analysis.
To evaluate VA’s progress in implementing the recommendations made by the VR&E Task Force and the VA Inspector General and to identify key challenges in doing so, we visited four regional offices representing each of VBA’s geographic areas. Our case study sites were Boston, Denver, St. Petersburg, and Houston. In addition to geographic diversity, sites were selected that used different types of contracts (national and/or local) and that represented a range of regional office size and contracting expenditures among VA’s 57 regional offices (table 2). We also contacted VBA’s Waco regional office. Waco, like Houston, piloted VA’s strategy for purchasing VR&E services through national contracts, although neither regional office had any national contracts available to it for use during the time of our review.

### Table 2. Case Study Site Selection Criteria, Fiscal Year 2006

<table>
<thead>
<tr>
<th>Case study site</th>
<th>VBA area</th>
<th>Number of veterans served</th>
<th>Payments for national contracts</th>
<th>Number of national contracts</th>
<th>Payments for local contracts</th>
<th>Number of local contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>Eastern</td>
<td>1,011</td>
<td>$148,349</td>
<td>3</td>
<td>$17,198</td>
<td>18</td>
</tr>
<tr>
<td>Denver</td>
<td>Western</td>
<td>2,825</td>
<td>$592,253</td>
<td>8</td>
<td>$504,115</td>
<td>21</td>
</tr>
<tr>
<td>St. Petersburg</td>
<td>Southern</td>
<td>4,977</td>
<td>$1,394,212</td>
<td>7</td>
<td>$128,290</td>
<td>114</td>
</tr>
<tr>
<td>Houston</td>
<td>Central</td>
<td>4,921</td>
<td>*</td>
<td>*</td>
<td>$626,731</td>
<td>64</td>
</tr>
</tbody>
</table>

Source: Corporate WINRS and data provided by regional offices.

*No national contracts were available to the Houston VA regional office.

At each of the case study sites, we interviewed VR&E officials involved in the management and oversight of contracted services, discussing the use of national and local contracts, implementation of VA’s contracting policies and procedures, and challenges they experienced. We also obtained regional office data on the number of contracts used and payments made for contracted services during fiscal year 2006. We assessed the implementation of VA’s guidance on contracting by reviewing national and local contract files for contracts that were still being used after January 2006, in order to allow regional offices adequate time to implement VA’s policy guidance that went into effect in September 2005. To determine the number of available national contracts at each case study site using national contracts in fiscal year 2006, we reviewed data from VA’s OA&MM and interviewed OA&MM officials. To determine the maximum allowable price for services, we reviewed contract files for national contracts available to the Boston, Denver, and St. Petersburg regional offices at VA’s OA&MM.

### Review of VA’s Management Data on Contracting

To determine the types of services purchased through VR&E contracts and the amount spent on contracted services nationwide, we analyzed fiscal year 2006 data on contracted services from VA’s Corporate WINRS case management data system. The information we reviewed included data on national and local contract usage, services provided through contracts, and payments for contracted services.

To assess the reliability of Corporate WINRS contracting data, we interviewed knowledgeable VA officials and compared contract-related data contained in Corporate WINRS to local data we collected from the four case study sites. We also reviewed existing documentation for the data system, including (1) the Corporate
WINRS Users Manual, (2) the VR&E Task Force and VA Inspector General reports, and (3) an internal evaluation of the data system conducted by VA’s Office of Business Oversight, Systems Quality Assurance Service. While we identified accuracy limitations with Corporate WINRS contracting data—discussed in the slide entitled “Objective 2: Management Data – Inadequate Internal Controls Over Contracting Data Raise Reliability Concerns” in appendix I (page 30)—we found that generally VA’s Corporate WINRS data on contracting were sufficiently reliable for the purposes of our study. We determined during our reliability assessment of the data that the data were reliable enough to use to report on national trends.
Appendix III: Comments from the Department of Veterans Affairs

THE DEPUTY SECRETARY OF VETERANS AFFAIRS
WASHINGTON
March 23, 2007

Ms. Denise M. Fantone
Director
Education, Workforce, and Income Security Team
U. S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Fantone:

The Department of Veterans Affairs (VA) has reviewed your draft report, *VA Vocational Rehabilitation and Employment: Service Contract Management Is Improving but Challenges Remain* (GAO-07-568R) and agrees with your conclusions and concurs with your recommendations.

To strengthen its management of Vocational, Rehabilitation, and Employment (VR&E) contracting, VA will:

- Emphasize contract maintenance guidance and continue to assess regional office performance through oversight visits;
- Continue to provide specific annual VR&E contract training as well as conduct specialized VR&E contract training to VR&E regional office staff responsible for managing contracts; and
- Modify the VR&E case management system to incorporate additional internal controls and reporting capabilities.

The enclosure addresses your recommendations in more detail and provides suggested rewording for technical clarity. VA appreciates the opportunity to comment on your draft report.

Sincerely yours,

Gordon H. Mansfield

Enclosure
Department of Veterans Affairs (VA)
Comments to
Government Accountability Office (GAO)
Draft report
VA Vocational Rehabilitation and Employment: Service Contract Management Is Improving but Challenges Remain
(GAO-07-568R)

To help improve VA's management of VR&E service contracting, both at the headquarters and regional office levels, we recommend that the Secretary of Veterans Affairs direct the Under Secretary for Benefits to:

- Conduct a management review to assess how regional offices are implementing contracting guidance and take necessary actions to make needed improvements. For example, VA could clarify to VR&E employees how existing VR&E guidance on contract file maintenance applies to local contracts.

Concur – The Veterans Benefits Administration (VBA) will reiterate to Vocational Rehabilitation and Employment (VR&E) field employees that the guidance in VR&E Letter 28-05-16, "VR&E Contract File Maintenance," and the modified VR&E Site Visit Protocol (which is outlined in VR&E's manual) is applicable to both National Acquisition Strategy and local contracts. As a management review tool, VR&E Service uses periodic site visits of the VBA Regional Office VR&E Divisions to assess regional offices program management to include oversight of contracting. VR&E Service will continue to conduct approximately 12 of these visits each year. Both the VR&E Letter and the Site Visit Protocol are available for review by VARO staff on the VR&E Intranet website. At the beginning of fiscal year (FY) 2007, VA also published on the VR&E Intranet Web site a list of all the action items and commendable items found during the FY 2006 Site Visits to include contracting issues.

- Require regional offices to report on the efficacy of contracting training and take necessary actions to make needed improvements. For example, VA could develop VR&E specific contracting training.

Concur – VA will continue to provide VR&E specific contracting training annually at the VR&E Management Training Conference as well as conduct specialized VR&E Contract Training to VR&E regional office staff responsible for managing contracts.

- Improve VA management of VR&E contracting by improving Corporate WINRS reporting capabilities and its internal controls over contracting data.
Enclosure

Department of Veterans Affairs (VA)
Comments to
Government Accountability Office (GAO)
Draft report

VA Vocational Rehabilitation and Employment: Service Contract
Management Is Improving but Challenges Remain
(GAO-07-568R)
(Continued)

Concur - VA will make modifications to VR&E’s case management system “Corporate WINRS” that will incorporate additional internal controls and reporting capabilities on contract management. These additional internal controls and reporting capabilities will be installed during the CWINRS Upgrade, scheduled for FY 2008. This upgrade is currently undergoing the internal VA project prioritization process.
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