

**REVIEW OF THE SPACE AND NAVAL WARFARE
SYSTEMS CENTER ATLANTIC AND THE
U.S. DEPARTMENT OF VETERANS AFFAIRS'
INTERAGENCY AGREEMENT**

HEARING

BEFORE THE
SUBCOMMITTEE ON ECONOMIC OPPORTUNITY
OF THE
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED ELEVENTH CONGRESS

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**REVIEW OF THE SPACE AND NAVAL
WARFARE SYSTEMS CENTER ATLANTIC
AND THE U.S. DEPARTMENT OF
VETERANS AFFAIRS' INTERAGENCY
AGREEMENT**

THURSDAY, SEPTEMBER 10, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON VETERANS' AFFAIRS,
SUBCOMMITTEE ON ECONOMIC OPPORTUNITY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 1:37 p.m., in Room 334, Cannon House Office Building, Hon. Stephanie Herseth Sandlin [Chairwoman of the Subcommittee] presiding.

Present: Representatives Herseth Sandlin, Teague, and Boozman.

**OPENING STATEMENT OF HON. HARRY TEAGUE, PRESENTING
STATEMENT OF CHAIRWOMAN HERSETH SANDLIN**

Mr. TEAGUE [presiding]. The Veterans' Affairs Subcommittee on Economic Opportunity's oversight hearing on the U.S. Department of Veterans Affairs (VA's) interagency agreement with Space and Naval Warfare Systems Center Atlantic (SPAWAR) will come to order.

I ask unanimous consent that all Members may have 5 legislative days to revise and extend their remarks, and that written statements be made part of the record.

Hearing no objection, so ordered.

Today, we will follow up on an issue of concern first raised by Committee Ranking Member Steve Buyer that initiated an investigation by the VA's Office of Inspector General and more recently, that I raised in a previous Subcommittee hearing on the implementation of the VA's strategy for implementing the Post-9/11 GI Bill.

Some of those in attendance might recall that on June 25, 2009, I provided some of today's panelists with advance notice that the Subcommittee would follow-up on a VA Office of Inspector General's OIG's report highlighting the many contracting irregularities between SPAWAR and the VA. Some of the concerns highlighted in the report include: The interagency agreement (IAA) between VA and SPAWAR does not include any specific task deliverables; the interagency agreement was entered into without an adequate analysis to determine that the use of an interagency acquisition is in the best interest of the government as required by Federal Ac-

quisition Regulation (FAR) 17.503; unauthorized work was being performed on projects that were outside the scope of the inter-agency agreement; and VA was unaware that SPAWAR was charging management fees.

In reviewing the testimonies for today's hearing, I am not confident that enough is being done by the VA to learn from its mistakes. I share the concerns of my colleagues and look forward to learning more about specific actions taken by the Department of Veterans Affairs to address the Inspector General's report.

[The prepared statement of Chairwoman Herseth Sandlin appears on p. 26.]

I now recognize Ranking Member Boozman for any opening remarks that he may have.

OPENING STATEMENT OF HON. JOHN BOOZMAN

Mr. BOOZMAN. Thank you, Mr. Chairman.

I suspect if the general public had focused on the results of the OIG report on the interagency agreement between VA and the Space and Naval Warfare Systems Center, SPAWAR, as requested by Ranking Member Buyer as they have on our current health care debate, the August recess may have been even more contentious.

According to the OIG report, VA will have obligated over \$100 million to SPAWAR activities since signing the agreement in 2007. Unfortunately, the results of that agreement have been less than satisfactory. I would like to summarize some of the OIG's findings:

The VA initially obligated \$2.5 million to SPAWAR without specific requirements or deliverables. SPAWAR and its contractors developed statements of work, SOWs, that should have been written by the VA. SOWs were often general and lacked specific deliverables.

The VA Office of Enterprise Development, OED, did not perform adequate oversight. VA was not aware that SPAWAR contracted out 87 percent of the work under the interagency agreement.

OED did not know who was performing specific tasks. OED did not know how many people were working under the various tasks or where they were working.

SPAWAR estimated the need for 295 FTE, but only 217 were providing services. Of that 217, 195 were contractor personnel. OED was not aware of the management fees being charged by SPAWAR, and SPAWAR could not justify the 10 percent fee.

SPAWAR did not determine fair and reasonable prices for the services being performed.

SPAWAR did not include specific tasks and deliverables in contracts with its vendors.

SPAWAR contracts did not include privacy and security clauses required by the VA, thereby increasing the vulnerability of VA Information Technology (IT) systems.

Mr. Chairman, those are only a few of the findings in this damaging report. However, we must put the OIG's criticisms in some perspective. It is important to remember that SPAWAR is a working capital system organization, which means they seek out work much like a private-sector company with all of the attendant vices and virtues. That means that if they do not bring in business, staff could be let go, just like the private sector, so there is significant

pressure on management to get the most favorable terms profitable in any business arrangement.

While I am not implying there is anything illegal as described by the OIG, the VA SPAWAR relationship does not appear to be an arm's length business relationship. I think based on the OIG report, it would be charitable to describe that business relationship as a mess. While a degree of flexibility in contracting is commendable, it appears the use of the IAA goes well beyond flexible and borders on unprofessional, at best. It appears that the IAA was concluded as a matter of convenience rather than as a rational business decision, issuing tasks and obligating funds without a contractual basis for payment, lack of insight into who was actually doing the work and all of the other things found by the OIG are totally unacceptable.

I know that the VA is trying hard to add a new level of professionalism to its contracting operations by adding experienced personnel in implementing the new acquisition academy. But the overly cozy relationship between the VA and SPAWAR and any others like it must come to an end.

I hope Secretary Shinseki will take a personal interest in this matter, and I am looking forward to hearing from the VA how they intend to correct this unacceptable situation.

I yield back the balance of my time.

[The prepared statement of Congressman Boozman appears on p. 26.]

Mr. TEAGUE. I would like to welcome our panelists testifying before this Subcommittee today. Joining us on the first panel is Ms. Maureen Regan, Counselor to the Inspector General, Office of Inspector General, U.S. Department of Veterans Affairs who is accompanied by Mr. Michael Grivnovics, Director, Division B, Office of Inspector General, Office of Contract Review, U.S. Department of Veterans Affairs.

Mr. TEAGUE. Thank you for joining us today. Ms. Regan, you are now recognized to present your oral testimony.

STATEMENT OF MAUREEN T. REGAN, COUNSELOR TO THE INSPECTOR GENERAL, OFFICE OF INSPECTOR GENERAL, U.S. DEPARTMENT OF VETERANS AFFAIRS, ACCOMPANIED BY MICHAEL B. GRIVNOVICS, DIRECTOR, DIVISION B, OFFICE OF CONTRACT REVIEW, OFFICE OF INSPECTOR GENERAL, U.S. DEPARTMENT OF VETERANS AFFAIRS

Ms. REGAN. Thank you, Mr. Chairman.

Mr. Chairman, and Members of the Subcommittee, thank you for the opportunity to testify on the OIG's June 4, 2009, report regarding the interagency agreement between the VA and the Department of Navy's Space and Naval Warfare Systems Center, also known as SPAWAR. Today I am accompanied by Mr. Michael Grivnovics, who is a Director in our Office of Contract Review. Mr. Grivnovics had primary responsibility for the review that resulted in this report.

In early February of this year at the request of the Secretary and Congressman Buyer, we began a review of the agreement between the VA and SPAWAR. We expedited our review for several reasons, including the Secretary's interest in the matter. We were told at

the time that VA and SPAWAR were in the process of renegotiating the agreement to comply with the Office on Management and Budget (OMB) requirements. We knew that in addition to the \$66 million that had already been transferred to SPAWAR under the interagency agreement, VA was preparing to award work for an additional 26 projects with an estimated value of \$73 million, and we knew those projects included some key projects for VA, especially with relationship to the GI bill.

We identified some concerns very early on in our review. And as a result on March 19, we briefed the Secretary's Chief of Staff on our findings. On April 16, we briefed the Deputy Secretary, the Chief of Staff, and the nominee for the Assistant Secretary for Information and Technology. We also briefed the Secretary and the senior staff on June 6 right after the report was issued; but since that time, we have had no discussions with the Department about the report or our findings or conclusions.

The purpose of the agreement was to provide government employee and contractor technical support for analysis planning, program review and engineering services for information management and information technology initiatives. The agreement itself does not include any specific task or pricing structure. Rather, it was a vehicle that allowed VA to order services relating to eight general tasks including program management, training and mentoring.

VA's Office of Enterprise Development is responsible for oversight of the agreement. This organization serves as the chief adviser to the Assistant Secretary for all enterprise application development activities. One of the major reasons for the agreement was that the Office of Information and Technology (OI&T) did not have personnel who possessed adequate skills to develop and manage IT projects.

We were told that the expectation at the time the agreement was executed was that SPAWAR personnel would train and mentor VA personnel to develop and manage IT programs. However, the manner in which the agreement has been administered, the stated purpose, could not be achieved. More importantly, the Office of Enterprise Development has become dependent on SPAWAR and SPAWAR contractors to develop and manage VA's IT program development.

The most significant conclusion from our review is that the Office of Enterprise Development essentially relinquished its program responsibilities to SPAWAR. We also found that neither VA, nor SPAWAR, has complied with the terms of the agreement, that VA failed to implement any cost controls, and that inadequate legal and technical reviews contributed to the problems.

Documentation provided by SPAWAR showed that 87 percent of the level of work performed under the agreement was performed by SPAWAR contractors not government employees. VA personnel in the Office of Enterprise Development were not involved in the award and administration of the task orders to SPAWAR contractors. This was SPAWAR's responsibility.

Furthermore, they were unaware of how many individuals were providing services, whether they were government personnel or contractors, where the services were being provided, or whether the personnel performing the work had the necessary skills. In addi-

tion, the services provided did not include the training and mentoring of VA personnel as intended.

Our finding that the Office of Enterprise Development was not in control of the work being done by SPAWAR and SPAWAR contractors was highlighted by the fact that we could not have a meeting with VA employees without having a SPAWAR contractor present to respond to questions and provide documents. At times we could not distinguish between VA personnel and SPAWAR contractors. This led us to conclude that the contractors may be improperly providing personal services to the VA.

Shortly after we began our review of the interagency agreement, we were asked to review the failure of the replacement scheduling activity development program, also known as RSA. This review further supported our findings related to the interagency agreement between the VA and SPAWAR.

In our report, we suggested that the Secretary reevaluate the interagency agreement to determine whether it was in the best interest of VA to continue obtaining services through this type of agreement. If it was decided that it was in the VA's best interest, we made several suggestions to improve the effectiveness of the agreement. These included restructuring to emphasize retraining of VA personnel, to better manage Office of Enterprise Development programs and operations; to develop comprehensive statements of work and independent government cost estimates (IGCE); monitor contract performance and make VA program managers (PMs) accountable for the outcome. We noticed in Assistant Secretary Baker's testimony that many of these have been implemented.

This concludes my oral statement. Thank you for the opportunity to discuss our findings and conclusions regarding the interagency agreement between the VA and SPAWAR. We will be happy to answer any questions you may have.

[The prepared statement of Ms. Regan appears on p. 27.]

Mr. TEAGUE. Thank you for that testimony. I do have a few questions.

You state that the interagency agreement did not include specific tasks or a pricing structure. Is this normal in interagency agreements, and how important do you think it is to have a structure in place?

Mr. GRIVNOVICS. In general, an interagency agreement is an overarching agreement. You would set the framework of what you expect between the parties, who is responsible for preparing certain documents and the funding. Where you expect to have the details is in the amendments to the interagency agreement. That is where the work is actually ordered. And in our report, we addressed how the amendments were lacking; the statements of work were lacking in those areas. That is where you would see the real requirements, in the amendments that order the work under an interagency agreement.

Ms. REGAN. Just to add to that, I think you would expect to find some type of a pricing structure, particularly with what fees were going to be paid to the government agency.

Mr. TEAGUE. If the Department of Veterans Affairs did not prepare the project change request, who would prepare them and pro-

vide the statement of work, and how did the VA know that they were necessary?

Mr. GRIVNOVICS. Those items were stipulated in the interagency agreement.

Our understanding, based on our review, is that SPAWAR was actually preparing the task initiation form, which based on the agreement should have been prepared by VA, which would start the process with the statement of work and set the guidelines.

Mr. TEAGUE. You state that one of the major reasons for use of the interagency agreement was because the Department of Veterans Affairs lacked personnel with adequate skills to develop and manage IT projects. If very little training or mentoring has been conducted, then who is actually overseeing the work being done by Space and Naval Warfare and its contractors?

Mr. GRIVNOVICS. Based on our review, our conclusion is that no one at OED is really overseeing the work. They are relying on the SPAWAR program managers to ensure that the work is done under the interagency agreement.

Mr. TEAGUE. In your report, you also state that you found that the task initiation form statement of work and the independent government cost estimates were essentially developed by Space and Naval Warfare or its contractor. How many other Federal agencies permit this to happen and how concerned should we be about this finding?

Ms. REGAN. We are not aware of what other Federal agencies do. But it is the Department's responsibility under the IAA to develop the statement of work and the VA should be developing the independent government cost estimate for that. That is usually the program office's responsibility for any type of contract or agreement.

Mr. TEAGUE. You concluded that the Office of Enterprise Development has essentially abdicated its program responsibility to Space and Naval Warfare. Does the abdication of responsibility go all of the way down to SPAWAR contractors?

Mr. GRIVNOVICS. I am not sure that I understand your question. I will answer what I think you are asking.

SPAWAR, it is their responsibility to manage their contractors and subcontractors. The OED oversight does not go down to that level and would not generally go down to the subcontractor level. But we would expect them to oversee SPAWAR's work and how the work is being accomplished on the project.

Mr. TEAGUE. What I meant was, how far down does the abdication go? Is it just one level, or do they pass it off to someone else?

Mr. GRIVNOVICS. I would say, my opinion on that is VA went down to SPAWAR.

Mr. TEAGUE. One other thing. Can you elaborate a little more on the statement that you could not at times distinguish between VA personnel and Space and Naval Warfare contractors?

Ms. REGAN. I can give you an example. One of our first tasks was to call the program managers to find out what documentation they had regarding the amendments that related to their programs.

We contacted one program manager who was on travel. The message said to call a certain individual and gave a phone number. We called the individual. She answered the phone and we told her we needed to talk to the program manager. She wanted to know why.

We went into a whole explanation about why we needed to talk to this person. And it wasn't until the very end of the conversation that the person said I'm with SPAWAR. And then it was only upon further questioning by us that this person said, Oh, I am a SPAWAR contractor.

I would never have, Mike and I would never have discussed what we were looking for with a contractor to SPAWAR. We wanted to talk to a VA program manager, but it wasn't clear from the message that we were going to be talking to a contractor. If you didn't know who they were when you went to a meeting, they were answering all of the questions. They weren't clearly identified as contractor employees.

Mr. TEAGUE. At this time, I will allow Ranking Member Boozman to ask questions.

Mr. BOOZMAN. Thank you, Mr. Chairman.

Under the scenario that you are talking about with the contractors being so involved, would you have a situation where the contractors perhaps were actually essentially writing this stuff and then later on bidding on it?

