

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



# Veterans Health Administration

*Review of  
Potential Misuse of  
Purchase Cards at  
Veterans Integrated  
Service Network 15*

October 26, 2017  
15-05519-377

# ACRONYMS

FAR	Federal Acquisition Regulation
FSS	Federal Supply Schedule
FSSI	Federal Strategic Sourcing Initiative
FY	Fiscal Year
GSA	General Services Administration
OIG	Office of Inspector General
VA	Department of Veterans Affairs
VISN	Veterans Integrated Service Network

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# Highlights: Review of Potential Misuse of Purchase Cards at VISN 15

## Why We Did This Review

In September 2015, the former Chairman of the House Committee on Veterans' Affairs requested that the Office of Inspector General evaluate purchase card practices within Veterans Integrated Service Network (VISN) 15 based on allegations raised by a vendor. Specifically, the OIG was asked to determine whether:

- Purchase cardholders used purchase cards improperly by exceeding the micro-purchase threshold or splitting purchases on VA contract VA255-P-0919—a VISN 15 contract for restroom supplies.
- Purchase cardholders used purchase cards improperly on General Services Administration (GSA) Federal Supply Schedule (FSS) orders.
- VA opted to set up separate contracts for commodity items rather than use existing strategic sourcing contract vehicles.

## What We Found

We did not substantiate the allegation that VISN 15 purchase cardholders used purchase cards improperly by exceeding the micro-purchase threshold or splitting purchases on a VISN 15 contract for restroom supplies.

We substantiated the allegation that purchase cardholders split purchases when placing GSA FSS orders to buy restroom supplies from the same vendor that had

performed the expired requirements contract. VISN 15 purchase cardholders made 18 split purchases valued at approximately \$73,000, which resulted in unauthorized commitments, as well as improper payments.

This occurred because purchase cardholders continued to act as if they were still operating under the VISN 15 contract for restroom supplies after it had expired—by placing orders with the same vendor using a GSA FSS contract. Although the GSA FSS orders were similar to the orders allowable under the terms of the expired requirements contract, they were now considered split purchases under the terms of the Federal Acquisition Regulation (FAR) because they were no longer governed by the contract.

The split purchases also occurred because the purchase cardholders did not have a clear understanding of what constitutes a split purchase. Moreover, VISN 15's oversight of these purchase card transactions was ineffective and approving officials did not question what appeared to be the same routine purchases of restroom supplies, which had been occurring year after year subsequent to the expiration of the contract.

Lastly, we determined that, as of July 2016, VISN 15 officials were no longer awarding separate contracts to purchase commodity items such as restroom supplies.

## What We Recommended

We recommended the VISN 15 Director submit ratification requests for FY 2015 unauthorized commitments identified in the report, conduct additional focused training

on split purchases, and establish more rigorous monitoring mechanisms over the VISN 15 purchase card program.

## **Agency Comments**

The VISN 15 Director concurred with our recommendations and provided corrective action plans. We consider the planned corrective actions acceptable and will follow up on their implementation.

A handwritten signature in blue ink that reads "Larry M. Reinkemeyer". The signature is written in a cursive style with a large initial 'L'.

**LARRY M. REINKEMEYER**  
Assistant Inspector General  
for Audits and Evaluations

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## INTRODUCTION

### **Objectives**

In September 2015, the then Chairman of the House Committee on Veterans' Affairs requested the Office of Inspector General evaluate purchase card practices within Veterans Integrated Service Network (VISN) 15 because of allegations raised by a vendor. Specifically, the Chairman asked the OIG to determine whether:

- Purchase cardholders used purchase cards improperly by exceeding the micro-purchase threshold or splitting purchases on VA contract VA255-P-0919—a VISN 15 contract for restroom supplies.
- Purchase cardholders used purchase cards improperly on General Services Administration (GSA) Federal Supply Schedule (FSS) orders.
- VA opted to set up separate contracts for commodity items rather than use existing strategic sourcing contract vehicles.

