



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

*Office of Audits and Evaluations*

VETERANS HEALTH ADMINISTRATION

Alleged Split Purchases  
at the VA St. Louis  
Health Care System

Missouri

REVIEW

REPORT #16-02863-199

JULY 17, 2018



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## Executive Summary

### Why the OIG Did This Review

In April 2016, the VA Office of Inspector General (OIG) received a confidential allegation about the purchase card program at the VA St. Louis Health Care System (Health Care System). The complainant alleged that Health Care System purchase cardholders split purchases by separating requirements to install fire stops—building and fire protection features designed to minimize the effects of fire, smoke, and heat. A split purchase occurs when a cardholder separates a requirement that exceeds the micropurchase threshold into two or more purchases to circumvent single purchase limits.

### What the Review Found

The OIG substantiated the allegation that Health Care System employees split purchases by separating a requirement to install fire stops at the Health Care System's facilities. Out of 268 purchases made with Guarantee Interiors in calendar years 2014 and 2015, Health Care System purchase cardholders made 25 split purchases, valued at approximately \$61,000, to install fire stops. The OIG team identified 153 additional split purchases valued at approximately \$364,000 for other construction work unrelated to the installation of fire stops that were included in the 268 purchases made with Guarantee Interiors. Thus, the OIG team identified a total of 178 split purchases valued at approximately \$425,000 (\$61,000 plus \$364,000). Lastly, the team found that 211 of the 268 purchases also exceeded the micropurchase threshold of \$2,000 for construction acquisitions.

The split purchases occurred because Health Care System managers, purchase cardholders, and approving officials assumed it was acceptable to purchase the same construction-related requirement multiple times as long as the work was in a different room or building. According to the former Chief of Engineering, personnel from the Health Care System's Accounting Department provided this guidance in 2010 or 2011 during a training session. Although the OIG team found that all the purchase cardholders and approving officials completed their required purchase card training in calendar years 2014 and 2015, they accepted and continued to follow guidance from the Accounting Department. Consequently, Health Care System managers, purchase cardholders, and approving officials did not properly apply Federal Acquisition Regulation (FAR) guidance on split purchases, which states a cardholder may not separate a requirement that exceeds the micropurchase threshold into two or more purchases to circumvent single purchase thresholds.

Health Care System purchase cardholders exceeded the micropurchase limit of \$2,000 for construction acquisitions because purchase cardholders and approving officials believed the transactions were subject to the \$2,500 micropurchase threshold for services. However, the

211 transactions that exceeded the micropurchase threshold for construction acquisitions fell within the FAR definition of construction—construction, alteration, or repair including painting of buildings, structures or other real property.

As a result, Health Care System purchase cardholders made 178 split purchases, valued at approximately \$425,000, resulting in unauthorized commitments and improper payments. The 211 purchases that exceeded the micropurchase threshold included 154 transactions that were also split purchases. Therefore, purchase cardholders made 57 purchases (211 minus 154), valued at approximately \$139,000 that exceeded the micropurchase threshold that were not already included as unauthorized commitments and improper payments associated with the 178 split purchases. These 57 purchases brought the total unauthorized commitments and improper payments to \$564,000 (\$425,000 plus \$139,000).

## What the OIG Recommended

The OIG made three recommendations to address split purchases and purchases exceeding the micropurchase threshold at the Health Care System. The OIG recommended the Health Care System Director submit ratification requests for the unauthorized commitments identified in our report related to split purchases and purchases exceeding the micropurchase threshold. The OIG also recommended the Director strengthen internal controls over the purchase card program and provide additional training on FAR guidance for split purchases and complying with micropurchase thresholds.

## Management Comments

The Health Care System Director concurred with the OIG’s findings and recommendations. The Health Care System Director took corrective actions to address Recommendations 1 and 2, and the OIG considers them closed. The Health Care System Director provided an acceptable corrective action plan to address Recommendation 3. The OIG will monitor the Health Care System’s progress and follow up on implementation of the remaining recommendation until all proposed actions are completed.