Mr. GRIVNOVICS. We are not sure about that. We do not know who wrote the statements of work. They said it was a collaborative effort. On many of the documents it would say prepared for or prepared by SPAWAR.

Mr. BOOZMAN. So no one could remember who was in the room when they did that?

Mr. GRIVNOVICS. No. But you are correct that you would not want someone writing the statement of work and then performing that work under that statement of work.

Mr. BOOZMAN. Let me ask you, you said we determined that SPAWAR did not ensure that VA paid fair and reasonable prices for the services provided. SOW for task orders that SPAWAR issued to contractors did not identify tasks or deliverables. We also found that SPAWAR contractors were subcontracting the work to other SPAWAR contractors at the direction of SPAWAR. That practice unnecessarily increases the cost because the VA must pay an additional layer of management fees and overhead in reviewing contracts that SPAWAR issued and vendors performing services.

Also, you went on to talk about how SPAWAR executed an option year more than 6 months prior to the expiration of the contract's base year. Because the option year prices were higher, VA unnecessarily incurred higher costs for the work performed by the contractor. Why would you do that?

Mr. GRIVNOVICS. What happened, as I understand it, was that many of their contracts had ceilings for hours basically. They were not just using their contracts and contractors on VA work, it is whoever needs work under the SPAWAR umbrella.

They would run out of hours or bump up against the ceiling on hours for a particular year, but they have an option, another option period, a year or two, with more hours to use. And so they would basically exercise that option for a second year of that contract, or whatever year it may be, so they could get to those hours in the present year.

The particular case here was that it was a fixed rate contract so those rates as stated were fixed. And when they modified the con-

tract, the second option year period rates became effective in the first period.

They could have requested the contractor or subcontractor to modify the contract to only bill at the lower rates, the base year rates until the base year was actually over, but they did not do that.

Mr. BOOZMAN. So we don't know if they actually asked to do that and were denied?

Mr. GRIVNOVICS. I do not know that. The person I spoke to, it was a contracting officer, but that was not their contract that they were working on. They did state if it was their contract, they would have requested that the rates be modified.

Mr. BOOZMAN. In the audit, it indicates that SPAWAR is subbing much of the work out. What is SPAWAR charging VA for administration costs?

Mr. GRIVNOVICS. I believe that is 10 percent, the program management fee or program management cost. That is part of that. Those costs are for overseeing the contractors and subcontractors.

Mr. BOOZMAN. And in your testimony, you said that the VA didn't really realize that they were paying that?

Mr. GRIVNOVICS. Yes.

Mr. BOOZMAN. How does that happen?

Ms. REGAN. I think what happened was one of the things that we pointed out is that the interagency agreement did not have kind of a pricing structure, including the 10 percent. Where it appeared was in the independent government cost estimates that we believe were not done by VA, were done by SPAWAR or done by somebody on behalf of SPAWAR. But nobody in VA ever questioned the 10 percent or where it came from?

Our concern was an interagency agreement by law is supposed to be cost-based unless there is an established rate, and we couldn't find an established rate. The 10 percent seemed somewhat high, but nobody in VA ever questioned the 10 percent, which was our concern.

Mr. BOOZMAN. Did you find anything as high as 47 percent in administration costs with any of the contracts?

Mr. GRIVNOVICS. The 47 percent, I believe, I am referring to was when we did a selective sample of some task orders that they had written for VA, was that they then subcontracted 47 percent further downstream. I don't know if that answers your question, but that is what the 47 percent refers to, work being subcontracted out by the prime contractor.

Mr. BOOZMAN. You heard my opening statement. You guys have been around me before. I am not usually too harsh with these things. Was I too harsh or was that fairly appropriate?

Ms. REGAN. That is hard to answer. Most of it was just the facts of our report.

Mr. BOOZMAN. You are not under oath, but you are expected to tell the truth.

Ms. REGAN. I didn't think it was that harsh.

Ms. HERSETH SANDLIN [presiding]. Thank you. I want to thank our colleague, Mr. Teague, for beginning the Subcommittee hearing. Thank you both for your testimony.

Let me just ask a few additional questions. In addition to the focus on the particular interagency agreement that has already been the subject of some questions, has the Department of Veterans Affairs failed to routinely include specific tasks or requirements in other interagency agreements that you are aware of?

Mr. GRIVNOVICS. I have not looked at any other interagency agreement. This was the only one.

Ms. REGAN. The only other agreement that I am aware of is the one they have with us for the Office of Contract Review, and it does have specific tasks in it. Well, the types of reviews that we do and the deliverables or reports. But because there are different reviews that come up at different times, it is described in the agreement, but not how many we do. It is based on a full-time equivalent (FTE).

Ms. HERSETH SANDLIN. You state that you were informed that the Department of Veterans Affairs is not involved at any level in the negotiations, award or administration of the task orders, correct?

Ms. REGAN. Correct.

Ms. HERSETH SANDLIN. Who is doing the negotiation, the awarding and the administration of the task orders and how can they look out for the VA's best interests?

Ms. REGAN. SPAWAR is doing all of that. And anybody awarding a contract should look out for the government's interest in awarding the contract to be sure that it is a definitive statement of work, that there is measurable performance, and that they do proper oversight and administration.

Ms. HERSETH SANDLIN. In response to some of the other questions that were posed by my colleagues, you found no evidence that anyone in the Department of Veterans Affairs monitored cost or performance, correct?

Mr. GRIVNOVICS. We believe that is correct. As an example, the reports and whatnot, the financial reports that we ultimately received all came from SPAWAR, and no program manager actually reviewed them. We asked, and the program managers never reviewed the financial reports to see what was actually taking place.

Ms. HERSETH SANDLIN. Do you have an opinion as to what office or individual specifically should have been monitoring cost and performance?

Mr. GRIVNOVICS. They did have one person as we gathered through questions and answers, and I wouldn't call them a program manager, but the person responsible where all of the reports would go through. And they said that they did send them on.

Ms. HERSETH SANDLIN. Who said they did send them on, SPAWAR?

Mr. GRIVNOVICS. No, VA personnel. A VA employee.

But ultimately, those documents could not be found. And talking to program managers, they said they did not actually review those documents.

Ms. HERSETH SANDLIN. You also gave us many examples of the inadequacies found in the statement of work and the independent government cost estimates. Once you identified these, did the VA say they were going to review and rewrite them?

Mr. GRIVNOVICS. The deficiencies that were noted were not discussed with the VA at the time.

Ms. REGAN. The VA has not discussed any issues with us on the report since we issued it. We don't know what they have done since that time.

Ms. HERSETH SANDLIN. My last question is whether or not you have an opinion on whether or not SPAWAR is the best entity to assist the VA in developing the long-term solution for the new GI bill?

Ms. REGAN. We have not analyzed their capability in doing that or whether there is another organization that can assist them.

Ms. HERSETH SANDLIN. Thank you.

Mr. BOOZMAN, do you have any final questions for the panel?

Mr. BOOZMAN. In follow-up, it does make sense that you all would talk. You spend time reviewing. That is the idea of these things, to try to be helpful, not a gotcha-type of situation, but again to be helpful. So is it your responsibility, or whose responsibility is for you guys to sit down and visit about this?

Mr. GRIVNOVICS. I didn't hear the last part?

Mr. BOOZMAN. Whose responsibility is it for you guys to sit down and visit? You said you hadn't talked to VA since you came out with your finding.

Ms. REGAN. When we issued the report, we made suggestions as opposed to recommendations. Part of that was we had not done an in-depth analysis of what would happen if they canceled the inter-agency agreement. How dependent was VA on that? Was it like a house of cards, if you pull it away, is the whole program is going to fail?

That is why we made suggestions to the Secretary.

I am not sure if they could amend the existing amendments because there were already subcontractors or contracts that SPAWAR had put in place for those. We would hope that they would have done that in the future amendments, that they would have made them more specific and become more involved in the contracting process with SPAWAR and do more oversight, which we understand from Mr. Baker's statement that they have.

Mr. BOOZMAN. But you haven't met with the VA to discuss this, right?

Ms. REGAN. Correct.

Mr. BOOZMAN. I guess my question is it looks like that would be good for you to do. Whose responsibility is it to facilitate that meeting?

Ms. REGAN. We usually don't do that unless we have been asked to. If we have been asked to, or the Secretary or the Committee, we could go in and do a follow-up.

Mr. BOOZMAN. They usually ask.

One other thing. You indicated early on you had a little trouble sometimes getting the information that you needed. Did you get the hourly billing and all of those kinds of things? Do you know who got what? Were you able to get all of the billing information that you needed?

Mr. GRIVNOVICS. Actually, there are no billings that go back to VA as an invoice. What we did do as part of our review—

Mr. BOOZMAN. So how do they know what they are paying for?

Mr. GRIVNOVICS. The money is fully funded. When the amendment goes through under the particular IAA, at that time based on the statement of work and the cost estimate that was put in there, the VA will fully fund that amendment. And basically, it is the reports that go back monthly that would show how many dollars were spent against a particular amendment or funding line.

Mr. BOOZMAN. So costs can't go down then, if you have an amount of money to spend?

Mr. GRIVNOVICS. That is quite possible. Due to the lack of, as we said, specificity in statements of work, it is very hard to define or match up. Normally, if you had a well-defined statement of work and a government cost estimates that tracks that by task, you can track those simultaneously and see what was originally proposed and then what is coming back in.

Mr. BOOZMAN. Part of your task was to find out if the dollars that VA had spent had been spent wisely. So wouldn't you go the further step and look and see the billing records of SPAWAR to see if they in reality got, if in reality VA got what they paid for with their subcontractors?

Ms. REGAN. Our task was to primarily look at the agreement and how it was administered and whether or not VA was getting services or acting within the scope of the agreement.

Due to time constraints, we did not go in and look at every dime spent by SPAWAR on their contractors and match it up with any records. SPAWAR should be responsible for that under the agreement. But I think what we found when we went down there, even they don't necessarily do it. They look at the expenditures against the burn rate to make sure they have enough money obligated, but not necessarily whether or not they were charged appropriately. That would be done in a future audit, probably by the Defense Contract Audit Agency.

Mr. BOOZMAN. Thank you, Madam Chairman.

Ms. HERSETH SANDLIN. Thank you, Mr. Boozman.

Two follow-up questions. The Department of Veterans Affairs, in their written testimony, states that the Inspector General specifically stated that they weren't interested in later amendments or subsequent changes made to strengthen requirements and management of amendments.

Mr. GRIVNOVICS. I wouldn't characterize it that way. We started our review in January and we looked at the amendments that were awarded at that date, as of January. The hard part about doing the work is we would be working forever if we were constantly looking at new amendments.

We had heard that due to a new Office of Federal Procurement Policy (OFPP) policy, that the VA was going to have an information letter coming out to strengthen the IAA process, but we basically looked at all of the amendments that were issued up through January of 2009.

Ms. REGAN. We were told at the time that because of the new guidance from OMB, they were going to be renegotiating the agreement. I understand that may not have happened. That may have impacted any statements of work or anything they had ongoing at that time. We looked at everything that had already been awarded.

Ms. HERSETH SANDLIN. Finally, in SPAWAR's written testimony, they state that it is our [SPAWAR] view that the VA OIG misapplied the OFPP memo, referring to the Office of Federal Procurement Policy memo that you just mentioned. Do you have a response to that statement?

Mr. GRIVNOVICS. Not without more particulars, no.

Ms. REGAN. I am not sure how we would have misapplied it. We didn't really apply it. We were told at the time they were going to renegotiate the interagency agreement to comply with it, and that is where that would have come into play. I have seen something today that the position now is that it doesn't apply to the IAA, so they weren't going to do that. We didn't apply it to anything; it was what we were told they were doing.

Ms. HERSETH SANDLIN. I appreciate your testimony and your responses to our questions and the insights that you have been able to offer the Subcommittee today. We look forward to receiving updates as it relates to your very timely report. Thank you again for joining us.

I would now like to invite the second panel to the witness table. Joining us on this panel is Mr. Mark Krause, Department of Veterans Affairs Program Manager, Space and Naval Warfare Systems Center Atlantic, Department of the Navy, U.S. Department of Defense (DoD); and the Honorable Roger Baker, Assistant Secretary for Information and Technology, U.S. Department of Veterans Affairs.

Mr. Baker is accompanied by Mr. Stephen Warren, Principal Deputy Assistant Secretary For Information and Technology, U.S. Department of Veterans Affairs; the Honorable William Gunn, General Counsel, U.S. Department of Veterans Affairs; Mr. Glenn Haggstrom, Executive Director, Office of Acquisition, Logistics and Construction, U.S. Department of Veterans Affairs; and Dr. Peter Levin, Senior Adviser to the Secretary, Chief Technology Officer, U.S. Department of Veterans Affairs.

Ms. HERSETH SANDLIN. Gentlemen, welcome to the Subcommittee. We look forward to your testimony. Mr. Krause, welcome back to the Subcommittee, we will begin with you. You are recognized to present your testimony.

STATEMENTS OF CAPTAIN MARK KRAUSE, USNR (RET.), U.S. DEPARTMENT OF VETERANS AFFAIRS PROGRAM MANAGER, SPACE AND NAVAL WARFARE SYSTEMS CENTER ATLANTIC, DEPARTMENT OF THE NAVY, U.S. DEPARTMENT OF DEFENSE; AND HON. ROGER W. BAKER, ASSISTANT SECRETARY FOR INFORMATION AND TECHNOLOGY, U.S. DEPARTMENT OF VETERANS AFFAIRS; ACCOMPANIED BY STEPHEN W. WARREN, PRINCIPAL DEPUTY ASSISTANT SECRETARY FOR INFORMATION AND TECHNOLOGY, OFFICE OF INFORMATION AND TECHNOLOGY, U.S. DEPARTMENT OF VETERANS AFFAIRS; HON. WILLIAM A. GUNN, GENERAL COUNSEL, U.S. DEPARTMENT OF VETERANS AFFAIRS; GLENN D. HAGGSTROM, EXECUTIVE DIRECTOR, OFFICE OF ACQUISITION, LOGISTICS, AND CONSTRUCTION, U.S. DEPARTMENT OF VETERANS AFFAIRS; AND PETER L. LEVIN, PH.D., SENIOR ADVISOR TO THE SECRETARY, AND CHIEF TECHNOLOGY OFFICER, U.S. DEPARTMENT OF VETERANS AFFAIRS

STATEMENT OF CAPTAIN MARK KRAUSE, USNR (RET.)

Captain KRAUSE. Good afternoon, Madam Chairman.

I have submitted my written testimony and I ask that it be entered into the record. I look forward to answering any questions that the Subcommittee has.

Ma'am in the interest of time, it took me 7 or 8 minutes to read it out loud, I thought since I have submitted it, I would just enter it.

[The prepared statement of Captain Krause appears on p. 32.]

Ms. HERSETH SANDLIN. That rarely happens, you caught me off guard.

Mr. BOOZMAN. Madam Chairman, I think he is trying to curry favor.

Ms. HERSETH SANDLIN. I am not going to question his motives, and I thank you for the testimony you have provided to the Subcommittee.

Ms. HERSETH SANDLIN. We will move on to Mr. Baker. You are now recognized.

