DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

VETERANS HEALTH ADMINISTRATION

Summary of Fiscal Year 2020 Preaward Reviews of Healthcare Resource Proposals from Affiliates

REVIEW | REPORT #21-00044-219 | SEPTEMBER 15, 2021

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Executive Summary

This report summarizes the preaward reviews of sole-source healthcare proposals that the VA Office of Inspector General (OIG) conducted in fiscal year (FY) 2020.

VA policy requires that the Veterans Health Administration (VHA) contracting officer request an OIG review for any sole-source healthcare proposal that has an anticipated annual value of at least $400,000. These contracts allow VA to fill positions at an established fixed price for staffing vacancies it is unable to fill. The proposals typically come from VA-affiliated schools of medicine or the hospitals or physician practice groups associated with them. The OIG reviews the proposals and provides information that contracting officers can use as they negotiate fair and reasonable prices.

What the Review Found

In FY 2020, the OIG completed 31 preaward reviews of sole-source healthcare contracts. The reviews were not published because they contain sensitive personal data of the physicians and other clinical personnel. This report provides an overview of the OIG findings and recommendations made in these reviews in the following three general areas:

- **Costs underlying proposed hourly rates.** For 25 of the 27 proposals reviewed that contained hourly rate pricing, the OIG determined that the prices offered to the government were higher than the supported amounts. Unsupported amounts are costs not supported by data in the underlying accounting record(s).

  The most common issue was unsupported provider salaries. Other frequently occurring issues were unsupported administrative expenses, fringe benefit amounts, or malpractice insurance premiums. Affiliates also routinely proposed automatically escalated option year amounts. Automatically escalated option years put risk on both VA and the affiliate that can be eliminated with an economic price adjustment clause rather than automatic increases.[1]

- **Offered per-procedure prices.**[2] The OIG reviewed six proposals with per-procedure pricing and determined that they all offered prices higher than the properly calculated Medicare rates.[3] The OIG recommended that the contracting officers obtain lower prices than those offered in each proposal.

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[1] Option years are periods of service that VA may, but is not required to, purchase from the contractor. Fringe benefit amounts are expenses to the employer for items such as retirement, social security tax, and paid time off.

[2] In per-procedure pricing, each procedure has a set fee based on the Medicare price list using the current procedural terminology code associated with the procedure.

[3] VHA Procurement Manual, part 873, attachment 3, para. 1.3.1, "Per Procedure Contracts Off Site," March 2, 2020.

- **Potential conflicts of interest.** For 24 of the 31 contract proposals reviewed, the OIG found potential conflicts of interest for VA personnel who may be involved in the acquisition process and who also hold a position with the affiliate. These VA personnel held faculty appointments at the affiliated institutions and potentially would also have responsibilities such as monitoring performance of the affiliate's services. In each instance, the OIG recommended the contracting officer request an opinion from VA's Office of General Counsel on whether these individuals would have a financial interest in the proposal.

The combined estimated contract value of these 31 preaward reviews was $209 million. The reviews identified a total of $81 million in potential cost savings on 29 of the 31 proposals. As of March 2021, VA contracting officers have awarded 25 of the 31 proposals and have sustained over $16 million in cost savings based in part on the evaluation of cost data submitted by the contractor. This report provides a summary of the preaward reviews of these proposals and an overview of what the OIG found.

Management Comments and OIG Response

The OIG received comments on its draft report from the executive director of procurement at the VHA Procurement and Logistics Office. The executive director echoed the importance of preaward reviews of sole-source healthcare proposals in assisting contracting professionals in negotiating the contracts at fair and reasonable prices. In addition, he expressed concerns regarding a footnote in the draft stating the Office of Contract Review was dissolved and reorganized within the Office of Audits and Evaluations. The executive director asked to meet with the OIG to better understand the new process and expectations for future preaward and summary reports. Appendix C contains the full text of the executive director's comments.

The OIG corrected footnote 4 in this final report to say that the Office of Contract Review was "realigned" under the Office of Audits and Evaluations. Additionally, the OIG plans to meet with the VHA executive director of procurement to address any concerns with regard to the realignment. There is nothing in the realignment of the contract reviewers to the audit directorate that would undermine the OIG's independence. The contract reviewers do not conduct program reviews. Moreover, the realignment is administrative and complies with the Federal Acquisition Regulation.