### **Purchase Card Program**

The intent of the purchase card program is to streamline transaction processing, increase accountability, and improve management control. VA prefers employees to use purchase cards for purchases under the micro-purchasing threshold. According to the VISN 15 Purchase Card Program Manager, in FY 2015, 745 purchase cardholders in VISN 15 made almost 200,000 purchase card transactions at a cost of approximately \$186 million.

### **Micro-Purchases**

During FY 2015, the Federal Acquisition Regulation (FAR) defined a micro-purchase as an acquisition of supplies or services using simplified acquisition procedures, where the aggregate amount does not exceed \$3,000.<sup>1</sup> The FAR established lower micro-purchase thresholds of \$2,500 for acquisitions of services and \$2,000 for construction-related acquisitions.

### **Split Purchases**

Split purchases occur when a purchase cardholder separates a requirement that exceeds the micro-purchase threshold into two or more purchases in order to circumvent single purchase limits.<sup>2</sup> The FAR states that purchase cardholders may not split a transaction to avoid the requirement to obtain competitive bids for purchases over the micro-purchase threshold or to avoid established purchase limits.<sup>3</sup>

<sup>1</sup> FAR Subpart 2.1, *Definitions*, March 2005. Note: In October 2015, the micro-purchase limit for supplies increased to \$3,500.

<sup>2</sup> VA Financial Policies and Procedures, *Government Purchase Card*, Volume XVI, Section 010204.

<sup>3</sup> FAR Subpart 13.003(c)(2)

## RESULTS AND RECOMMENDATIONS

### Finding 1 **Purchase Cardholders Did Not Use Purchase Cards Inappropriately on VA Contract VA255-P-0919**

We did not substantiate the allegation that VISN 15 purchase cardholders used purchase cards inappropriately by exceeding the micro-purchase threshold and splitting purchases on a VISN contract for restroom supplies (VA contract VA255-P-0919). Although five purchase cardholders made 43 purchases above the micro-purchase threshold of \$3,000 in FY 2011, all five purchase cardholders had valid warrant authorities, which allowed them to exceed the micro-purchase threshold. VISN 15 purchase cardholders made their purchases in compliance with a binding contract awarded solely for providing restroom supplies to the VISN's medical facilities.

#### **Contract for Restroom Supplies**

VISN 15 officials awarded a requirements contract in December 2008 to provide restroom supplies to its medical facilities. The base period of the contract was January 1, 2009 through December 31, 2010. In addition, there were three one-year option periods, with the last option year ending on December 31, 2013. The total value, including the option years, was an estimated \$2 million.

According to the contract, VISN 15 officials estimated it would use 12,732 cartons of paper towels and 7,508 cartons of toilet tissue during the base period of the contract. VISN 15 officials estimated it would use 6,366 cartons of paper towels and 3,754 cartons of toilet tissue during each of the option periods of the contract. The contractor also agreed to install 2,867 hands-free towel dispensers, 100 battery-operated hands-free towel dispensers, and 4,995 toilet tissue dispensers during the contract base period. The contract authorized both purchase orders and the Government purchase card as methods of payment.

The contracting officer negotiated this restroom supplies contract as a sole-source contract with a service-disabled veteran-owned small business in accordance with 38 U.S.C. 8127(c). Under this provision, a contracting officer of the Department may award a contract to a veteran-owned small business using other than competitive procedures if:

- The anticipated award price of the contract including options is worth more than the simplified acquisition threshold but less than \$5 million.
- The contracting officer determines the business is a responsible source capable of performing the contract.
- In the estimation of the contracting officer, the award can be made at a fair and reasonable price that offers best value to the Government.

After examining the documentation associated with this contract, we determined that the contracting officer met the requirements under 38 U.S.C. 8127(c) related to awarding a sole-source contract to a veteran-owned small business.

***Purchases Exceeding the Micro-Purchase Threshold***

VISN 15 purchase cardholders did not inappropriately make purchases exceeding the micro-purchase threshold of \$3,000. We reviewed a total of 934 purchase orders against a VISN contract for restroom supplies made during FYs 2011, 2012, and 2013.<sup>4</sup> Although five purchase cardholders made 43 out of 198 purchases above \$3,000 in FY 2011, all five cardholders had valid warrant authorities, which provided authority to exceed the micro-purchase threshold. We did not identify any inappropriate purchases above \$3,000 in FYs 2012 and 2013.

