



January 2024

# VA ACQUISITION MANAGEMENT

## Oversight of Service Contracts Needing Heightened Management Attention Could Be Improved

Accessible Version

# GAO Highlights

Highlights of [GAO-24-106312](#), a report to congressional requesters

## Why GAO Did This Study

For certain service functions, OFPP guidance identifies agency responsibilities for addressing possible risks. These risks include the potential for contractors to inappropriately influence the government's authority, control, and accountability for decisions. Contracts with these risks need heightened management attention. GAO has previously reported how other federal agencies could better mitigate challenges to overseeing service contracts involving functions that need heightened management attention, such as by developing related guidance.

GAO was asked to review VA's use of service contracts involving functions needing this heightened attention. This report assesses, among other things, the extent to which VA uses and oversees these contracts.

GAO analyzed data that VA personnel entered in the Federal Procurement Data System from fiscal years 2018–2022; selected a sample of 12 contracts reflecting a range of contracting activities for in-depth review; interviewed VA officials and contracting personnel; and reviewed policies, guidance, and documentation.

## What GAO Recommends

GAO is making seven recommendations to VA, including that it improve the completeness of its service contract data, and that it more fully implement OFPP guidance by issuing additional VA guidance, analyzing its workforce needs, and improving training. VA agreed with GAO's recommendations.

View [GAO-24-106312](#). For more information, contact Shelby S. Oakley at (202) 512-4841 or [OakleyS@gao.gov](mailto:OakleyS@gao.gov).

January 2024

## VA ACQUISITION MANAGEMENT

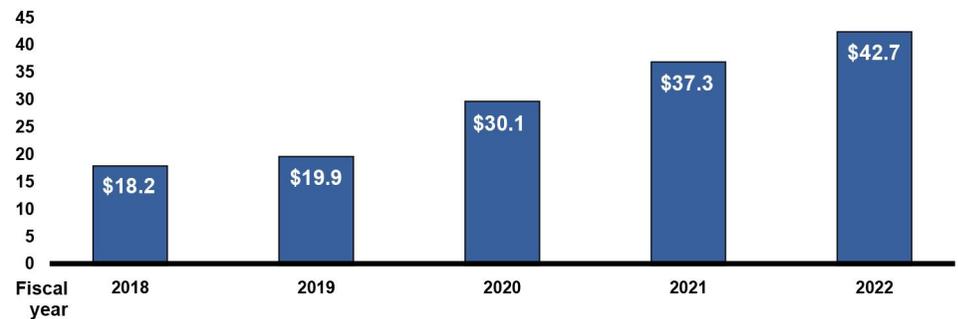
### Oversight of Service Contracts Needing Heightened Management Attention Could Be Improved

#### What GAO Found

The Department of Veterans Affairs (VA) has increasingly relied on contractors to perform tasks and services—such as medical, professional and management support, and hospital construction and maintenance services—to achieve its mission.

#### Department of Veterans Affairs (VA) Obligations on Service Contracts, Fiscal Years 2018 through 2022

Service contract obligations  
(fiscal year 2022 dollars in billions)



Source: GAO analysis of VA data in Federal Procurement Data System, fiscal years 2018–2022. | [GAO-24-106312](#)

GAO cannot report on VA's use of service contracts involving functions needing heightened management attention because VA's data are unreliable and incomplete. VA is required by law to analyze data about its service contracts annually to ensure, among other things, oversight of service contracts involving functions that need heightened management attention. However, VA's data analysis excluded contracts for medical and social services, which accounted for most of VA's obligations on contracts coded as needing heightened management attention. This is in part due to VA misinterpreting guidance from the Office of Management and Budget's Office of Federal Procurement Policy (OFPP) when selecting functions for the analysis.

OFPP issued guidance in 2011 to assist agencies in managing potential risks associated with contracts including functions that need heightened management attention, but VA has not fully implemented it. Specifically:

- VA guidance does not provide directions for how to plan and conduct oversight of these contracts.
- VA has yet to strategically plan its workforce to ensure sufficient personnel are available to provide heightened management attention.
- VA does not routinely offer related training to its employees.

VA officials for the 12 service contracts that GAO reviewed also reported uneven awareness and limited oversight of contracts including functions needing heightened management attention.

By taking steps to more fully implement OFPP guidance and improve the completeness of its service contract data, VA can position itself to better ensure it mitigates the potential risks associated with contractors performing functions that need heightened management attention.

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**Abbreviations**

FAR	Federal Acquisition Regulation
FPDS	Federal Procurement Data System
IGF	inherently governmental function
IT	information technology
OALC	Office of Acquisition, Logistics, and Construction
OFPP	Office of Federal Procurement Policy
VA	Department of Veterans Affairs

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January 25, 2024

The Honorable Jen Kiggans  
Chairwoman  
The Honorable Frank J. Mrvan  
Ranking Member  
Subcommittee on Oversight and Investigations  
Committee on Veterans' Affairs  
House of Representatives

The Honorable Matthew Rosendale, Sr.  
Chairman  
Subcommittee on Technology Modernization  
Committee on Veterans' Affairs  
House of Representatives

The Honorable Chris Pappas  
House of Representatives

The Department of Veterans Affairs (VA) relies heavily on service contractors to help it achieve its mission, and its reliance has grown over time. In fiscal year 2022, VA reported it obligated \$42.7 billion on service contracts, or about three-quarters of its total contract obligations. VA obligates funds on contracts for medical, professional and management support, and hospital construction and maintenance services, among others.

Federal agencies may not use contractors to perform certain functions called inherently governmental functions (IGF). Because IGFs are so intimately related to the public interest, they must be performed by federal employees.<sup>1</sup> For example, the Federal Acquisition Regulation (FAR) includes a list of functions considered to be inherently governmental—including directing and controlling federal employees, commanding military forces, and awarding, administering, or terminating contracts—as

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<sup>1</sup>Federal Activities Inventory Reform Act of 1998, Pub. L. No. 105-270, § 5(2)(A) (codified as amended at 31 U.S.C. § 501 note); Federal Acquisition Regulation (FAR) 7.503(a).

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well as a list of functions generally not considered to be IGFs.<sup>2</sup> While IGFs must be performed by federal employees, agencies may use service contractors to perform certain functions as long as the agencies provide various forms of heightened management attention. These include functions determined to be (1) closely associated with IGFs, (2) critical, and (3) of special interest.<sup>3</sup>

We previously conducted work on the risks and challenges associated with the use of service contracts at federal agencies including the Departments of Defense and Homeland Security and the National Nuclear Security Administration.<sup>4</sup> We repeatedly found that agencies should take additional steps to address the risks associated with service contracts involving functions needing heightened management attention. These steps include developing guidance and documenting plans for contract oversight activities. Our prior work suggests that VA may face similar challenges given concerns regarding how it manages acquisitions. We added VA acquisition management to our High-Risk List in 2019 due to issues including limited contract oversight, inadequate acquisition

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<sup>2</sup>FAR 7.503(c), (d). In connection with the list of functions generally not considered to be inherently governmental functions, the FAR states that certain services and actions that are not considered to be inherently governmental functions may approach being in that category because of the nature of the function, the manner in which the contractor performs the contract, or the manner in which the government administers contractor performance. Id. 7.503(d).

<sup>3</sup>According to Office of Federal Procurement Policy (OFPP) guidance, functions closely associated with IGFs are those that may approach being IGFs because of the nature of the function and the risk that performance may impinge on federal officials' performance of an IGF; critical functions are those that are necessary for the agency to be able to effectively perform and maintain control of its mission and operations and that are typically recurring and long-term in duration; and special interest functions need heightened management attention due to increased risk of workforce imbalance between federal employees and contractors. Office of Management and Budget, OFPP, *Performance of Inherently Governmental and Critical Functions*, Policy Letter 11-01, 76 Fed. Reg. 56,227 (Sept. 12, 2011); Office of Management and Budget, OFPP, *Service Contract Inventories*, Memorandum to Chief Acquisition Officers and Senior Procurement Executives (Nov. 5, 2010).

<sup>4</sup>GAO, *DOD Service Contracts: Actions Needed to Identify Efficiencies and Forecast Budget Needs*, [GAO-23-106123](#) (Washington, D.C.: Sept. 7, 2023); *DHS Service Contracts: Increased Oversight needed to Reduce the Risk Associated with Contractors Performing Certain Functions*, [GAO-20-417](#) (Washington, D.C.: May 7, 2020); *Support Service Contracts: NNSA Could Better Manage Potential Risks of Contractors Performing Inherently Governmental Functions*, [GAO-19-608](#) (Washington, D.C.: Sept. 26, 2019); *DOD Service Acquisition: Improved Use of Available Data Needed to Better Manage and Forecast Service Contract Requirements*, [GAO-16-119](#) (Washington, D.C.: Feb. 18, 2016); and *Managing Service Contracts: Recent Efforts to Address Associated Risks Can be Further Enhanced*, [GAO-12-87](#) (Washington, D.C.: Dec. 7, 2011).

training, contracting officer workload challenges, lack of reliable data systems, and outdated acquisition policies.<sup>5</sup> VA acquisition management remains on our High-Risk List.<sup>6</sup>

You requested that we examine how VA oversees service contracts that it identified as involving functions that need heightened management attention. Our report identifies the extent to which VA (1) used contracts that it identified as involving service functions needing heightened management attention from fiscal years 2018 through 2022, (2) plans and conducts oversight of these contracts, and (3) ensures that it has a workforce capable of overseeing contractors performing these functions.

To identify the extent to which VA used contracts that it identified as involving service functions needing heightened management attention from fiscal years 2018 through 2022, we reviewed Office of Federal Procurement Policy (OFPP) guidance to identify categories of contracts that need such attention. We collected Federal Procurement Data System (FPDS) data on VA service contracts from fiscal years 2018 through 2022. We identified contracts that VA reported as including functions needing heightened management attention by analyzing FPDS data, which indicate whether critical functions or functions closely associated with IGFs are involved, as well as product and service codes that VA identified as special interest functions in annual agency reports. We also selected a nongeneralizable sample of 12 VA service contracts and orders—which in this report we refer to collectively as contracts. We selected these contracts using criteria such as contract length of more than 1 year, year of award between fiscal years 2018 and 2022, and total obligations above \$250,000. At the time of selection, FPDS data indicated that five of our sampled contracts involved critical functions, seven involved functions closely associated with IGFs, and six had product and service codes that VA identified as special interest functions.<sup>7</sup> We assessed the reliability and completeness of relevant FPDS data elements for this analysis and for the purpose of selecting contracts for review. As we discuss later, we found that VA data related to an FPDS

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<sup>5</sup>GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, [GAO-19-157SP](#) (Washington, D.C.: Mar. 6, 2019).

<sup>6</sup>GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, [GAO-23-106203](#) (Washington, D.C.: Apr. 20, 2023).

<sup>7</sup>An agency may determine that a service contract involves functions that fall into one or more of these categories. At the time we selected 12 service contracts for review, VA had determined that five of the 12 contracts fell into more than one category that needs heightened management attention.

data element that identifies whether contracts involve critical functions or functions closely associated with IGFs were not reliable for the purpose of identifying the extent to which VA uses such contracts. For each selected contract, we interviewed the relevant head of the contracting activity, contracting officers, contracting officer's representatives, and requiring activity officials and, among other things, clarified identified data inconsistencies. We also reviewed *Standards for Internal Controls in the Federal Government* and found that principles related to sharing quality information were pertinent to our review.<sup>8</sup>

To identify the extent to which VA plans and conducts oversight of contracts that it identified as involving functions needing heightened management attention, we assessed VA's policies, procedures, and activities against OFPP guidance. We interviewed officials from the Office of Acquisition and Logistics to identify department-wide policies and procedures for such oversight, as well as the process used to conduct required annual service contract inventory analyses. We interviewed contracting and requiring activity officials for the 12 sample contracts to identify, among other things, the extent to which they took steps consistent with policy or guidance on the oversight of service contracts involving functions needing heightened management attention.

To identify the extent to which VA ensures that it has a workforce capable of overseeing contractors performing functions needing heightened management attention, we compared VA's human capital planning, workforce management, and training to relevant OFPP guidance. We identified relevant VA policies and guidance related to managing VA employees responsible for contract oversight, and reviewed VA human capital plans for fiscal years 2018 through 2022. We also interviewed officials from the Office of Human Resources and Administration/Operations, Security, and Preparedness; human capital functions in VA administrations; heads of contracting activities; Office of Acquisition and Logistics; VA Acquisition Academy; and contracting and requiring activities for the contracts we selected for review. Appendix I provides additional information on our objectives, scope, and methodology.

We conducted this performance audit from October 2022 to January 2024 in accordance with generally accepted government auditing standards.