LARRY M. REINKEMEYER
Assistant Inspector General
for Audits and Evaluations

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Abbreviations

FAR	Federal Acquisition Regulation
FY	fiscal year
OIG	Office of Inspector General
U.S.C.	United States Code
VHA	Veterans Health Administration

Introduction

At the request of contracting officers, the VA Office of Inspector General (OIG) conducts preaward reviews of proposals that contractors submit to VA.[4] The primary purpose of preaward reviews is to determine if the prices in the proposals are supported by actual costs and to provide information that VA can use for negotiations and for determining that the proposed prices are fair and reasonable. Preaward reviews facilitate informed decision-making and help prevent fraud, waste, and abuse.

One type of acquisition for which the OIG provides preaward services is sole-source proposals from VA-affiliated institutions such as colleges and schools of medicine. VA is authorized by statute to procure healthcare resources from affiliates on a sole-source basis or without regard to laws or regulations that require competition.[5] Contracting officers are required to request an OIG preaward review when the estimated value of the contract is $400,000 per year.[6] The Veterans Health Administration (VHA) obligated more than $164 million in fiscal year (FY) 2020 on sole-source procurements from affiliates.[7]

This report summarizes the findings and effect of the OIG's 31 preaward reviews of sole-source healthcare resources proposals in FY 2020. Appendix A contains a listing of the 31 preaward reviews that shows the OIG-recommended cost savings and the savings sustained by VA contracting officers to date.

VA's Participation in Medical Education and Training Programs

One of VA's missions set out in statute is to assist and participate in education and training programs for students and residents in the healthcare professions.[8] VA participates with 144 of the 152 schools of medicine accredited by the Liaison Committee on Medical Education and all 34 schools granting doctor of osteopathic medicine degrees. In addition, more than 40 other clinical health education programs are represented by affiliations with over 1,800 colleges and universities.

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[4] The OIG's Office of Contract Review performed the preaward reviews. On October 1, 2020, this office was realigned under the Office of Audits and Evaluations.

[5] 38 U.S.C. § 8153.

[6] VA Directive 1663, *Health Care Resources Contracting—Buying*, May 10, 2018.

[7] The amount reflects obligation amounts only and includes modifications, orders, and contracts.

[8] 38 U.S.C. § 7406 as implemented by VA Directive 1400.09(1), *Education of Physicians and Dentists*, September 9, 2016.

Policy for Awarding Sole-Source Contracts

If a healthcare resource is acquired from an affiliated institution and is considered a commercial service or item, VA has statutory authority to conduct the acquisition as other-than-full-and-open competition, such as sole-source procurement.[9] Sole-source procurements can be with an affiliated institution or with a teaching hospital, individual physician, or practice group associated with the affiliated institution. Other procurements may be sole-sourced if there is written justification.[10] In general, these sole-source awards allow VA to fill positions by contracting when the VA facility is unable to hire.

VA Directive 1663 sets forth VA policy for implementing the statute on sharing healthcare resources and allows sole-source contracts to be awarded to affiliated institutions or other related healthcare entities.[11] The directive states that these sole-source contracts shall be the preferred method for procuring healthcare services when the services include duties relating to a professional healthcare residency program. The directive further states that sole-source affiliate contracts for services that are not associated with a residency program must demonstrate that the award would represent the best value to the government. The directive also allows sole-source contracts for the use of medical equipment, space, home oxygen services, transcription services, grounds maintenance, laundry services, or other nonclinical services that can be defined as a healthcare resource; however, the Office of Contract Review did not review any proposals for these services in FY 2020.

The directive states the VA contracting officer must submit sole-source proposals valued at $400,000 annually to the OIG for preaward reviews and that the contracting officer may ask the OIG to assist in determining and validating the actual costs to the affiliated educational institution for other procurements. The directive further states that the OIG shall review supporting documents, accounting records, and any other data necessary to verify costs.