STATEMENT OF HON. ROGER W. BAKER

Mr. BAKER. Thank you, Chairwoman Herseth Sandlin and Ranking Member Boozman. I appreciate the opportunity to testify today and the support of this Committee as we wrestle with the changes necessary to improve the results of VA IT investments. You have mentioned the folks that are here with me today, so I will skip over that, emulating Mr. Krause.

I would like to make a few brief remarks to supplement my written testimony and then respond to your questions.

As I stated in my confirmation testimony barely 4 months ago, managing VA's IT organization is a challenging position. To this point, I would say that the challenges meet or exceed my expectations at that time. Clearly, some of the challenges were not anticipated, including two recent OIG reports on extensive personnel issues within the Office of Information and Technology.

On a positive note, I am pleased with the status of our operations, our security, and our privacy efforts. Although these areas

are not completely without problems, substantial progress has been made over the last few years and the results from each of these areas have so far been a pleasant surprise. I would note that these organizations comprise about two-thirds of our annual spending, and are in my experience to date delivering good services and value for the taxpayers.

Unfortunately, the systems development area of our organization remains by far the largest IT challenge that VA faces, a challenge that exceeds my original expectation. Changing the long term work practices of a nearly 1,000-person systems development organization will take time, disciplined management and discipline, hard work, new skills, and substantial support from this Committee.

To begin the necessary transformation, in June of this year, Secretary Shinseki approved the program management accountability system, or PMAS. PMAS brings discipline to our systems development process, and puts IT projects under tight control, requiring that they deliver new functionality to customers at least every 6 months and halting them if they establish a track record of failed deliveries.

In July, the Secretary announced a temporary halt of 45 projects. My experience to date with the 45 projects initially placed under PMAS indicates that VA lacks the depth of program management and project management skills necessary to reliably complete the number of IT projects we are currently executing. This is the fundamental reason that VA reached out to SPAWAR in 2008 and 2009. VA sought to bring in a trusted government partner who could supply project management skills that VA does not possess.

Just to speak specifically of the Chapter 33 long-term solution for a moment, I receive a monthly project management presentation from the VA SPAWAR team. And those presentations far exceed those of any other project team within the VA from a quality perspective.

And while the project management presentations are not a guarantee of success, the fact that team can project their most pressing risks and road blocks, can explain the progress they have made and the plan for the next month, and can consistently meet their monthly schedules gives me a reasonable degree of comfort that they will, in fact, achieve their March 2010 milestone for initial customer delivery and December 2010 milestone for full functional delivery of the Chapter 33 long-term solution.

Thank you for the opportunity to appear before the Subcommittee. I look forward to your questions.

Ms. HERSETH SANDLIN. Thank you, Mr. Baker.

[The prepared statement of Mr. Baker appears on p. 34.]

Ms. HERSETH SANDLIN. Mr. Krause, how many contractors is the Space and Naval Warfare using for developing the education long-term solution?

Captain KRAUSE. Ma'am, as of last count, 24 hours or so ago, we had 113 contractors on board the Chapter 33 long-term solution project.

Ms. HERSETH SANDLIN. Is the Space and Naval Warfare awarding contracts on behalf of the Department of Veterans Affairs?

Captain KRAUSE. We are using pre-competed SPAWAR contracts, that are SPAWAR contracts. In other words, they are existing con-

tract vehicles that we are using on behalf of the VA, of our customer, the VA, for Chapter 33.

Ms. HERSETH SANDLIN. If Space and Naval Warfare is charging a program management fee, does that mean that the VA has no program manager for the education long-term solution?

Captain KRAUSE. The program management fee has been badly misunderstood. We explained it and reexplained it. Essentially, we were carving out the costs of the financial managers that have to manage the money, for instance for the Chapter 33 long-term solution. We have carved out. It isn't a straight 10 percent fee. It is an estimate that is used to essentially estimate the cost of the financial managers that have to be involved to track all of the money, especially the American Recovery and Reinvestment Act of 2009 (ARRA) funds, the stimulus funds, the contract specialists that have to monitor the invoices and track the costs and spending on the project, the logistics folks that have to get accounts for everybody and make sure that they have computers and everybody is connected and online with the VA network.

Essentially, it also talks about some of the project initiation functions we do and some of the program oversight. For instance, my oversight is paid out of some of those funds that we set aside. My being here today is charged against that, if you will, as a working capital fund.

It is misunderstood and everybody thinks that it is a management fee, something we are doing to get profit, if you will. Again, we are a Navy working capital fund. We don't have any profit. We break even every year. All we do is recoup our costs. This estimate, anywhere from 8 to 10 to 12 percent, depending on the project, is just used for those purposes. We have met with the technical acquisition command, which we are now working very closely with to resolve a lot of the IAA issues, and they are now in the future as of the new IAA that is in development that we expect this fall, we will essentially, that funding will be tucked into the contract itself. It will be tucked in the IGCE as labor hours for specific functions, and tracked by the TAC, by the Technical Acquisition Center.

And we report the spending on those fees every week and every month to Dr. Tibbits, the Deputy Assistant Secretary of OED, and the VA program managers on a weekly basis from the SPAWAR PM. Cost schedule performance is reported on a weekly and monthly basis on every project we have.

I have been to the briefs. I have stacks of them I can show. They are there, and we have been reporting them.

Mr. BAKER. There is a VA program manager that is in charge of the Chapter 33 long-term solution. The SPAWAR folks work with him on this project.

Ms. HERSETH SANDLIN. Could anybody in the VA be doing some of the activities that Mr. Krause just described?

Mr. BAKER. Especially on Chapter 33, we look to SPAWAR to provide a solution on this one.

I know that we have a nicely integrated team. I wouldn't want to make a definitive statement that no one could do that, but the division of roles, I believe in that area, is pretty appropriate to the work that SPAWAR is doing and the work that VA is doing on these things. In particular, I will note that the program manager

for the long-term solution is also the program manager for the short-term solution. So there are a lot of things that program manager is doing to ensure the final delivery of the short-term solution. They should be joined together. They are working for the same customer with the same requirements using different technology, and so it is appropriate to put them under the same program manager. That program manager has a substantial job just managing the short-term solution and then providing the appropriate interaction with the SPAWAR team on the long-term solution.

Ms. HERSETH SANDLIN. Now that the short-term solution is being implemented, there is going to be a new IAA, correct? Is that going to adjust any in terms of the program manager's responsibilities as you move to the long-term solution?

Mr. BAKER. I don't believe that it will adjust their responsibilities, no.

Mr. Warren has a comment.

Ms. HERSETH SANDLIN. Yes, Mr. Warren.

Mr. WARREN. If I could, since I was the individual who brought SPAWAR into the section, what was the thinking that took place when we asked them as a government entity to do functions as a government entity as our partner?

With the time pressure we were under in the fall, and I think we had multiple hearings where we talked about what the challenge was and how we were trying to get there, we looked within the IT organization. And as I previously testified, it is hard for a leader to say we did not have the qualified staff, either in number or skill set, to do what we had to do. We had a partner at hand. We drew upon them to strengthen the team and bring in the skill set.

So could VA employees have done some of the functions? Inadequately. So instead of having the project fail, we reached out to a Federal partner and brought their skill set in to ensure that we could move that solution forward.

In that interim solution, the short-term solution, I think we were able to get to where we needed to get to. The checks went out in terms of getting the systems in place, giving us some of the knowledge set while they were working on what do we need to do for the long term. So they brought in a skill set that we desperately needed, and we reached out to them because we saw that they could do it.

So could other VA employees have done it? Yes. Were they capable of it? The answer at that time was no. Going forward, it is still a heavy lift for us, which is why we are continuing that relationship with them. They are part of the project team in terms of how do we make sure that we meet that March date and how do we ultimately bring forward that final solution, December of next year.

Ms. HERSETH SANDLIN. Mr. Warren, I appreciate your testimony just now. As you know, there is probably no one who has tried harder to be understanding of the pressures that you faced in implementing the short-term solution. But there have to be quality controls and accountability and that is what we are trying to get at today as it relates to the relationship that exists and how we address some legitimate concerns that have been raised going for-

ward. I appreciate what you are saying. We are going to follow-up on a few other questions. I know Mr. Boozman has some.

Let me just pose this again with the focus on some of the concerns that have been raised and how we address it going forward.

The OIG asserts that the VA appears to be paying for deliverables that SPAWAR contractors prepared but the VA never requested. Is the VA making all of the requests or has it resulted in some of the pressure that we have been under to implement the short-term strategy on time and to focus on the heavy lifts associated with the long term? Has VA been abdicating responsibility or delegating authority in a way that blurs the professional line within this contract in a way where SPAWAR is the one putting forward the deliverables versus the VA making the requests? Who is making the requests?

Mr. WARREN. That is a very good question because I think it gets to the heart of some of the things that are in the report, and I think this is the difference between if SPAWAR was a contractor and we had a contract with them versus SPAWAR as a government entity with whom we have a relationship.

So the way the interagency agreement works, we talk about who we need to meet a specified outcome. We need to accomplish this task. Because they are a government entity, we go back and forth in terms of what do you mean by that? What does it look like, which ends up in an amendment that says we need to get to this outcome; it looks like this.

The agreement or the amendment is the end result. So there are actions that our government partner, SPAWAR, takes to put things together to get to the end result that we are not involved in on a day-to-day basis. But it is why we reached out to them in that agreement and why we actually brought them on board as a partner, as a government partner. If it was a contractor, we would be managing it fundamentally differently.

So to try to talk to that point, I agree with many of the things that the OIG laid out in terms of where our scrutiny on a partner relationship was not as good as it needed to have been, and those changes have been taken and absorbed and we are doing them to make sure that we are doing a better job in a partnership. So there are many things I agree with. We are implementing them and making the changes so we have better controls.

But again, I think where it is not clear, it is an agreement with a partner. It is not a superior-subordinate relationship in a contract type of relationship. I am paying you to do a specific thing versus we talk about an outcome and what the goal is. Now bring it forward within the boundaries we have set. Is that reasonable? I don't know if that helps.

Ms. HERSETH SANDLIN. Mr. Warren, that is a very helpful clarification. With Mr. Boozman's indulgence, I will ask another follow-up.

I posed the question of the earlier panel about other interagency agreements. Mr. Baker, how many other interagency agreements has the VA entered into and are some of the same concerns being raised about this partnership? Do they apply to any other interagency agreements that the VA has entered into? I think Mr. Warren is making an important distinction and clarification, but we

still have to address some of these things. I am also a little concerned that there are other interagency agreements that are out there that are posing some of the same problems that you are now trying to address going forward with this partnership.

Mr. BAKER. I am not specifically aware of other interagency agreements at the VA, but let me turn to Mr. Haggstrom and see if he has any other thoughts.

Mr. HAGGSTROM. Madam Chairwoman, I am not aware of any other interagency agreements that look at the requirements, solving those requirements, as we have that relationship with SPAWAR.

We will have interagency agreements with other government agencies to do assisted acquisitions, and that is specifically to put contracts in place on behalf of the VA, which is a different type of requirement, if you will, than what we are asking SPAWAR to do for us here.

Mr. BAKER. I guess I would say from previous experience that there is a substantial difference between forming an agreement with another government organization. We are all employees of the government. There are certain things that are inherently governmental, which in effect we trust each other more with than we do on the contract side of things. In particular, in the area where we have our worst systems development issues at the VA, which is in the area of just managing the projects, that can't be outsourced. That has to be done by government personnel. So the limitations on who we can turn to in that area, it is a small community. There is potentially the General Service Administrator (GSA), potentially SPAWAR. There may be a few others in government that offer to provide those services outside of their own agency. But there is not a lot of places that VA can go to achieve those resources where inherently governmental work is concerned.

Ms. HERSETH SANDLIN. Mr. Boozman.

Mr. BOOZMAN. Thank you, Madam Chairwoman.

You know, you kind of looked back to how this started, Mr. Warren, and if you remember, I think this Committee was very supportive of you accepting the fact that you didn't feel like you could get this done in-house, and I think many of us supported that and really said, yes, we trust you to do that.

The problem is we have oversight over this. We have given it to you, okay. So again, we oversee it but it is yours. You have oversight. Whether it is in government or out of government, you have oversight over that. The problem is we have an OIG report that is not very flattering in regard to you doing the functions that you are supposed to do in that regard.

Now I understand it is a unique situation with government to government, okay. But it has to be put in place. You are responsible. And what we have to do is figure out how to help you do that.

Now it bothers me some of the things from a business standpoint. And I was in business for many years. Some of the stuff that the OIG talks about, I just don't understand from a business standpoint. I would not, no private businessman would let that stuff go on. Perhaps the contracting agents being involved with making the planning and this and that and then potentially bidding on it, that is not a good situation.

The other thing the OIG mentioned, and I asked about, did they get the billing records, the hourly billing records, and they said basically you didn't have that information, didn't know much about it, and that they didn't feel like SPAWAR, essentially, could produce that either. That to me is a problem.

So again, you have to figure it out. I will be honest with you guys, I can't imagine if I had a group look at me that toughly, and that is great advice. The first thing I would do is call them in and say, what's the deal? We don't agree with this, this and that, and you have done that somewhat in your testimony but it does seem like you sit across the table from the OIG and hash it out and figure out how can you get this thing done. Like I said, that is a basic thing.

Captain Krause, who oversees you all, the Defense Contract Audit Agency (DCAA)? Does VA need to ask for an OIG report of your entity? Do we, along with the VA, need to help them get them off the hook because they are responsible? Do we need to have an OIG report to help oversee you peripherally, or do we need to ask the DCAA to step in and audit you? Where is your accountability?

Captain KRAUSE. My accountability is essentially to my supervisor who is accountable to his boss who is eventually accountable to Admiral Bachman, the Commander of SPAWAR in San Diego.

DCAA will come in and audit us regardless. They come and audit all of the programs. They will come and do it. They are already going to eventually do it. They make sure that the cost and labor hours are appropriate with the skill sets being required, that you are not overpaying.

In my career, I have seen DCAA go in on a project and tell the contractors that they owe the government money, millions of dollars, and the contractor has to pay up. So we are audited by DCAA. We have cost controls in place. We absolutely do not have contractors out there doing requirements, doing statements of work and then bidding on the work and then doing the work. We don't have that. Absolutely, we do not have it. There are safeguards that prevent that and we take those seriously.

Mr. BOOZMAN. So what was the deal with the phone call that they alluded to?

Captain KRAUSE. My efforts to find out more about what was in that report were not successful.

Mr. BOOZMAN. And also the fact that nobody really knew or remembers who sat down around the table and who actually decided—

Captain KRAUSE. Well, many of the amendments he was looking at were over a year old. They were back in fiscal year 2008. I wasn't here. Many of the people that he had access to were not necessarily there when he was looking at the older amendments. He wasn't looking at the newer ones, he was looking at the older ones.

Again, as he stated, when we told him that a lot of that had been cleaned up, that we have made great strides since January before the OIG inspection to fix a lot of this, that was out of scope of the OIG report and it wasn't in his report and it wasn't really written down.

So none of our comments about that to tell him that those things had been resolved were not captured.