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

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## Abbreviations

FY	fiscal year
FAR	Federal Acquisition Regulation
OIG	Office of Inspector General
VA	Department of Veterans Affairs



## Introduction

### Objective

In April 2016, the VA Office of Inspector General received a confidential allegation that management asked purchase cardholders to split purchases by separating a requirement to install fire stops (building and fire protection features designed to minimize the effects of fire, smoke, and heat) in facilities at the VA St. Louis Health Care System (Health Care System).

### Micropurchase Thresholds

During FYs 2014-2015, the Federal Acquisition Regulation (FAR) defined a micropurchase as a purchase of supplies or services using simplified acquisition procedures, where the total amount of the purchase did not exceed the micropurchase threshold of \$3,000. The FAR also establishes lower thresholds of \$2,500 for purchases of services and \$2,000 for construction-related purchases.<sup>1</sup> The purchases associated with the allegation were construction-related purchases with a micropurchase threshold of \$2,000. Purchase cardholders who make purchases above the micropurchase threshold must have warrants validated by VA's Office of Acquisition, Logistics, and Construction.<sup>2</sup>

### Split Purchases

Split purchases occur when a cardholder separates a requirement that exceeds the micropurchase threshold into two or more purchases in order to circumvent single purchase limits.<sup>3</sup> Purchase cardholders may not split a transaction to avoid the requirement to obtain competitive bids for purchases over the micropurchase threshold or to avoid established purchase limits.<sup>4</sup>

### Unauthorized Commitments

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

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<sup>1</sup> FAR Subpart 2.1, *Definitions*. March 2005 (updated with Federal Acquisition Circular 2005-13, September 2006). In 2015, the micropurchase threshold for supplies increased to \$3,500 (updated with Federal Acquisition Circular 2005-83, July 2015).

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

<sup>3</sup> *Ibid*, paragraph 010204, *Purchase Account Thresholds*.

<sup>4</sup> FAR Subparts 6.001(a), *Applicability*, March 2005 and 13.003(c)(2), *Policy*, March 2005.

who has the authority to do so.<sup>5</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 support to the organization involved.<sup>6</sup>

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<sup>5</sup> FAR Subpart 1.602-3(a), *Ratification of Unauthorized Commitments*, March 2005.

<sup>6</sup> VA Directive 7401.7, *Unauthorized Commitments and Ratification*, paragraph 2f, *Policy*.

## Results and Recommendations

### Finding 1: Health Care System Employees Split Purchases for Construction-Related Items

The OIG substantiated the allegation that Health Care System employees used purchase cards inappropriately by splitting purchases to install fire stops in its facilities. The OIG team found that Health Care System purchase cardholders made 25 split purchases, valued at approximately \$61,000, related to the installation of fire stops. The team identified 153 additional split purchases that Health Care System purchase cardholders made with the same vendor, valued at approximately \$364,000, for other types of construction work unrelated to the installation of fire stops during the same period. The purchase cardholders made construction-related purchases for items such as installing door frames and doors, removing windows between rooms, and installing ceiling tiles and flooring.

The split purchases occurred because Health Care System managers, purchase cardholders, and approving officials assumed it was acceptable to purchase the same construction-related requirement multiple times as long as the work was in a different room or building. According to the former Chief of Engineering, personnel from the Health Care System's Accounting Department provided this guidance in 2010 or 2011 during a training session. Although the OIG team found that all the purchase cardholders and approving officials completed their required purchase card training in calendar years 2014 and 2015, they accepted and continued to follow guidance from the Accounting Department. As a result, Health Care System purchase cardholders made 178 split purchases valued at approximately \$425,000, resulting in unauthorized commitments and improper payments.