Contracting officers are to establish the reasonableness of offered prices through either cost or pricing data, according to the Federal Acquisition Regulation (FAR). As there is no competition in these sole-source procurements, the contracting officer must rely on data related to prices (for example, market data) or to the costs incurred by the contractor.[12] For these procurements, market prices are not available because the affiliate does not generally offer physician services in the commercial market as it does to VA. Therefore, the OIG uses the affiliate's cost information to determine the recommended rates as per FAR and VHA pricing policy.[13]

[9] 38 U.S.C. § 8153(a)(3)(A).

[10] 41 U.S.C. § 3304(e).

[11] 38 U.S.C. § 8153; VA Directive 1663; 38 U.S.C. § 7302.

[12] FAR 15.402.

[13] VHA Procurement Manual, part 873, attachment 3, "MSO – HCR Pricing SOP," March 2, 2020.

Pricing Policy of Affiliate Sole-Source Contracts

During FY 2020, VHA revised its policy on pricing affiliate sole-source contracts, particularly for on-call pay and overhead expenses.[14] The intent of the hourly rate contract pricing is to cover the actual and reasonable expenses incurred by the affiliate in performing the contract. On-call pay is provided when a physician receives additional compensation for being in an on-call status for issues and emergencies that may arise after normal business hours. Overhead expenses include the dean's tax, other university costs, and clinical department overhead, which are not directly related to providing clinical services at VA or administering the contract.

From October 1, 2019, through March 1, 2020, the policy stated on-call pay was not to be broken out as a separate contract line item unless the provider specifically received on-call pay. The policy also stated overhead was an unallowable expense.[15] The revised policy, effective March 2, 2020, stated providers would be compensated for on-call coverage in the same manner as they were compensated by the affiliate. The policy regarding overhead changed from being unallowed to discouraged. The policy does not define the term "discouraged," but the change does provide more options to the contracting officer.[16]

On September 17, 2020, VHA again revised its policy but did not change the policy for evaluating these cost elements.[17]

[14] VHA Procurement Manual, part 873.

[15] VHA Procurement Manual, part 815, para. 6.3.2 and 6.2, September 23, 2013.

[16] VHA Procurement Manual, part 873, attachment 3, para. 1.8.2 and 1.7.2, March 2, 2020.

[17] VHA Procurement Manual, part 873, attachment 3, para. 1.8.2 and 1.7.2, September 17, 2020.

A Summary of the Preaward Reviews

The cumulative proposed amount for the 31 healthcare sole-source proposals reviewed—typically five-year contracts—was approximately $209 million. The OIG identified potential cost savings in 29 of the 31 proposals for a potential savings of $81 million. The $81 million represented $69 million in savings from hourly rate proposals and $12 million in savings from medical procedure-based proposals. Collectively, the 31 proposals included 180,796 annual hours of physician and other provider services (86.9 full-time-equivalent employees) and six proposals with indefinite quantities of services priced per procedure.[18]

What the OIG Did

The OIG team had three primary objectives when reviewing the 31 healthcare sole-source proposals:[19]

1. Determine if data in the affiliate's accounting system adequately support proposed hourly rates and provide pricing recommendations if the proposed rates are not supported.
2. Evaluate offered per-procedure prices and provide pricing recommendations using Medicare rates if the affiliate proposed higher-than-Medicare rates without sufficient justification.
3. Determine if VA providers have any potential conflicts of interest with responsibilities regarding the acquisition or resulting contract.

During a review of each proposal for hourly rates, the OIG team asked the affiliate to provide information from its accounting and other systems that supported the various cost elements in the affiliate's proposal. Common cost elements included the providers' salaries, fringe benefits, malpractice insurance premiums, continuing medical education, bonuses, and expenses associated with administering the contract. To assess these elements, the team reviewed each affiliate's supporting documentation, which often included salary agreements; fringe benefit data from the accounting system or forward pricing rate agreements from the "cognizant audit agency" (the federal agency with designated audit responsibilities that provides predominant direct funding, in this case the Department of Health and Human Services); insurance billing statements; training policies; and the bonus policy and historical expenses.[20]

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[18] The number of full-time-equivalent employees is calculated by dividing the proposed 180,796 hours by the 2,080 annual hours per full-time-equivalent employee. Two proposals included both per-procedure prices and hourly rates.

[19] Proposals could contain both hourly rate and per-procedure pricing and were evaluated accordingly.