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<sup>8</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

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Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

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### Service Functions That Need Heightened Management Attention

For more than 30 years, OFPP policies have indicated that agencies should provide a greater degree of scrutiny when contracting for certain services that can affect the government's decision-making authority.<sup>9</sup> In September 2011, in response to the 2009 Presidential Memorandum on Government Contracting,<sup>10</sup> OFPP issued Policy Letter 11-01 to the heads of executive departments and agencies. The policy letter clarifies, in part, when government use of contractors to perform services is and is not appropriate, consistent with provisions in the Duncan Hunter National Defense Authorization Act for Fiscal Year 2009.<sup>11</sup> Specifically, OFPP Policy Letter 11-01 defines inherently governmental functions (IGF) as those functions that are so intimately related to the public interest as to require performance by federal employees. Examples of these functions include determining agency policy or federal program budget requests.<sup>12</sup> Additionally, the policy letter identifies categories of service functions that agencies may contract for, but that need heightened management

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<sup>9</sup>OFPP, *Inherently Governmental Functions*, OFPP Policy Letter 92-1 (Sept. 23, 1992 [Rescinded]); OFPP, *Management Oversight of Service Contracting*, OFPP Policy Letter 93-1 (May 18, 1994).

<sup>10</sup>The White House, Office of the Press Secretary, *Memorandum for the Heads of Executive Departments and Agencies – Subject: Government Contracting* (Washington, D.C.: Mar. 4, 2009). The Duncan Hunter National Defense Authorization Act for Fiscal Year 2009 required the Director of the Office of Management and Budget to, among other things, review existing definitions of the term IGF and develop a single consistent definition for the term, and develop criteria to be used by the heads of federal departments or agencies to identify critical functions with respect to the unique missions and structure of the department or agency. Pub. L. No. 110-417, § 321(a)(1) - (a)(3) (codified at 31 U.S.C. § 501 note).

<sup>11</sup>OFPP, Policy Letter 11-01.

<sup>12</sup>OFPP Policy Letter 11-01 adopts this definition from the Federal Activities Inventory Reform Act. Pub. L. No. 105-270 (1998) (codified as amended at 31 U.S.C. § 501 note).

attention, as they pose a risk to the government of it losing control of either its responsibility to perform IGFs or its mission and operations.<sup>13</sup>

Through OFPP Policy Letter 11-01 and a 2010 memorandum, OFPP identified three categories of service functions that need heightened management attention.<sup>14</sup>

1. **Closely associated with IGFs.** OFPP Policy Letter 11-01 describes these functions as those that may approach being IGFs because of the nature of the function and the risk that performance may impinge on federal officials' performance of an IGF. In its response to public comments published with the Policy Letter 11-01, OFPP provided examples—in accordance with the FAR—of aspects of acquisition planning that are IGFs, such as determining requirements and approving a contracting strategy. However, contractors may be used to support acquisition planning efforts through functions such as performing market research or drafting statements of work. Such supporting functions are considered to be closely associated with IGFs and can be acquired through contracts. The policy letter identifies additional examples of support functions closely associated with IGFs, including legal advice, inspection services, activities in support of agency reorganization, budget preparation, policy development, acquisition source selection, and contract management.
2. **Critical functions.** OFPP Policy Letter 11-01 defines critical functions as those that are necessary for the agency to be able to effectively perform and maintain control of its mission and operations. These functions are typically recurring and long-term in duration. The policy also establishes criteria for identifying critical functions that are unique to each agency based upon its mission and operations. For example, it notes that analyzing areas of tax law that impose significant compliance burdens on taxpayers may constitute a critical function for the Internal Revenue Service's Office of the Taxpayer Advocate.
3. **Special interest functions.** According to OFPP's November 2010 guidance on service contract inventories, special interest functions need heightened management attention due to the increased risk of

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<sup>13</sup>In addition, FAR 37.114 provides that service contracts through which contractors provide advice, opinions, recommendations, ideas, reports, analyses, or other work products that may influence the authority, accountability, and responsibilities of government officials require special management attention to ensure that the contractor does not perform inherently governmental functions and that government officials properly exercise their authority.

<sup>14</sup>OFPP, Policy Letter 11-01; OFPP, *Service Contract Inventories* (Nov. 5, 2010).

workforce imbalance between federal employees and contractors.<sup>15</sup> Further, OFPP directed agencies to identify product and service codes they deemed to be special interest functions for the purpose of agency-wide analysis of service contracts. OFPP also identified a list of functions for agencies to consider as they identified special interest functions, including various professional and management services and IT support services. The list was developed based on concerns raised by us, agency inspectors general, and others regarding increased risk of losing control of mission and operations.<sup>16</sup>

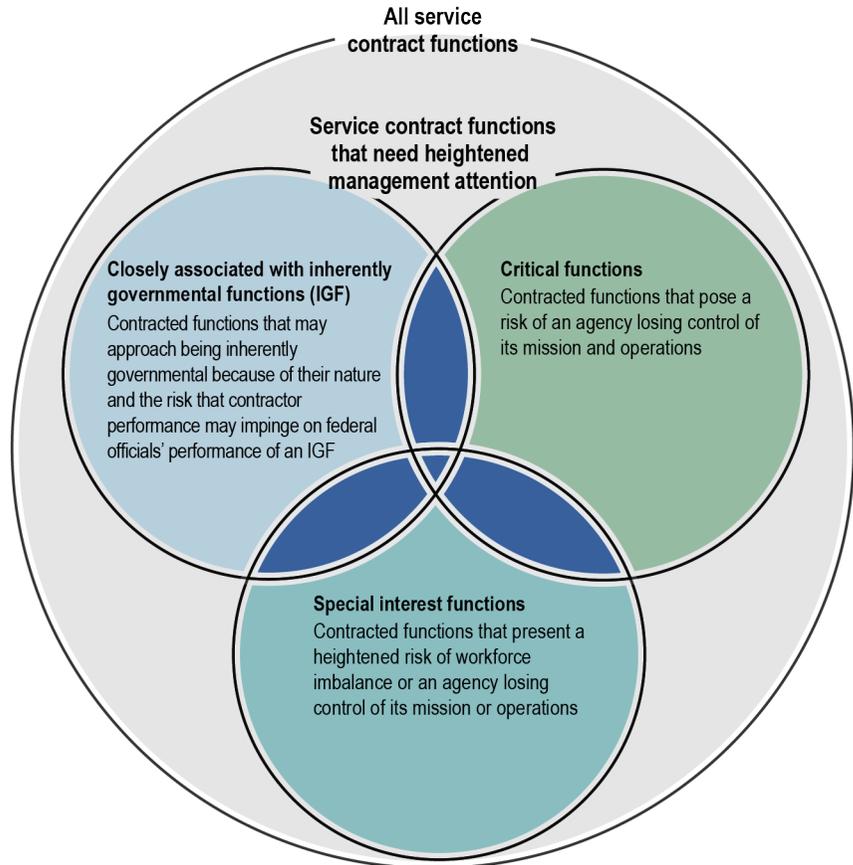
An agency may determine that a service contract involves functions that fall into one or more of these categories, as shown in figure 1. Alternatively, an agency can determine that a service contract does not involve any of these functions and therefore does not need heightened management attention.

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<sup>15</sup>OFPP, *Service Contract Inventories* (Nov. 5, 2010).

<sup>16</sup>GAO, *Defense Acquisitions: Further Actions Needed to Address Weaknesses in DOD's Management of Professional and Management Support Contracts*, [GAO-10-39](#) (Washington, D.C.: Nov. 20, 2009); *Department of Homeland Security: Improved Assessment and Oversight Needed to Manage Risk of Contracting for Selected Services*, [GAO-07-990](#) (Washington, D.C.: Sept. 17, 2007); and *Contract Management: Improving Services Acquisitions*, [GAO-02-179T](#) (Washington, D.C.: Nov. 1, 2001).

**Figure 1: Functions That Need Heightened Management Attention When Performed by Contractors**



 Service contract functions that need heightened management attention and that belong to more than one category

Source: GAO analysis of Office of Federal Procurement Policy guidance. | GAO-24-106312

To facilitate the identification and tracking of contracts that involve functions closely associated with IGFs or critical functions, the General Services Administration implemented a new FPDS data element, “6T – Inherently Governmental Functions,” in 2017. This new data element provided a drop-down menu with four coding options for contracting officials to indicate whether a contract involved certain functions that need heightened management attention. Three coding options indicate the presence of service functions that need heightened management attention: (1) critical functions, (2) functions closely associated with IGFs, or (3) both critical functions and functions closely associated with IGFs. The fourth coding option, (4) other functions, indicates the absence of functions closely associated with IGFs and critical functions. FPDS does

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not include a data element that specifically identifies special interest functions.

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## Agency Oversight for Functions That Are Critical or Closely Associated with IGFs

The Consolidated Appropriations Act, 2010 requires the heads of certain agencies—including VA—to, among other things, (1) ensure that their agencies provide special management attention to functions closely associated with IGFs; (2) have specific safeguards and monitoring systems in place to ensure contractor work had not changed or expanded to become an IGF; and, (3) provide sufficient internal agency resources to manage and oversee contracts effectively.<sup>17</sup> OFPP subsequently issued Policy Letter 11-01 to provide guidance to executive departments and agencies on overseeing contractor performance of functions determined to be critical or closely associated with IGFs. OFPP Policy Letter 11-01 outlines executive department and agency responsibilities for providing this heightened management attention to contracts involving functions closely associated with IGFs or critical functions.<sup>18</sup> For example, the policy letter outlines steps to ensure that the contractor does not ultimately perform functions that are reserved exclusively for federal employees and to maintain agencies' control of their missions and operations. Among other responsibilities, agencies are to develop and maintain internal procedures to address the requirements of OFPP Policy Letter 11-01 and review such procedures no less than every 2 years. Table 1 summarizes the policy implementation, contract oversight, and workforce planning actions for agencies under OFPP Policy Letter 11-01 for such service contracts.

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<sup>17</sup>Pub. L. No. 111-117, § 743(e)(2)(B), (e)(2)(D), (e)(2)(F) (2009) (codified as amended at 31 U.S.C. § 501 note).

<sup>18</sup>Together, we refer to the agency execution of responsibilities under OFPP Policy Letter 11-01 for functions closely associated with IGFs and critical functions, and the OFPP *Service Contract Inventories* memorandum dated November 5, 2010, for special interest functions, as providing heightened management attention.

**Table 1: Summary of Agency Responsibilities under OFPP Policy Letter 11-01 for Contracts Involving Functions Closely Associated with Inherently Governmental Functions (IGF) and Critical Functions**

**Policy implementation**

- ▶ Develop and maintain internal procedures to address the requirements of OFPP Policy Letter 11-01; review such procedures no less than every 2 years.
- ▷ Periodically evaluate the effectiveness of internal management controls for reserving work for federal employees.
- ▶ Designate a management official responsible for development and implementation of agency policies, procedures, and training to ensure the appropriate reservation of work for federal employees.

**Contract oversight**

Before contract award

- ▶ Confirm during acquisition planning that services to be procured do not include IGFs and that the agency can manage contractors consistent with its responsibility to perform all IGFs and maintain control of its mission and operations.
- ▶ Include documentation of this confirmation in the contract file for procurements of services above the simplified acquisition threshold.<sup>a</sup>
  - ▷ Include in the contract file an analysis that, at a minimum, establishes:
    - For functions closely associated with IGFs, that the agency, among other things, (1) gave special consideration to the use of federal employee performance of the function in accordance with law and applicable guidance, and (2) has sufficient capacity and capability to give special management attention to contractor performance, limit or guide the contractor's exercise of discretion, ensure reasonable identification of contractor work products, avoid or mitigate conflicts of interest, and preclude unauthorized personal services.<sup>b</sup>
    - For critical functions, that the agency has sufficient internal capability to control its mission and operations for critical functions, considering factors such as the importance of the function to the agency's mission and operations, complexity of the function, and current size and capability of the acquisition workforce.

After contract award

- ▷ Conduct ongoing reviews—in connection with service contract inventories and associated analysis<sup>c</sup>—of functions performed by contractors, including their performance of contracts involving functions closely associated with IGFs and critical functions, and how agency personnel are managing such contracts.
- ▶ Take prompt corrective actions, such as strengthening contract oversight or bringing work in-house, if the contractor performs IGFs.
- ▷ Develop and execute a hiring or developmental plan, or both, if internal control of mission and operations is at risk due to overreliance on contractors.

**Workforce planning**

- ▶ Develop strategic human capital plans that, among other things:
  - dedicate a sufficient amount of work for performance by federal employees to build knowledge and skills, provide for continuity of operations, and retain institutional knowledge of operations; and,
  - ensure sufficient personnel with appropriate training, experience, and expertise are available—and will remain available for the duration of the contract—to manage and oversee contractor performance and approve or disapprove work products and services, recruiting and retaining the necessary federal talent where lacking.
- ▶ Identify specific strategies and goals for addressing the size and capability of the acquisition workforce, including program managers and contracting officer's representatives<sup>d</sup>, in annual acquisition human capital plans.
- ▶ Take steps to help employees understand and meet their responsibilities under OFPP Policy Letter 11-01, which should include training no less than every 2 years to improve employee awareness of their responsibilities.

- ▶ = The policy states that agencies must take these actions
- ▷ = The policy states that agencies should take these actions

Source: GAO analysis of Office of Federal Procurement Policy (OFPP) Policy Letter 11-01. | GAO-24-106312

<sup>a</sup>Federal Acquisition Regulation (FAR) 2.101 generally establishes the simplified acquisition threshold at \$250,000. The threshold increases for specified types of acquisitions, such as an acquisition to

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support a response to an emergency or major disaster declared under the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

<sup>b</sup>The FAR defines a personal services contract as a contract that, by its express terms or as administered, makes the contractor personnel appear to be, in effect, government employees. See FAR 2.101.