In March 2011, the former Deputy Assistant Secretary for Acquisition and Logistics issued a memo directing VA Heads of Contracting Activities to eliminate warrant authorities Department-wide for all personnel who were not classified as contract specialists (occupational series GS-1102) by September 30, 2011. At that time, the Office of Acquisition, Logistics, and Construction was assessing VA's procurement workforce capabilities across the Department to determine whether VA met statutory requirements for the Federal Acquisition Certification-Contracting Program. According to the memo, nationwide, there were approximately 1,900 individuals with warrants who were not contract specialists.

The memo stated that in many instances, non-acquisition professionals were improperly warranted and buying hundreds of millions of dollars' worth of supplies and services without possessing the required minimum education, training, and experience. To facilitate compliance with statutory requirements, the former Deputy Assistant Secretary for Acquisition and Logistics decided to eliminate warrants for all non-contract specialists VA-wide. As a result, VISN 15 purchase cardholders stopped making purchases above the micro-purchase threshold.

***Split Purchases***

VISN 15 purchase cardholders did not split purchases when buying restroom supplies for the VISN's medical facilities. FAR Subpart 13.003(c)(2) prohibits breaking down requirements aggregating more than the micro-purchase threshold into several purchases merely to permit use of simplified acquisition procedures or to avoid requirements applying to purchases exceeding the micro-purchase threshold.

The purchase cardholders placed their orders for restroom supplies against a binding contract awarded to the vendor solely for providing restroom

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<sup>4</sup> The 934 purchase orders include 198 from FY 2011, 430 from FY 2012 and 306 from FY 2013.

supplies to the VISN's medical facilities. However, we did note a pattern of purchases made back-to-back by individuals who did not have warrants. For example, in FY 2013, three purchase cardholders made back-to-back purchases two days apart totaling more than \$3,000 on 13 different occasions. Furthermore, two of the same three purchase cardholders made back-to-back purchases three days apart totaling more than \$3,000 on nine different occasions.

However, the requirements contract provided the vendor with an estimate of the quantities of supplies to be purchased each year and it stated that the purchases could be made with the Government purchase card. Consequently, the purchase cardholders did not split purchases in order to permit use of simplified acquisition procedures or to circumvent the competition requirements applying to purchases exceeding the micro-purchase threshold.

**Contract  
Appeal  
Decision**

In September 2016, the United States Civilian Board of Contract Appeals denied an appeal made by the contractor associated with this allegation. The contractor sought to recover merchant transaction fees incurred because VISN 15 purchase cardholders used their purchase cards in amounts, and at intervals, that allegedly violated VA regulations. Specifically, the contractor argued that VA placed orders which exceeded the \$3,000 micro-purchase threshold and that it split orders to avoid exceeding the maximum spending threshold.

The Board maintained that when a properly executed contract is established by a warranted contracting officer, purchases are made under the authority and terms of that contract. Therefore, the purchases are not bound by the same restrictions that govern single purchases made by non-warranted purchase cardholders. The Board noted that the terms of the contract clearly established both the Government purchase card and electronic funds transfer as acceptable methods of payment for supplies. The terms also established a maximum order threshold of \$100,000 for a single or combined purchase and made no reference to the micro-purchase threshold. Furthermore, the contract contained no prohibition against "split orders" unless they exceeded \$100,000 during any 14-day period. The Board's decision closed with this summary:

*In this case, the appellant had two opportunities to better its bargaining position: first, prior to award of the contract, and second, during performance. Yet appellant accepted and performed each order without any objection during the five-year period of performance. This fact, along with the clear language of the contract, precludes the relief sought.*

**Conclusion**

VISN 15 purchase cardholders did not inappropriately make purchases exceeding the micro-purchase threshold of \$3,000. Although the purchase cardholders made 43 purchases exceeding the micro-purchase threshold of \$3,000 in FY 2011, they had valid warrant authorities, which allowed them to exceed the threshold. VISN 15 purchase cardholders also did not split purchases when buying restroom supplies for the VISN's medical facilities. The purchase cardholders made their purchases of restroom supplies against a valid sole-source contract with a service-disabled veteran-owned small business in accordance with 38 U.S.C. 8127(c). Since we did not substantiate the allegation, we made no recommendations in this area.