[20] A forward pricing rate agreement involves the cognizant audit agency establishing indirect rates, typically for fringe benefits and overhead, for a set time period.

Further, the OIG team discussed the documentation with the affiliate representative and the VA contracting officer and evaluated the information in accordance with applicable statutory criteria and other guidance:

- 38 U.S.C. § 8153, *Sharing of Healthcare Resources*
- FAR, subparts 31.2, 12.207, 16.203, and 7.105
- VA Acquisition Regulation, subparts 806.302-5, 842.102, and 852.270-1
- VHA Procurement Manual, part 815.404, "Medical Sharing Office Healthcare Pricing Standard Operating Procedures"
- VA Directive 1663, *Health Care Resources Contracting—Buying*
- VHA Handbook 1660.03, *Conflict of Interest for Aspects of Contracting for Sharing of Health Care Resources*
- Centers for Medicare and Medicaid Services Fee Guidelines for Medicare Beneficiaries[21]

The OIG's findings in the 31 issued healthcare preaward reviews are summarized below. They include the review teams' evaluations of the following:

- Proposed hourly rates
- Proposed per-procedure prices
- Proposals with both hourly rate and per-procedure pricing[22]
- Potential conflicts of interest of VA providers

Evaluation of Proposed Hourly Rates

In 25 of the 27 reviews containing hourly rate pricing, the OIG recommended contracting officers obtain lower prices than those offered to the government.[23] The OIG recommended lower rates for several common issues, such as proposed unsupported expenses or annual hours and administrative expenses included in the hourly rates instead of proposed separately. A proposal with unsupported rates is backed by data inconsistent with the amounts proposed (for example, the proposal was for $400 per hour and the documentation shows the actual hourly rate is $250).

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[21] See appendix B for additional details on the scope and methodology of the OIG's work.

[22] This was not previously listed as a separate objective on page 4 but was given consideration by the review team.

[23] The OIG reviewed a total of 31 proposals: 25 with only full-time-equivalent pricing, four with only procedure pricing, and two with both full-time-equivalent and procedure pricing.

In total, the OIG identified more than $69 million in potential cost savings attributed to hourly rates. Unsupported on-call expenses and provider salaries were the most significant and prevalent issues that the OIG team identified during its review.

The review team identified proposed on-call expenses not supported by actual expenses in 12 of the 27 hourly rate proposals examined. VHA policy excludes proposed on-call amounts unless the provider is paid by the affiliated institution for the on-call duty.[24] The proposals that the OIG reviewed proposed more than $28 million to be paid for about 73,006 hours of on-call services. On-call duties were typically compensated as part of providers' base salary. However, the reviewed proposals frequently included a price for on-call hours above and beyond what the affiliate compensated its providers. Therefore, the entire proposed on-call amounts represented profit to the affiliate.

Unsupported provider salaries were the most common issue the OIG identified during FY 2020, which OIG teams found in 24 of the 27 proposals reviewed. Frequent causes of these findings were bonus or incentive amounts contingent on the provider's performance during a specified period that were included in the base salary. According to VHA policy, compensation contingent on performance should be removed from the salary amount and placed in a separate line item, to be paid proportionate to the provider's time spent at VA after the bonus was paid to the employee by the affiliate.[25]

Table 1 presents the dollar value and frequency of hourly rate findings in reviews that included hourly rate pricing during FY 2020.

Table 1. Hourly Rate Findings (by Recommended Cost Savings)

Finding	Recommended cost saving total (dollars)	Occurrences among the 27 hourly rate proposals
Unsupported on-call expenses	28,301,158	13
Unsupported salary amount	21,804,316	24
Overhead expense	11,424,542	7
Escalated option year amounts	3,953,605	10
Unsupported fringe amount	3,343,242	22
Unsupported other direct costs	1,877,206	6

[24] VHA Procurement Manual 873, attachment 3, para. 1.8.2.

[25] VHA Procurement Manual 873, attachment 3, para. 1.8.1.

