



DEPARTMENT OF VETERANS AFFAIRS  
**OFFICE OF INSPECTOR GENERAL**

*Office of Audits and Evaluations*

VETERANS HEALTH ADMINISTRATION

Summary of Fiscal Year 2021  
Preaward Reviews of  
Healthcare Resource  
Proposals from Affiliates

REVIEW

REPORT #22-00564-216

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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) 2021.

VA policy requires that Veterans Health Administration (VHA) contracting officers request an OIG review for any sole-source healthcare proposal that has an anticipated annual value of at least \$400,000. One type of acquisition for which the OIG provides preaward services is sole-source proposals that often come 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 without regard to laws or regulations that require competition. The OIG reviews such proposals and provides information that contracting officers can use as they negotiate fair and reasonable prices.

Proposals not associated with an affiliated institution may also lead to a sole-source procurement, but only if the contracting officer meets the criteria established in VA Directive 1663. The criteria include a written justification demonstrating that the sole-source award would represent the best value to the government. In FY 2021, the OIG did not review any proposals for procurements not associated with an affiliated institution.

### What the Reviews Found

In FY 2021, the OIG completed 32 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's findings and recommendations made in those reviews in the following three general areas:

- **Costs underlying proposed hourly rates.** For 27 of the 29 proposals reviewed that contained hourly rate pricing, the OIG determined that the prices offered to the government were higher than the supported amounts.<sup>1</sup> Unsupported amounts are costs not supported by data in the underlying accounting records. The most common issue was unsupported provider salaries. Other frequently occurring issues were unsupported administrative expenses, fringe benefit amounts, incentives, or malpractice insurance premiums. Affiliates also routinely propose 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.<sup>2</sup> The OIG recommended contracting officers

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<sup>1</sup> The OIG reviewed a total of 32 proposals: 28 with only full-time-equivalent pricing, three with only procedure pricing, and one with both full-time-equivalent and procedure pricing.

<sup>2</sup> Option years are periods of service that VA may purchase from the contractor but is not required to do so. Fringe benefit amounts are expenses to the employer for items such as retirement, social security tax, and paid time off.

obtain lower prices than those offered to the government for the 27 proposals; the OIG did not find prices offered to the government that were higher than supported amounts in the remaining two of the 29 proposals.

- **Offered per-procedure prices.**<sup>3</sup> The OIG reviewed four proposals with per-procedure pricing and determined that they all offered prices higher than the properly calculated Medicare rates.<sup>4</sup> The OIG recommended contracting officers obtain lower prices than those offered in each proposal.
- **Potential conflicts of interest.** For 22 of the 32 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 OIG did not find potential conflicts of interest in the remaining 10 of the 32 proposals.

The combined estimated contract value of these 32 preaward reviews was \$305 million. The reviews identified a total of \$102.5 million in potential cost savings on 29 of the 32 proposals. The OIG did not find potential cost savings in the remaining three proposals. As of March 2022, VA contracting officers had awarded 30 of the 32 proposals and had sustained over \$44 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.

## VA Comments and OIG Response

Although not required to comment on this summary report, on June 23, the executive director for procurement stated

[t]his report and the preaward pricing audit reports provided to VHA contracting officers are valuable tools in determining fair and reasonable pricing with the affiliated academic institutions. This working relationship with your office has resulted in significant savings for several decades.

The executive director also noted, however, that VHA and the OIG's data and methodologies can differ. That difference can make reporting cost savings and sustention rates "not equitable

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<sup>3</sup> Each procedure has a set fee based on the Medicare price list using the associated current procedural terminology code.

<sup>4</sup> VHA Procurement Manual, part 873, attachment 3, "Per Procedure Contracts Off Site," para. 1.3.1, March 2, 2020.

comparisons.”<sup>5</sup> This is due, in part, to information received during negotiations that can result in acceptable cost adjustments and other changes that occur during this process. Based on these additional actions, VHA calculated a different sustained savings rate of 52 percent.