<sup>c</sup>Certain federal agencies submit annual service contract inventories and associated analyses to the Office of Management and Budget, as required by the Consolidated Appropriations Act, 2010. Pub. L. No. 111-117, § 743(a)(3), (f) (2009) (codified as amended at 31 U.S.C. § 501 note).

<sup>d</sup>Contracting officer's representatives may be appointed by a contracting officer to perform technical or administrative functions through a designation letter. This letter identifies the representative's responsibilities and limitations. Contracting officer's representatives may assist in activities such as assessing and documenting contractor performance, reviewing invoices and deliverables, and developing the performance work statement.

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## Agency Oversight for Special Interest Functions

Agencies are to provide oversight of the extent to which contractors perform special interest functions. The Consolidated Appropriations Act, 2010 contained a requirement that certain federal agencies—including VA—submit annual service contract inventories and associated analyses to the Office of Management and Budget.<sup>19</sup> In their inventories, agencies are to report descriptions of services purchased, the total dollar amount obligated and invoiced under the contract, the contract type and date of award, the name of the contractor and place of performance, and the number of contractor employees, among other information, for each service contract. The act also requires that agencies make these inventories and analyses publicly available.<sup>20</sup> In accordance with the requirement in the act, OFPP issued guidance to help federal departments and agencies conduct the annual inventory and analysis. As part of the analysis, the act and OFPP guidance directed agencies to, among other things, review the contracts and information in the service contract inventory and ensure:

1. The agency is giving special management attention to functions that are closely associated with IGFs.
2. The agency is not using contractor employees to perform IGFs.
3. The agency has specific safeguards and monitoring systems in place to ensure that work being performed by contractors has not changed or expanded during performance to become an IGF.

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<sup>19</sup>Pub. L. No. 111-117, § 743(a)(3), (f) (2009) (codified as amended at 31 U.S.C. § 501 note).

<sup>20</sup>Id. § 743(c)(1), (f).

4. The agency is not using contractor employees to perform critical functions in such a way that could affect its ability to maintain control of its mission and operations.
5. There are sufficient internal agency resources to manage and oversee contracts effectively.<sup>21</sup>

The act also requires agencies to identify contracts that have been poorly performed due to excessive costs or inferior quality, or that should be considered for conversion to performance by federal employees or a more efficient acquisition approach.<sup>22</sup> In the service contract inventory report to the Office of Management and Budget, agencies are to identify the actions they have taken in response to their analyses of the contracts.<sup>23</sup>

OFPP's initial service contract inventory guidance from November 2010 provided additional instructions to agencies conducting these annual analyses. For example, OFPP instructed agencies to conduct a meaningful analysis of their service contract inventory data to determine if contract labor is being used in an appropriate and effective manner, and if the mix of federal employees and contractors at the agency is effectively balanced. To assist agencies with the challenge of conducting a meaningful analysis, OFPP directed them to give priority consideration to special interest functions. As we discussed earlier, OFPP provided a list of such functions for agencies to consider, but also instructed agencies to identify additional special interest functions to include—especially critical functions—where the agency may be at risk of overreliance on contractors or other challenges.

In its subsequent December 2011 guidance, OFPP instructed agencies to include in their analysis, at a minimum

- the special interest functions studied by the agency and the rationale for focusing on those functions;

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<sup>21</sup>Pub. L. No. 111-117, § 743(e)(2) (codified as amended at 31 U.S.C. § 501 note); OFPP, *Service Contract Inventories* (Nov. 5, 2010).

<sup>22</sup>Pub. L. No. 111-117, § 743(e)(3), (e)(4) (2009) (codified as amended at 31 U.S.C. § 501 note).

<sup>23</sup>Pub. L. No. 111-117, § 743(f) (2009) (codified as amended at 31 U.S.C. § 501 note); OFPP, *Service Contract Inventories* (Nov. 5, 2010). VA has posted its annual service contract inventory analysis reports from fiscal years 2010 through 2020 on its website. See <https://www.va.gov/oal/business/pps/scalInventory.asp>.

- the methodology used by the agency to support its analysis;
- agency findings, including a brief discussion of the extent to which the desired outcomes described in the Consolidated Appropriations Act, 2010 are being met; and,
- actions taken or planned by the agency to address any identified weaknesses or challenges.<sup>24</sup>

The November 2010 guidance states that the analysis shall be informed through appropriate techniques, such as sampling contract files, interviewing program managers, and using other supplemental information-gathering methods as needed. Special interest functions that are also identified as closely associated with IGFs or critical functions are also subject to the agency oversight outlined in OFPP Policy Letter 11-01.

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## VA Guidance for Providing Heightened Management Attention

Since the publication of OFPP Policy Letter 11-01 in 2011, VA has issued guidance at the departmental level to implement and increase employee awareness of this policy.

- **Informational notice, September 2011.** VA issued an informational notice in September 2011 regarding OFPP Policy Letter 11-01. The notice summarized elements of the policy, provided definitions for IGFs and critical functions, and provided an example of a critical function that was included in the policy letter.
- **Policy memorandum, February 2012.** The policy memorandum provided directions to contracting officers for coding service contracts involving critical functions or functions closely associated with IGFs in FPDS. Specifically, contracting officers were to include phrases beginning with “closely associated,” “critical functions,” or “other functions” in the FPDS description of requirement field.<sup>25</sup> The memorandum also instructed heads of contracting activities to ensure that contracting officers complied with these directions.

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<sup>24</sup>OFPP, *Service Contract Inventories*, Memorandum for Chief Acquisition Officers Senior Procurement Executives (Dec. 19, 2011).

<sup>25</sup>This method of documenting the service functions needing heightened management attention was replaced by a dedicated FPDS data element, 6T, in 2017.

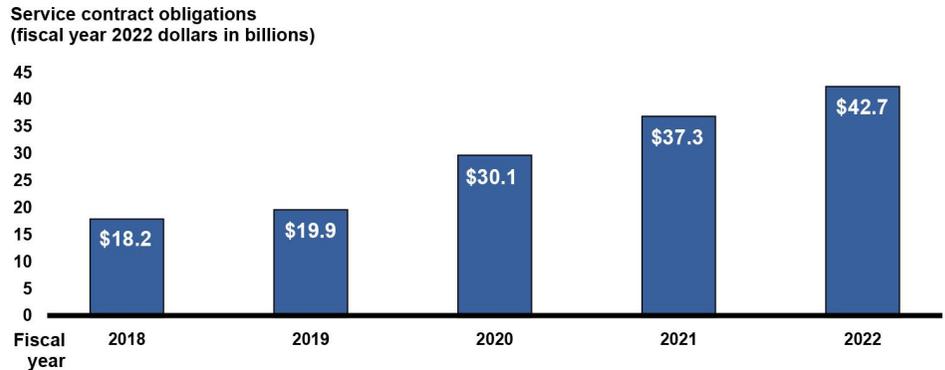
- **VA Acquisition Manual revision, January 2023.** VA added a section within its Acquisition Manual to reference a new checklist for documenting whether services to be acquired involve IGFs, functions closely associated with IGFs, or critical functions. The checklist documents the requiring activity's confirmation that a contractor would not perform IGFs as part of the services to be acquired. It also documents the requiring activity's confirmation of whether the planned services involve functions closely associated with IGFs or critical functions. In cases where the services involve such functions, the checklist documents that the requiring activity will meet the responsibilities for managing such functions according to OFPP Policy Letter 11-01. However, as discussed below, this VA guidance does not include internal procedures to help VA officials oversee contracts that involved functions needing heightened management attention.
- **VA Service Contract Inventory Procedures, May 2023.** VA developed standard operating procedures to document its process for producing the annual service contract inventory and analysis. The procedures identify service contract inventory reporting requirements, relevant OFPP guidance, and VA's process and timeline for producing the inventory and analysis.

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## VA Use of Service Contracts

From fiscal years 2018 through 2022, VA obligated about \$148 billion on service contracts—third most among federal agencies. The department's annual service contract obligations have grown from about \$18.2 billion in fiscal year 2018 to about \$42.7 billion in fiscal year 2022, as shown in figure 2.

**Figure 2: Department of Veterans Affairs (VA) Obligations on Service Contracts, by Fiscal Year**



Source: GAO analysis of VA data in Federal Procurement Data System, fiscal years 2018–2022. | GAO-24-106312

Over the 5-year period, VA had the fastest increase in service contract obligations among executive departments. As a result, about 76 percent of total VA obligations in fiscal year 2022 were on service contracts, up from about 59 percent in fiscal year 2018. VA obligates funds on contracts for medical, professional and management support, and hospital construction and maintenance services, among others.

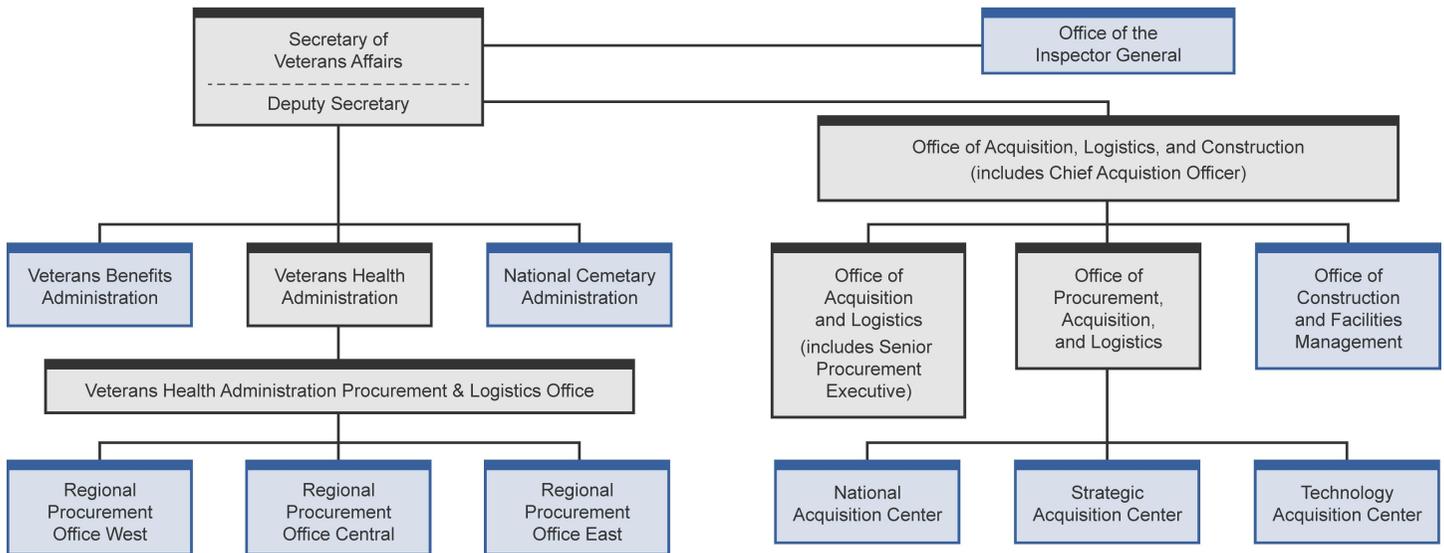
## VA Service Contracting Organizations

Service contracts are awarded by the contracting organizations that fall under VA’s 10 heads of contracting activities.<sup>26</sup> These include contracting activities within the department’s three administrations, and national contracting organizations under the Office of Acquisition, Logistics, and Construction (OALC). For example, under OALC, the Technology Acquisition Center conducts most of VA’s IT-related service contracting; the National Acquisition Center contracts for health care-related services used by VA’s medical centers; and the Strategic Acquisition Center contracts for non-IT, enterprise-wide services, including those for the Veterans Community Care Program. VA’s Office of Acquisition and Logistics—which is headed by the Executive Director that is also VA’s Senior Procurement Executive—and Office of Construction and Facilities Management are also within OALC. These two offices, respectively, have responsibility for department-wide contracting oversight and policy, and VA facilities and major construction projects, among other things. Figure 3

<sup>26</sup>For this review, we interviewed relevant officials and selected sample contracts for review from nine of VA’s 10 contracting activities. We excluded the contracting activity within VA’s Office of the Inspector General as it falls outside the purview of this review.

illustrates the organization of contracting at VA and identifies organizations with a head of the contracting activity.

**Figure 3: Contracting Activity Organizations at the Department of Veterans Affairs (VA)**



Legend:  
 Organizations with a head of the contracting activity  
 Organizations without a head of the contracting activity

Source: GAO presentation of VA Information. | GAO-24-106312

VA’s contracting activities support individual program offices that manage VA programs, benefits, and services. Offices that have a need to contract for services—called requiring activities—are responsible for accurately describing the need to be filled through service contracting. Requiring activities work with contracting officers, as needed, to define their need. Contracting officers have authority to award, administer, and terminate contracts. A contracting officer may appoint a contracting officer’s representative to perform technical or administrative functions through a designation letter, which identifies the representative’s responsibilities and limitations. Contracting officer’s representatives may assist in activities prior to and following contract award. Such activities can include developing the performance work statement, assessing and documenting contractor performance, reviewing invoices and deliverables, and maintaining records covering the contractor’s period of performance.