### Split Purchases

Health Care System purchase cardholders in the Facilities Engineering Service split purchases by separating a requirement to install fire stops in the Health Care System's medical facilities after a Joint Commission survey identified life safety issues related to inadequate fire protection features. Out of 268 purchases made with Guarantee Interiors in calendar years 2014 and 2015, Health Care System purchase cardholders made 25 split purchases valued at approximately \$61,000 to install fire stops. They made 153 additional split purchases with the same vendor valued at approximately \$364,000 for other construction work during the same period. The split

purchases were made by 12 purchase cardholders working in the Facilities Engineering Service at the Health Care System's Jefferson Barracks and John Cochran Divisions.<sup>7</sup>

The following examples demonstrate some of the split purchases made by Health Care System purchase cardholders:

### Example 1

*In September 2014, a purchase cardholder circumvented the \$2,500 micropurchase threshold for services by splitting a requirement for the installation of fire stops for six rooms within Building 3 of the Jefferson Barracks Division into six separate purchases costing almost \$15,000.*

### Example 2

*In July 2014, a purchase cardholder circumvented the \$2,500 micropurchase threshold for services by splitting an order of approximately \$5,000 into two purchases. The purchase cardholder made a purchase of about \$2,500 to remove a window between rooms C610 and C611 and a similar purchase of about \$2,500 on the same day to remove a window between rooms C613 and C614 at the Jefferson Barracks Division.<sup>8</sup>*

Health Care System managers should have considered procuring these construction-related purchases by establishing competitive contracts. The FAR states that agency procedures should encourage the use of the purchase card in greater dollar amounts by contracting officers to place orders and to pay for purchases against government-wide contracts; and to place orders or make payments under other contractual instruments when agreed to by the contractor.<sup>9</sup> Only warranted contracting officers are authorized to make purchases above the micropurchase threshold whether or not the Health Care System establishes competitive contracts.

## Cause of Split Purchases

The Health Care System's purchase cardholders and approving officials did not have a clear understanding of what represented a split purchase. This occurred because Health Care System managers, cardholders, and approving officials assumed it was acceptable to procure the same construction-related requirement multiple times as long as the work was in a different room or

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<sup>7</sup> The purchase cardholders also exceeded the micropurchase threshold of \$2,000 for construction. See page six for more details.

<sup>8</sup> The purchase cardholders and approving officials also incorrectly applied the \$2,500 micropurchase threshold for services to the transactions in both examples instead of the \$2,000 micropurchase threshold for construction.

<sup>9</sup> FAR Subpart 13.301(b), *Government-wide Commercial Purchase Card*, March 2005.

building. According to the former Chief of Engineering, personnel from the Health Care System's Accounting Department provided this guidance in 2010 or 2011 during a training session. Engineering Service personnel were still following this principle in 2014 and 2015 because they believed it to be a correct interpretation of the guidance governing split purchases. In contrast, the FAR states that purchase cardholders may not split a transaction to avoid the requirement to obtain competitive bids for purchases over the micropurchase threshold or to avoid established purchase limits.<sup>10</sup> In addition, VA guidance provides the following four examples of split purchases:

- A cardholder makes multiple purchases from the same vendor on the same day.
- A cardholder purchases the same or similar items from multiple vendors on the same day.
- A cardholder makes multiple purchases of similar items from the same or multiple vendors over a period of time.
- Multiple cardholders under the same approving official purchase the same or similar items on the same day or in a compressed timeframe.

In all four examples, the total purchase amount would have to exceed the single purchase limit and the total requirement would have to be known at the time of the first purchase for the examples to be considered split purchases.<sup>11</sup>

The OIG team found that it was not a case of managers asking first-line supervisors to split orders—the split purchases occurred because none of the managers, purchase cardholders, or approving officials clearly understood the FAR guidance on split purchases. Purchase cardholders also exceeded the micropurchase limit of \$2,000 for construction acquisitions because cardholders and approving officials believed the transactions were subject to the \$2,500 micropurchase threshold for services. The Health Care System needs to ensure that its managers, purchase cardholders, and approving officials are all educated on what represents a split purchase and the appropriate thresholds to apply to these purchases.

Although the OIG team did not identify an issue with cardholders and approving officials lacking required purchase card training, a more focused training strategy on what constitutes split purchases and how to avoid them would strengthen compliance with the FAR. The training would supplement required training in VA's Talent Management System. In addition, oversight needs to be strengthened to identify split purchases. By strengthening oversight, Health Care System officials can identify and take timely corrective action preventing additional split purchases by specific cardholders.

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<sup>10</sup> FAR Subparts 6.001(a), *Applicability*, March 2005 and 13.003(c)(2), *Policy*, March 2005.