The OIG values the feedback and cooperation received from VHA procurement personnel. The review team determined the sustainment rate when comparing the total proposed amount to the actual contract award amount. The review team does not revisit all reviewed contracts for subsequent changes that may occur after the award of the contract. Although the OIG did not validate VA’s stated 52 percent sustained savings estimate, it accepts that it could reasonably be that high.



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<sup>5</sup> Cost savings are those found once proposed amounts are compared to the contract awarded.

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## Abbreviations

FAR	Federal Acquisition Regulation
FTE	full-time equivalent
FY	fiscal year
OIG	Office of Inspector General
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. 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 determining that the proposed prices are fair and reasonable. Preaward reviews facilitate informed decision-making and help prevent fraud, waste, and abuse.

The OIG provides preaward reviews of 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 without regard to laws or regulations that require competition.<sup>6</sup> Contracting officers are required to request an OIG preaward review when the estimated value of the contract is at least \$400,000 per year.<sup>7</sup>

This report summarizes the findings and effects of the OIG's 32 preaward reviews of sole-source healthcare resource proposals in fiscal year (FY) 2021. Appendix A contains a listing of the 32 preaward reviews that shows the OIG-recommended cost savings and the savings achieved by VA contracting officers as of March 11, 2022.

## VA's Participation in Medical Education and Training Programs

One of VA's missions established in statute is to assist and participate in education and training programs for students and residents in the healthcare professions.<sup>8</sup> VA participates in the programs of 153 of the 155 schools of medicine accredited by the Liaison Committee on Medical Education and all 37 schools granting Doctor of Osteopathic Medicine degrees. In addition, more than 60 other clinical health education programs are represented by VA's affiliations with over 1,400 colleges and universities.

## Policy for Awarding Sole-Source Contracts

VA has statutory authority to acquire healthcare resources through other-than-full-and-open competition, such as sole-source procurement.<sup>9</sup> However, this statutory authority only applies to sole-source procurements with an affiliated institution or with a teaching hospital, individual physician, or practice group associated with the affiliated institution. Procurements not associated with an affiliated institution may also be acquired as a sole-source procurement but

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<sup>6</sup> 38 U.S.C. § 8153.

<sup>7</sup> VA Directive 1663, *Health Care Resources Contracting—Buying*, May 10, 2018.

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

<sup>9</sup> 38 U.S.C. § 8153(a)(3)(A).



only after following the criteria established in VA Directive 1663. The directive requires a written justification demonstrating that the sole-source award would represent the best value to the government.

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.<sup>10</sup> 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 also states that sole-source affiliate contracts for services not associated with a residency program must demonstrate that the award would represent the best value to the government. The directive 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, OIG did not review any proposals for these services in FY 2021.

The directive states the VA contracting officer must submit sole-source proposals valued at \$400,000 or more 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 such as market data or to the costs incurred by the contractor.<sup>11</sup> 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 Veterans Health Administration (VHA) pricing policy.<sup>12</sup>

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<sup>10</sup> 38 U.S.C. § 8153; VA Directive 1663, *Health Care Resources Contracting—Buying*; 38 U.S.C. § 7302.

<sup>11</sup> FAR 15.402, "Pricing policy," January 21, 2020.

<sup>12</sup> VHA Procurement Manual, part 873, attachment 3, "MSO – HCR Pricing SOP," March 2, 2020.