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## Extent of VA's Use of Contracts Involving Functions Needing Heightened Management Attention Is Unknown Due to Unreliable and Incomplete Data

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### VA Data Are Unreliable Due to Misidentification of Service Contracts Involving Critical Functions or Functions Closely Associated with IGFs

VA's data in FPDS on service contracts it identified as involving either a critical function or a function closely associated with IGFs are unreliable. As a result, we cannot reliably report VA's use of these contracts from fiscal years 2018 through 2022. In our analysis, we identified multiple instances where different contracting official judgments led to inconsistent coding of contracts for the same work or in which the data VA reported in FPDS were incorrectly coded.

- **Inconsistent coding.** VA identified contracts for one Veterans Community Care third-party administrator as involving critical functions or functions closely associated with IGFs, and those for the other as not.<sup>27</sup> From fiscal years 2018 through 2022, VA obligated about \$30 billion on contracts with one of two third-party administrators for the Veterans Community Care Program. According to FPDS data, more than 80 percent of these obligations are associated with contracts VA identified as involving critical functions or functions closely associated with IGFs. During the same period, VA obligated about \$26 billion on contracts with the other third-party administrator. However, only about \$35 million of this amount was on contracts that the agency identified in FPDS as involving critical functions or functions closely associated with IGFs. We previously

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<sup>27</sup>Under the Veterans Community Care Program, VA established five regional networks of community providers, known as Community Care Networks, to deliver health care services to veterans. VA oversees two contractors—Optum Public Sector Solutions and TriWest Healthcare Alliance—that serve as third-party administrators and are responsible for maintaining the five provider networks and ensuring they are adequate in size, scope, and capacity to ensure veterans receive timely access to care.

reported that these third-party administrators are responsible for providing similar services for different regional networks.<sup>28</sup>

When we asked cognizant VA officials if there were any differences in the services provided by the two third-party administrators, they told us there were no differences in the scopes of work. They added that contracting activity officials take steps, such as using the same terminology, to make the contracts align as closely as possible. When we asked why the contracts were coded differently regarding critical functions and those closely associated with IGFs, the officials attributed it to differences in judgment among the contracting offices responsible for awarding and coding each of the Community Care regional contracts.<sup>29</sup> While these determinations are inherently a subjective judgment for VA officials to make, coding these contracts the same way could have potentially increased or decreased VA's obligations identified as for critical functions or functions closely associated with IGFs by tens of billions of dollars over the 5-year period.<sup>30</sup>

- **Incorrect coding.** During our review, we identified more than a quarter of a billion dollars in obligations on contracts that VA officials confirmed were incorrectly coded. Based on our analysis of FPDS data from fiscal years 2018 through 2022, VA's National Cemetery Administration and Office of Construction and Facilities Management obligated about \$245 million and \$38 million, respectively, on contracts that VA officials coded as involving either critical functions or functions closely associated with IGFs. These contracts were for building construction, facility repair, housekeeping, administrative

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<sup>28</sup>The two third-party administrators are responsible for establishing and maintaining networks of licensed health care community providers and practitioners, including hospitals, physician group practices, and individual physicians, and paying community provider claims. Both administrators provide medical services (primary and specialty care), complementary and integrative health services, and dental services. See GAO, *Veterans Community Care Program: VA Needs to Strengthen Its Oversight and Improve Data on Its Community Care Network Providers*, [GAO-23-105290](#) (Washington, D.C.: Nov. 10, 2022).

<sup>29</sup>According to VA officials, the National Acquisition Center awarded the third-party administrator contracts for regions 1, 2, and 3. The Strategic Acquisition Center awarded the contracts for regions 4 and 5. Strategic Acquisition Center officials told us that future VA Community Care Program contracts will be awarded by a single directorate within the center, ensuring consistent coding across contracts.

<sup>30</sup>Although other agency officials may inform their determinations, the FAR establishes that contracting officers are responsible for the completion and accuracy of data on contract actions in FPDS. See FAR 4.604(b)(1).

support, and legal services, among other things. However, the heads of the respective contracting activities said that they have not had any contracts that involve either critical functions or functions closely associated with IGFs. When presented with the FPDS data, the officials from these two contracting activities told us that any FPDS data indicating the existence of such functions on any contract should be considered an error.<sup>31</sup>

Office of Construction and Facilities Management officials subsequently told us that in March 2023, because of our findings, the head of the contracting activity directed contracting officials to review contracts that were marked as involving critical functions or functions closely associated with IGFs. The officials reported that 42 of the 43 reviewed contracts were coded incorrectly and subsequently corrected. They added that one contract was under extended review. Similarly, National Cemetery Administration officials stated that they emailed all contracting officials in June 2023 to review FPDS contract data related to critical functions or functions closely associated with IGFs. The officials said that although they found many incorrectly coded contracts, they were not tracking any coding changes made by contracting officials to existing contracts. Instead, they said they would focus on correctly coding contracts moving forward.

In addition, contracting officers for six of the 12 contracts we selected for our review reported that their respective contracts were incorrectly coded in FPDS as involving critical functions or functions closely associated with IGFs. VA officials for each of the six contracts subsequently adjusted the associated FPDS records.

We found that the inconsistent and incorrect coding of contracts involving critical functions and functions closely associated with IGFs was caused, in part, by limited departmental policy and relevant training, as discussed below.

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<sup>31</sup>When asked about these broad statements by the contracting activity officials, VA's Senior Procurement Executive told us that VA officials should independently review service functions on a case-by-case basis, to determine whether they involve critical functions or functions closely associated with IGFs.

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## VA Data Are Incomplete Due to Challenges Identifying Service Contracts Involving Special Interest Functions

We found that FPDS data on contracts with service codes that VA identified as special interest functions are incomplete. As a result, we cannot reliably report the extent to which VA used contracts that it identified as involving special interest functions from fiscal years 2018 through 2022. The data were incomplete because VA did not effectively track changes to the service codes and did not tailor its list of special interest functions to include key VA service functions.

- **Ineffective tracking of service code changes.** We found that VA did not effectively track changes in service codes from year to year. This resulted in VA not identifying some of these codes as special interest functions in its annual service contract inventories reported to the Office of Management and Budget. In fiscal year 2021, the General Services Administration retired several service codes VA used to identify special interest functions. Those codes could not be assigned to contracts awarded after the specified retirement date but could be used on modifications to existing contracts. This is because the product and service code is assigned at the time a contract is awarded and retained throughout the life of the contract. The General Services Administration replaced all those retired codes with new codes. However, contracts awarded prior to fiscal year 2021 with these retired codes received millions of dollars of obligations in subsequent years. We found that while preparing its service contract inventory analysis for fiscal year 2022, VA dropped eight retired codes from its list of special interest functions. As a result, VA dropped contracts with these codes from its analysis, even though VA made tens of millions of dollars of obligations on such contracts. In August 2023, VA officials told us that they had not considered keeping retired service codes as special interest functions until all active contracts with those codes expired, but later told us they now plan to do so based on our findings.

Further, we found that in its analyses that followed the code changes, VA did not consistently identify contracts as involving special interest functions with the new service codes that replaced the retired codes. VA officials told us the exclusion of such contracts may have been an oversight. They later confirmed that contracts with one such service code, which we found had been inadvertently excluded, would be included in future analysis. *Standards for Internal Control in the Federal Government* state that management should use quality

information to achieve objectives.<sup>32</sup> However, VA did not effectively track service code changes to enable its identification of special interest functions. As a result, from fiscal years 2021 through 2022, VA excluded contracts from its service contract inventory analyses that represented obligations of about \$1.76 billion that should have been identified as involving functions needing heightened management attention. Without taking steps to ensure identified special interest functions are tracked across service code changes, VA risks having incomplete service contract inventory data.

- **Limited tailoring of special interest functions.** We found that VA has not tailored its list of special interest functions and service contract inventory analysis to include key VA service functions. Until recently, VA's list of special interest functions included only those specified in OFPP's November 2010 guidance. In 2023, VA added service codes for several special interest functions—such as professional legal and communications reports—to its planned analysis of service contract inventory data from fiscal year 2022.<sup>33</sup> VA officials told us they added these service codes because they are focusing on contracts that involve functions closely associated with IGFs in the fiscal year 2022 analysis. VA officials also told us they identified which codes to add by comparing the description of the service codes to the examples of functions closely associated with IGFs identified in OFPP Policy Letter 11-01. However, VA has yet to identify as special interest functions any service codes for social or medical services—which accounted for most of VA's obligations on contracts that VA identified as involving critical functions or functions

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<sup>32</sup>[GAO-14-704G](#).

<sup>33</sup>According to OFPP's annual service contract inventory guidance for fiscal years 2018 through 2022, agencies are to submit to the Office of Management and Budget, in February of each year, their analysis reports for service contract inventory data from 2 fiscal years prior and their analysis plan for the prior fiscal year. For instance, agencies are to submit their analysis reports for fiscal year 2021 and their analysis plans for fiscal year 2022 service contract inventory data by February 2023. However, according to OFPP officials, agencies may adjust their analysis plans following submission to the Office of Management and Budget.

closely associated with IGFs from fiscal years 2018 through 2022, according to FPDS data.<sup>34</sup>

In its 2010 guidance, OFPP identified a list of service codes as special interest functions for agencies to prioritize in their analyses, but also directed agencies not to limit their analyses to that list and to include other functions as appropriate, especially if they are critical functions. As recently as fiscal year 2022, OFPP guidance regarding preparation of the inventory encouraged inclusion of additional service codes not included in the original guidance. The guidance further stated that agencies' analysis of special interest functions is especially important for contracts that include critical functions and functions closely associated with IGFs.

Office of Acquisition and Logistics officials said they considered identifying service codes for social or medical services as special interest functions but ultimately did not due to a misinterpretation of OFPP guidance. As a result, VA's service contract inventory analyses for fiscal years 2018 through 2020, and its planned analyses for fiscal years 2021 or 2022, do not include contracts with billions of dollars of obligations—such as those associated with the Veterans Community Care Program—that could potentially include critical functions or functions closely associated with IGFs. Without tailoring VA's special interest functions to include key VA-specific service functions such as medical and social services, VA's annual service contract inventory analysis will have limited usefulness for providing insights into contracts including functions that may need heightened management attention, such as those for medical or social services.

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<sup>34</sup>As previously mentioned, we found that VA's data in FPDS on service contracts it identified as involving either a critical function or a function closely associated with IGFs are unreliable. According to VA's data, contracts for social and medical services may comprise more than 80 percent of VA's obligations on contracts that it identified as involving critical functions or functions closely associated with IGFs from fiscal years 2018 through 2022.

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## VA Provided Limited Oversight for Contracts Involving Functions Needing Heightened Management Attention

VA has issued department-level guidance to alert its workforce to the issuance of OFPP Policy Letter 11-01, which among other things, instructs agencies to confirm during acquisition planning that they can manage contractors consistently with the agency's responsibility to perform all IGFs and maintain control of agency mission and operations. However, our review found that this guidance has limitations that hinder VA's implementation of the policy letter. For the 12 contracts we reviewed that were identified as involving functions needing heightened management attention, VA officials responsible for oversight reported they generally did not provide this management attention, such as by planning and executing oversight activities for the contracts. Lastly, VA conducted limited departmental analysis of the oversight VA officials provided to service contracts involving functions needing heightened management attention.

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## VA Recently Issued Guidance to Implement OFPP Policy, but Certain Limitations Remain

As previously discussed, OFPP Policy Letter 11-01 directs agencies to implement the policy by, among other things, developing and maintaining internal procedures and helping agency officials understand and meet their responsibilities for overseeing contracts that need heightened management attention. Office of Acquisition and Logistics officials told us they were unaware of any efforts to develop internal procedures between 2012 and 2023. For example, VA's September 2011 informational notice alerted staff to OFPP's then-new guidance, and its February 2012 policy memorandum instructed contracting officers on how to code certain contracts in FPDS. Neither, however, provided guidance on how to determine and document the presence of critical functions and functions closely associated with IGFs or what steps officials should take to provide heightened management attention.

VA officials noted that the Senior Procurement Executive began to focus on developing department-wide procedures for implementing OFPP Policy Letter 11-01 in 2022, when VA was planning its Acquisition Manual revisions. VA officials said that VA was focused on its response to the

COVID-19 pandemic between 2020 and that time. VA's 2023 revision to its Acquisition Manual and a checklist that VA published in January 2023 provided a way for officials to identify and document whether contracts involved critical functions or those closely associated with IGFs.

OFPP Policy Letter 11-01 instructs agencies to confirm during acquisition planning that they can manage contractors consistent with the agency's responsibility to perform all IGFs and maintain control of agency mission and operations. For certain procurements of services over the simplified acquisition threshold, the policy letter instructs agencies to document this confirmation in the contract file, and states that the file should include an analysis to establish that the agency can provide the appropriate type and level of management attention needed, as previously identified in table 1. However, VA's Acquisition Manual revision and checklist have several limitations that hinder their utility in helping VA officials ensure their responsibilities in the policy letter are met.