Mr. BOOZMAN. Do you agree they commented and said, when I asked about the billing hours and things, that they didn't really feel like you guys had a handle where you could know the billing hours and who had done what; was that a true statement?

Captain KRAUSE. Absolutely not. It is not a true statement. The invoices come in. We have a contracting officer.

Mr. BOOZMAN. Prior to this last January.

Captain KRAUSE. It doesn't matter the time period. We look at our invoices and we look at our cost figures. We have people who are hired to do that. They are not contractors; they are government. They actually look at the invoices and validate them.

I see the reports that come in from the contractors on the various projects. We have them. All the OIG had to do was ask for them. We had them all ready to go. I don't know why they didn't look at them.

Mr. BOOZMAN. But you understand our dilemma. Like I said, we have oversight of this project.

Captain KRAUSE. Yes, sir.

Mr. BOOZMAN. The OIG, and I hope and believe what you are saying, and I think it is true on the VA that things are better now than they were in January. On the other hand, the VA has to figure out how you can have oversight or we got a problem. I think that is really what we are discussing today.

Captain KRAUSE. Yes, sir.

I mean, we really do have weekly meetings with our senior leadership to show cost, schedule and performance, show them the burn rate, show them where the money is going. On this particular project, Chapter 33, like the Secretary said, we have monthly meetings with him to show him cost, schedule and performance. Just like all of the rest of our others, and we have scores of others, we are doing the same thing we do for all of our other customers in trying to meet their expectations and report directly and have cost controls in place and do the right thing with respect to our DoD government requirements.

Mr. BOOZMAN. Thank you.

Let me ask—go ahead, Mr. Baker.

Mr. BAKER. I was just going to say, certainly from a management standpoint, going forward, I have the responsibility to make certain that this is being well managed. And I just thought, in addition to what is here in the written testimony about changes that may have been made inside the organization, I want you to understand, when the OIG report came out, and I think very appropriately raised this issue on my radar screen, I had been in the office for about 2 weeks at that point. The questions that I asked were along the lines of tell me about the 40 amendments, tell me about the issues in here. I have a complete report on each of those 40 amendments where the folks responsible for this agreement have walked through and told me what the results are. My primary interest is, what are we getting for the dollars that we are spending? And are they appropriate for the dollars that we are spending from a management standpoint?

Most critically, the Chapter 33 long-term solution is clearly a very high priority for the Secretary, which makes it a very high priority for me. I spend the time during the month and every

month to sit down with his team and understand where they are and whether they are on schedule. And one of the things I am trying to make certain I drive through my organization is that those are open and honest meetings. Telling me you have a problem early is a lot better than me finding out later that you have a problem.

The reason that I can tell you that I am very pleased with those project management reports is that I feel we have that environment. When SPAWAR has an issue, I get a call. And that is the only way that I can ensure that, if it is something that my organization can move out of their way, that we are involved. And that is in effect the only real positive role I can play from a management standpoint, is moving roadblocks out of people's way.

So I make that comment so that you understand, the one thing that this OIG report did very effectively, from my standpoint, is raise this on the radar screen and make certain that we are not in any way, shape, or form ignoring the fundamentals of the report, which are that we have to manage our work with SPAWAR much more tightly than we had been during the time that this report was written.

Now, many of the changes recommended in the report were under way at the time the report was written, so to the credit at the folks here. Additional changes have been made since that time period. I don't want to overstate the case and tell you that this is the best managed thing you have ever seen, but there is good management going on in this area right now.

Mr. BOOZMAN. Thank you, Madam Chair.

Ms. HERSETH SANDLIN. Thank you, Mr. Boozman.

Mr. Baker, if you could then provide some of that additional information to the Subcommittee and our staff as it relates to the report on those amendments, some of the changes that were already under way based on the suggestions in the OIG report, additional changes that have been made, that would be helpful to us to have that information.

[The VA subsequently provided a report, which includes an Overview of the VA/SPAWAR IAA, Summary of IG Findings, Remediation Plan, Summary of Amendments, Deliverables/Outcomes, and VA's Next Steps, which will be retained in the Committee files. In response to the suggestions in the OIG report, the VA provided the following:]

In response to OIG's recommendations, VA has implemented the changes listed below. Additionally, VA and SPAWAR agreed that program support costs will be submitted by SPAWAR, to VA, as a cost estimate broken-out by labor categories and hours, for each specific requirement placed against the IAA, rather than estimated as a flat percentage of labor costs:

- VA has matched program managers with specific task orders and deliverables and made them accountable for the outcomes.
- VA has established policies and procedures for program managers to certify that they have reviewed monthly SPAWAR financial documents and progress reports and have concurred with them.
- VA has established a single point of contact within OED to warehouse all documents and deliverables required under the IAA and amendments.
- VA is working to assure costs associated with Program Management Support provided by SPAWAR is proposed and reported under a separate amendment.
- VA has implemented processes and procedures to assure unrelated tasks are not issued on the same amendment.
- Additionally, on November 4, 2009, VA executed a new IAA with SPAWAR that incorporated relevant aspects of OMB guidance published in a memo-

randum dated June 6, 2008, entitled "Improving the Management and Use of Interagency Acquisitions." The OMB guidance was used as a business model and framework in the development of roles, responsibilities, and management oversight of the SPAWAR IAA to ensure VA receives the greatest value possible through execution of an IAA with SPAWAR.

Ms. HERSETH SANDLIN. Also, what is the status then of the new interagency agreement that you began rewriting in February? Is that completed?

Mr. BAKER. Let me go to Mr. Haggstrom for that.

Mr. HAGGSTROM. The interagency agreement is currently under revision. We began that process back in May of this year. We are looking to, in effect, take what OFPP put out in their guidance letter of June of 2008 and use that as a template as we develop the two parts of the interagency agreement; first the overarching agreement that establishes our relationship and the requirements that we are looking at, and then the subsequent, which is called part B, which will drill down and establish what the bona fide need of the agency is in terms of asking SPAWAR to help us with a solution. So both of those are under draft right now, and we anticipate having those completed by October of this year.

Ms. HERSETH SANDLIN. By October of this year.

Mr. HAGGSTROM. Yes ma'am.

Ms. HERSETH SANDLIN. I know they are under revision, but how do they differ?

Mr. HAGGSTROM. What they do is they differ in terms of our involvement in how we are looking at them. We were criticized, if you will, by the OIG because of the lack of specificity in our statement of works and our deliverables. As an example, when we changed over management internally in my office, we gave this responsibility to our Technical Acquisition Center. These folks are very experienced in doing these kinds of agreements and, as a result, have worked very closely with the OI&T people to put a very robust statement of work into being for the subsequent amendments that we have put into place this fiscal year.

As an example, if you will look at our prior amendments, when the OIG was looking at this, we had as an example four main deliverables on a very expensive piece of work. Subsequently, now when you look at our statement of work and the resulting deliverables, we will specify up to 14 main areas of work that we are asking SPAWARs to perform for us. And as part of those 14 areas, we have 56 specific deliverables that clearly specify what we are after and the dates and the performance we are asking SPAWARs to perform for us. So we have not waited for the newly signed IAA to put into effect what the OIG has recommended we go ahead and do in terms of tightening up how we define our requirements between the organizations.

Ms. HERSETH SANDLIN. That was very helpful. Let me just make a couple of final questions. Can the Office of Acquisition, Logistics and Construction provide us with the documentation to support statements that use of an interagency acquisition is in the best interest of the Federal Government and that the supplies or services couldn't be obtained conveniently or economically by contracting directly with a private source?

Mr. HAGGSTROM. We can, ma'am. That would be the new Determination and Findings, and it will be part of the new Interagency

Agreement. And we will also, as part of any subsequent amendments, which define the real task, we will also perform a determination in findings which specifically look to that.

Ms. HERSETH SANDLIN. Very good. Of the people providing services under the interagency agreement, it will be helpful for the Committee to know: the number of Federal employees; the number of SPAWAR employees; the number of SPAWAR contractors; where they work; who they are working for; and if the hours billed have actually been worked. We would also like updates on an ongoing basis if it changes in light of other amendments to the agreement going forward

I just think, in light of the jurisdiction of the Subcommittee and the concerns raised in the report, that that would be very helpful for the Subcommittee to have in terms of the current situation and how that may change going forward to be able to answer other questions that may be raised as it relates to implementing the long-term solution. I think that will be helpful and perhaps even easier to document based on some of the specifics that you just indicated are part of the revision of the interagency agreement, correct.

Mr. HAGGSTROM. Yes. And as part of that, when we go into looking at the specific requirements, part of that discussion will now be that we will be very much aware of what SPAWARs intends to offer us as a solution which will be a mix of FTEs and/or contractor support, so we will be very much aware of how that sorts out in the solution.

[The VA subsequently provided the information in response to Question #14 in the Post-Hearing Questions and Responses for the Record, which appears on p. 47.]

Ms. HERSETH SANDLIN. Okay. Very good, very good.

Mr. Warren, did you have anything you wanted to add?

Mr. WARREN. I was just going to ask; you ran through a whole bunch of things that you wanted in the report you were requesting. If your staff could just send it over, so we can make sure we meet the need and not send something over which is the wrong answer.

Ms. HERSETH SANDLIN. We will do that. We will provide that clarification. Thank you.

Mr. Boozman, any final questions or comments?

Mr. BOOZMAN. No. I really do appreciate your all's hard work. We have three government entities involved here. We have the OIG. We have the VA and SPAWAR. And I know that everybody is working hard. And then you have us involved. So, as I said earlier, we were very supportive of doing things in the manner that we are doing them, and we will help any way we can.

But I don't mind—I am responsible, and I don't mind being responsible, but that makes you responsible, and it goes down the line. And so we really do have to work together to fix this and make it such that we can move on without problems in the future. And I know myself, and I think I can speak for the rest of the Committee, is very much committed to doing that as we committed to get you in the situation that you are in now, you know, with the contracting and doing it the way we did.

So we appreciate you being here, and we really do appreciate your hard work. But we do have to, like I said, we are going to be accountable and go from there.

We also, Madam Chair, if it is okay with you, we will have some questions that we would like to submit. Thank you.

[No questions were submitted by Congressman Boozman.]

Ms. HERSETH SANDLIN. Thank you very much.

I want to thank all of you for your testimony and your input today, your continued service to our Nation's veterans. I understand that the Administration is in the process of continuing to fill its appointed positions within the VA. I also recognize that the VA has career staff within its ranks with invaluable experience that is going to supplement the learning curve of the folks that will be new employees. So, knowing this, it is difficult for me, and I think the Subcommittee, to accept that the VA is lacking in resources to manage these programs and to oversee them effectively.

I think this is especially true considering that we have consistently received testimony from the VA officials notifying us that they are sufficiently funded and staffed and equipped to successfully meet the needs of our Nation's veterans.

I hope that those testifying before us today understand that the actions taken now, and I think you do, it is clear from not only your testimony today but testimony we have taken from you before, these are long-term implications affecting the VA for many years to come and the people that you serve. It is imperative that the VA begin the long-term IT solution on the right foot.

I am heartened by the testimony that you have provided, the additional information that we have requested about the changes that you are making to address some of the concerns that have been raised by the OIG that the Subcommittee clearly has to take seriously and with significant attention because of the importance of this opportunity to overhaul such an important program for our Nation's veterans that can potentially affect millions of them and their dependants.

A couple months ago, Mr. Warren, you were quoted in a news article that the OIG report will help the VA do its job better. In your testimony today and Mr. Baker's testimony and the responses of those of you on the panel I think indicate that while you may take issue with the process or what was reviewed, that the recommendations or the suggestions had been addressed, have been implemented, some of which were already under way when the report was issued.

I can assure you that our goal here today is to ensure that you have the needed resources that you need to do a better job to oversee the project effectively as we not only implement and overhaul this new program but guard the use of taxpayer moneys. I think that there are some unique issues for us to think about going forward as it relates to a traditional contracting relationship and the interagency relationship, but a need to guard those taxpayer dollars and investments equally in either relationship.

Again, thank you for your testimony and your response to our questions, as well as the responses that we would like from our questions we may submit to you in writing. Thank you.

The hearing now stands adjourned.

[Whereupon, at 2:54 p.m., the Subcommittee was adjourned.]

A P P E N D I X

Prepared Statement of Hon. Stephanie Herseth Sandlin, Chairwoman, Subcommittee on Economic Opportunity

Today, we will follow-up on an issue of concern first raised by Committee Ranking Member Steve Buyer that initiated an investigation by the VA's Office of Inspector General and, more recently, by Congressman Harry Teague in a previous Subcommittee hearing on the implementation of the VA's Strategy for Implementing the Post-9/11 GI Bill.

Some of those in attendance might recall that on June 25, 2009 Representative Teague provided some of today's panelists with advanced notice that this Subcommittee would follow-up on a VA Inspector General's report highlighting the many contracting irregularities between SPAWAR and the VA. Some of the concerns highlighted in the report include:

- The Interagency Agreement between VA and SPAWAR does not include any specific task deliverables;
- The Interagency Agreement was entered into without an adequate analysis to determine that the "use of an interagency acquisition is in the best interest of the Government" as required by Federal Acquisition Regulation 17.503;
- Unauthorized work was being performed on projects that were outside the scope of the Interagency Agreement; and
- VA was unaware that SPAWAR was charging management fees.

In reviewing the testimonies for today's hearing, I am not confident that enough is being done by the VA to learn from its mistakes. I share the concerns of my colleagues and look forward to learning more about specific actions taken by the Department of Veterans Affairs to address the Inspector General's report.

I now recognize Ranking Member Boozman for any opening remarks that he may have.

Prepared Statement of Hon. John Boozman, Ranking Republican Member, Subcommittee on Economic Opportunity

Good afternoon everyone.

Madam Chair, I suspect that if general public had focused on the results of the IG report on the Interagency Agreement between VA and the Navy's Space and Naval Warfare Systems Command or SPAWAR as requested by Ranking Member Buyer as they have on our current healthcare debate, the August recess would have been even more contentious.

According to the IG report, VA will have obligated over \$100 million to SPAWAR activities since signing the agreement in 2007. Unfortunately, the results of that agreement have been less than salutary. I would like to summarize the IG's findings.

- VA initially obligated \$2.5 million to SPAWAR without specific requirements or deliverables.
- SPAWAR and its contractors developed statements of work or SOW that should have been written by VA.
- SOW were often general and lacked specific deliverables.
- The VA Office of Enterprise Development or OED did not perform adequate oversight.
- VA was not aware that SPAWAR contracted out 87 percent of the work under the interagency agreement.
- OED did not know who was performing specific tasks.
- OED did not know how many people were working under the various tasks or where they were working. SPAWAR estimated the need for 295 FTE but only 217 were providing services. Of that 217, 195 were contractor personnel.

- OED was not aware of the management fees being charged by SPAWAR and SPAWAR could not justify the 10 percent fee.
- SPAWAR did not determine fair and reasonable prices for the services being performed.
- SPAWAR did not include specific tasks and deliverables in contracts with its vendors.
- SPAWAR contracts did not include privacy and security clauses required by VA thereby increasing the vulnerability of VA IT systems.