## **Finding 2      Purchase Cardholders Split Purchases When Placing Orders Against a Federal Supply Schedule**

We substantiated the allegation that VISN 15 purchase cardholders used purchase cards inappropriately by splitting purchases when placing GSA FSS orders to buy restroom supplies from the same vendor that performed the requirements contract that ended in December 2013.<sup>5</sup> Since the vendor alleged that it incurred additional credit card fees because VA split purchase orders against its GSA FSS contract, we reviewed all of the VISN 15 purchase orders placed with that vendor during FY 2015. VISN 15 purchase cardholders placed 303 purchase orders totaling approximately \$546,000 in FY 2015 with the vendor that previously provided restroom supplies to the VISN under the expired requirements contract. Of the 303 purchase orders, we identified 18 split purchases (11 percent) composed of 34 purchase orders totaling approximately \$73,000.

The split purchases occurred because purchase cardholders continued to act as if they were still operating under the expired requirements contract, which established a maximum order threshold of \$100,000 for a single purchase and made no reference to the micro-purchase threshold. After the requirements contract expired, the purchase cardholders continued to place orders with the same vendor using a GSA FSS contract. However, although the GSA FSS orders were similar to the orders allowable under the terms of the requirements contract, they were now considered split purchases under the terms of the FAR because they were no longer governed by the expired requirements contract. The split purchases also occurred because purchase cardholders did not have a clear understanding of what constitutes a split purchase. Moreover, VISN 15's oversight of these purchase card transactions was ineffective—approving officials did not question what appeared to be the same routine purchases of restroom supplies that had been occurring year after year subsequent to the expiration of the requirements contract. As a result, VISN 15 purchase cardholders made 18 split purchases valued at approximately \$73,000 leading to unauthorized commitments, which were also improper payments.

### **Split Purchases**

VISN 15 purchase cardholders split purchases on GSA FSS schedule orders to buy restroom supplies. Because the vendor alleged that VA split purchases when placing orders against its GSA FSS contract, we reviewed 303 FY 2015 GSA FSS purchase orders placed by VISN 15 purchase cardholders to buy restroom supplies from that vendor. We identified 49 potential split purchases made by five purchase cardholders. We reviewed 43 of the 49 purchases (88 percent) made by two purchase

<sup>5</sup> This is the requirements contract mentioned in our first finding.

cardholders—we did not review the remaining six purchases made by three additional purchase cardholders.

We identified seven split purchases made on the same day by the same purchase cardholder and totaling approximately \$27,800.

*Example 1*

*In November 2014, a cardholder circumvented the \$3,000 micro-purchase limit by splitting an order valued at approximately \$3,500 into two purchases. The cardholder purchased paper towels and bath tissue for \$2,926 and towel dispensers for \$600 for the Jefferson Barracks Division of the VA St. Louis Health Care System from the same vendor in two separate orders only five minutes apart.*

*Example 2*

*In February 2015, the same cardholder split a purchase of approximately \$4,000 by ordering paper towels for \$1,031 and bath tissue and paper towels for \$2,926 for the Jefferson Barracks Division of the VA St. Louis Health Care System, from the same vendor in two separate orders placed three minutes apart.*

We also identified four split purchases of restroom supplies totaling approximately \$14,000 for the Jefferson Barracks Division of the VA St. Louis Health Care System made by the same purchase cardholder within a two-day period and seven split purchases totaling approximately \$31,500 made by the same purchase cardholders within a three-day period.<sup>6</sup>