Finding	Recommended cost saving total (dollars)	Occurrences among the 27 hourly rate proposals
Unsupported administrative expenses	1,640,315	13
Unsupported malpractice premiums	311,647	20
Unsupported continuing medical education	248,625	15
Unsupported paid time off	146,800	1
Unsupported bonus or incentive	−3,807,465*	17
Total	**$69,243,991**	

Source: Analysis of OIG reports.
Note: Some proposals have more than one occurrence, so the total occurrences exceed the number of proposals reviewed. Cells for which data are not applicable are blank.
**The majority of this amount was due to reclassifying nonguaranteed salary amounts from regular salary to bonus/incentive pay.*

Annual Hours Used in Some Calculations Were Not Supported

The number of annual hours used in the hourly rate calculation has a significant effect on its accuracy. In 14 of the 27 proposals reviewed in FY 2020, the affiliate's hourly rate calculation included a reduced number of hours from the annual standard of 2,080 hours, typically citing training, meetings, or paid time off as reasons for the reduction.[26] In each case, the affiliate stated that it did not track the total number of hours the provider worked; however, they wanted an allowance for paid time off. The OIG-recommended rates do not include paid time off unless an affiliate can also provide a reliable estimate of actual work hours. If no data or reliable estimate is available, the OIG uses the standard figure of 2,080 annual work hours. Annual work hours are needed to properly calculate the hourly rate of pay; using different annual work hours for the basis can cause the rate to vary significantly, as shown in table 2.

[26] The 2,080 hours per year is the result of 40 hours per week times 52 weeks in a standard year.

Table 2. Examples of Hourly Rates Based on Providers' Varying Work Hours (by Lowest Annual Hours)*

Provider	Total salary, benefits, and other costs	Average weekly work hours	Annual hours	Hourly rate
	a	b	c = b x 52	a/c
A	$300,000	35	1,820	$165
B	$300,000	40	2,080	$144
C	$300,000	50	2,600	$115
D	$300,000	60	3,120	$96

Source: OIG analysis.
**Figures rounded for presentation purposes.*

If an affiliate tracked physician work hours, the OIG team used the actual hours worked by the physicians and subtracted paid time off as well as training hours. In the absence of a definitive number of hours worked, the team used the standard 40-hour work week as the basis for the rate with no allowance for paid time off.

Indirect Expenses

There were 12 proposals in which indirect expenses were included in the proposed hourly rates, a practice that commonly inflates the proposed total. Table 3 presents a calculation that was included in one OIG review report to a contracting officer that demonstrates the effect. In this example, an affiliate calculated and proposed $36,087 in administrative expenses per provider. The solicitation was for slightly more than one full-time equivalent of 2,080 hours. By including the administrative expenses in the hourly rate, the proposed amount was increased to $41,600, which is 115 percent of the original amount. To ensure hourly rates are not artificially increased by including administrative costs, the OIG recommends that the indirect administrative expenses be included as a separate contract line item that is not affected by the quantity.

Table 3. Effect of Including Administrative Expenses in Hourly Rate*

Amount	Description
36,087 ÷ 1,786	Amount proposed as administrative expense added to the total expenses associated with each provider divided by the annual hours per provider used in proposed hourly rate calculation
20 × 2,083	Amount of proposed hourly rate attributable to administrative expense multiplied by the number of hours proposed in the contract
$41,600.00	Annual administrative expenses actually included in proposal total

Source: OIG team analysis.
**Figures rounded for presentation purposes.*

Evaluation of Offered Per-Procedure Prices

The OIG reviewed six proposals that included procedure-based pricing and identified over $12 million in recommended cost savings during FY 2020. Table 4 summarizes the issues found.

Table 4. Issues Identified in Per-Procedure Proposals

Issue	Occurrences among six proposals
Included a markup over the Medicare rate	3
Included a rate increase in option years instead of a more favorable economic price adjustment clause that protects both VA and affiliates with regard to future pricing	3
Included length of stay and per diem	1
Incorrectly calculated organ acquisition expenses	1

Source: Analysis of OIG reports.
Note: Some proposals have more than one occurrence, so occurrences exceed the number of proposals.

These issues are described in more detail in the sections that follow:

- **Including a markup over the Medicare rate.** Medicare establishes per-procedure rates for physician services. The current procedural terminology rates, which typically change at least once a year, cover the cost of the provider, malpractice insurance, and practice expense. Medicare rates also include a geographic adjustment factor. VHA policy calls for using Medicare rates as the preferred method for per-procedure pricing.[27] In three reviews, the OIG found the affiliate's proposal included a markup above the Medicare rate.