Madam Chair those are only a few of their findings in this damaging report. However, we must put the IG's criticisms in some perspective, it is important to remember that SPAWAR is a working capital systems organization which means they seek out work much like a private sector company with all the attendant vices and virtues. That means that if they do not bring in business, staff could be let go, just like the private sector so there is significant pressure on management to get the most favorable terms possible in any business arrangement. While I am not implying anything was illegal, as described by the IG, the VA-SPAWAR relationship does not appear to be an arms-length business relationship.

I think it would be charitable to describe that business relationship as a mess. While a degree of flexibility in contracting is commendable, it appears the use of the IAA goes well beyond flexible and borders unprofessional at best. It appears the IAA was concluded as a matter of convenience rather than a rational business decision. Issuing tasks and obligating funds without a contractual basis for payment, lack of insight into who was actually doing the work, and all the other things found by the IG are totally unacceptable.

I know that VA is trying hard to add a new level of professionalism to its contracting operations by adding experienced personnel and implementing the new Acquisition Academy. But the overly cozy relationship between VA and SPAWAR and any others like it must come to an end. I hope Secretary Shinseki will take a personal interest in this matter and I am looking forward to hearing from VA how they intend to correct this unacceptable situation.

I yield back.

**Prepared Statement of Maureen T. Regan, Counselor to
the Inspector General, Office of Inspector General,
U.S. Department of Veterans Affairs**

EXECUTIVE SUMMARY

The VA Office of Inspector General conducted a review of the Interagency Agreement (IAA) between the Department of Veterans Affairs (VA), Office of Information and Technology, Office of Enterprise Development (OED), and the Space and Naval Warfare Systems Center (SPAWAR). Our findings are outlined in our report dated June 4, 2009, *Review of Interagency Agreement between the Department of Veterans Affairs (VA) and the Department of the Navy, Space and Naval Warfare System Center (SPAWAR)*.

The IAA was entered into on November 5, 2007, under the authority of the Economy Act to provide Government employee and contractor technical support for analysis, planning, program review and engineering services for Information Management/Information Technology initiatives. We found that VA had obligated \$66 million under the IAA and that there are additional projects to be awarded that will add an additional \$73 million in funding. We concluded that neither VA nor SPAWAR has complied with the terms and conditions of the IAA. The Statements of Work and Independent Government Cost Estimates were developed by or on behalf of SPAWAR. We also found that 87 percent of the level of work performed under the IAA was performed by SPAWAR contractors and subcontractors. OED was not involved in the award or administration of those contracts and did not know who was performing the work, how many people were involved, or where they were located. We concluded that OED had relinquished its oversight role of financial performance and work performed under the IAA to SPAWAR. We suggested that VA re-evaluate the IAA and determine whether it is in the best interest of VA to continue obtaining services through this type of agreement, and if it determined to continue to procure services in this manner, we made a number of suggestions to be incorporated in any future IAAs.

The results of our review of the IAA were further supported by our report on the failure of the Replacement Scheduling Activity Development project, *Review of Award and Administration of Task Orders Issued by the Department of Veterans Af-*

fairs for the Replacement Scheduling Application Development Program (RSA), issued on August 26, 2009.

Introduction

Madam Chairwoman and Members of the Subcommittee, thank you for this opportunity to testify on our report dated June 4, 2009, *Review of Interagency Agreement between the Department of Veterans Affairs (VA) and the Department of the Navy, Space and Naval Warfare System Center (SPAWAR)*. I will present the major findings and conclusions of our review of the administration of the IAA, as well as related findings in a report issued on August 26, 2009, *Review of Award and Administration of Task Orders Issued by the Department of Veterans Affairs for the Replacement Scheduling Application Development Program (RSA)*. I am accompanied by Mr. Michael B. Grivnovics, Director, Office of Inspector General Office of Contract Review.

Background

The IAA was entered into on November 5, 2007, under the authority of the Economy Act. The stated purpose of the agreement was to provide “government employee and contractor technical support for analysis, planning, program review and engineering services for Information Management/Information Technology (IM/IT) initiatives.” The IAA itself does not include specific tasks or a pricing structure. It is an overarching agreement that identifies eight general tasks that SPAWAR can perform on behalf of the Office of Enterprise Development (OED) in the Office of Information and Technology (OI&T), establishes the process for VA to order services, and sets forth the responsibilities of each party to the agreement. The eight general tasks that SPAWAR can perform under the IAA are:

- Application Development Assessment
- Program Management and Training & Mentoring
- Workforce Competency
- Service Oriented Architecture
- Program/Project Management
- Information Assurance
- Development and Management of Secure Infrastructure
- IM/IT Project Engineering Assistance

Notwithstanding the fact that the IAA does not contain specific tasks or requirements, when it was executed, VA obligated and transferred \$2.5 million to SPAWAR. At the time of our review 22 amendments supporting 30 projects were issued against the IAA with a total estimated value of \$66 million and another 26 projects were in the pipeline valued at \$73 million. Each amendment contained funding and requirements and was accompanied by a Statement of Work (SOW) that included an Independent Government Cost Estimate (IGCE).

OED is responsible for oversight of the IAA. One of the major reasons cited for the need for the IAA was that OI&T did not have personnel who possessed adequate skills to develop and manage IT projects, including cost controls and writing SOWs to obtain the services needed for enterprise development. The only way to obtain the services of government personnel from another agency to provide VA with assistance in these areas was through an IAA.

The general process for issuing amendments to order services is delineated in the IAA. The IAA requires VA to prepare a Task Initiation Form (TIF) to include the principal participants, period of performance, and description of tasks and high level deliverables. The TIF is to be accompanied by a SOW with a designated VA point of contact. The SOW is required to include a detailed description of deliverables to be produced by SPAWAR, a delivery schedule, major milestones, performance measurement parameters, acceptance criteria, estimated total cost, and security requirements. The IAA states that the development of the TIF and the SOW is VA’s opportunity to shape and define the project.

The IAA also sets forth the process for modification of a task order identified in the TIF and accompanying SOW. The formal stage of this process is required to be accomplished and documented through the use of a Project Change Request (PCR) to the existing SOW. A PCR or modified SOW is required to change information contained within the original SOW including changes to taskings and cost estimates. Although there were changes to the projects, no PCRs were prepared by VA.

The stated purpose of the IAA was to obtain the services needed for project development and, at the same time, train and mentor VA personnel in program development and management. However, the IAA states that once the TIF has been accepted, the resulting project management and execution is within the exclusive control

of SPAWAR, which is inconsistent with the intent to train and mentor VA personnel to manage these programs.

Results of Review

We identified significant problems with the manner in which the IAA has been administered by both VA and SPAWAR. These include the failure to adhere to one of the basic purposes of the IAA, which was to obtain the services of government personnel to provide VA personnel with the training and mentoring needed to develop the expertise needed to design and manage IT enterprise development. We found that very little training or mentoring was being conducted. We also found that the TIFs, SOWs, and IGCEs that were to be developed by VA were developed by or on behalf of SPAWAR, not by VA. In addition, we identified deficiencies in the oversight of the IAA and amendments thereto by OED, the Office of General Counsel (OGC), and the Office of Acquisition, Logistics and Construction (OAL&C). We found that there were no cost controls in place within VA and that actions by SPAWAR may have increased costs to VA. We concluded that OED had essentially abdicated its program responsibilities to SPAWAR.

Our finding that OED was not in control of the work being done by SPAWAR and SPAWAR contractors was highlighted by the fact that we could not have a meeting with VA employees without having a SPAWAR contractor present to respond to questions or provide documents. At times, we could not distinguish between VA personnel and SPAWAR contractors. This led us to conclude that the contractors may be improperly providing personal services to VA.

This conclusion was further supported by the fact that throughout our review we had difficulty in obtaining basic IAA documents from OED. These documents included SOWs, TIFs, listing of VA project managers, performance documents, and deliverables. We first directed our request for documents to the Chief of Staff, OED, who was listed as the program manager and point of contact for the IAA. The Chief of Staff referred us to the Director, Acquisitions Division, Program Administration Office in OED, who could not provide the documents we requested. Due to delays in obtaining documents, we discussed our concerns with the Deputy Chief Information Officer, OED, who in turn referred us back to the Director, Acquisitions Division. Ultimately the documents we requested were provided by SPAWAR, not VA.

The inability to obtain documents and other information needed for our review directly from VA required us to conduct an onsite review at SPAWAR, Charleston, South Carolina. For example, most of the services provided under the amendments to the IAA were performed by SPAWAR contractors. VA did not have copies of the task orders awarded by SPAWAR to these contractors or the SOWs that should have been included in the task orders. In addition, we were told that VA was not involved at any level in the negotiation, award, or administration of these task orders. As a result, we had to go to SPAWAR to obtain information relating to these task orders.

Insufficient VA Oversight

Although each amendment to the IAA went through a legal and technical review before award, we found that the reviews conducted by OGC and OAL&C were insufficient. OI&T officials stated they relied on the legal and technical reviews conducted by OGC and OAL&C. Our review determined that each level of review relied on the previous levels of review, all of which were inadequate.

For example, we noted that Determinations and Findings (D&F) required by Federal Acquisition Regulations were not adequately addressed as part of the IAA process. OAL&C was unable to provide documentation to support statements that use of an interagency acquisition is in the best interest of the government and the supplies or services could not be obtained as conveniently or economically by contracting directly with a private source.

OGC performed legal sufficiency reviews of the IAA, including the D&F, and all amendments issued under the IAA. There is no evidence that OGC questioned the applicability of the November 2007 D&F that supported use of a \$2.5 million agreement or the additional \$64 million in funding. In addition, the OGC attorney who performed the reviews of the proposed amendments stated the legal sufficiency review included determining whether the proposed amendment was within the general scope of the IAA and that funding was available. A review of the SOW accompanying the proposed amendments was not included in OGC's review. Even with this limited review, OGC did not identify that amendments 10 and 19 contained requirements that were outside the scope of the IAA.

Another example of the lack of oversight is that the financial reports prepared by SPAWAR were submitted to the Director of OED's Acquisition Division, but were not forwarded to OED program managers for analysis and were not maintained by

OED. There is no evidence that shows program managers used SPAWAR financial or other reports to monitor costs or performance. In fact, we found no evidence that anyone in VA monitored costs or performance. OED was unaware of how many individuals were providing services under the IAA, how many were Federal employees versus contract employees, where they were working, who they were working for, or whether they actually worked the number of hours claimed in billings to SPAWAR.

This lack of oversight resulted in the excess funding of \$664,200 on amendments 1, 2, and 3. Although there were three separate amendments, amendments 2 and 3 were essentially modifications of amendment 1. In this case neither VA nor SPAWAR identified the discrepancy in funding.

Also, neither party complied with the terms of the IAA that required such changes to the scope of work being performed under an amendment be done through a PCR, not another amendment to the IAA. Additionally, OED personnel informed us that SPAWAR had begun work on the long-term GI Bill solution without official authorization. Costs for the work were being charged against an existing amendment, despite the fact that the work was outside the scope of the work authorized under the amendment.

SOWs and IGCEs not developed by VA

Although the IAA states that the development of the TIF and the SOW is VA's responsibility and opportunity to shape and define the project, neither OED personnel nor SPAWAR representatives were able to definitively state who prepared the SOWs and both claimed it was a "collaborative" effort. Our review indicated that most TIFs and SOWs, including the IGCEs contained in each SOW, were prepared by or on behalf of SPAWAR. VA personnel could not provide documentation to show that VA participated or "collaborated" in writing the SOW and in one instance, we were told the SOW was prepared by a SPAWAR contractor. Discussions with OED disclosed that, at most, OED only prepared section 8 of the SOW that identifies the task requirements, which we found to be very general in nature. No one was able to provide any documentation showing that VA personnel prepared the IGCEs. Although collaboration between OED and SPAWAR to achieve a final SOW is within the terms and conditions of the IAA, as the customer, VA had responsibility under the IAA for serving as the lead on writing all SOWs.

Inadequate SOWs and IGCEs

We determined that the SOWs and IGCEs were inadequate. The SOWs were very broad and general in nature and few of them included major milestones that serve to indicate the level of progress required by the terms and conditions of the IAA. Examples of the inadequacies we identified in the SOWs and IGCEs include:

- SOWs did not include the number of personnel, qualifications, or hours needed to complete the project.
- SOWs provided to us by VA and those provided by SPAWAR for the same amendments were inconsistent with each other.
- Table of contents was inconsistent with the tasks identified in the SOW.
- Costs associated with deliverables were not included in the SOWs.
- Deliverables were to be provided on an "as requested" basis.
- IGCEs were at a summary level only. No breakdowns of hours or labor categories by task were included in the IGCEs.
- Costs identified for specific tasks in the IGCEs did not support the corresponding task.

Requirements in amendments were outside the scope of the IAA

The scope of the IAA is limited to services. However, amendments 10 and 19 requested SPAWAR to purchase hardware and software, which is outside the scope of the IAA. In addition to not identifying this during the legal and technical reviews, the equipment purchased by SPAWAR was not in compliance with VA policy on purchasing IT equipment, which included a requirement to purchase the equipment from NASA's SEWP IV Contracts. Neither OED nor SPAWAR provided documentation that a waiver of VA policy was granted as required.

No Cost Controls

VA failed to implement any cost controls to ensure that it pays fair and reasonable prices and that the work is performed. This is evidenced by VA's failure to develop the SOWs, failure to develop IGCEs, failure to question the 10 percent program management fee charged by SPAWAR, or to be involved in any manner in how the IAA is administered. We identified a potential for increased costs in general and

specifically in the areas of Program Management (PM), unclear deliverables, and higher subcontract costs.

VA was unaware of the basis for SPAWAR's 10 percent program management fee. The fee was not included in the IAA or the amendments. Although the fee was included in the IGCEs that SPAWAR provided for each SOW, we found no evidence that anyone in VA raised any questions or concerns.

Due to the discrepancies between the tasks described in the SOWs and deliverables required by the SOWs, we concluded that the potential exists for VA to pay for deliverables not received and/or deliverables that were not necessary.

We found that 87 percent of the level of effort performed under the IAA is attributed to contractor personnel and that VA is not involved in any way in the award or administration of these contracts. In addition, prime contractors were also performing work as subcontractors which increased the cost to VA by having multiple tiers of profit or fees. We also found that SPAWAR exercised an option period of a fixed price labor hour contract before the existing contract period had expired. This resulted in increased costs to VA because it accelerated the billing of higher fixed rates for services provided by the contractor to VA than originally called for in the contract.

Review of the Failure of the Replacement Scheduling Application Development Program

The results of our review of the IAA were further supported by our recent review of the failure of the Replacement Scheduling Activity Development project (RSA). We found that around the time the decision was made to halt further development of the program, discussions began regarding SPAWAR's involvement in the future RSA development and creating a transition to a blended VA and SPAWAR development efforts. The current RSA Program Manager recommended that the creation of a blended team, leveraging SPAWAR for core engineering, technical leadership, and additional IT providers for application development, integration, and delivery. The team was to report to the RSA Program Manager. The RSA Program Manager also recommended that a mechanism be established to fully empower SPAWAR government employees to act on behalf of VA. We have serious concerns regarding this course of action because, if implemented, VA would further relinquish its decision-making and program responsibilities to SPAWAR.