*Example 3*

*A cardholder split a purchase of approximately \$5,900 by ordering paper towels and bath tissue for \$2,926 on November 17, 2014, and executing the same order for \$2,926 on the next day by placing purchase orders against a GSA schedule contract with the same vendor. Both orders were for the Jefferson Barracks Division of the VA St. Louis Health Care System.*

VISN 15 had a five-year history of purchases of restroom supplies with this vendor based on the requirements contract that was in operation from January 2009 through December 2013. VISN 15 purchase cardholders continued to place GSA FSS purchase orders for the same supplies with the vendor after the requirements contract expired—which would have been appropriate as long as they did not split an order to circumvent the purchase limit. Therefore, VISN officials, including the purchase cardholders, were aware of the VISN’s annual, monthly, weekly, and daily requirements for

<sup>6</sup> One cardholder made seven purchases totaling approximately \$18,500 for the Jefferson Barracks Division of the St. Louis Health Care System while another cardholder made six purchases valued at approximately \$13,000 for the Kansas City VA Medical Center.

restroom supplies. Because VISN 15 officials knew their purchasing requirements routinely exceeded the micro-purchase threshold, they should have ensured that warranted contracting officers made those larger purchases to preclude purchase cardholders from splitting the orders. Consequently, the recurring purchases of restroom supplies, such as those identified in example 3, were also split purchases.

**Why  
Split  
Purchasing  
Occurred**

The split purchases occurred because purchase cardholders continued to act as if they were still operating under the expired requirements contract, which established a maximum order threshold of \$100,000 for a single purchase and made no reference to the micro-purchase threshold. After the requirements contract expired, the purchase cardholders continued to place orders with the same vendor using a GSA FSS contract. However, although the GSA FSS orders were similar to the orders allowable under the terms of the requirements contract, they were now considered split purchases under the terms of the FAR because they were no longer governed by the expired requirements contract. The split purchases also occurred because purchase cardholders did not have a clear understanding of what constitutes a split purchase. Moreover, VISN 15's oversight of these purchase card transactions was ineffective—approving officials did not question what appeared to be the same routine purchases of restroom supplies that had been occurring year after year.

VA's Financial Policy on the Government Purchase Card Program specifically defines a split purchase as separating a requirement that exceeds the micro-purchase threshold into two or more purchases as a means to circumvent the purchase limit. The guidance states that a single cardholder cannot make multiple purchases of the same or similar items from the same vendor or multiple vendors on the same day when the total purchase amount exceeds the single purchase limit provided the total requirement was known at the time of the first purchase. Similarly, a single cardholder cannot make multiple purchases of similar items from the same or multiple merchants over a period of time if the total purchase amount exceeds the single purchase limit, and the total needed was known at the time of the first purchase.

Although we did not identify an issue with purchase cardholders and approving officials lacking required purchase card training, a more focused VISN 15 training strategy targeted on what constitutes splitting purchases and how to avoid them would strengthen compliance with policy. This training would supplement the required training contained in the VA Talent Management System. In addition, VISN oversight needs to be strengthened in order to identify split purchases and take appropriate corrective actions to ratify those transactions. By strengthening their oversight, VISN officials can identify and take timely corrective action preventing additional split purchases by specific cardholders.

**Effects of  
Split  
Purchasing**

The 34 purchase orders resulting in 18 split purchases made by VISN 15 purchase cardholders totaling approximately \$73,000 were unauthorized commitments that must be ratified because the purchase cardholders did not have the authority to split requirements to circumvent the micro-purchase threshold. Unauthorized commitments are agreements that are non-binding because the Government representatives who made them lacked the authority to enter into the agreements on behalf of the Government. Ratification is the process of approving an unauthorized commitment by an official who has the authority to do so.<sup>7</sup> Any VA purchase cardholder who makes a commitment, including a split order, exceeding his or her level of authority must submit a request for ratification and furnish required information to the chief of the contracting office that provides contracting support to the organization involved.<sup>8</sup>