## A Summary of Preaward Reviews

The cumulative proposed amount for the 32 sole-source healthcare proposals reviewed, typically five-year contracts, was approximately \$305 million. The OIG identified potential cost savings in 29 of the 32 proposals for a potential savings of \$102.5 million.<sup>13</sup> The \$102.5 million represented \$67.3 million in savings from hourly rate proposals and \$35.2 million in savings from medical procedure-based proposals. Collectively, the 32 proposals included 109,410 annual hours of physician and other provider services (52.6 full-time-equivalent employees) and four proposals with indefinite quantities of services priced per procedure.<sup>14</sup>

### What the OIG Did

The team had three primary objectives when reviewing the 32 sole-source healthcare proposals:<sup>15</sup>

1. Determine if data in an affiliate's accounting system adequately supported proposed hourly rates and provide pricing recommendations if the proposed rates were not supported.
2. Evaluate offered per-procedure prices and provide pricing recommendations using Medicare rates if an 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 team asked affiliates to provide information from their accounting and other systems that supported the various cost elements in their proposals. 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, insurance billing statements, training policies, and the bonus policy and historical expenses.<sup>16</sup>

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<sup>13</sup> See appendix A for more information on OIG-identified cost savings.

<sup>14</sup> The number of full-time-equivalent employees is calculated by dividing the proposed 109,410 hours by the 2,080 annual hours per full-time-equivalent employee. One proposal included both per-procedure prices and hourly rates.

<sup>15</sup> Proposals could contain both hourly rate and per-procedure pricing and were evaluated accordingly.

<sup>16</sup> A forward pricing rate agreement involves the cognizant audit agency establishing indirect rates, typically for fringe benefits and overhead, for a set time. The cognizant audit agency is the federal agency (in this case, the Department of Health and Human Services) with designated audit responsibilities that provides predominant direct funding.

The team discussed the documentation with affiliate representatives and VA contracting officers 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 Directive 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*<sup>17</sup>

The OIG’s findings in the 32 issued healthcare preaward reviews are summarized below. They include the review team’s evaluations of the following:

- Proposed hourly rates
- Proposed per-procedure prices
- Proposals with both hourly rate and per-procedure pricing<sup>18</sup>
- Potential conflicts of interest of VA providers

## Evaluation of Proposed Hourly Rates

Twenty-nine of the 32 reviews had hourly rate pricing.<sup>19</sup> The OIG did not find prices offered to the government that were higher than supported amounts in two of the 29 reviews. In the remaining 27 of the 29 reviews, the OIG recommended contracting officers obtain lower prices than those offered to the government. The OIG recommended lower rates for several common issues, such as unsupported proposed expenses or annual hours and administrative expenses included in the hourly rates instead of proposed separately as required.<sup>20</sup> A proposal with

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<sup>17</sup> See appendix B for additional details on the scope and methodology of the OIG’s work.

<sup>18</sup> This was not listed as a separate objective on page 3 but was given consideration by the review team.

<sup>19</sup> The OIG reviewed a total of 32 proposals: 28 with only full-time-equivalent pricing, three with only procedure pricing, and one with both full-time-equivalent and procedure pricing.

<sup>20</sup> VHA Procurement Manual, part 873, attachment 3, “Per Procedure Contracts Off Site,” para. 1.3.1, March 2, 2020.

unsupported rates is backed by data inconsistent with the amounts proposed—for example, the proposal is for \$400 per hour, but the documentation shows the actual hourly rate is \$250. The OIG identified \$67.3 million in total potential cost savings attributed to hourly rates.

Unsupported on-call expenses, overhead expenses, fringe benefits, and provider salaries were the most significant and prevalent issues the team identified during its review.

Sixteen of the 29 hourly rate proposals the OIG reviewed had more than \$96 million for on-call expenses, which included 101,939 hours for these services. The review team identified proposed on-call expenses not supported by documentation of actual expenses in 10 of the 29 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.<sup>21</sup> 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 2021, which its team found in 18 of the 29 proposals reviewed. Frequent causes of these findings were bonus or incentive amounts contingent on a 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 a provider's time spent at VA after the bonus is paid by the affiliate.<sup>22</sup>

## **Use of Unsupported Annual Hours in Some Calculations**

The number of annual hours used in the hourly rate calculation has a significant effect on its accuracy. In 15 of the 29 proposals reviewed in FY 2021, the affiliates' hourly rate calculations 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.<sup>23</sup> In each case, affiliates stated they did not track the total number of hours providers worked but 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 estimates are 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 this basis can cause the rate to vary significantly, as shown in table 1.