<sup>11</sup> VA Financial Policies and Procedures, *Government Purchase Card*, Volume XVI, paragraph 010204A, *Single Purchase Threshold*.

## Effect of Split Purchases

The 178 split purchases made by the Health Care System's purchase cardholders totaling approximately \$425,000 were unauthorized commitments that must be ratified because purchase cardholders did not have the authority to split requirements and circumvent the micropurchase threshold. Only warranted contracting officers have the authority to bind VA to purchases that exceed the micropurchase threshold. These split purchases were also improper payments. Office of Management and Budget Circular A-123 provides the following definition of an improper payment:

An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.

## Other Improper Purchase Card Use

Health Care System purchase cardholders exceeded the micropurchase threshold of \$2,000 for construction acquisitions on 211 of the 268 reviewed purchases. This occurred because the purchase cardholders and approving officials believed that the transactions were subject to the micropurchase threshold of \$2,500 for services. However, the FAR defines construction as construction, alteration, or repair including painting of buildings, structures or other real property.<sup>12</sup> The 211 purchases that exceeded the micropurchase threshold fell within the FAR's definition of construction. The split purchases included 154 of the 211 purchases exceeding the micropurchase threshold. Therefore, there were 57 purchases valued at approximately \$139,000 that exceeded the \$2,000 micropurchase threshold in addition to the 178 split purchase that were also unauthorized commitments and improper payments needing ratification.

## Conclusion

The OIG substantiated the allegation that Health Care System purchase cardholders used purchase cards inappropriately by splitting purchases to install fire stops in its medical facilities. The purchase cardholders also exceeded the micropurchase threshold for construction. Without improvements to its internal controls that strengthen separation of duties and program monitoring, the Health Care System purchase card program will be susceptible to improper, wasteful, and questionable purchases.

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<sup>12</sup> FAR Subpart 2.1, *Definitions, March 2005*.

## Recommendations 1–3

1. The Health Care System Director submits ratification requests to the Veterans Health Administration’s Head of Contracting Activity for the split purchases and the purchases that exceeded the micropurchase threshold identified in the OIG report for calendar years 2014 and 2015.
2. The Health Care System Director provides additional training for purchase cardholders and approving officials focused on avoiding split purchases and complying with micropurchase thresholds.
3. The Health Care System Director establishes a rigorous monitoring mechanism to ensure management controls are in place and working to identify and prevent improper purchase card transactions.

## Management Comments and OIG Response

The Health Care System Director concurred with the OIG’s findings and recommendations. The Health Care System Director took corrective actions to address Recommendations 1 and 2, and the OIG considers them closed. To address Recommendation 1, the Health Care System completed and submitted the ratification memorandums to the Network Contracting Office. To address Recommendation 2, the Health Care System developed a webinar session on split purchase orders, which is now part of TMS training for new and incumbent staff. New employees issued purchase cards are audited by the Network Contracting Office’s Purchase Card Coordinator after one full quarter of purchase card use. If findings are found, the Purchase Card Coordinator will work with the cardholder to mitigate the findings and re-audit another full quarter to ensure compliance.

To address Recommendation 3, the Health Care System will develop an audit tool and conduct semiannual audits to identify and prevent improper purchase card transactions. The first audit will be completed in September 2018. The OIG will monitor the Health Care System’s progress and follow up on implementation of this recommendation until all proposed actions are completed.

## Appendix A: Scope and Methodology

### Scope

The OIG team conducted its review from August 2016 through May 2018. The team reviewed 268 micropurchases made by individual purchase cardholders with Guarantee Interiors, totaling approximately \$620,000. Health Care System purchase cardholders made the purchases from January 1, 2014, through December 31, 2015.

### Methodology

The OIG team interviewed the Veterans Integrated Service Network 15 Director of Contracting and the Purchase Card Coordinator. In addition, the team interviewed contracting personnel and Health Care System purchase cardholders and approving officials. These cardholders and officials were working at the Jefferson Barracks and John Cochran Divisions associated with the reviewed purchase card transactions. The team also conducted an onsite visit to the St. Louis Health Care System. To accomplish the review objectives, the team reviewed applicable federal regulations and VHA policies, procedures, and handbooks related to purchase card management. The team also reviewed purchase orders and related supporting documentation including requests for supplies or services, invoices, receiving reports, credit card statements, and cardholder and approving official training records.