- VA's Acquisition Manual does not prescribe when VA staff should or must complete the checklist. Rather, the Acquisition Manual states that the checklist "can be used" to make a written determination for the acquisition of services.
- Outside of hyperlinks to OFPP Policy Letter 11-01, neither the revision to the Acquisition Manual nor the checklist offer additional guidance to VA officials on how to complete the checklist. In particular, neither document specifies how VA officials should confirm that the agency can provide the appropriate type and level of management attention needed for overseeing contractors performing critical functions or functions closely associated with IGFs. Additionally, neither document explains to VA officials how to meet the policy letter's responsibilities, such as to conduct and document analysis performed to support that confirmation.
- Similarly, neither the revision to the Acquisition Manual nor the checklist provide instructions, guidance, or examples of planning and conducting oversight activities for service contracts that need heightened management attention. Such additional steps could help ensure the effectiveness of these activities.

While not required to do so, two of the nine contracting activities—the Technology Acquisition Center and the Strategic Acquisition Center—have procedures in their acquisition guidebooks relating to service contracts involving functions needing heightened management attention. These procedures require that all procurement packages for service contracts above the simplified acquisition threshold include a

determination regarding IGFs, functions closely associated with IGFs, and critical functions. The guidebooks include hyperlinks to OFPP Policy Letter 11-01 and provide specific steps to meet the responsibilities described in the guidance, such as requiring contracting officials to ensure that a requiring activity also completed a checklist.<sup>35</sup> Technology Acquisition Center officials said the activity issued an internal policy alert in November 2011 to notify its workforce of OFPP Policy Letter 11-01 and updated its guidebook to include a checklist requirement and associated policies in December 2011. Strategic Acquisition Center officials said that the checklist and associated policies were included in the first iteration of their guidebook issued in 2018.

Our review found that the checklists included in the Technology Acquisition Center and Strategic Acquisition Center guidebooks are nearly identical to the checklist VA included in its 2023 revision to its Acquisition Manual. We found that contracting and requiring activity officials for all four of the contracts we selected from these two contracting activities met their responsibilities, under OFPP Policy Letter 11-01, for identifying and documenting the need for and the agency's ability to provide needed heightened management attention, by using these checklists. In each instance, a requiring activity official submitted a completed and signed checklist to the contracting officer to be processed with other pre-award documentation and saved in the contract file.<sup>36</sup> According to these checklists, requiring activity officials for all four sample contracts reviewed their proposed contract requirements and determined that they did not involve service functions that were inherently governmental. They further identified whether the requirements involved functions that were critical functions or closely associated with IGFs. When the requirement was determined to involve functions closely associated with IGFs, the official marked a checkbox to reflect a written confirmation that they had given special consideration to using federal employees to perform the function and that they had sufficient capacity and capability to provide special management attention to the contractor's

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<sup>35</sup>For one of the seven contracting activities without procedures, the contract selected for our review included a checklist document consistent with the document used by the Technology Acquisition Center and Strategic Acquisition Center. Cognizant contracting officials told us that the Technology Acquisition Center previously supported the selected contract, which may explain the presence of the checklist.

<sup>36</sup>We previously reported that other federal agencies implemented a similar checklist. For example, since 2019, the Department of Homeland Security has required program officials to complete its inherently governmental and critical functions analysis job aid for all proposed service contract requirements above the simplified acquisition threshold. See [GAO-20-417](#) for more information.

performance of the work. When the requirement involved critical functions, the official confirmed the activity had sufficient internal capability to control its mission and operations. Requiring activity officials for two of the four contracts documented their determinations that the contract requirement involved either critical functions or functions closely associated with IGFs using the contracting activity checklist.<sup>37</sup>

Without establishing the circumstances under which the department-wide checklist in VA's 2023 revision of its Acquisition Manual is required and specifying the analysis needed to support completion of the checklist, VA will not have a standard approach that ensures contracting and requiring activity officials are meeting their responsibilities under OFPP Policy Letter 11-01 to identify and document contractor performance of service functions needing heightened management attention.

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### VA Officials for Selected Contracts Generally Did Not Provide Heightened Management Attention

In absence of policies or procedures for planning and conducting oversight, VA officials associated with our 12 selected contracts told us that they generally did not provide heightened management attention to contractors performing functions needing that management attention. Most of the officials demonstrated awareness of what constituted an IGF,

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<sup>37</sup>Based on the checklists we reviewed, VA officials determined that the other two contracts did not involve critical functions or functions closely associated with IGFs. One of these contracts was included in our sample because it had a special interest function service code. For the other contract, we had included the contract in our review because VA reported in FPDS that the contract involved functions closely associated with IGFs. However, upon reviewing the checklist that Technology Acquisition Center officials completed, we found that VA officials had determined a contract requirement involved neither functions closely associated with IGFs nor critical functions. We found a similar discrepancy for another contract in our review. Specifically, Strategic Acquisition Center officials determined on a checklist that the contract requirements involved critical functions, but VA reported in FPDS that the contract involved critical functions and functions closely associated with IGFs. In both instances, contracting officers confirmed that the determinations documented on the checklists were accurate and the information reported in FPDS was not. The contracting officers corrected the FPDS records for each contract in advance of our interviews.

including related restrictions in the FAR.<sup>38</sup> However, VA officials reported varying awareness of and experience with functions closely associated with IGFs and critical functions.

- Contracting officers for nine of the 12 contracts said they had some knowledge of functions closely associated with IGFs or critical functions. Contracting officers for six of these nine contracts reported having specific experience with such contracts, while those for three contracts reported no specific experience.
- Officials who served as contracting officer's representatives for three of the 12 contracts reported having some knowledge of and experience with functions closely associated with IGFs or critical functions.
- Requiring activity officials for four of the 12 contracts reported having some knowledge of and experience with functions closely associated with IGFs or critical functions.

As a result of this varied awareness, most contracting officers and contracting officer's representatives we spoke to reported providing a similar level of oversight for contracts involving critical functions or functions closely associated with IGFs as they do for other service contracts. The Consolidated Appropriations Act, 2010 requires the heads of certain agencies—including VA—to ensure their agencies, among other things, have specific safeguards and monitoring systems in place to ensure contractor work has not changed or expanded to become an IGF.<sup>39</sup> Further, OFPP Policy Letter 11-01 instructs agencies to take certain actions to provide heightened management attention for contracts involving function determined to be closely associated with IGFs, as previously outlined in table 1. The policy letter also instructs agencies to take steps to help employees understand and meet their responsibilities under the policy letter.

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<sup>38</sup>FAR 7.503(c) provides a list of examples of functions considered to be inherently governmental functions, including the determination of agency policy (such as determining the content and application of regulations), the determination of federal program priorities for budget requests, and certain procurement-related activities (such as determining the supplies or services to be acquired by the government; approving contractual documents, including documents defining requirements, incentive plans, and evaluation criteria; awarding, administering, and terminating contracts; determining whether contract costs are reasonable, allocable, and allowable; and participating as a voting member on performance evaluation boards).

<sup>39</sup>Pub. L. No. 111-117, § 743(e)(D) (2009) (codified as amended at 31 U.S.C. § 501 note).

Contracting officers we interviewed told us they generally provided only basic administration throughout the contract's life. According to the VA Acquisition Regulation, contract administration generally refers to actions taken after an award to ensure that a contractor complies with contractual requirements, such as the timely delivery of supplies or services, and other activities, such as acceptance, payment, and closing the contract.<sup>40</sup> Contracting officers for 11 of the 12 selected contracts described performing these kinds of contract administration tasks as the extent of their oversight of their respective contracts. However, even when contracting officers performed additional oversight actions, they said these steps were unrelated to the contract's designation as involving functions needing heightened management attention.

Contracting officers for the contracts we reviewed routinely delegated day-to-day oversight of the contractor to their contracting officer's representatives. This occurred via a designation letter that identified, in writing, information such as the representative, their qualifications, and their roles, duties, and delegated authorities.<sup>41</sup> Senior officials at all nine of VA's contracting activities told us that contracting officer's representatives were the primary means for providing direct oversight of VA service contractors, including on those contracts that included functions needing heightened management attention. VA officials responsible for nine of the 12 sample contracts told us that contracting officer's representatives performed most oversight activities associated with the selected contracts.

However, for all of the selected contracts, the contracting officers did not provide notification to contracting officer's representatives of any need to plan or conduct enhanced oversight of those service functions needing heightened management attention. We asked contracting officials where such notification typically would be documented, and they referred us to the contracting officer's representative designation letters. We reviewed contracting officer's representative designation letters for 10 of the 12 sample contracts.<sup>42</sup> None of these letters contained information regarding

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<sup>40</sup>VA Acquisition Regulation 842.070.

<sup>41</sup>FAR 1.602-2(d), 1.604; VA Acquisition Regulation 842.270.

<sup>42</sup>For the other two contracts, we found that the contracting officers had not formally designated a contracting officer's representative on the selected contract or issued a designation letter. However, for both contracts, we interviewed requiring activity officials who performed the role of contracting officer's representative and determined that they held valid certifications from the Federal Acquisition Certification for Contracting Officer's Representatives program.

any need to provide heightened management attention, specific instructions regarding enhanced oversight activities, or notification that the assigned service contract involved functions that were closely associated with IGFs, critical functions, or included product or service codes identified by VA as special interest functions. This was also the situation for contracting officer's representative designation letters for the two contracts that used contracting activity checklists and documented the involvement of critical functions or those closely associated with IGFs. None of the officials that served as contracting officer's representatives for the 12 contracts we reviewed reported taking specific oversight steps to provide heightened management attention. As a result, they reported there was no difference between the oversight conducted for these contracts and other service contracts awarded by VA.

Without policies and procedures to plan and conduct oversight activities for service contracts that need heightened management attention—and instructions for how to communicate needed oversight actions to contracting officer's representatives in their designation letters—VA employees responsible for providing heightened management attention may not clearly understand and fulfill their responsibilities under OFPP Policy Letter 11-01.

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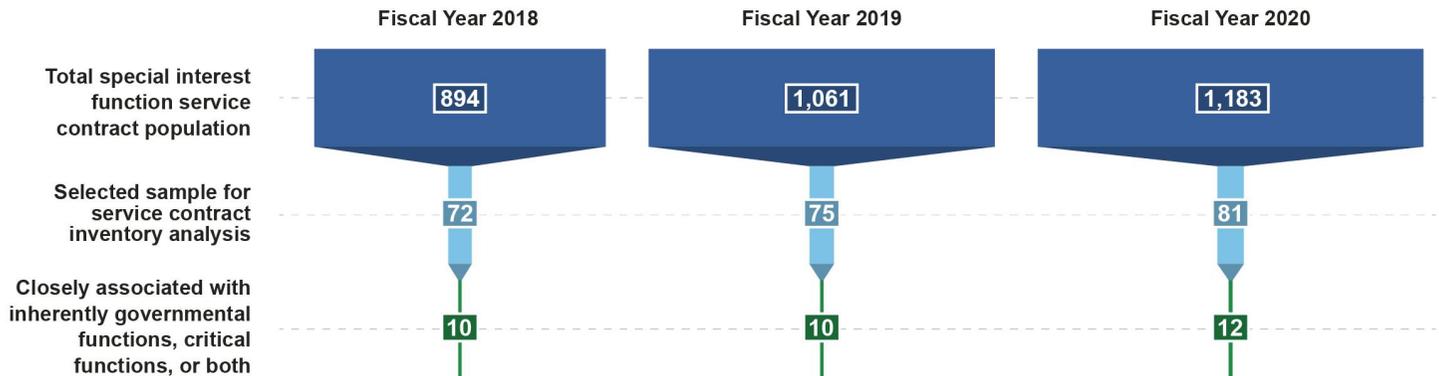
### VA Conducted Limited Analysis of Oversight for Service Contracts Involving Functions Needing Heightened Management Attention

VA's only departmental-level tool for analyzing the oversight of service contracts involving functions needing heightened management attention—the service contract inventory analysis—relied on a sampling methodology that did not prioritize contracts involving functions closely associated with IGFs or critical functions. VA used its annual service contract inventory analysis in fiscal years 2018 through 2020 to determine whether sufficient government oversight existed for these contracts. This involved examining a sample of service contracts with special interest function service codes and surveying cognizant contracting officials. The resulting reports included VA's conclusions as to whether it had ensured it met the five conditions related to the performance of IGFs, and management and use of contracts for critical functions and functions

closely associated with IGFs.<sup>43</sup> In each of three service contract inventory reports it published for fiscal years 2018 through 2020, VA reported that it met all the conditions.<sup>44</sup>

However, VA based its conclusions as to whether it met the five conditions on a small number of relevant contracts. VA identified between 800 and 1,200 contracts as involving special interest functions in its service contract inventory analyses for fiscal years 2018 through 2020, as shown in figure 4. Of these contracts, VA selected a sample of 72 to 81 contracts for further review. Less than 15 percent of these sample contracts involved critical functions or functions closely associated with IGFs. For example, only 12 of the 81 contracts VA selected for its sample as part of its fiscal year 2020 analysis involved such functions.

**Figure 4: Department of Veterans Affairs (VA) Selected Sample for Service Contract Inventory Analysis, Fiscal Years 2018–2020**



Source: GAO analysis of VA's annual service contract inventory analysis reports and supporting documentation, fiscal years 2018–2020. | GAO-24-106312

<sup>43</sup>As previously discussed, the Consolidated Appropriations Act, 2010, and OFPP's November 2010 guidance directed agencies to, among other things, review the contracts and information in the service contract inventory and ensure: (1) the agency is giving special management attention to functions that are closely associated with IGFs; (2) the agency is not using contractor employees to perform IGFs; (3) the agency has specific safeguards and monitoring systems in place to ensure that work being performed by contractors has not changed or expanded during performance to become an IGF; (4) the agency is not using contractor employees to perform critical functions in such a way that could affect its ability to maintain control of its mission and operations; and, (5) there are sufficient internal agency resources to manage and oversee contracts effectively.