- **Rate increase in option years.** Prior to FY 2019, VHA had a written policy that option years would not be separately priced, and the contract would instead include an economic price adjustment clause to protect VA and the affiliate.[28] However, the revised Directive 1663 does not address option year pricing, nor does the VHA policy manual. For both proposals that included price escalation in the option years, the OIG recommended the contracting officer not allow escalation but insert an economic price adjustment clause. This approach will best protect VA and the affiliate with regard to future pricing.
- **Limiting length of stay and charging VA a per diem for days exceeding the length of stay.** The OIG noted these issues in a proposal for pancreas and kidney transplant services. To avoid the risk of double-billing, the OIG recommended the Medicare rate be paid regardless of the length of hospital stay unless the patient's care qualified as an outlier consistent with Medicare policy.
- **Calculating organ acquisition expenses incorrectly.** The OIG also questioned nearly half (46 percent) of the proposed amount for pancreas and kidney transplant services because the contractor did not use the correct number of usable organs from the Medicare form in calculating the cost per organ.

Evaluation of Proposals with Both Hourly Rate and Per-Procedure Pricing

Two of the 31 proposals included in the discussion above were hybrid contracts that contained both per-procedure and hourly rate pricing. For one proposal, the affiliate did not provide adequate documentation to review about $2.9 million of its nearly $6.8 million proposal. This affiliate offered no support for the hourly rate portion of the proposal, such as payroll records or employment agreements. In the second report, the affiliate added procedural codes not contained in the solicitation and significantly increased the quantities proposed over the quantities contained in the solicitation, in addition to including a markup over the Medicare rates. The OIG was unable to evaluate the pharmaceutical pricing in this proposal, as the listed codes did not have Medicare pricing associated with them. The OIG advised the contracting officer to consider evaluating the reasonableness of those amounts using VA's contract catalog search tool, which accesses pharmaceutical pricing on the Federal Supply Schedule.

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[27] VHA Procurement Manual, part 873, attachment 3, paragraph 1.3.1.

[28] VHA Directive 1663, *Health Care Resources Contracting—Buying*, August 10, 2006.

Potential Conflicts of Interest

VHA Handbook 1660.03 defines a conflict of interest as

> when an employee participates personally and substantially in a particular matter, e.g., a contract, that would have a direct and predictable effect on the employee's own financial interest, or the financial interest of the employee's spouse, minor child, general partner, any person or entity where an employee participates personally and substantially in a particular matter whom the employee serves as an officer, director trustee or employee, or any person with whom the employee is negotiating or has an arrangement for prospective employment.[29]

Further, the handbook points out that federal law prohibits any employee from participating personally and substantially in a particular matter in which the employee has a conflict of interest. In each instance of potential conflict of interest identified, the OIG recommended the contracting officer request an opinion from counsel on whether these individuals would have a financial interest in any proposal the OIG reviewed.

Of the 31 proposals reviewed in FY 2020, 24 contained potential conflicts of interest for which the VHA contracting officer had not yet sought an Office of General Counsel opinion. Specifically, the OIG found and notified the contracting officer of potential conflicts of interest in awarding a proposed sole-source contract to an affiliate or other entity for which VA personnel may receive monetary benefit or have oversight responsibility. Table 5 summarizes the potential conflict of interest findings during FY 2020.

Table 5. Extent of Potential Conflict of Interest Findings by Occurrences

Employee affected	Occurrences among the 31 proposals
Chief of the service or clinical section	21
Chief or deputy chief of staff	18
Chief of surgery	3
VA medical center director	1
Administrative officer	1
Program manager	1

Source: Analysis of OIG reports.
Note: Some proposals had more than one occurrence, so total occurrences exceeded the number of proposals.

[29] VHA Handbook 1660.03, *Conflict of Interest for the Aspects of Contracting for Sharing of Health-Care Resources (HCR)*, November 4, 2015.