We also questioned this solution given SPAWAR's involvement in the assessments of RSA prior to the termination of the task orders to the vendor who was developing the code for the program. We identified four amendments to the IAA that identified work to be conducted on RSA. We found that VA was unable to determine exactly what work was to be performed on or relating to RSA by SPAWAR, what deliverables were required or received, or which VA personnel were monitoring or tracking the work.

We had concerns that OED was unable to provide us with copies of the work relating to RSA that SPAWAR was tasked to perform under the IAA because the work may have impacted on the decision to halt the project and terminate the task orders with the vendor who was developing the code. We noted in the records that evaluations of RSA were conducted by a "Tiger Team," which was specifically referred to in amendment 5 of the IAA. This raised concerns whether decisions made by VA personnel were being influenced by SPAWAR contractor personnel who could ultimately benefit from the decisions.

Suggestions

To meet the original intent of the IAA and to control and monitor the progress of projects and costs under the IAA, VA needs to:

- Prepare SOWs with specific tasks, deliverables, defined delivery dates, and performance measures.
- Prepare IGCEs that provide labor hours, labor categories, and costs by task to assist in determining the reasonableness of proposed costs.
- Be involved in the award and administration of task orders to contractors who will perform the work required in the SOW.
- Require OAL&C and OGC to implement processes to improve their technical and legal reviews of the IAA, amendments or modifications thereto, and the SOWs.
- Require program managers to certify that monthly progress and financial reports have been reviewed and approved.
- Provide appropriate training to VA personnel to learn to develop SOWs and monitor contract performance.

Madam Chairwoman, thank you for the opportunity to appear before the Subcommittee. We would be pleased to answer any questions that you or Members of the Subcommittee may have.

**Prepared Statement of Captain Mark Krause, USNR (Ret.),
U.S. Department of Veterans Affairs Program Manager, Space and
Naval Warfare Systems Center Atlantic, Department of the Navy,
U.S. Department of Defense**

Good afternoon Chairwoman Sandlin, Ranking Member Boozman, and Members of the Subcommittee. I appreciate the opportunity to appear before you today to discuss the topics related to the relationship between Space and Naval Warfare Systems Center Atlantic (SPAWARSYSCEN Atlantic) and the Department of Veterans Affairs with respect to the implementation of the Post-9/11 GI Bill (Chapter 33 of Title 38, United States Code). My testimony will address the capabilities provided to VA by SPAWARSYSCEN Atlantic, the proposed new Interagency Agreement (IAA), and the SPAWARSYSCEN Atlantic response to specific items within the recent VA Inspector General Report No. 09-012130142, "Review of Interagency Agreement Between the Department of Veterans Affairs and Department of Navy, Space Naval and Warfare Systems Center."

SPAWARSYSCEN Atlantic Capabilities

SPAWARSYSCEN Atlantic is a Department of the Navy activity with expertise in designing and delivering command and control systems, business information technology systems, and information security systems. SPAWARSYSCEN Atlantic agreed to partner with the Department of Veterans Affairs (VA) on the Chapter 33 Long Term Solution effort in order to assist the VA in delivering secure information technology (IT) solutions that are fiscally sound and of benefit to our veterans. We are doing so by providing quality full-service systems engineering, and program management expertise. Our competency aligned engineering team delivers engineered solutions in a timely manner, and achieves speed to engineered capability through rapid prototyping.

SPAWARSYSCEN Atlantic Contracting and Interagency Agreement (IAA)

SPAWARSYSCEN Atlantic uses existing competitively awarded contracts (most of them Indefinite Delivery Indefinite Quantity cost-plus fixed fee) to support development of the Chapter 33 Long Term Solution. With the exception of specific Federally authorized small business set-aside contracts, the contracts used to support the VA are full and open competitive contract vehicles.

SPAWARSYSCEN Atlantic is not a contracts-for-hire organization (e.g., a franchise fund). SPAWARSYSCEN Atlantic's contracts belong to and service SPAWARSYSCEN Atlantic and its customers' requirements. Rigorous application of OMB's Office of Federal Procurement Policy (OFPP) memo, dated June 6, 2008, entitled "Improving the Management and Use of Interagency Acquisitions," and its guidance concerning Interagency Agreement customer relationships is not appropriate to SPAWARSYSCEN Atlantic's relationship with the VA. The OFPP memo addresses only those interagency business transactions undertaken for the primary purpose of obtaining services or products from contractors. The OFPP guidance provides best business practices for inter-agency acquisitions but was not developed to address reimbursable work performed by Federal employees or interagency activities where engineering solutions and not contracting is the main purpose of the relationship. It is our view that the VA IG misapplied the OFPP memo.

As agreed to between VA and SPAWARSYSCEN Atlantic, a new IAA was drafted in July and is currently being reviewed by the VA. The new proposed IAA more closely follows the OFPP guidance.

Access to SPAWARSYSCEN Atlantic services is typically provided by the general authority of the Economy Act (31 U.S.C. 1535). The requesting agency, in this case, the Department of Veterans Affairs, executes an Economy Act Determination and Findings that documents, among other things, that doing business with SPAWARSYSCEN Atlantic is in the best interest of the government.

SPAWARSYSCEN Atlantic Response to Specific Comments

I have been asked to respond to certain matters.

1. "Out of Scope Purchases of Equipment and Software"

SPAWARSYSCEN Atlantic was acting on the Statement of Work associated with amendments 10 and 19 of the IAA, which specifically called out procurements. On amendment 10, SPAWARSYSCEN Atlantic did not receive or expend \$47,124.31 in

program management funds. SPAWARSYSCEN Atlantic actually received and utilized \$2,500 for in-house procurement efforts (\$1,800 Service Center, \$700 procurement development labor). Under amendment 19, the VA was charged approximately \$40,000 to cover the labor required to complete the acquisition process. This process included reviewing the Statements of Work of existing SPAWARSYSCEN Atlantic competitively awarded contracts to ensure the requirements of the VA, in accordance with the signed IAA, were within the scope, and that the Government was procuring the best solution for the lowest cost. Many labor hours were spent in gathering the VA's requirements and ensuring distribution lists were accurate. SPAWARSYSCEN Atlantic engaged its own contracting process to include developing and issuing RFPs, performing evaluations of proposals, performing cost analysis to ensure fair and reasonable costs were proposed and placing task and/or delivery orders against existing awarded contracts. In addition, SPAWARSYSCEN Atlantic used the simplified acquisition procedures for any small purchases, under \$100,000, necessary to meet VA requirements. Each procurement had a unique distribution list which was tracked closely to ensure items were delivered to the correct location on schedule. This process resulted in contract actions totaling over \$10,000,000. The \$40,000 in labor charges to VA equates to 0.4 percent of the total material dollars.

SPAWARSYSCEN Atlantic does not believe the VA requirement to use NASA Solutions for Enterprise-Wide Procurement (SEWP IV) contracts is appropriate for the IAA. This is a VA policy, appropriate for VA contracting. Preferred use of SEWP IV contracts is not a SPAWARSYSCEN Atlantic policy. SPAWARSYSCEN Atlantic awards contracts for its purposes and follows DoD acquisition policies and procedures.

2. "Program Support and Labor Costs"

In order to effectively manage all costs for tasks assigned to SPAWARSYSCEN Atlantic, the decision was made to separate the costs for the program management (PM) function. This PM function includes, but is not limited to, financial management and reporting, project initiation functions, Information Management/Information Technology (IM/IT) services, logistics support, and program oversight. In this instance, the estimated amount for the PM function was 10 percent of the estimated project labor; this is neither a standard fee nor a standard amount that is used across the board, rather it is the estimate for this subset of the VA project. SPAWARSYSCEN Atlantic considers this a value-added activity and has taken steps to ensure the customer is aware of what is included in these costs.

While it may be anticipated that economies of scale may be realized in future projects, the corresponding increase in reporting (e.g., American Recovery and Reinvestment Act (ARRA)) and other administrative costs have not yet allowed this to occur. As a Working-Capital-Fund activity, SPAWARSYSCEN Atlantic, as authorized by statute, may only recoup the costs it incurs. A monthly report showing the Program Support Office (PSO) funding and expenditures is supplied to VA each month for review and comment.

There seems to be a fundamental misunderstanding in the way the relationship between VA and SPAWARSYSCEN Atlantic is viewed. As a Navy-Working-Capital-Fund (NWCF) activity, SPAWARSYSCEN Atlantic produces goods and services on a reimbursable basis. Although we agree in writing to perform work for the VA, the relationship is not characterized as government to contractor, but as government to government. The stabilized labor rates are established per DoD guidelines. The stabilized billing rate is developed each year through the OMB Circular A-11 Budget Process and approved by the Under Secretary of Defense, Comptroller USD(C) and is included in the DoD budget approved by Congress. The civilian labor hours worked are billed at the stabilized rate for each career group, which includes adjustments for prior year stabilized billing variances.

3. "Lack of Cost Controls"

SPAWARSYSCEN Atlantic considers that it fully meets and exceeds both the intent and requirements of the IAA. Appropriate controls and oversight are in place to ensure SPAWARSYSCEN Atlantic and its sponsors are NOT paying more than they should for services or material. Under cost-reimbursement contracts, vouchers for costs incurred are certified by the Defense Contract Audit Agency (DCAA) and submitted via Wide Area Work Flow (WAWF) to the Defense Finance and Accounting Service (DFAS) for payment. The Contracting Officer's Representative (COR) reviews the invoices and monthly reports, including the labor categories and number of hours expended, submitted by the contractor to ensure that the costs billed are commensurate with the work expected and performed. Defense Contract Audit Agency (DCAA) also has responsibility for verifying incurred costs and performing

audits at contract completion, to ensure the costs charged the government are allowable and allocable.

SPAWARSYSCEN Atlantic uses existing competitively awarded contracts to provide the sponsor needed capability. With the exception of specific small business set-aside contracts, all of the major contracts used for the VA are full and open competitive vehicles, in which the VA's requirement was within scope. In most instances the labor categories and rates are less than the Independent Government Cost Estimates rates calculated by VA because of the diligence of SPAWARSYSCEN Atlantic contracting personnel.

4. Personal Services

SPAWARSYSCEN Atlantic does not enter into "personal services" contracts. Some of the SPAWARSYSCEN Atlantic contracts utilized for VA tasking have been Indefinite Delivery Indefinite Quantity (IDIQ) with specific task requirements. As work was performed on site, performance of some tasks, such as Help Desk support, and other day-to-day program support services that may not have a defined deliverable, may have been perceived as "personal services" because they are not regularly recurring or are performed without frequent interaction with government representatives. SPAWARSYSCEN Atlantic is working to negate the perception of "personal services" by ensuring that contract language is clear, that contractors understand their appropriate role as well as the roles and responsibilities of those government personnel with whom they interact, and by working with the VA to ensure their personnel understand that contractors can only perform work specifically identified in the pertinent delivery order.

Madam Chairwoman, this concludes my statement. I would be pleased to answer any questions you or any of the other Members of the Subcommittee may have.

Prepared Statement of Hon. Roger W. Baker, Assistant Secretary for Information and Technology, U.S. Department of Veterans Affairs

Madam Chairwoman and Members of the Subcommittee, thank you for the opportunity to update you on the status of our Chapter 33 GI Bill Long-Term Solution efforts. This Subcommittee has always been extremely supportive of our efforts to assist all Veterans, especially those veterans entitled to Post-9/11 GI Bill benefits based on their service to our Country. We have the shared goal of providing Veterans with the opportunities to reach their educational or vocational goals. I look forward to highlighting some of our recent and future IT accomplishments, in addition to articulating the benefits that VA has derived from our Interagency Agreement (IAA) with the Department of Navy, Space and Naval Warfare Systems Center (SPAWAR). I will also individually address your concerns with the IAA, as examined in the Department of Veterans Affairs—Office of Inspector General (OIG) Report Number 09-012130-142.

The intricacies associated with VA's IT systems and their correspondent modernization initiatives are more complex than most private sector computing environments. The demand for the experienced resources needed by these initiatives far exceeds the Office of Information and Technology's (OI&T) ability to provide this expertise. The Economy Act, 31 U.S.C. section 1535, allows one Federal Government agency to seek out and utilize the expertise of another Federal agency. As such, OI&T reached out to SPAWAR in 2007 to acquire engineering and IT project management expertise as an effective, practical, economic, and appropriate solution to meet the demand for this expertise.

SPAWAR is a Department of the Navy working capital systems engineering command that provides full-service systems engineering to its customers through the development, testing, evaluation, production, and fielding of sustainable, survivable, and interoperable systems. SPAWAR is unique from other Department of Defense (DoD) Systems Engineering working capital commands, in that it works with customers outside of its Service (Navy) to develop skills and capabilities that can be leveraged to obtain engineering capability and solutions.

SPAWAR possesses skill sets and competencies in systems engineering that can help address the critical skills shortage that exists within VA. The Interagency agreement between VA and SPAWAR was a Government-to-Government partnership, to leverage this expertise and experience in support of the execution of VA's complex IT projects. The principal purpose and central aspect of this relationship was to strengthen the knowledge, skills, and abilities of VA employees, through knowledge transfer and skilled support and obtain Information Management/Information Technology (IM/IT) engineering solutions and program management support.

The agreement, although not without challenges, enabled immediate, fully staffed teams of highly experienced program management and systems engineering staff, to facilitate real-time progress on specific project execution and project management.

The timeline of the VA/SPAWAR IAA has been as follows:

- In November 2007, VA and SPAWAR created the IAA to provide VA with skilled and program management support and knowledge transfer through SPAWAR's expertise of information management/information technology engineering solutions.
- In May 2008, VA began executing amendments to the IAA to acquire technical and program management expertise for key health programs including Replacement Scheduling Application (RSA), Pharmacy Reengineering (PRE), Bi-Directional Health Information Exchange (BHIE) and Blood Bank.
- In June 2008, Office of Federal Procurement Policy (OFPP) issued the memorandum, "Improving the Management and Use of Interagency Acquisitions" which provides new guidance for agreements entered on or after November 3, 2008.
- In September, 2008, faced with a project management skills shortage, VA began issuing amendments under the SPAWAR IAA to support the Chapter 33 program.
- In October 2008, VA's Office of Acquisition, Logistics and Construction (OALC) and Office of General Counsel (OGC) discussed revisions to the technical and legal review processes, including the impact of the June 2008 OFPP memorandum and guidance.
- In January 2009, VA's OALC, OGC, and Office of Information and Technology (OI&T) recognized issues in the management of SPAWAR amendments issued to that point, and took actions to strengthen the requirements of future amendments and the management of ongoing amendments.
- In February 2009, although it was determined that the OFPP memorandum did not directly apply to the VA/SPAWAR IAA, OALC informed OI&T of its intent to develop a new IAA and build upon the framework as stated in the memorandum to ensure success in the management and administration of VA and SPAWAR agreements. VA continues to use the original IAA while the new IAA is developed.
- In March 2009, Information Letter 001AL-09-04 was issued by OALC. The Information Letter established new VA procedures for entering into any agreement with another Federal agency.
- In March of 2009, the OIG began an investigation into the amendments issued during the time period of September to November, 2008. OIG staff specifically stated that they were not interested in later amendments or in subsequent changes made to strengthen the requirements and management of amendments under the IAA.
- In March 2009, VA OALC established the Technology Acquisition Center (TAC) in Eatontown, NJ, to specifically support OIT acquisitions, which include SPAWAR IAA amendments. OALC is recruiting and hiring fully certified and trained contracting professionals who had previously supported the Army's Communications and Electronics Command (CECOM). It is anticipated that the TAC will be fully staffed with almost 200 individuals by Fall 2009.
- In April 2009, the Office of Enterprise Development (OED), OALC and OGC conducted a lockdown to review new amendments and validate that those amendments were within scope of the existing IAA. VA proceeded to execute approximately 15 additional amendments under existing IAA from April 2009 to present. To improve oversight, VA established a secure repository for administrative documentation, strengthened Statement of Work format, and strengthened Independent Government Cost Estimate (IGCE) requirements.
- In June 2009, the OIG issued its report and its suggestions.
- Presently, VA and SPAWAR continue to develop the new IAA in conformance with Information Letter 001AL-09-04. Developing this new IAA will establish governing terms and conditions and ensure VA and OFPP guidance is carried out to the fullest extent possible. The new IAA will document SPAWAR's commitment to comply with VA regulations and policies, and ensure the reasonableness of their fees.