<sup>44</sup>VA also reported meeting all conditions in its other published service contract inventory reports for fiscal years 2010 through 2017.

**Accessible Data Table for Figure 4: Department of Veterans Affairs (VA) Selected Sample for Service Contract Inventory Analysis, Fiscal Years 2018–2020**

	FY18	FY19	FY20
Total Special interest function service contract population	894	1061	1183
Selected sample for service contract inventory analysis	72	75	81
Closely associated with inherently governmental functions, critical functions,, or both	10	10	12

Source: GAO analysis of VA's annual service contract inventory analysis reports and supporting documentation, fiscal years 2018-2020. | GAO-24-106312

OFPP guidance states that the service contract inventory is a tool to help agencies better understand how they use contracted services to support mission and operations, especially contracts for critical functions and functions closely associated with IGFs. This guidance also instructs agencies to conduct meaningful analysis of their service contract inventory data, using special interest functions, to determine if contract labor is being used in an appropriate and effective manner, and if the mix of federal employees and contractors at the agency is effectively balanced.<sup>45</sup>

However, VA's sample selection methodology focused on dollar value and did not prioritize selecting contracts determined to involve critical functions or functions closely associated with IGFs. VA officials who performed the analysis told us they selected sample contracts from among all those identified as special interest functions. They added that their selection process then prioritized high dollar-value contracts to achieve a sample that was representative of VA's overall universe of special interest function contracts. As previously noted, VA's list of special interest functions excluded service codes for social and medical services. These excluded services comprised most of VA's obligations on contracts coded in FPDS as involving critical functions, functions closely associated with IGFs, or both, between fiscal years 2018 and 2022. As a result, VA could not select and review high dollar-value contracts for medical or social services, such as those related to VA's Community Care Program.

Due to this lack of tailoring of VA special interest functions to include key VA service functions, and a sample selection methodology that did not prioritize choosing contracts with critical functions or functions closely associated with IGFs, VA's service contract inventory analyses relied upon a small number of relevant contracts. In turn, VA had limited support to draw conclusions about its overall capacity and capability to provide

<sup>45</sup>OFPP, *Service Contract Inventories* (Nov. 5, 2010).

oversight of contracts involving critical functions and functions closely associated with IGFs. For example, in fiscal years 2018 and 2019, VA reported having sufficient internal agency resources to effectively manage and oversee such contracts. However, VA officials told us that the basis for this conclusion was survey responses for the 10 contracts involving critical functions or functions closely associated with IGFs.

Furthermore, VA's service contract inventory analysis did not include meaningful analysis. For its analyses in fiscal years 2018 through 2020, VA officials sent contracting officials for each selected sample contract a survey with questions about oversight of critical functions and functions closely associated with IGFs.<sup>46</sup> To reach its conclusion about the agency's overall capacity and capability to provide oversight to contracts involving critical functions and functions closely associated with IGFs, the survey included only a single relevant question. The question asked if there were sufficient federal employees with appropriate training and expertise to manage and oversee the contracts—and requested a yes or no response. As a result of VA's lack of tailoring of special interest functions, sample selection methodology, and limited analysis, VA senior leaders did not obtain reliable insights regarding the implementation and effectiveness of policies and procedures designed to address the risks associated with contracts involving functions needing heightened management attention. Without revisiting its methodology and analysis, VA will continue to lack such insights and not provide meaningful information to OFPP in its service contract inventory.

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## VA Did Not Ensure It Had Sufficient Workforce to Oversee Contracts Involving Functions Needing Heightened Management Attention

VA has not conducted strategic workforce planning to ensure sufficient personnel are available to oversee service contracts involving functions needing heightened management attention, consistent with OFPP Policy Letter 11-01. In addition, VA has not consistently offered training related to such oversight—such as increasing awareness of responsibilities—to its employees, as directed by the policy letter.

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<sup>46</sup>Contracting officers for two of 12 contracts we reviewed said they had prior experience participating in VA's annual service contract inventory and analysis process.

## VA Did Not Consider Oversight of Contracts Involving Functions Needing Heightened Management Attention in Its Workforce Planning

Although VA's use of service contracts has increased significantly since fiscal year 2018, VA has not conducted strategic workforce planning to ensure sufficient personnel are available to oversee service contracts involving functions needing heightened management attention. We found that VA's latest acquisition human capital plans—for fiscal years 2018 and 2019, and the plans' companion guide for 2020 through 2024—did not indicate that VA considered oversight needs for these contracts. Instead, the plans generally outlined VA efforts to ensure it had enough acquisition personnel and identified strategies and goals for addressing acquisition workforce size and capability needs. For example, in its annual acquisition human capital plans, the Office of Acquisition and Logistics identified its accomplishments in managing and strengthening its acquisition workforce, challenges in managing the acquisition workforce, and its workforce goals for the next year.

VA also reported acquisition workforce data in its acquisition human capital plans, but these data did not include considerations specific to contracts involving functions needing heightened management attention. Instead, the data included the number of employees that have federal acquisition certifications in contracting, for contracting officer's representatives, and for project and program managers. VA's Senior Procurement Executive said that VA follows Office of Management and Budget guidance and uses a provided template for its acquisition human capital plans. This official noted that the guidance and template do not address whether the human capital plans are to include considerations specific to contracts involving functions that need heightened management attention.

As noted earlier, agencies have various workforce planning responsibilities related to implementing OFPP Policy Letter 11-01. For example, VA's human capital planning is to ensure that the agency has sufficient personnel with the appropriate training, experience, and expertise to manage and oversee contracts involving critical functions or functions closely associated with IGFs. However, Office of Acquisition and Logistics officials told us that they were not aware of any steps VA had taken to meet each of its workforce planning responsibilities related to these contracts. For example, these officials told us that VA had no policy or guidance related to dedicating a sufficient amount of work for

performance by federal employees in order to build knowledge and skills, provide for continuity of operations, and retain institutional knowledge of operations, as required by the OFPP policy letter.

Although Office of Acquisition and Logistics officials could not identify steps VA had taken to meet its workforce planning responsibilities in OFPP Policy Letter 11-01, they noted that they planned to take steps to meet those responsibilities. The officials said that although contracting office directors decide the workload of contracting officers, VA plans to provide tools to help manage personnel providing heightened management attention. For example, VA plans to establish methodologies for ensuring sufficient personnel with appropriate training, experience, and expertise are available to oversee contractors performing service functions that need heightened management attention. Officials did not specify any additional steps or when they would undertake these efforts.

We also found that officials from all three VA administrations and six contracting activities did not consider resource requirements for overseeing service contracts involving functions needing heightened management attention when conducting their workforce assessments. For example, Veterans Health Administration human capital officials reported conducting annual analyses that helped identify a shortage of contracting personnel. However, these analyses occurred at a high level, considering contracting personnel roles across all contracts and were not focused on contracts involving functions needing heightened management attention. Likewise, officials from the Technology Acquisition Center and Office of Construction and Facilities Management told us that the resource requirements for these service contracts did not factor into their human capital planning processes.

VA's key human capital functions as performed by the Office of Acquisition and Logistics, VA administrations, and contracting activities do not currently consider service contracts involving functions needing heightened management attention as part of their human capital planning and workforce management processes. Therefore, VA cannot be certain that its workforce size, capabilities, and distribution are sufficient to provide the needed oversight. For example, for one of the service contracts we selected for review that involved functions needing heightened management attention, contracting officials said two contracting officer's representatives were responsible for overseeing about 850 contractor staff on the contract, with some assistance from 40 to 45 government project managers. However, VA currently does not

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have a way to know whether this workforce is sufficient to oversee this contract. Without human capital planning to determine whether the acquisition workforce is sufficiently sized and capable, VA may not be positioned and resourced to effectively manage the potential risks associated with contractors performing functions determined to be critical or closely associated with IGFs.

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### VA Does Not Consistently Provide Training on Oversight of Contracts Involving Functions Needing Heightened Management Attention

VA reported plans to provide its acquisition workforce with training on service contracts involving functions that need heightened management attention but did not consistently offer such training. In each of its annual service contract inventory analysis reports for fiscal years 2010 through 2020, VA stated that it planned to implement training initiatives or steps that may have improved employee awareness of responsibilities related to service contracts involving functions needing heightened management attention. For example, in its reports for fiscal years 2012 through 2020, VA stated that it would operate and maintain a website to provide its acquisition community with a single location to receive information and guidance. VA also reported that it would implement a procurement policy outreach program that would include orientations and classroom lessons at the VA Acquisition Academy and briefings to the heads of contracting activities.

We found that VA has yet to fully implement these plans. VA's Senior Procurement Executive stated that VA operates and maintains an online acquisition knowledge portal to provide a single source of relevant procurement policy and information. However, as previously discussed, VA has published limited guidance related to contracting for and overseeing service functions that need heightened management attention. Office of Acquisition and Logistics officials told us in November 2022 that they were reviewing current VA Acquisition Academy courses to determine where to add emphasis on service contracting. However, in August 2023, officials from the Office of Acquisition and Logistics and the VA Acquisition Academy told us that none of the training courses currently offered through the academy cover topics related to overseeing service contracts that involve functions closely associated with IGFs, critical functions, or special interest functions. VA officials said that such courses were not required to earn federal acquisition certifications. They told us that there were no current Office of Acquisition and Logistics staff

who could identify any VA efforts to develop relevant training following the issuance of OFPP Policy Letter 11-01 through 2019. In addition, VA officials said that they had not received direction from the Senior Procurement Executive to focus on this area until 2022.

Only one of the nine heads of contracting activities or associated contracting officials that we interviewed—for the Technology Acquisition Center—identified specific training that they provided for service contracts involving functions needing heightened management attention. The heads of three contracting activities—for the National Cemetery Administration, Veterans Benefits Administration, and Strategic Acquisition Center—told us that they rely on training offered through the VA Acquisition Academy, which as mentioned above currently offers no relevant training. Officials from the National Acquisition Center indicated that they provided customer training on IGFs but did not indicate whether they provided training on contracts with functions closely associated with IGFs, critical functions, or special interest functions.

VA officials for the 12 selected contracts in our review largely corroborated this lack of training, although some reported taking relevant training courses. Contracting officers for four of the 12 contracts and contracting officer's representatives for one of the 12 told us they recalled relevant training within the last 2 years. For example, a contracting officer for a Veterans Health Administration contract identified an hour-long training session held in February 2023 offered through a Regional Procurement Office that covered functions needing heightened management attention. The training provided information about applicable policy such as OFPP Policy Letter 11-01, definitions and examples of critical functions and functions closely associated with IGFs, and how to code contracts in FPDS as involving such functions. However, the training did not include discussion of how to plan or conduct oversight of contractors performing functions needing heightened management attention. After we asked about this training, Veterans Health Administration Procurement and Logistics Office officials told us that these training materials were developed in February 2021 and used in two March 2021 training sessions. These officials added that the February 2023 training session was held in response to our initiation of this review. Similarly, National Cemetery Administration officials told us that in April 2023 they shared with staff definitions of critical functions and functions closely associated with IGFs and step-by-step instructions for coding contracts as involving these functions in FPDS.

While certain contracting activities have provided training focused on certain aspects of managing contracts involving critical functions and functions closely associated with IGFs, more can be done at the department level. OFPP Policy Letter 11-01 states that agencies shall take appropriate steps to help their employees understand and meet their responsibilities under the letter, which include managing such contracts. The policy letter specifies that these steps should include training, no less than every 2 years, to improve employee awareness of these responsibilities. In addition to the VA contracting and requiring activity officials who oversee contractors performing critical functions and functions closely associated with IGFs, the policy letter states that all federal employees have an obligation to help avoid situations where contractors are performing responsibilities that should be reserved for federal employees.

As previously discussed, contracting and requiring activity officials for the selected contracts in our review exhibited varying degrees of awareness of, and experience with, contracts involving functions needing heightened management attention. Few requiring activity officials and contracting officer's representatives told us they were aware of functions closely associated with IGFs or critical functions. The limited awareness and training likely contributed to the challenges officials faced in identifying the need for heightened management attention, as well as the general lack of related oversight activities, as discussed earlier. VA employees, especially contracting and requiring activity officials, may struggle to establish effective safeguards and take needed actions without training—completed at least once every 2 years—to ensure they understand and meet their responsibilities and duties. Consequently, VA would not be able to identify and mitigate potential risks related to contractors performing these functions, such as the possibility of inappropriate influence on the government's authority, control, and accountability for decisions.

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## Conclusions

Since fiscal year 2018, VA has experienced significant growth in its use of service contracts to assist it in achieving its mission. Therefore, it is increasingly important that VA position itself and its workforce to ensure service contractors are operating appropriately—within their scope of work and in concert with federal employees—and that the department retains control of its mission and operations. We identified shortcomings in how VA identifies and reports contracts involving functions that need

heightened management attention, causing data on such contracts to be unreliable and incomplete. By taking steps to better define and track special interest functions, as well as implementing well-designed and meaningful service contract inventory analyses, VA will understand how it uses contracts involving functions needing heightened management attention and whether its oversight policies are effectively mitigating potential risks associated with contractors performing those functions.