**Conclusion**

Purchase cardholders used purchase cards inappropriately by splitting purchases on GSA FSS orders to buy restroom supplies after a VISN 15 requirements contract ended in December 2013. The split purchases occurred because purchase cardholders continued to act as if they were still operating under the expired requirements contract, which established a maximum order threshold of \$100,000 for a single purchase and made no reference to the micro-purchase threshold. After the requirements contract expired, the purchase cardholders continued to place orders with the same vendor using a GSA FSS contract. However, although the GSA FSS orders were similar to the orders allowable under the terms of the requirements contract, they were now considered split purchases under the terms of the FAR because they were no longer governed by the expired requirements contract. The split purchases also occurred because purchase cardholders did not have a clear understanding of what constitutes a split purchase. Moreover, VISN 15's oversight of these purchase card transactions was ineffective—approving officials did not question what appeared to be the same routine purchases of restroom supplies that had been occurring year after year. VISN 15 officials need to strengthen management controls to protect the Government's interest when the VISN's purchase cardholders use their purchase cards to procure goods and services.

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<sup>7</sup> FAR Subpart 1.602-3(a).

<sup>8</sup> VA Directive 7401.7, *Unauthorized Commitments and Ratification*, Section 2.f.

## Recommendations

1. We recommended the Veterans Integrated Service Network 15 Director submit ratification requests for the fiscal year 2015 unauthorized commitments identified in our report to the Veterans Health Administration's Head of Contracting Activity.
2. We recommended the Veterans Integrated Service Network 15 Director, in coordination with the Network Contracting Office Director, conduct additional focused training for its purchase cardholders and approving officials on what constitutes splitting purchases and how to avoid them.
3. We recommended the Veterans Integrated Service Network 15 Director, in coordination with the Network Contracting Office Director, establish more rigorous monitoring mechanisms to identify improper purchase card transactions.

### ***Management Comments***

The VISN 15 Director concurred with our recommendations and provided suitable corrective actions. VISN 15 will submit ratification requests to address the unauthorized commitments identified in our report and provide additional focused training to purchase cardholders and approving officials in FY 2018. In addition, VISN 15 will develop an audit tool and conduct audits to identify potential split purchases at each medical center twice annually.

### ***OIG Response***

We consider the VISN 15 Director's corrective actions acceptable and we will follow up on their implementation. Appendix C contains the full text of the VISN 15 Director's comments.

### **Finding 3      VISN 15 Officials Did Not Set Up Separate Contracts To Purchase Supplies**

As of July 2016, VISN 15 officials were no longer awarding separate contracts to purchase commodity items, such as restroom supplies. However, instead of using existing strategic sourcing contract vehicles, VISN 15 purchase cardholders used their purchase cards to place orders against GSA FSS contracts. The purchase cardholders' ability to use the Federal Strategic Sourcing Initiative (FSSI) to achieve savings was limited by a June 2016 Supreme Court decision. The decision requires VA to award contracts to a veteran-owned small business when there is a reasonable expectation that two or more of these businesses will bid for the contract at a fair and reasonable price that offers best value to the Government.<sup>9</sup> The decision applies to all contracts including GSA FSS orders.

#### ***Stand-Alone Contracts***

VISN 15 officials were no longer creating their own separate contracts to purchase commodity items, such as restroom supplies, as of July 2016. According to the Director of VISN 15's Contracting Office, the network was not using any contracts created by VISN 15 for commodity items. We confirmed that VISN 15 officials had not awarded any contracts for commodity items by querying the Federal Procurement Data System – Next Generation.

#### ***Strategic Sourcing Initiative***

GSA established a Government-wide strategic sourcing program known as FSSI in 2005 to help agencies partner together and leverage their buying power. As a result, purchase cardholders can achieve significant savings by using the GSA Advantage website to purchase items from vendors participating in the initiative. For example, purchase cardholders receive additional volume price reductions as agencies buy more products from FSSI vendors. Each vendor offers these discounts when its cumulative sales volume reaches certain levels such as \$10 million and \$25 million in sales. Similarly, purchase cardholders can obtain delivery size order discounts by consolidating orders, as these discounts are triggered on individual orders starting at \$300 for some vendors.