Since the OIG report, I have received briefings on the status of our efforts to provide a long-term solution for Chapter 33 processing via SPAWAR, and on our management of each of the 40 amendments that have been issued under the SPAWAR IAA.

Our long-term strategy to support delivery of Post-9/11 GI Bill education benefits relies on our partnership with SPAWAR Systems Center—Atlantic to design, de-

velop, and deploy an end-to-end solution that utilizes rules-based, industry-standard technologies. The Post-9/11 GI Bill contains eligibility rules and benefit determinations that will work well with rules-based technology to reduce the need for human intervention. VA is currently working with SPAWAR Systems Center—Atlantic on the long-term IT solution. In accordance with VA's new IT management approach (Program Management Accountability System (PMAS)), which commenced June 19, 2009, VA's OI&T will utilize incremental development and strict management of milestones to ensure that we successfully deliver the functionality needed to serve our Veterans. New functionality will be delivered in increments of no more than 6 months, with the fourth and final release planned for December 2010. The Chapter 33 Long Term Solution will deliver an end-to-end solution, to support the delivery of Post-9/11 GI Bill benefits. The long-term solution will be:

- Released in 4–6 month intervals, delivering incremental capability
- Developed in a distributed application architecture framework
- Supportive of a service oriented architecture
- Developed using an agile methodology
- Rules-based to ensure reusability and flexibility

Development of release one has begun and we will complete the solution development environment in the first quarter of FY2011. Once completed, the Solution Release Schedule will allow us to meet the following milestones:

- Chapter 33 Long Term Solution Release 1—2QFY2010
- Chapter 33 Long Term Solution Release 2—3QFY2010
- Chapter 33 Long Term Solution Release 3—4QFY2010
- Chapter 33 Long Term Solution Release 4—December 2010

As mentioned earlier in my testimony, I receive regular briefings on the status of the Chapter 33 Long Term Solution from the VA/SPAWAR team. I can tell you that the project management skills exhibited in the content of those presentations are far in excess of those I have seen in any presentation from any other VA project to date. I have specifically excerpted pages from the SPAWAR presentation material to provide to other VA projects as examples of the types of project management methodologies all projects should follow.

I would now like to focus on the June 4, 2009, OIG Report, "Review of Inter-Agency Agreement between the Department of Veterans Affairs and the Department of Navy, Space and Naval Warfare Systems Center SPAWAR" and specifically address OIG's issues of concerns and recommendations as they relate to implementing the long-term solution for managing Chapter 33 GI Bill benefits. As an overview, it is VA's position that the implementation of the Chapter 33 long-term solution will not be negatively affected nor will the project delivery of the long-term solutions by December 2010 be delayed because of the findings within the OIG review.

The OIG reported poor administration of the IAA by both OED and SPAWAR. It was further noted that OED was not performing adequate oversight to ensure that funds were spent appropriately. OIG also attributed problems with the administration of the IAA, to insufficient technical and legal reviews conducted by OALC and OGC, respectively. OIG reported that neither VA nor SPAWAR complied with the terms and conditions of the IAA and that Statements of Work were often broad, and lacked specific timelines and deliverables.

I would like to assure the Committee that the VA/SPAWAR relationship resulted in a number of solid deliverables. In addition to the support provided to the Chapter 33 program, VA's investment in SPAWAR program management expertise proved immensely beneficial in other program areas as well. This included:

- The development of key program documentation, plans, and software designs for the next-generation HealtheVet Common Services;
- Comprehensive executability review of the Clinical Health Data Repository, including the determination of a viable path forward for its critical VA/DoD interoperability module;
- Full lifecycle, risk-adjusted Independent Cost Estimates for the FLITE program and HealtheVet program, identifying significant cost differences from the initial government estimates; and
- Information architecture for the eBenefits Portal, an interactive Web site providing a single source of information for returning servicemembers.

While we do not agree with many of the OIG findings regarding the sufficiency of the reviews, heightened management of the SPAWAR amendments and future work within the IAA is imperative. In concert with OALC and OGC, OI&T has taken the initial steps to improve the administration of the IAA, including establishing a consolidated, secure repository for storing all administrative documenta-

tion associated with any VA/SPAWAR initiatives; strengthening the Statements of Work, to include major milestones, specific deliverables, and other controls to ensure appropriate oversight; and strengthening the IGCE, to include specificity for labor, travel, materials, and standard listing of labor categories.

Most of the remediation will occur through the initiative OI&T has established to mature the acquisitions function. This initiative includes establishment of standardized, improved processes and mentorship of OI&T acquisitions management staff to better execute these processes.

As a component of strengthening the acquisition capabilities of all IT programs, VA recognizes importance of applying those improvements to the SPAWAR relationship. OI&T will ensure that the staff assigned as Contracting Officer Technical Representatives (COTR) has the capacity to oversee all SPAWAR relationships, including the administrative aspects. This includes:

- Managing, reviewing and assigning amendments and changes
- Tracking cumulative data such as monthly financial reports
- Monitoring and resolving issues, to include determination if there are systemic problems
- Monitoring all documentation and deliverables
- Confirming receipt of services and monitoring if OI&T is receiving best value

OI&T will establish acquisition training for OI&T staff and provide acquisition experts to coach and mentor program managers. In addition to training staff to execute the acquisitions processes effectively, training will also address Organizational Conflict of Interest (OCI), Personal Services, and Government Ethics.

OI&T is standardizing acquisition documents to:

- Clearly define tasks, deliverables, performance measures, period of performance, VA points of contact
- Ensure deliverables directly tied to tasks
- Tasks are specific and tied to only one program/project

OI&T is standardizing its reporting. Reports will be created for financial, staffing, and schedule status. To ensure adherence to cost, schedule and performance, easy-to-use standard management templates will be created for the program managers to assist in the review and analysis of financials, and other project status information.

OI&T will pursue an approach to ensure that a key principal purpose of the IAA, to strengthen the knowledge, skills, and abilities of VA staff, is the central aspect of all future work between VA and SPAWAR, as well as initiate use of performance based statements of work, to improve specificity and better manage outcomes of VA's relationship with SPAWAR. Additionally, VA is taking steps to ensure better training of its personnel to manage IT programs, operations and monitor contract performance, including greater oversight of the technical and legal review processes by OALC and OGC. Through the implementation of these objectives and new policies, VA will continue to work with SPAWAR, to address the issues cited in the IG report as they apply to the IAA.

Specific to the administration of the SPAWAR Chapter 33 amendments, VA already made great strides in establishing a proper governance and oversight plan. The Chapter 33 Long Term Solution Governance and Oversight Plan describes how the long term solution engages in oversight. Oversight includes the monitoring of the deliverables submitted by SPAWAR. Reviews of the Monthly Progress Reports, project deliverables reviews and planning sessions, and day-to-day oversight of the SPAWAR teams provide several layers of oversight.

The Chapter 33 program utilized the IAA to gain assistance with the project management expertise that VA was not able to provide. SPAWAR provided in-domain expertise to build a robust necessary framework and plan to fulfill functional and organizational requirements. Program management and technical services were provided to consistently integrate standard protocols, pilot reporting structures to ensure process maturity, compare the project's methodology to reflect industry best practices from organizations such as Gartner, and design infrastructure to support modular tools.

The acquisition will focus on the development of the Chapter 33 Long Term Solution using agile methodologies. This requirement encompasses two distinct tasks, the second of which is optional dependent upon the performance of the first. Task 1 includes the development of the initial solution functionality and a system prototype. Task 2, which is optional, contains requirements for completing development, conducting final end user acceptance testing, deploying the full capability, training staff on the new system, and sustaining the system.

In order to meet the objectives of both Task 1 and Optional Task 2, significant material investments are required. The materials investments to be obtained by SPAWAR include (1) necessary hardware and operating systems to host the solution; (2) commercial off-the-shelf products; (3) life-cycle software tools for management of all solution requirements, architecture artifacts, software components, and documentation; and (4) networking and telecommunications hardware in order to connect to VA's network infrastructure. The investment will produce and maintain a framework for managerial reporting, quality control, and team training.

The Chapter 33 Long Term Solution will not be negatively affected nor will the project delivery of the Long Term Solution by December 2010 be delayed because of the OIG review. As mentioned in prior testimony and responses to inquiries, the Chapter 33 project instituted consistent oversight of all aspects of the project, including SPAWAR, from the outset. The Post-9/11 GI Bill IT solution Integrated Project Team (IPT) meets weekly to conduct a review and status of the initiative. These IPT reviews include participants from development, infrastructure, engineering, and the Veterans Benefits Administration. Also, VA maintains frequent oversight of the SPAWAR contribution to the Post-9/11 GI Bill initiative through daily communications concerning requirements, architecture, and software development. Finally, the Post-9/11 GI Bill IT solution underwent an extensive review associated with OI&T's Transformation-21 initiative, which included an analysis of eight key program attributes.

In inviting us to today's session, Members of the Subcommittee inquired as to whether VA researched the Department of Education's Common Origination and Disbursement (COD) benefits management program for potential incorporation into the Post-9/11 GI Bill IT solution. VA and the Department of Education assessed this possibility early in the planning stages of the program. However, VA concluded that the process required to administer benefits for the Post-9/11 GI Bill was distinct from that required for the COD program, therefore the COD program did not represent a comparable model for the Post-9/11 GI Bill solution. VA welcomes the opportunity to collaborate with agencies throughout the Federal Government and will continue to assess best practices in the development of its IT solutions.

In closing, I would like to thank you again for your continued support and the opportunity to testify before this Subcommittee on the important work we are undertaking to improve educational benefits for those, who have selflessly served our Nation. I would now like to address any questions you might have.

MATERIAL SUBMITTED FOR THE RECORD

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
September 28, 2009

Ms. Maureen Regan
Counselor to the Inspector General
Office of Inspector General
U.S. Department of Veterans Affairs
810 Vermont Ave., N.W.
Washington, DC 20420

Dear Ms. Regan:

I would like to request your response to the enclosed questions for the record and deliverable I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on *Review of Space and Naval Warfare Systems Center Atlantic and the U.S. Department of Veterans Affairs' Interagency Agreement* on September 10, 2009. Please answer the enclosed hearing questions by no later than Monday, November 9, 2009.

In an effort to reduce printing costs, the Committee on Veterans' Affairs, in cooperation with the Joint Committee on Printing, is implementing some formatting changes for material for all full Committee and Subcommittee hearings. Therefore, it would be appreciated if you could provide your answers consecutively on letter size paper, single-spaced. In addition, please restate the question in its entirety before the answer.

Due to the delay in receiving mail, please provide your response to Ms. Orfa Torres by fax at (202) 225-2034. If you have any questions, please call (202) 226-4150.

Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

U.S. Department of Veterans Affairs
Office of Inspector General
Washington, DC
October 21, 2009

Hon. Stephanie Herseth Sandlin, Chairwoman
Subcommittee on Economic Opportunity
Committee on Veterans' Affairs
United States House of Representatives
Washington, DC 20515

Dear Madam Chairwoman:

This is in response to your September 28, 2009, letter to Maureen Regan, Counselor to the Inspector General, following the September 10, 2009, hearing on *Review of Space and Naval Warfare Systems Center Atlantic and the U.S. Department of Veterans Affairs' Interagency Agreement*. Enclosed are Ms. Regan's answers to the additional hearing questions. This information has also been provided to Congressman John Boozman, Ranking Republican Member, Subcommittee on Economic Opportunity.

Thank you for your interest in the Department of Veterans Affairs.

Sincerely,

GEORGE J. OPFER
Inspector General

Enclosure

**Questions from the Honorable Stephanie Herseht Sandlin
For Maureen Regan, Counselor to the Inspector General
Office of Inspector General, U.S. Department of Veterans Affairs
Before the Subcommittee on Economic Opportunity
Committee on Veterans' Affairs
Review of Space and Naval Warfare Systems Center Atlantic and the
U.S. Department of Veterans Affairs' Interagency Agreement**

Question 1: Did you find out why the Interagency Agreement did not contain specific tasks or requirements?

Response: The Interagency Agreement (IAA) was intended to be an overarching agreement through which VA could purchase services over the lifetime of the IAA. The intent of the IAA was not to purchase services for specific tasks; rather it was to establish parameters for VA to order services from Space and Naval Warfare Systems Center (SPAWAR). Therefore, the IAA would not have contained specific tasks or requirements. These parameters included the identification of eight types of services that VA could request, the process for requesting services, how payment would be made and when, and other terms and conditions. When VA identified a need for services, VA was to be responsible for developing a Task Initiation Form that would include a detailed Statement of Work (SOW) identifying the specific tasks or requirements, deliverables, and including an independent government cost estimate (IGCE).

Question 2: Has anyone in the Department of Veterans Affairs been trained or mentored to manage the programs being overseen by Space and Naval Warfare?

Response: Although training and mentoring VA personnel to manage information technology (IT) programs was one of the eight general services that VA could procure under the IAA, at the time we completed our review, no training or mentoring relating to program management responsibilities had been provided through the IAA. This is a concern since VA has stated that SPAWAR would provide training and mentoring related to program management responsibilities to VA personnel so that at some time in the future, VA would have the expertise to fully assume program management responsibility for all its IT projects.

Question 3: Did the Department of Veterans Affairs state why each level of review for the Interagency Agreement relied on previous levels of inadequate review?

Response: The amendments issued against the IAA to purchase services for specific tasks did not go through a review board process consisting of representatives from the program office requesting the services, acquisition personnel, and legal staff. Instead, the preparation of the amendment, accompanying SOW, including the IGCE, and other relevant documentation is sent separately through these entities for approval. Each entity focuses its review on its area of specialty and the others rely on the comments and approvals submitted by each specialty area. For example, legal and technical reviewers relied on the program office to identify its requirements and deliverables, and to develop the IGCE. In turn, the program office relied on the legal reviewers to ensure the work is within the scope of the IAA and that the proposed amendment was legally sound. Finally, both the program office and the legal reviewers relied on the technical reviewers in acquisition to ensure that the proposed amendment complied with Federal acquisition laws and regulations.