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<sup>21</sup> VHA Procurement Manual 873, attachment 3, para. 1.8.2.

<sup>22</sup> VHA Procurement Manual 873, attachment 3, para. 1.8.1.

<sup>23</sup> 2,080 hours per year is the result of 40 hours per week multiplied by 52 weeks in a standard year.

**Table 1. Examples of Hourly Rates Based on Providers' Varying Work Hours (by Lowest Annual Hours)\***

Provider	Total salary, benefits, and other costs (a)	Average weekly work hours (b)	Annual hours (c = b × 52)	Hourly rate (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 four proposals in which indirect expenses were included in the proposed hourly rates, a practice that commonly inflates the proposed total. Table 2 presents a calculation that demonstrates the effect of including indirect expense in the hourly rates. 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 2. 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	Annual administrative expenses included in proposal total

Source: *OIG team analysis.*

\*Figures rounded for presentation purposes.

## Evaluation of Offered Per-Procedure Prices

The OIG reviewed four proposals that included procedure-based pricing and identified \$35.2 million in recommended cost savings during FY 2021.<sup>24</sup> Table 3 summarizes the issues found.

**Table 3. Issues Identified in Per-Procedure Proposals**

Issue	Occurrences in four proposals
Included a markup over the Medicare rate	4
Included outdated Medicare rates	3
Included length of stay and per diem	1
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	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:

- 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.<sup>25</sup> In four reviews, the OIG found affiliates' proposals included a markup above the Medicare rate.

<sup>24</sup> Three of the four per-procedure pricing reviews had recommendations that funds be put to better use.

<sup>25</sup> VHA Procurement Manual, part 873, attachment 3, paragraph 1.3.1.

- **Outdated Medicare rates.** Medicare establishes per-procedure rates for physician services that are revised and updated on a quarterly basis (January, April, July, and October). For this reason, the recommended Medicare current procedural terminology reimbursement rates can change based on the timing of the submitted proposal and the OIG analysis.
- **Length of stay and per diem charges exceeded limit.** The OIG noted length of stay was limited and VA was charged for days beyond that limit in a proposal for small bowel and surgical services. To avoid the risk of double billing, the OIG recommended the Medicare rate be paid regardless of the length of hospital stay unless a patient’s care qualified as an outlier consistent with Medicare policy.
- **Unallowable rate increases 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 affiliates.<sup>26</sup> 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 affiliates regarding future pricing.

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

One of the 32 sole-source healthcare preaward reviews was a hybrid contract that contained both per-procedure and hourly rate pricing. For the full-time-equivalent (FTE) portion of the proposal, the affiliate did not provide adequate documentation for the two proposed personnel since they were onboarding these new staff members and no formal salary agreements were available during the review. The team questioned proposed overhead in the annual hours used to calculate the proposed hourly rates. Regarding the per-procedure portion of the proposal, the affiliate proposed a 115 percent markup over Medicare rates. The OIG recommended reimbursement rates that were 100 percent of the current Medicare rates for the per-procedure portion of the affiliate’s proposal.

## Potential Conflicts of Interest

VHA Directive 1660.03 defines a conflict of interest as occurring

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

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<sup>26</sup> VHA Directive 1663, *Health Care Resources Contracting—Buying*, August 10, 2006.

own financial interest, or the financial interest of the employee’s spouse, minor child, general partner, any person or entity [for] 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.<sup>27</sup>

Further, the directive 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. For every 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.

Twenty-two of the 32 proposals reviewed contained potential conflicts of interest for which the VHA contracting officer had not yet sought Office of General Counsel opinions. 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 4 summarizes the potential conflict of interest findings during FY 2021.