While VA has issued some guidance since OFPP Policy Letter 11-01 was published in 2011, it has yet to develop policies, procedures, training, and human capital plans called for by the OFPP policy. By taking steps to fully implement OFPP Policy Letter 11-01, VA could better equip its workforce to identify contracts involving functions needing heightened management attention and plan, resource, and conduct appropriate oversight of these contracts.

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## Recommendations for Executive Action

We are making the following seven recommendations to VA:

The Secretary of Veterans Affairs should direct the Senior Procurement Executive to take steps to ensure that VA appropriately tracks special interest functions across product and service code changes to improve service contract inventory data completeness. (Recommendation 1)

The Secretary of Veterans Affairs should direct the Senior Procurement Executive to take steps to ensure that VA identifies additional VA-specific special interest functions to more comprehensively include those that are associated with contracts coded in government-wide databases as involving critical functions and functions closely associated with IGFs to improve the usefulness of its annual service contract inventory analysis. (Recommendation 2)

The Secretary of Veterans Affairs should direct the Senior Procurement Executive to develop policies and procedures for identifying and documenting contracts involving functions needing heightened management attention and fully implement OFPP Policy Letter 11-01, including, but not limited to, establishing when use of the department-wide checklist is required and specifying the analysis needed to support completion of the checklist. (Recommendation 3)

The Secretary of Veterans Affairs should direct the Senior Procurement Executive to develop policies and procedures for planning and conducting oversight of contracts that involve functions needing heightened management attention, including how to provide appropriate direction to contracting officer's representatives in their designation letters, to improve employees' awareness, understanding, and fulfillment of their responsibilities under OFPP Policy Letter 11-01. (Recommendation 4)

The Secretary of Veterans Affairs should direct the Senior Procurement Executive to update VA's methodology for conducting its annual service contract inventory analysis to prioritize contracts involving functions closely associated with IGFs and critical functions in the sample contracts selected for review, and to conduct more meaningful analysis, to support conclusions concerning VA's oversight and management of these contracts. (Recommendation 5)

The Secretary of Veterans Affairs should direct the Senior Procurement Executive, the heads of administration and staff office human capital functions, and the heads of contracting activities to ensure that human capital plans determine whether the acquisition workforce—including program managers and contracting officer's representatives—is of sufficient size and capability to conduct oversight of contracts involving functions that need heightened management attention, consistent with OFPP Policy Letter 11-01. (Recommendation 6)

The Secretary of Veterans Affairs should direct the Senior Procurement Executive to develop training, and require that employees complete such training at least once every 2 years, to help employees understand and meet their responsibilities under OFPP Policy Letter 11-01, including identifying and documenting contracts involving functions needing heightened management attention and planning and conducting oversight of such contracts. (Recommendation 7)

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## Agency Comments

We provided a draft of this report to VA, the General Services Administration, and the Office of Management and Budget for review and comment. In its comments, reproduced in appendix II, VA concurred with our seven recommendations. VA also provided technical comments, which we incorporated as appropriate. We made minor changes to the wording of our sixth and seventh recommendations in response to VA's

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technical comments. The General Services Administration and the Office of Management and Budget did not have any comments on the report.

We are sending copies of this report to the Secretary of Veterans Affairs, the Director of the Office of Management and Budget, the Administrator of Federal Procurement Policy, the Administrator of the General Services Administration, and the appropriate congressional committees. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact Shelby S. Oakley at (202) 512-4841 or [OakleyS@gao.gov](mailto:OakleyS@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs are on the last page of this report. GAO staff who made contributions to this report are listed in appendix III.



Shelby S. Oakley  
Director, Contracting and National Security Acquisitions

## Appendix I: Objectives, Scope, and Methodology

Our report identifies the extent to which the Department of Veterans Affairs (VA) (1) used contracts that it identified as involving service functions needing heightened management attention from fiscal years 2018 through 2022, (2) plans and conducts oversight of these contracts, and (3) ensures that it has a workforce capable of overseeing contractors performing these functions.

To identify the extent to which VA used contracts that it identified as involving service functions needing heightened management attention from fiscal years 2018 through 2022, we reviewed Office of Management and Budget's Office of Federal Procurement Policy (OFPP) guidance to identify the service functions that need heightened management attention. Specifically, OFPP Policy Letter 11-01 defines inherently governmental functions (IGF), according to the Federal Activities Inventory Reform Act, as those that are so intimately related to the public interest as to require performance by federal employees.<sup>1</sup> It further identifies functions closely associated with IGFs and critical functions as those that agencies may contract for, but that need special management attention. OFPP Policy Letter 11-01 also identifies steps for agencies to identify and oversee service contracts involving those functions and guard against risks inherent to these contracts. Similarly, the OFPP memorandum dated November 5, 2010, directs agencies to identify special interest functions, using product and service codes, and provide increased management attention to service contracts involving special interest functions.<sup>2</sup> Together, we refer to the agency execution of responsibilities under OFPP Policy Letter 11-01 for critical functions and those closely associated with IGFs, and the OFPP memorandum dated November 5, 2010, for special interest functions, as providing heightened management attention.

We collected Federal Procurement Data System (FPDS) data on VA service contracts and orders—which we refer to collectively as contracts

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<sup>1</sup>Office of Management and Budget, OFPP, *Performance of Inherently Governmental and Critical Functions*, Policy Letter 11-01, 76 Fed. Reg. 56,227 (Sept. 12, 2011).

<sup>2</sup>Office of Management and Budget, OFPP, *Service Contract Inventories*, Memorandum for Chief Acquisition Officers Senior Procurement Executives (Nov. 5, 2010).

in this appendix—from fiscal years 2018 through 2022. For related obligations on these contracts and orders, we adjusted the figures for inflation based on the fiscal year 2022 gross domestic product price index.<sup>3</sup> We used the following FPDS data elements to identify the specific population of VA service contracts that, by policy, would be subject to heightened management attention:<sup>4</sup>

- **6T – Inherently Governmental Functions.** For contracts awarded on or after March 1, 2012, agencies must identify in this FPDS data element the category of service functions involved in the contract. Agency officials must choose from among the following four options: closely associated; critical functions; closely associated, critical functions; or other functions. This instruction pertains only to service contracts and is not required for contracts for personal services or products.
- **8A/8C – Product or Service Code and Description.** In this FPDS data element, agencies select a code that best identifies the product or service procured. When more than one code is applicable, agency officials report the code representing most of the ultimate contract value. The General Services Administration’s Product and Service Codes Manual defines the individual codes and their corresponding descriptions.<sup>5</sup>

In its annual service contract inventory analysis reports for fiscal years 2018 through 2020, VA identified specific product and services codes as special interest functions. For fiscal years 2021 and 2022, VA has yet to publish such reports, so for those years we relied on VA’s service contract inventory analysis plans, which VA submits to the Office of Management and Budget. We identified service contracts that involved special interest functions by sorting VA contract data from fiscal years

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<sup>3</sup>Executive departments and agencies are responsible for collecting and reporting data to FPDS as required by the Federal Acquisition Regulation (FAR). See FAR subpart 4.6. FPDS collects and disseminates procurement data to Congress, agencies, and the private sector. The government uses the reported data to measure and assess the impact of federal procurement on the nation’s economy, the extent to which awards are made to businesses in the various socioeconomic categories, the impact of full and open competition on the acquisition process, and other procurement policy purposes. Unless otherwise specified, we collectively refer to contracts and orders as contracts in this appendix.

<sup>4</sup>General Services Administration, *FPDS Data Element Dictionary*, Version 1.5 (Apr. 29, 2023).

<sup>5</sup>General Services Administration, *FPDS Product and Service Codes Manual*, Fiscal Year 2022 Edition (April 2022).

2018 through 2022 using the list of special interest functions codes identified in the corresponding analysis report for each year.

We sorted and analyzed VA service contract data to describe VA's use of service contracts and the associated contract obligations by: (1) product or service code and description; (2) contractor/vendor; (3) contracting activity and VA administration; and (4) category of service function (critical function, function closely associated with IGFs, special interest function), as reported by VA in FPDS. To supplement our analysis, we reviewed the General Services Administration's FPDS Data Element Dictionary. We reviewed OFPP documentation relating to service contracting, including OFPP Policy Letter 11-01; OFPP policy memorandums regarding service contract inventories (November 5, 2010, and December 19, 2011); and annual OFPP guidance to federal agencies for service contract inventories from fiscal year 2018 through 2022. We also reviewed relevant VA reports and supporting documents. This included annual VA service contract inventory analysis reports for fiscal years 2018 through 2020 and analysis plans for the fiscal years 2021 and 2022 reports that VA has yet to publish.

We selected a nongeneralizable sample of contracts based on the population of VA's service contracts involving functions needing heightened management attention that we identified in our first objective. We determined that selecting 12 contracts for review would provide helpful insights from across nine VA contracting activities. We apportioned the 12 contracts across contracting activities as follows:

1. Veterans Benefits Administration (1)
2. National Cemetery Administration (1)
3. Veterans Health Administration Regional Procurement Office-East (1)
4. Veterans Health Administration Regional Procurement Office-Central (2)
5. Veterans Health Administration Regional Procurement Office-West (1)
6. Strategic Acquisition Center (2)
7. Technology Acquisition Center (2)
8. National Acquisition Center (1)
9. Office of Construction and Facilities Management (1)

We selected more than one contract for review from the Strategic Acquisition Center, Technology Acquisition Center, and Veterans Health

Administration Regional Procurement Office-Central due to the high concentrations of service contracts—and related obligations—that involved functions needing heightened management attention, according to our analysis of FPDS data.

To select specific contracts for review, we identified 36 contracts across the nine VA contracting activities and notified VA of our interest. We requested that VA confirm the availability of requiring activity officials, contracting officer's representatives, and contracting officers who oversaw the award or administration of the 36 contracts. After receiving VA's response, we prioritized the following criteria—as well as the availability of relevant officials—to select 12 of the 36 contracts for review:

- **Year of award.** We selected contract actions or task orders awarded from fiscal years 2018 through 2022.
- **Total obligations above \$250,000 and mix of contract size by obligations.** We selected contract actions and task orders with base plus all options valued above the simplified acquisition threshold of \$250,000 in obligations. Based on this criterion, we considered minimum, mean, median, and maximum obligations for each contracting activity to inform a balanced and stratified selection of samples based on a mix of contract sizes in terms of obligations.
- **Contract length of more than 1 year.** We selected contract actions and task orders for active contract awards where the performance period for the base contract plus all options spanned multiple years.
- **Mix of contracting method.** We selected contract actions involving both definitive contracts and indefinite delivery contracts. We used this information to inform our selection and ensure a mixture of definitive and indefinite-delivery, indefinite-quantity contracts (including task orders placed against government-wide acquisition contracts).
- **Significant product and service codes.** Based on the sum of contract obligations on the relevant contract actions and task orders, we identified the top product and service codes for each contracting activity. We prioritized selection of contracts that had these codes for each contracting activity.
- **Exclusion.** We excluded contracts pertaining to VA community care and nursing home care services from our sample selection as these contracts are being reviewed as part of other GAO ongoing work.

At the time of selection, FPDS data indicated that five of our 12 sampled contracts involved critical functions, seven involved functions closely

associated with IGFs, and six had product and service codes that VA identified as special interest functions.<sup>6</sup>

We took several steps to assess the reliability of VA service contract data reported in FPDS that we used for our overall analysis and our selection of 12 contracts for review. We reviewed the FPDS data dictionary and data validation rules, performed electronic testing, and interviewed relevant contracting and requiring activity officials to identify data checks and verification processes used by VA officials when reporting service contract information into FPDS. We gave VA officials an opportunity to respond to data discrepancies and reliability concerns we identified. Based on our assessment, we found that VA-reported data related to FPDS data elements 6T (Inherently Governmental Functions) and 8A/8C (Product or Service Code and Description)—which we used to identify which VA service contracts involved functions that need heightened management attention—were sufficiently documented. However, we found that the data related to FPDS data element 6T were not reliable for the purpose of identifying the extent to which VA uses contracts that it identified as involving functions closely associated with IGFs and critical functions.

For each of the 12 contracts we selected for review, we compared multiple data elements in contract file documentation to FPDS records. We also performed electronic testing for errors in accuracy and completeness and analyzed VA's certifications of the FPDS data. We determined the data were sufficiently reliable to determine whether each contract met our selection criteria. The data were unreliable for determining whether VA officials correctly coded in FPDS data element 6T regarding whether the contracts included functions closely associated with IGFs or critical functions. However, we corrected for these reliability issues by reviewing the 12 selected contracts and verifying the FPDS data for the contracts with relevant VA contracting and requiring activity officials.