The potential conflicts of interest were for VA personnel holding faculty appointments at the affiliate, which are often necessary to supervise the affiliate's residents (student doctors). The chief of staff and chief of services personnel typically approve requests for sole-source procurements from the affiliate and are also typically identified in the resulting contract as responsible for monitoring performance of the services procured. However, when potential conflicts of interest are identified, a written opinion from an Office of General Counsel ethics official is required to determine if the employee has a financial interest that would disqualify the employee from participating in the procurement process and the resulting contract.[30]

Conclusion

The OIG reviewed 31 healthcare resource sole-source proposals—typically five-year contracts—valued at approximately $209 million. The OIG identified potential cost savings in 29 of the 31 proposals for a potential savings of $81 million. The $81 million represented $69 million in savings from hourly rate proposals and $12 million in savings from procedure-based proposals.

The most significant hourly rate issue the OIG identified during reviews was on-call proposed amounts that were not supported by prior actual costs, which represented $28 million of the $81 million in OIG cost-saving recommendations. Following the OIG reviews, VHA awarded 25 of the 31 proposals and was able to leverage the review teams' work to sustain $16 million in cost savings. The OIG recommended $31 million in cost savings specific to the six proposals that had not yet been awarded.

Management Comments

The OIG received comments from the executive director of procurement at the VHA Procurement and Logistics Office. The executive director echoed the importance of preaward reviews of sole-source healthcare proposals in assisting contracting professionals in negotiating the contracts at fair and reasonable prices. In addition, he expressed concerns regarding a footnote in the OIG draft report that stated the Office of Contract Review was dissolved and reorganized under the Office of Audits and Evaluations. The executive director asked to meet with the OIG to better understand the new process and expectations of future preaward and summary reports. Appendix C includes the full text of the executive director's comments.

OIG Response

The OIG corrected footnote 4 in this final report to state that the Office of Contract Review was "realigned" under the Office of Audits and Evaluations. The OIG plans to meet with the VHA executive director of procurement to address any concerns regarding the realignment. There is nothing in the realignment of the contract reviewers to the audit directorate that would

[30] VHA Handbook 1660.03.

undermine the OIG's independence. The contract reviewers do not conduct program reviews. Moreover, the realignment is administrative and complies with the FAR.

Appendix A: OIG-Identified Cost Savings by Preaward Review Report Issue Date

Report count	Date review issued	OIG's estimated cost savings (dollars)	VA's sustained cost savings (dollars)	Percentage of estimated cost savings realized	Date contract awarded
1	10/07/2019	3,480	3,479	100	12/04/2019
2	10/16/2019	1,757,152	130	0	03/17/2020
3	12/05/2019	791,035	47,869	6	01/31/2020
4	12/09/2019	2,156,009	829,421	38	04/20/2020
5*	01/31/2020				
6	01/31/2020	7,928,876	4,843,257	61	05/27/2020
7	03/16/2020	5,411,268	3,450,478	64	10/01/2020
8	03/16/2020	226,395	226,824	100	09/01/2020
9	04/02/2020	235,802	0	0	08/02/2020
10	04/08/2020	284,845	0	0	04/30/2020
11†	04/21/2020	1,844,868	0	0	07/09/2020
12	04/21/2020	18,285,865	1,093,427	6	12/01/2020
13	04/23/2020	1,655,980	574,641	35	09/30/2020
14	05/05/2020	617,200	490,396	79	09/15/2020
15	06/10/2020	237,701	174,975	74	10/05/2020
16	06/12/2020	2,379,220	378,796	16	10/22/2020
17	06/29/2020	137,380	8,749	6	09/18/2020
18	06/30/2020	1,833,161	452,538	25	11/01/2020
19	07/23/2020	110,284	52,538	48	10/27/2020
20*	08/18/2020				
21	09/25/2020	938,753	1,317,624	140	11/27/2020
22	11/13/2019	921,765	792,001	86	08/06/2020
23	12/10/2019	377,515	97,760	26	07/29/2020
24	08/11/2020	2,054,053	1,042,661	51	01/27/2021
25	09/30/2020	189,959	146,199	77	02/22/2021
Subtotal Awarded Contracts		**$50,378,568**	**$16,023,763**	**32%**	