**Table 4. Extent of Potential Conflict of Interest Findings by Occurrences**

Employee affected	Occurrences in the 32 proposals
Chief of the service or clinical section	19
Chief or deputy chief of staff	14
Chief of surgery	3
Program manager	1

*Source: Analysis of OIG reports.*

*Note: Some proposals had more than one occurrence, so total occurrences exceeded the number of proposals.*

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 whether an employee has a financial interest that would disqualify the employee from participating in the procurement process and the resulting

<sup>27</sup> VHA Directive 1660.03, *Conflict of Interest for the Aspects of Contracting for Sharing of Health-Care Resources (HCR)*, September 13, 2021.



contract.<sup>28</sup> The OIG did not find potential conflicts of interest in the remaining 10 of 32 proposals.

## Conclusion

In a review of 32 sole-source healthcare resource proposals, typically five-year contracts, valued at approximately \$305 million, the OIG identified potential cost savings in 29 for a potential cost savings of \$102.5 million. The \$102.5 million represented \$67.3 million in savings from hourly rate proposals and \$35.2 million in savings from procedure-based proposals.

Following the OIG reviews, VHA awarded 30 of the 32 proposals by March 2022 and was able to leverage the review teams' work to sustain over \$44 million in cost savings.<sup>29</sup> The OIG recommended \$478,707 in cost savings specific to the one proposal that had not yet been awarded.

## VA Management Comments

Although not required to comment on this summary report, on June 23, the executive director for procurement stated

[t]his report and the preaward pricing audit reports provided to VHA contracting officers are valuable tools in determining fair and reasonable pricing with the affiliated academic institutions. This working relationship with your office has resulted in significant savings for several decades.

The executive director also noted, however, that VHA and the OIG's data and methodologies can differ. That difference can make reporting cost savings and sustention rates "not equitable comparisons."<sup>30</sup> This is due, in part, to information received during negotiations that can result in acceptable cost adjustments and other changes that occur during this process. Based on these additional actions, VHA calculated a different sustained savings rate of 52 percent. The executive director's comments appear in appendix C.

## OIG Response

The OIG values the feedback and cooperation received from VHA procurement personnel. The review team determined the sustainment rate when comparing the total proposed amount to the actual contract award amount. The review team does not revisit all reviewed contracts for subsequent changes that may occur after the award of the contract. Although the OIG did not

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<sup>28</sup> VHA Directive 1660.03.

<sup>29</sup> Because one review had a revised proposal, two reports were issued, but only one contract awarded.

<sup>30</sup> Cost savings are those found once proposed amounts are compared to the contract awarded.

validate VA's stated 52 percent sustained savings estimate, it accepts that the estimate could reasonably be that high.

## Appendix A: OIG-Identified Cost Savings for FY 2021 Preaward Reviews

Report	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	10/30/2020	\$2,356,891	\$756,442	32.09%	7/1/2021
2	11/3/2020	426,446	270,368	63.40%	4/13/2021
3	11/10/2020	868,404	868,404	100.00%	5/27/2021
4	11/17/2020	2,381,638	241,586	10.14%	2/26/2021
5	11/24/2020	76,484	16	0.02%	12/29/2021
6†	12/14/2020	1,703,094	0	0%	
7	12/14/2020	780,047	30,592	3.92%	3/22/2021
8*	12/24/2020	3,811,160	0	0%	5/27/2021
9*	1/13/2021	0	0	0%	3/23/2021
10*	1/15/2021	6,865,045	0	0%	7/22/2021
11	1/27/2021	126,941	126,941	0%	6/30/2021
12	1/29/2021	682,434	52,607	7.71%	3/24/2021
13	2/3/2021	3,214,880	2,849,534	88.64%	7/1/2021
14	2/10/2021	8,866,846	1,908,545	21.52%	11/1/2021
15	2/16/2021	973,213	35,258	3.62%	3/25/2021
16*	2/17/2021	0	0	0%	2/24/2021
17	3/22/2021	30,654,465	15,640,000	51.02%	7/30/2021
18	3/25/2021	387,629	69,377	17.90%	4/26/2021
19	4/9/2021	2,361,918	1,227,935	51.99%	11/23/2021
20	4/27/2021	5,693,480	2,992,155	52.55%	9/14/2021
21	4/28/2021	362,417	383	0.11%	5/27/2021
22*	5/27/2021	2,074,185	0	0%	8/27/2021
23	6/14/2021	340,911	226,002	66.29%	7/27/2021
24†	7/15/2021	0	0	0%	11/9/2021
25	7/29/2021	4,474,045	3,986,240	89.10%	2/25/2022
26	7/29/2021	9,725,173	6,820,704	70.13%	2/28/2022
27	8/30/2021	4,013,764	3,306,624	82.38%	12/7/2021
28	9/8/2021	2,548,657	1,736,275	68.13%	11/2/2021
29	9/15/2021	1,790,545	755,252	42.18%	10/1/2021