To identify the extent to which VA plans and conducts oversight of contracts that it identified as involving functions needing heightened management attention, we identified and reviewed relevant VA policy and guidance, such as the VA Acquisition Regulation, Acquisition Manual, and

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<sup>6</sup>An agency may determine that a service contract involves functions that fall into one or more of these categories. At the time we selected 12 service contracts for review, VA had determined that five of the 12 contracts fell into more than one category that needs heightened management attention.

procurement policy memorandums. We also reviewed VA's service contract inventory analysis reports for fiscal years 2010 through 2020 and relevant guidance on how agencies are to plan and conduct oversight, including OFPP Policy Letter 11-01, and other OFPP memorandums. We also reviewed *Standards for Internal Controls in the Federal Government* and found that principles related to sharing quality information were pertinent to our review.<sup>7</sup>

In addition to reviewing guidance and memorandums, we interviewed a variety of VA officials and contracting personnel. For example, we interviewed VA Office of Acquisition and Logistics officials who are responsible for establishing department-wide policies and procedures for service contracting and providing heightened management attention. We also interviewed senior officials representing nine of VA's organizations that have heads of the contracting activity to determine how the contracting activities implemented potentially applicable localized policies and procedures.<sup>8</sup> Specifically, we interviewed the heads or acting heads of the contracting activities and other contracting activity officials from the Veterans Benefits Administration; National Cemetery Administration; Veterans Health Administration three regional procurement offices; Strategic Acquisition Center; Technology Acquisition Center; National Acquisition Center; and the Office of Construction and Facilities Management.<sup>9</sup>

We interviewed relevant VA officials, as available, for each of the 12 selected contracts, including contracting officers, contracting officer's representatives, and requiring activity officials. We analyzed testimonial responses to identify common themes and characteristics to inform our findings on topics, such as the extent of policy, guidance, or training related to the oversight of service contracts involving functions that need heightened management attention. We also interviewed the contracting and requiring activity officials responsible for the 12 contracts in our sample to identify their awareness of contracts that need heightened

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<sup>7</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

<sup>8</sup>For this report, we excluded the VA Office of Inspector General's head of the contracting activity from our scope. In prior reporting, we identified that VA had 10 organizations with heads of the contracting activity. See GAO, *VA Acquisition Management: Actions Needed to Better Manage the Acquisition Workforce*, [GAO-22-105031](#) (Washington, D.C.: Sept. 29, 2022).

<sup>9</sup>At the time of this review, the National Acquisition Center had an acting head of the contracting activity.

management attention and specific steps they took, if any, to provide such attention. Based on the interviews and documentation, we identified the extent to which VA included in the contract file a pre-award written confirmation of its capacity and capability to provide needed contract oversight and how it reached those conclusions. We also compared the process and methodology VA used, or plans to use, to conduct service contract inventory analyses for fiscal years 2018 through 2022 against relevant statute and OFPP guidance. We interviewed Office of Acquisition and Logistics officials to identify how VA uses these analyses internally, including the extent to which they informed policies and procedures for overseeing service contracts that need heightened management attention.

To identify the extent to which VA ensures that it has a workforce capable of overseeing contractors performing functions needing heightened management attention, we identified relevant VA policies and guidance related to managing VA employees responsible for contract oversight. We requested and reviewed departmental and administration-level strategic and acquisition human capital plans that were available for fiscal years 2018 through 2022. We determined the extent to which these human capital plans addressed guidance in OFPP Policy Letter 11-01, such as agencies identifying specific strategies to address the size and capability of the acquisition workforce.

To identify the extent to which VA met OFPP Policy Letter 11-01 responsibilities related to human capital planning, workforce management, and training, we interviewed VA officials and reviewed VA policies. The interviews included officials from the Office of Human Resources and Administration/Operations, Security, and Preparedness; human capital functions in VA administrations; heads of contracting activities; VA's Office of Acquisition and Logistics; VA Acquisition Academy; and contracting and requiring activities for the contracts we selected for review. We identified existing policies or practices regarding how officials determine the adequate number and qualifications of federal employees needed to provide heightened management attention. We compared these policies and practices to pre-award responsibilities identified in OFPP Policy Letter 11-01.

Additionally, we evaluated VA's service contract inventory analyses for fiscal years 2018 and 2019 and underlying documentation. This allowed us to identify the extent to which VA contracting officials reported having sufficient and capable resources to provide heightened management attention and how VA assessed the collected information to ensure

alignment with OFPP guidance. We reviewed contract file documentation, including contracting officer's representative designation letters and pre-award certifications, to identify the number and qualifications of VA officials designated to provide heightened management attention for each of our 12 selected contracts. We also analyzed the VA Acquisition Academy catalog for training courses that VA offers.

We conducted this performance audit from October 2022 to January 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Appendix II: Comments from the Department of Veterans Affairs



DEPARTMENT OF VETERANS AFFAIRS  
WASHINGTON

January 5, 2024

Ms. Shelby S. Oakley  
Director  
Contracting and National Security Acquisitions  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Oakley:

The Department of Veterans Affairs (VA) has reviewed the Government Accountability Office (GAO) draft report: **VA ACQUISITION MANAGEMENT: Action Needed to Improve Oversight of Service Contracts Needing Heightened Management Attention** (GAO-24-106312).

The enclosure contains technical comments and intent to provide the action plan to implement the draft report recommendations. VA appreciates the opportunity to comment on your draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "Kimberly Jackson".

Kimberly Jackson  
Chief of Staff

Enclosure

Enclosure

Department of Veteran Affairs (VA) Comments to  
the Government Accountability Office (GAO) Draft Report  
***VA ACQUISITION MANAGEMENT: Action Needed to Improve  
Oversight of Service Contracts Needing Heightened  
Management Attention***  
(GAO-24-106312)

**Recommendation 1:** The Secretary of Veterans Affairs should direct the Senior Procurement Executive to take steps to ensure that VA appropriately tracks special interest functions across product and service code changes to improve service contract inventory data completeness.

**VA Response:** Concur. The Department of Veterans Affairs (VA) will provide the action plan to implement the recommendation in the 180-day update to the final report.

**Recommendation 2:** The Secretary of Veterans Affairs should direct the Senior Procurement Executive to take steps to ensure that VA identifies additional VA-specific special interest functions to more comprehensively include those that are associated with contracts coded in government-wide databases as involving critical functions and functions closely associated with IGFs to improve the usefulness of its annual service contract inventory analysis.

**VA Response:** Concur. VA will provide the action plan to implement the recommendation in the 180-day update to the final report.

**Recommendation 3:** The Secretary of Veterans Affairs should direct the Senior Procurement Executive to develop policies and procedures for identifying and documenting contracts involving functions needing heightened management attention and fully implement OFPP Policy letter 11-01, including, but not limited to, establishing when use of the department-wide checklist is required and specifying the analysis needed to support completion of the checklist.

**VA Response:** Concur. VA will provide the action plan to implement the recommendation in the 180-day update to the final report.

**Recommendation 4:** The Secretary of Veterans Affairs should direct the Senior Procurement Executive to develop policies and procedures for planning and conducting oversight of contracts that involve functions needing heightened management attention, including how to provide appropriate direction to contracting officer's representatives in their designation letters, to improve employees' awareness, understanding, and fulfillment of their responsibilities under the OFPP Policy letter 11-01.

**VA Response:** Concur. VA will provide the action plan to implement the recommendation in the 180-day update to the final report.

**Appendix II: Comments from the Department  
of Veterans Affairs**

Enclosure

Department of Veteran Affairs (VA) Comments to  
the Government Accountability Office (GAO) Draft Report  
***VA ACQUISITION MANAGEMENT: Action Needed to Improve  
Oversight of Service Contracts Needing Heightened  
Management Attention***  
(GAO-24-106312)

**Recommendation 5:** The Secretary of Veterans Affairs should direct the Senior Procurement Executive to update VA's methodology for conducting its annual service contract inventory analysis to prioritize contracts involving functions closely associated with IGFs and critical functions in the sample contracts selected for review, and to conduct more meaningful analysis, to support conclusions concerning VA's oversight and management of these contracts.

**VA Response:** Concur. VA will provide the action plan to implement the recommendation in the 180-day update to the final report.

**Recommendation 6:** The Secretary of Veterans Affairs should direct the Senior Procurement Executive, the heads of administration human capital functions, and heads of contracting activities to ensure that human capital plans determine whether the acquisition workforce- including program managers and contracting officers representatives- is of sufficient size and capability to conduct oversight of contracts involving functions that need heightened management attention, consistent with OFPP Policy letter 11-01.

**VA Response:** Concur. VA will provide the action plan to implement the recommendation in the 180-day update to the final report.

**Recommendation 7:** The Secretary of Veterans Affairs should direct the Senior Procurement Executive, in conjunction with the heads of contracting activities, to develop training, and require that employees complete such training at least once every 2 years, to help them understand and meet their responsibilities under OFPP Policy Letter 11-01, including identifying and documenting contracts involving functions needing heightened management attention and planning and conducting oversight of such contracts.

**VA Response:** Concur. VA will provide the action plan to implement the recommendation in the 180-day update to the final report.

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## Accessible Text for Appendix II: Comments from the Department of Veterans Affairs

January 5, 2024

Ms. Shelby S. Oakley  
Director  
Contracting and National Security Acquisitions  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Oakley:

The Department of Veterans Affairs (VA) has reviewed the Government Accountability Office (GAO) draft report: VA ACQUISITION MANAGEMENT: Action Needed to Improve Oversight of Service Contracts Needing Heightened Management Attention (GAO-24-106312).

The enclosure contains technical comments and intent to provide the action plan to implement the draft report recommendations. VA appreciates the opportunity to comment on your draft report.

Sincerely,

Kimberly Jackson  
Chief of Staff

Enclosure

Department of Veteran Affairs (VA) Comments to the Government Accountability Office (GAO) Draft Report

VA Acquisition Management: Action Needed to Improve Oversight of Service Contracts Needing Heightened Management Attention (GAO-24-106312)

Recommendation 1: The Secretary of Veterans Affairs should direct the Senior Procurement Executive to take steps to ensure that VA appropriately tracks special interest functions across product and service code changes to improve service contract inventory data completeness.

VA Response: Concur. The Department of Veterans Affairs (VA) will provide the action plan to implement the recommendation in the 180-day update to the final report.

Recommendation 2: The Secretary of Veterans Affairs should direct the Senior Procurement Executive to take steps to ensure that VA identifies additional VA-specific special interest functions to more comprehensively include those that are associated with contracts coded in government-wide databases as involving critical functions and functions closely associated with IGFs to improve the usefulness of its annual service contract inventory analysis.

VA Response: Concur. VA will provide the action plan to implement the recommendation in the 180-day update to the final report.

Recommendation 3: The Secretary of Veterans Affairs should direct the Senior Procurement Executive to develop policies and procedures for identifying and documenting contracts involving functions needing heightened management attention and fully implement OFPP Policy letter 11-01, including, but not limited to, establishing when use of the department-wide checklist is required and specifying the analysis needed to support completion of the checklist.

VA Response: Concur. VA will provide the action plan to implement the recommendation in the 180-day update to the final report.

Recommendation 4: The Secretary of Veterans Affairs should direct the Senior Procurement Executive to develop policies and procedures for planning and conducting oversight of contracts that involve functions needing heightened management attention, including how to provide appropriate direction to contracting officer's representatives in their designation letters, to improve employees' awareness, understanding, and fulfillment of their responsibilities under the OFPP Policy letter 11-01.

VA Response: Concur. VA will provide the action plan to implement the recommendation in the 180-day update to the final report.

Recommendation 5: The Secretary of Veterans Affairs should direct the Senior Procurement Executive to update VA's methodology for conducting its annual service contract inventory analysis to prioritize contracts involving functions closely associated with IGFs and critical functions in the sample contracts selected for review, and to conduct more meaningful analysis, to support conclusions concerning VA's oversight and management of these contracts.

VA Response: Concur. VA will provide the action plan to implement the recommendation in the 180-day update to the final report.

Recommendation 6: The Secretary of Veterans Affairs should direct the Senior Procurement Executive, the heads of administration human capital functions, and heads of contracting activities to ensure that human capital plans determine whether the acquisition workforce- including program managers and contracting officers representatives- is of sufficient size and capability to conduct oversight of contracts involving functions that need heightened management attention, consistent with OFPP Policy letter 11-01.

VA Response: Concur. VA will provide the action plan to implement the recommendation in the 180-day update to the final report.

Recommendation 7: The Secretary of Veterans Affairs should direct the Senior Procurement Executive, in conjunction with the heads of contracting activities, to develop training, and require that employees complete such training at least once every 2 years, to help them understand and meet their responsibilities under OFPP Policy Letter 11-01, including identifying and documenting contracts involving functions needing heightened management attention and planning and conducting oversight of such contracts.

VA Response: Concur. VA will provide the action plan to implement the recommendation in the 180-day update to the final report.

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## Appendix III: GAO Contact and Staff Acknowledgments

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### GAO Contact

Shelby S. Oakley, (202) 512-4841 or [OakleyS@gao.gov](mailto:OakleyS@gao.gov).

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### Staff Acknowledgments

In addition to the contact named above, Robert Bullock (Assistant Director), Zachary Sivo (Analyst-in-Charge), Matthew T. Crosby, Suellen Foth, Edward Harmon, Nicolaus R. Heun, Roland Molina, Daniel Sosa Jr., and Adam Wolfe made key contributions to this report.

Mark Bird, Breanne Cave, Sara Daleski, Steven Lozano, Yinghua Shi, Sheranda Smith, Ann Tynan, and Alyssa Weir also contributed to this report.

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