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STATEMENT OF  
GREGORY J. AHART, DIRECTOR  
HUMAN RESOURCES DIVISION

BEFORE THE  
SUBCOMMITTEE ON SPECIAL INVESTIGATIONS  
HOUSE COMMITTEE ON VETERANS' AFFAIRS

ON  
[ A REVIEW OF FIVE CONTRACTS AWARDED BY  
THE VETERANS ADMINISTRATION  
AT THE END OF FISCAL YEAR 1979  
FOR ADP SERVICES AND/OR SOFTWARE ]

Mr. Chairman and Members of the Subcommittee, we are pleased to be here today to discuss our July 1980 report 1/ on our review of five contracts related to the Veterans Administration's (VA's) procurement of ADP services and/or software in late fiscal year 1979.

As you know, VA entered into a number of contracts and purchase orders for selected ADP projects using end-of-year funds. My testimony today will relate only to five of the seven contracts that the Office of Management and Budget (OMB) recommended VA terminate and which we agreed to review at your request in June 1980. As agreed we did not review the two contracts under investigation by the Department of Justice.

BACKGROUND

During the fourth quarter of fiscal year 1979, VA entered into 35 ADP procurements (including contracts, purchase orders, and contract modifications) totaling about \$19.1 million.

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1/"Five Contracts Awarded by VA at the End of Fiscal Year 1979" (HRD-80-101, July 31, 1980).

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After these contracts were awarded and purchase orders issued, inquiries were made into the propriety of these procurements by this Subcommittee, OMB, Justice, and our Office.

In November 1979, OMB told VA that it was

- reviewing the contracts and purchase orders awarded in September 1979,
- directing that VA refrain from further obligations against these contracts and purchase orders, and
- requesting that the General Services Administration (GSA) report to OMB all VA requests for ADP procurement over \$10,000.

In December 1979, OMB requested VA to provide pertinent documentation relating to the fiscal year 1979 yearend ADP procurements. Also in December, VA issued stop work orders on certain of the contracts.

In January 1980, OMB forwarded two of the VA yearend contracts to Justice. OMB requested Justice to investigate the award of the contracts, because of possible criminal violations.

In February 1980, OMB notified VA that it could proceed with some of the contracts that OMB had reviewed. In April 1980, OMB, alleging certain irregular procurement practices, recommended that VA terminate seven of the fiscal year 1979 yearend contracts, including the two that had been referred

to Justice, and continue with the remaining contracts and purchase orders, provided the Administrator determined that they were justified and appropriate to meet VA needs. VA responded to OMB in April 1980 that it was terminating four of the seven contracts, including one of the two referred to Justice.

In regard to the other contracts recommended by OMB for termination, VA terminated and will recompute one; and will continue with another since OMB lifted its programmatic objection. VA has not terminated one of the contracts sent to Justice.

Regarding the two contracts referred to Justice, Justice stated, in a June 1980 letter to the subcommittee that

"\* \* \*without intending to imply that either officials within VA or principals of the contracting firms have committed criminal acts, the circumstances surrounding the awarding of the contracts appear to warrant thorough criminal investigation. Accordingly, we have asked the Federal Bureau of Investigation in conjunction with the Public Integrity Section to proceed with an investigation."

This Subcommittee has held hearings on these yearend procurements as follows:

--On April 15, VA testified that the OMB allegations regarding improper procurement practices were unfounded.

--On May 1, OMB testified and provided details supporting its allegations.

--On May 29, we testified that, because of time limitations, we had been unable to make determinations regarding improper VA procurement practices.

After the May 29, 1980, hearings, we agreed to review five of the seven contracts that OMB recommended VA terminate. At that time we agreed to assess OMB's charges of certain procurement irregularities involving these five contracts and VA's responses to the charges. We also agreed to identify the VA officials responsible for any confirmed irregularities and to report our findings to you in July 1980. As you know, this was done and our report was issued on July 31, 1980.

#### ASSESSMENT OF ISSUES

Our issue assessments are of (1) OMB observations charging VA procurement irregularities and (2) VA responses to these charges, as related to the following five VA contracts that OMB recommended for termination, which were awarded, at the end of fiscal year 1979, to:

--National Data Communications, Inc. (NADACOM), for the demonstration of a clinical scheduling system at the Dallas VA Medical Center, in the amount of \$748,891. VA has terminated this contract.

--Galler Associates, Inc., for converting a VA-owned pharmacy application, in the amount of \$745,167. VA had not terminated this contract as of September 1980.

--Galler Associates, Inc., for converting a VA-owned automated hospital information system, at the Washington, D. C., Medical Center in the amount of \$899,996. VA has terminated this contract and plans to recompetete it.

--Inter Systems, Inc., through the Small Business Administration's (SBA) 8(a) program for minority small business contractors, for a telecommunications study, in the amount of \$199,500. VA has terminated this contract.

--Sunquest Information Systems, Inc., for a clinical laboratory information system at the Tucson VA Medical Center, in the amount of \$42,500. VA has terminated this contract.

In our July 1980 report, we identified the VA officials responsible for questionable actions relating to these procurements. In some instances, we cited the contracting officer as the responsible official. Although the responsibility for insuring proper execution of procurement practices rests with the contracting officer, other VA officials were involved in these procurements. We also identified these officials, when they were directly involved in the procurements.

In addition, we were advised by the Director, Supply Service, Department of Medicine and Surgery, that the Administrator of Veterans Affairs, in an August 28, 1979, meeting of VA officials, approved several of the projects leading to these fiscal year 1979 yearend contracts. The Administrator did not approve at this meeting the project for converting the VA-owned pharmacy application. In view of the limited time from the Administrator's approval of

these projects to the end of the fiscal year, the only options available to the contracting officers were to refuse to process or sign the contracts or take shortcuts. They took shortcuts as shown in our report.

For one or more of the five contracts, we found VA:

- Did not conduct cost or price analysis.
- Did not conduct preaward price negotiations even when there was only one responsive bidder.
- Substituted a postaward audit clause for the conduct of negotiations. This is precluded by the Federal Procurement Regulations.
- Awarded a contract without proper authority from the General Services Administration.

In addition, and when we had enough time, we assessed other questionable practices involved in these procurements.

These were:

- No determination of why only one contractor submitted a proposal for the pharmacy application. The Director, Supply Service stated he would have recompeted this procurement if time had been available.
- An unclear clause in two Requests for Proposal.
- SBA was not involved early enough in preaward discussions on one contract.

As to the OMB charges, we confirmed about half of them and agreed with VA's responses to OMB for the remainder. It should be noted that VA's Office of Inspector General is continuing to investigate OMB's observations of favoritism.

We discussed the contents of our report with officials of OMB and VA's Department of Medicine and Surgery and Office of Data Management and Telecommunications and included their comments in the report where appropriate.

We understand that VA has proposed several corrective actions which should improve and strengthen its procurement practices such as

- moving the Supply Service out of the Department of Medicine and Surgery and elevating it to report directly to VA's Associate Deputy Administrator,
- requiring program organizations to prioritize fourth quarter procurements before requests are issued,
- having the Director, Supply Service, involve the procurement staff with the program staff much earlier in the acquisition process, and
- making cost/price analysis and preaward negotiations routine practices.

Also, the Director, Supply Service, told us that VA will stop using the postaward audit clause.

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This concludes my statement. Our report goes into greater detail and I suggest that it be entered into the record. We will be happy to respond to any questions you or other Members of the Subcommittee may have.