Report	Date review issued	OIG's estimated cost savings (dollars)	VA's sustained cost savings (dollars)	Percentage of estimated cost savings realized	Date contract awarded
31	9/28/2021	1,511,697	254,755	16.85%	12/22/2021
32*	9/29/2021	2,950,277	0	0%	3/10/2022
<b>Subtotal awarded contracts</b>		<b>\$102,022,685</b>	<b>\$44,155,994</b>	<b>43.28%</b>	
30	9/27/2021	\$478,707			
<b>Subtotal unawarded contract</b>		<b>\$478,707</b>			
<b>Total</b>		<b>\$102,501,392</b>			

Source: OIG reports and VHA contract files (updated March 11, 2022).

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, or the contracting officer awarded a higher contract, for these proposals: \$1 million for the contract on line 8, \$590,982 for the contract on line 9, \$83,457 for line 10, \$2.1 million for the contract on line 16, \$311,064 for the contract on line 22, and \$480,920 for the contract on line 32.

†Solicitations did not result in a contract.

## Appendix B: Scope and Methodology

### Scope

The review team conducted its work from January through June 2022. The scope of this review focused on summarizing the information in prior OIG preaward reviews and presenting subsequent contract award data. The team assessed relevant sources of information, including contracts obtained from the VA's electronic contract management system and applicable FY 2021 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 contracts, 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.

### 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: VA Management Comments

### Department of Veterans Affairs Memorandum

Date: June 23, 2022

From: Executive Director, Procurement (19PLO)

Subj: Summary of Fiscal Year 2021 Preaward Reviews of Healthcare Resource Proposals from Affiliates

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

1. Thank you for the opportunity to provide comments on the attached FY 21 Draft Summary Report. This report and the preaward pricing audit reports provided to VHA contracting officers are valuable tools in determining fair and reasonable pricing with the affiliated academic institutions. This working relationship with your office has resulted in significant savings for several decades since 2000 wherein acquisition audits for sole source affiliate contracts (SSAC)s under 38 USC 8153 are completed through your office.

2. In review of the report, we did notice what appear to be discrepancies in data and methodologies. For example, the methodology for reporting cost savings and sustention rates are not equitable comparisons. The majority of requirements that go through your process end up being adjusted through negotiations. Many times, additional documentation is received from the affiliate after the audit is performed and through negotiations result in acceptable costs. Another example may be a change in scope for quantities and have been amended to increase to ten-year contracts when the affiliate indicates a willingness to continue the long-term partnership out for a decade. Consequently, this changes the contract value as well as the resultant adjusted numbers to prepare the cost savings/sustention rates. Additionally, your office utilized numbers from actions that were never awarded and did not adjust the final numbers. This reflects a greater disparity between the pre-negotiation numbers and the actual awarded sustention rates, driving actual sustention rates from 43% up to 52%.

3. Thank you again for the opportunity to comment on this summary report.

(Original signed by)

Ricky Lemmon

Executive Director, Procurement

*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

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<b>Contact</b>	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
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