#### ***Supreme Court Decision***

The Veterans Benefits, Health Care, and Information Technology Act of 2006 requires the Secretary of Veterans Affairs to set annual goals for contracting with service-disabled and other veteran-owned small businesses. To help reach those goals, a separate set-aside provision known as the "Rule of Two" provides that a VA contracting officer shall award contracts by restricting competition to veteran-owned small businesses if the officer reasonably expects that at least two such businesses will submit offers and

<sup>9</sup> 14-916 Kingdomware Technologies, Inc. v. United States (06/16/2016).

that the award can be made at a fair and reasonable price that offers best value to the Government.<sup>10</sup>

In 2012, VA procured an Emergency Notification Service for four medical centers for a one-year period, with an option to extend the agreement for two more years, from a non-veteran owned business. The Department did so through the FSS, which is a streamlined method allowing Government agencies to acquire goods and services under prenegotiated terms. A service-disabled veteran-owned small business filed a bid protest with the Government Accountability Office, alleging that VA procured multiple contracts through FSS without employing the Rule of Two. VA's position was that the Rule of Two did not apply to FSS orders. Ultimately, the case rose to the level of the U.S. Supreme Court.

In June 2016, the Supreme Court decided that VA violated the Benefits, Health Care, and Information Technology Act of 2006. The Supreme Court held that VA must apply the Rule of Two to all contract awards and that the Act does not allow VA to evade the Rule of Two on the grounds that it placed an FSS order.

In July 2016, VA issued VA Procurement Policy Memorandum 2016-05, *Implementation of the Veterans First Contracting Program as a Result of the U.S. Supreme Court Decision*. The memo provided policy, procedures, and guidance on how to implement the Veterans First Contracting Program.

**Impact on Savings**

That June 2016 Supreme Court decision limits VA's ability to achieve savings by purchasing supplies from FSSI vendors. For example, there were 24 FSSI vendors providing office supplies as of April 2016. However, only six of the 24 FSSI vendors were veteran-owned small businesses, thus limiting the range of veteran-owned small business offering office supplies within FSSI. Since we did not substantiate the allegation, we made no recommendations in this area.

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<sup>10</sup> Section 8127(d) of the Veterans Benefits, Health Care, and Information Technology Act of 2006.

## Appendix A Scope and Methodology

### Scope

We conducted our review from December 2015 through August 2017. We conducted onsite visits at the Kansas City VAMC; Dwight D. Eisenhower VAMC in Leavenworth, KS; Robert J. Dole VAMC in Wichita, KS; and St. Louis Heath Care System (Jefferson Barracks and John Cochran divisions).

### Methodology

We reviewed applicable Federal regulations and VHA policies, procedures, and handbooks related to purchase card management. To determine whether the purchase cardholders exceeded the \$3,000 micro-purchase threshold, we concentrated our review on a universe of 934 VISN 15 purchase orders, including 198 from FY 2011, 430 from FY 2012 and 306 from FY 2013, made under a VISN 15 requirements contract for restroom supplies. To determine whether purchase cardholders split purchases when placing GSA FSS orders, we focused our review on a universe of 303 FY 2015 purchase orders totaling approximately \$456,000 with the vendor that previously provided restroom supplies to the VISN under the expired requirements contract.

We identified 49 potential split purchases and reviewed 43 of the 49 purchases (88 percent), which were made by two purchase cardholders. We did not validate the remaining six purchases made by three additional purchase cardholders. To determine whether VISN 15 officials were setting up separate contracts to purchase commodity items such as restroom supplies, we reviewed all of the contracts awarded by VISN 15 that were in effect as of July 2016.<sup>11</sup>

We reviewed a total of 215 purchase orders and related supporting documentation, including requests for supplies or services, invoices, receiving reports, credit card statements, cardholder warrants, and cardholder and approving officials training records. We interviewed the VISN 15 Purchase Card Coordinator. In addition, we interviewed fiscal, contracting, and logistics personnel, as well as purchase cardholders and approving officials associated with the purchase orders.