### Fraud Assessment

The OIG team assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur during this review. The team exercised due diligence in staying alert to any fraud indicators by taking actions such as determining whether the Health Care System:

- Maintained adequate documentation to support its purchases
- Purchased unusual or suspicious items

The OIG team did not identify any instances of fraud during this review.

### Data Reliability

The OIG team used computer processed data from the Integrated Funds Distribution Control Point Activity, Accounting and Procurement system and US Bank Visa International Service Association systems during the audit. To test the reliability of this data, the team compared the data to information provided by Health Care System officials. This included hard copy documentation such as purchase orders, invoices, and cardholder credit card statements. Based

on these reliability assessments, the team concluded the data were appropriate and sufficient for our review purposes.

## **Government Standards**

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

## Appendix B: Potential Monetary Benefits in Accordance with Inspector General Act Amendments

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs
1	Split purchases circumventing the single purchase limit	\$0	\$425,000
1	Purchases exceeding the micropurchase threshold	\$0	\$139,000
	<b>Total</b>	<b>\$0</b>	<b>\$564,000</b>

## Appendix C: VA St. Louis Health Care System Director Comments

Date: June 7, 2018

From: Director, VA St. Louis Health Care System (657)

Subj: Draft Report: Review of Potential Misuse of Purchase Cards at VASTLHCS Project  
Number: 2016-02863-R6-0142

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

1. Thank you for this opportunity to review the Draft Report: Review of Potential Misuse of Purchase Cards at VA St. Louis Health Care System (VASTLHCS).
2. The VASTLHCS concurs with the three recommendations and provides the attached response action plan.
3. For additional questions please feel free to contact Patty Hendrickson, Acting Chief Quality Management, at 314-652-4100 ext 53917.

Keith D. Repko  
Medical Center Director  
VA St. Louis Health Care System

### Comments to OIG's Report

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

#### **OIG Recommendations**

**Recommendation 1.** The OIG recommended the Health Care System Director submit ratification requests for the split purchases and the purchases that exceeded the micropurchase threshold for calendar years 2014 and 2015 identified in our report to the Veterans Health Administration's Head of Contracting Activity.

Target date for completion: 5/29/18

VASTLHCS's response: The VASTLHCS concurs with the data sets provided by the OIG regarding purchase card orders for 1) fire stop, 2) split purchases, and 3) construction orders exceeding the FAR \$2,000 fiscal limit. As such, the VASTLHCS has completed the ratification memorandums and submitted to Network Contracting Office 15.

**Recommendation 2.** The OIG recommended the Health Care System Director provide additional training for its purchase cardholders and approving officials focused on avoiding split purchases and complying with micropurchase thresholds.

Target date for completion: 5/23/18

VASTLHCS's response: We concur with this recommendation. A webinar session was developed on split purchase orders and is the content of a TMS module for training of new staff. This training was provided to incumbent staff and will be provided to new staff as they come on. New employees issued purchase cards will also be audited by the Network Contracting Office 15 Purchase Card Coordinator after one-full quarter of purchase card use. If findings are found, the Purchase Card Coordinator will work with the card holder to mitigate the findings and re-audit another full quarter to ensure compliance.

**Recommendation 3.** The OIG recommended the Health Care System Director establish a rigorous monitoring mechanism to ensure management controls are in place and working and to identify and prevent improper purchase card transactions.

Target date for completion: 8/1/18 with first audit exercised September 2018. Expectation is that new audit system will occur each September and March for ensuing Fiscal Years.

VASTLHCS's response: We concur with this recommendation. The VASTLHCS will develop an internal audit tool/process to identify improper purchase card transactions, split purchases, and purchases that exceed the micropurchase threshold for Facilities Engineering. Audits will occur twice yearly at each division of the VASTLHCS and the results reported to the VASTLHCS Director for ratification and/or additional training.

*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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