Report count	Date review issued	OIG's estimated cost savings (dollars)	VA's sustained cost savings (dollars)	Percentage of estimated cost savings realized	Date contract awarded
		Unawarded Contracts			
26†	11/14/2019	3,202,727			
27	05/13/2020	12,848,385			
28	08/11/2020	4,541,673			
29	09/08/2020	3,781,537			
30	09/17/2020	3,657,532			
31	09/30/2020	3,087,573			
Subtotal Unawarded Contracts		**$31,119,426**			
Totals‡		**$81,497,994**	**$16,023,763**		

Source: OIG reports and VHA contract files (updated February 25, 2021).
Note: The estimated cost savings is the difference between offered prices and OIG-recommended prices. VA's sustained cost savings are the cost savings based on the final prices awarded by the contracting officer. Cells for which data are not applicable are blank.

**The OIG recommended upwardly adjusting the proposal by $2.7 million for the contract on line 5 and $348,380 for the contract on line 20. The contract was awarded October 1, 2020, with that precise adjustment.*
†This solicitation did not result in a contract; VA awarded a Veterans Care Agreement instead.
‡Sustained as of February 25, 2021.

Appendix B: Scope and Methodology

Scope

The review team conducted its work from October 2019 through September 2020. The scope of the review focused on summarizing the information in prior OIG preaward review reports and presenting subsequent contract award data. The team assessed relevant sources of information, including contracts obtained from VA's electronic contract management system and applicable FY 2020 healthcare resource preaward reports.

Methodology

The review team searched the VA electronic contract management system for the solicitations with OIG-prepared preaward review reports and obtained the resulting contract, if applicable. The team then summarized the data from the review reports and resulting contracts for presentation in this publication.

Fraud Assessment

The review team assessed the risk that fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements significant within the context of the review objectives could occur during this review. The team exercised due diligence in staying alert to any fraud indicators. The OIG did not identify any instances of fraud or potential fraud during this review.

Data Reliability

The review team did not obtain or rely on computer-processed data. The team also did not perform detailed fieldwork to verify the accuracy of information listed in the review reports or the contracts because verification was not the focus of the review's objectives.

Government Standards

The OIG conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation.*

Appendix C: Management Comments

Date: July 19, 2021

From: Executive Director, Procurement (19PLO)

Subj: Summary of Fiscal Year 2020 Preaward Reviews of Healthcare Resource Proposals from Affiliates

To: Director, Healthcare Resources Division, Office of Audits and Evaluations, Office of Inspector General (OIG)

Thru: Executive Director, Procurement and Logistics (19PLO),Acting Assistant Secretary for Health for Support (19)

1. Thank you for the opportunity to provide comments on the Summary of Fiscal Year 2020 Preaward Reviews of Healthcare Resource Proposals draft report. This report and the pre-award pricing audit reports provided to VHA contracting officers are valuable tools in determining fair and reasonable pricing with the affiliated academic institutions.

2. The Office of Contract Review completes acquisition audits for sole source affiliate contracts under 38 U.S.C. § 8153 and this working relationship with your office has resulted in significant savings since 2000. This draft report contains information that is new to us. Footnote 4 states your office was dissolved and reorganized within two divisions of the Office of Audits and Evaluations. Our previous understanding was limited to OIG's intent to terminate the agreement that governed the contract audit services for VA.

3. VHA Procurement has concerns with the shift in the Office of Contract Review, which performs an acquisition function as part of the acquisition process providing field pricing assistance following Federal Acquisition Regulation (FAR) and Department policy. Transferring program operational responsibilities as indicated could jeopardize establishing and maintaining key relationships and could potentially deviate from FAR. Additionally, there is a potential conflict of interest if OIG auditors completing the pre-award pricing audits switch to an oversight role of the same program.

4. I request an opportunity to meet with VA OIG to discuss areas of responsibilities and better understand the new process and expectations of future pre-award and summary reports. Thank you again for the opportunity to comment on this summary report and I look forward to meeting with you.

The OIG removed point of contact information prior to publication.

(Original signed by)

Ricky L. Lemmon

For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.

OIG Contact and Staff Acknowledgments

Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
Review Team	Mark Myers, Director Ebony Banks Valerie Kramer Rhonda Gaines Jerry Manace Chris Tarbrake
Other Contributors	Rasmi Simhan Dyanne Griffith

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