### Fraud Assessment

We reviewed the Government Accountability Office's Audit Guide,<sup>12</sup> OIG's *FY 2015 Purchase Card Risk Assessment*, and prior audit reports to understand and identify fraud risks significant to our objectives.

<sup>11</sup> For this review, when referring to "commodities," we focused on goods rather than services. Therefore, we did not count the wireless contracts as stand-alone contracts in terms of addressing our objective.

<sup>12</sup> *Auditing and Investigating the Internal Control of Government Purchase Card Programs*, GAO-04-87G, November 2003.

We exercised due diligence in staying alert to any fraud indicators by determining whether purchase card transactions:

- Were satisfactorily documented
- Contained no out-of-the ordinary (unusual or suspicious) items
- Were for approved goods or services
- Were based on legitimate needs

We did not identify any instances of fraud during this review.

**Data  
Reliability**

We used computer-processed data from the Integrated Funds Distribution Control Point Activity, Accounting and Procurement system during the audit. To test the reliability of these data, we compared the data to information provided by VISN 15 contracting officials. We also compared the data to hard-copy documentation such as purchase orders, invoices, and purchase cardholder credit card statements. We determined the data were sufficiently reliable for our review objectives.

**Government  
Standards**

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

**Appendix B Potential Monetary Benefits**

<b>Recommendation</b>	<b>Explanation of Benefits</b>	<b>Better Use of Funds</b>	<b>Questioned Costs</b>
1	Estimated value of VISN 15 unauthorized commitments in FY 2015	\$0	\$73,000
<b>Total</b>		<b>\$0</b>	<b>\$73,000</b>

## Appendix C Management Comments

### Department of Veterans Affairs Memorandum

Date: September 18, 2017

From: Director, VA Heartland Network (10N15)

Subj: Draft Report: Review of Potential Misuse of Purchase Cards at VISN 15 Project Number:  
2015-05519-R6-0051

To: Assistant Inspector General for Audits and Evaluations (52)

1. Attached, please find response for the Draft Report: Review of Potential Misuse of Purchase Cards at VISN 15.
2. Thank you for this opportunity of review focused toward continuous performance improvement.
3. For additional questions please feel free to contact Mary O'Shea, VISN 15 Quality Management Officer at 816-701-3000.

*(Original signed by:)*

Mary O'Shea, RN, MN  
Quality Management Officer (QMO)  
for Dr. William P. Patterson, MD, MSS  
Network Director  
VA Heartland Network (VISN 15)

Attachment

### Comments to OIG's Report

The following Network Director's comments are submitted in response to the recommendations in the OIG report:

#### **OIG Recommendations**

**Recommendation 1.** We recommended the Veterans Integrated Service Network 15 Director submit ratification requests for the fiscal year 2015 unauthorized commitments identified in our report to the Veterans Health Administration's Head of Contracting Activity.

Target date for completion: 10/31/17

Network's response: We concur with this recommendation. VISN 15 and NCO 15 will request the purchase order numbers of the unauthorized commitments from the Office of the Inspector General. These will be submitted for ratification to NCO 15.

**Recommendation 2.** We recommended the Veterans Integrated Service Network 15 Director, in coordination with the Network Contracting Office Director, conduct additional focused training for its purchase cardholders and approving officials on what constitutes splitting purchases and how to avoid them.

Target date for completion: 9/30/18

Network's response: We concur with this recommendation. NCO 15 in consultation with VISN 15 will develop additional purchase card training focusing on split purchases and how to avoid them. This training will be provided to purchase card holders and approving officials in FY18.

**Recommendation 3.** We recommended the Veterans Integrated Service Network 15 Director, in coordination with the Network Contracting Office Director, establish more rigorous monitoring mechanisms to identify improper purchase card transactions.

Target date for completion: 3/31/18

Network's response: We concur with this recommendation. VISN 15 and NCO 15 will develop an audit tool to identify potential split purchases. Audits will occur twice yearly at each medical center and the results reported through the Network office to the Facility Directors for ratification and/or additional training.

*For accessibility, the format of the original memo has been modified to fit in this document.*

## Appendix D **OIG Contact and Staff Acknowledgments**

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