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
September 28, 2009

Mr. Mark Krause
Department of Veterans Affairs Program Manager
Space and Naval Warfare Systems Center
810 Vermont Ave., N.W.
Washington, D.C. 20420

Dear Mr. Krause:

I would like to request your response to the enclosed questions for the record and deliverable I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on *Review of Space and Naval*

Warfare Systems Center Atlantic and the U.S. Department of Veterans Affairs' Interagency Agreement on September 10, 2009. Please answer the enclosed hearing questions by no later than Monday, November 9, 2009.

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Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

Questions for the Record
Hon. Stephanie Herseth Sandlin, Chairwoman
Subcommittee on Economic Opportunity
House Committee on Veterans' Affairs
September 10, 2009
Review of Space and Naval Warfare Systems Center Atlantic
and the U.S. Department of Veterans Affairs' Interagency Agreement

Question 1: You write that many labor hours were spent gathering the Department of Veterans Affairs' requirements and ensuring distribution lists were accurate. Who in the VA should have had these items and was this essentially a duplication of work?

Answer: The VA partnered with SPAWARSYSCEN Atlantic to acquire needed project management and systems engineering expertise, and this is a case where that expertise was correctly applied. There was no duplication of work.

Under amendment 19, the VA funded SPAWARSYSCEN Atlantic approximately \$40,000 to cover the labor required to complete the acquisition process. This process utilizes vendor competition to ensure the government is procuring the best solution for the lowest cost. In order for this to occur, SPAWARSYSCEN Atlantic labor hours were spent gathering the VA's requirements and system components distribution lists. The system components distribution lists consisted of points of contact and equipment configuration encompassing 64 VA sites. This information was used to coordinate the purchase, delivery and installation of equipment at each of those sites. The request for quotation (RFQ) packages were then posted for authorized bidders' review on one of SPAWARSYSCEN Atlantic's contracting vehicles. Once all bids were received, SPAWARSYSCEN Atlantic conducted technical evaluation reviews to ensure the proposed solutions met VA requirements and cost analyses were completed. Once a vendor was selected, the quote packages and supporting details were then forwarded to the Contracting Officer for contract award. Each procurement had a unique system components distribution list which was tracked closely to ensure they were delivered to the correct location on schedule. This process was completed for 11 line items, quantities ranging from 1 to 7,000 and material costs totaling over \$10,000,000. The \$40,000 in labor equates to 0.4 percent of the total material dollars.

Question 2: The Inspector General expresses concern that the Deliverables Schedule does not specifically address any of the deliverables and lacks specificity. Do you agree with this assertion?

Answer: When SPAWARSYSCEN Atlantic first began supporting these VA projects last year, the VA requested that we provide system engineers for support their IT programs. The deliverables from the statements of work (SOWs) at that time primarily called for technical/engineering labor hours. The VA asked SPAWARSYSCEN Atlantic to be part of a blended VA/SPAWAR team; however SPAWARSYSCEN Atlantic was not assigned primary responsibility for completing specific project deliverables. Rather, SPAWARSYSCEN Atlantic system engineers worked collaboratively with VA team members to develop the resulting 'code' and

deliverables. The quality of the support SPAWARSYSCEN Atlantic provided exceeded the expectations of the VA. Since development of these early SOWs (and well before the IG inspection) the VA and SPAWARSYSCEN Atlantic have worked closely together to better define specific project deliverables. This was made known to the IG, but it was not brought out in the final IG report. For the last several months, SPAWARSYSCEN Atlantic has worked very closely with the VA's Technical Acquisition Center to ensure all SOWs within VA funding Amendments have extremely detailed deliverable descriptions and due dates.

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
September 28, 2009

Hon. Roger W. Baker
Assistant Secretary for Information and Technology
U.S. Department of Veterans Affairs
810 Vermont Ave., N.W.
Washington, D.C. 20420

Dear Hon. Baker:

I would like to request your response to the enclosed questions for the record and deliverable I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on *Review of Space and Naval Warfare Systems Center Atlantic and the U.S. Department of Veterans Affairs' Interagency Agreement* on September 10, 2009. Please answer the enclosed hearing questions by no later than Monday, November 9, 2009.

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Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

Questions for the Record
Hon. Stephanie Herseth Sandlin, Chairwoman
Subcommittee on Economic Opportunity
House Committee on Veterans' Affairs
Review of Space and Naval Warfare Systems Center Atlantic
and the Department of Veterans Affairs Interagency Agreement
September 10, 2009

Question 1: If the Department of Veterans Affairs lacks the experienced personnel to do the education long term solution how can the VA oversee what Space and Naval Warfare (SPAWAR) and the SPAWAR contractors are doing?

Response: The recently implemented Program Management and Accountability System provides explicit procedures for project development oversight and a rigorous management approach to address potential performance shortcomings. These procedures apply to the Chapter 33 project and entail formal progress reviews every 2 weeks and delivery of smaller, frequent releases of functionality, which undergo testing and customer acceptance for each interim milestone delivered. This way, Department of Veterans Affairs (VA) subject matter experts can provide immediate feedback for course correction and ensures customers, project members (VA and SPAWAR) and vendors are aligned and accountable to produce results.

Question 2: Are the Inspector General's assertions correct that Task Information Forms, Statement of Work, and Independent Government Cost Estimates were developed for the Department of Veterans Affairs by Space and Naval Warfare or its contractors? If so, why?

Response: Prior to the new Interagency Agreement (IAA) signed in November 2009, VA Government Project Managers (PM) did collaborate with Space and Naval Warfare Systems Center Atlantic (SPAWARSYSCEN Atlantic) government employees in the preparation of Task Initiation Forms (TIF), Statements of Work (SOW), and Independent Government Cost Estimates (IGCE). Both the prior and current IAAs between VA and SPAWAR represent a government-to-government partnership. The purpose for the government-to-government collaborative effort in development of TIFs, SOWs, and IGCEs was to ensure both parties had a full understanding of the work to be performed and the requirements/method to complete.

To eliminate any confusion over roles, or the false appearance of a conflict of interest between VA and SPAWARSYSCEN Atlantic, changes were implemented in the new IAA. In the new IAA, the roles of VA as the Requesting Agency and SPAWARSYSCEN Atlantic as the Servicing Agency are more clearly defined with respect to preparing requirement documents, cost estimates and PART B funding documents. VA's Technical Acquisition Center (TAC) strictly enforces these roles and works closely with VA PMs in preparing all PART B documents issued to SPAWARSYSCEN Atlantic. All PART Bs are signed by a VA TAC Contracting Officer.

In addition, SPAWARSYSCEN ATLANTIC utilizes its industry partners to perform various administrative and programmatic functions associated with VA projects. These contractors have never participated in the preparation of TIFs, SOWs and IGCEs.

Question 3: You mentioned in your testimony revisions to the technical and legal review processes. What revisions have been made?

Response: By October 2008, the Office of General Counsel (OGC) and the Office of Acquisition, Logistics, and Construction (OALC) both recognized a need to streamline technical and legal review processes, and discussed revising how intergovernmental transactions were reviewed, in part, to implement the Office of Federal Procurement Policy (OFPP) June 2008 Memorandum. Subsequently, OALC and OGC collaborated to revise their technical and legal review processes.

OALC consulted OGC and then issued Information Letter 001AL-09-04, March 23, 2009, which provided additional guidance on the management of interagency acquisitions by establishing new VA procedures for entering into any agreement with another Federal agency. Also in March 2009, OALC established the TAC, to specifically support OI&T acquisitions, including moving SPAWAR requirements to this Center. As such, SOWs are reviewed by TAC technical personnel with OI&T program managers to ensure requirements include specific tasks, deliverables, and delivery dates; that SOWs include VA technical points of contact; that the Contracting Officer (CO) executes a determination that VA requirements provided by SPAWAR under each amendment are within the scope of the IAA; that the CO ensures compliance with Federal regulations (FAR Part 17.5) (e.g., Requiring each Economy Act order be supported by a Determination and Findings (D&F)) and VA policy (e.g., requiring an Integrated Project Team (IPT) or IPT waiver for acquisitions over \$5M).

OGC, meanwhile, updated IAA and amendment legal reviews by revamping the review process. OGC incorporated the following action items to work closer with OALC and OI&T on amendments (including SPAWAR) to enhance the reviews' accuracy and utility:

- Ensure a complete technical and legal review is conducted for all Statements of Work (SOW) for all new SPAWAR amendments.
- Ensure a CO's written confirmation that the services to be acquired are within the scope of the IAA. This is in addition to OGC's independent review and determination regarding scope.
- Ensure D&Fs are included with supporting rationale and evidence of the CO's analysis for each amendment.
- Ensure amendments issued against the SPAWAR IAA include the specific identification of all tasks and deliverables associated with the services requested.
- Ensure that the procedural steps outlined in Information Letter (IL) 001AL-09-04 are followed; including preparation of a preliminary business case and a detailed work package for OGC review.

Additionally, OGC attorneys, OALC, and OI&T are actively collaborating in working and information meetings to ensure timely execution of IAA requirements and to address all concerns/issues with subsequent SPAWAR amendments.

Question 4: Did Office of Enterprise Development or Office of Acquisition, Logistics, and Construction personnel ever request Space and Naval Warfare (SPAWAR) to substantiate the 10 percent fee being charged by SPAWAR? Are you comfortable with the rate?

Response: Yes. Based on VA's request, SPAWAR submitted the below report that supports details to substantiate the Program Support Office (PSO) costs (i.e., 10 percent fee) and included specific descriptions of the services provided by the SPAWAR PSO. The TAC also requested support for SPAWAR's PSO costs and received the following breakout:

Government and Systems Engineering Oversight	40 percent
Finance and Accounting	30 percent
Quality Assurance/Process Improvement	10 percent
Performance Reporting and Maintenance	5 percent
Acquisition and Logistics	5 percent
Business Automation	5 percent
Performance Metrics	5 percent

Based on this information, and a review of the other agency service charges and the level of complexity of the work being performed by SPAWAR, the CO determined that the program support costs were reasonable and in the best interest of VA.

VA and SPAWAR have also agreed that program support costs will be submitted by SPAWAR, to VA, as a cost estimate broken out by labor categories and hours, for each specific requirement placed against the IAA, rather than estimated as a flat percentage of labor costs.

Question 5: The Inspector General concluded that Office of Enterprise and Development (OED) has essentially abdicated its program responsibilities to Space and Naval Warfare. What is OED doing to reclaim its oversight role?

Response: In his September 10, 2009, testimony to the House Committee on Veterans' Affairs, VA's Chief Information Officer (CIO), Mr. Roger Baker, provided testimony that "OI&T will establish acquisition training for OI&T staff and provide acquisition experts to coach and mentor program managers. In addition to training staff to execute the acquisitions processes effectively, training will also address Organizational Conflict of Interest (OCI), Personal Services, and Government Ethics." Coupled with developing appropriate training for all VA employees affiliated with the SPAWAR IAA and subsequent amendments, VA has assigned VA employees with appropriate experience and knowledge to key government oversight roles. OI&T, in concert with OALC and OGC, has taken the following initial steps to improve this process:

- Established a consolidated secure repository for storing all administrative documentation associated with any VA/SPAWAR initiatives.
- Strengthened SOW format to include major milestones, specific deliverables, and other controls to ensure appropriate oversight.
- Strengthened IGCE to include specificity for labor, travel, materials, and standard listing of labor categories.

Going forward, OI&T, in concert with OALC and OGC, will implement the following measures to further improve oversight:

- Pursue an approach to ensure that the principal purpose of the IAA, to strengthen the knowledge, skills, and abilities of the VA staff, is the central aspect of all future work between VA and SPAWAR.
- Require monthly SPAWAR reports comparing estimated labor costs with actual costs for better fiscal execution monitoring.
- Implement Certificate of Compliance and Acceptance of Deliverables to record receipt, inspection, acceptance of deliverables, and certification of compliance with contractual specifications. The Certificate of Compliance and Acceptance of Deliverables must be signed by the PM receiving service as well as the OED IAA Contracting Officer's Technical Representative (COTR).
- Review the scope and nature of all amendments to ensure separation of unrelated requirements.

Question 6: The Inspector General had difficulty obtaining basic Interagency Agreement documents that were ultimately provided by Space and Naval Warfare and not the Department of Veterans Affairs. Why did the VA not have the documents, why was the VA unaware where the documents resided? How unusual is it to have a contractor provide basic documents instead of a Federal agency?

Response: The Director, OED Acquisitions Service, provided “zipped” files of available documents upon request to the Office of Inspector General. The office acknowledged receipt on February 12, 2009. Attachment 1 is the Inventory of Documents provided to OIG. OED acknowledges that it is unusual for the contractor to supply basic contract documents. [Attachment 1 will be retained in the Committee files.]

Since the initial report, OED has implemented more stringent records management protocols and assigned contracting responsibilities to the TAC.

Going forward, OED has established a consolidated, secure repository for storing all administrative documentation associated with any VA/SPAWAR initiative. Additionally, OALC stores all contractual documents electronically in VA’s Electronic Contract Management System (eCMS).

Question 7: The Inspector General was informed that the Department of Veterans Affairs is not involved at any level in the negotiations, award or administration of the task orders. Who is doing the negotiations, awarding and administration of the task orders and how are VA’s best interests being protected?

Response: SPAWAR COs negotiate, award, and administer task orders to their contractors using existing multiple award contracts under which task orders are competed. These task orders are placed in accordance with all applicable Federal, Department of Defense, and Navy regulations and policies.

Although, VA has no privity of contract with SPAWAR’s contractors, VA’s interests are protected by the VA CO, working in concert with the VA Program Manager (PM), who monitors SPAWAR’s performance under each amendment, based on the terms and conditions of the SOW associated with each amendment.

Question 8: The Inspector General found no evidence that anyone in the Department of Veterans Affairs monitored costs or performance. Which office and which person specifically should have been monitoring costs or performance?

Response: As part of their program responsibilities, VA OI&T PMs, are responsible for monitoring cost and performance. Additionally, the CO, working in concert with the PM, monitors SPAWAR’s performance under each amendment, based on the terms and conditions of the SOW associated with each amendment.

Question 9: Is Space and Naval Warfare the best entity to assist the Department of Veterans Affairs with developing the long term solution for the new GI Bill?

Response: VA believes SPAWAR is ideally suited to assist VA with the development of the long-term solution for the new GI Bill. This relationship provides significant expertise in contract oversight, program integration, and service-oriented architecture (SOA). Financial risk to VA is minimized as SPAWAR cannot profit from another government entity.

SPAWAR has knowledge of both the VA and Department of Defense environments. This knowledge, coupled with its experience at VA in building the foundational elements of this program, such as the SOA, reduces the ramp-up time required to launch this program and to achieve product delivery.

Question 10: Have any Space and Naval Warfare employees been fully empowered to act on behalf of the Federal Government by any mechanism?

Response: Although SPAWAR is a government agency with Federal Government employees, no SPAWAR employee is empowered to act on behalf of the VA.

Question 11: Can Office of Acquisition, Logistics and Construction provide us with the documentation to support statements that use of an interagency acquisition is in the best interest of the Federal Government and that the supplies or services could not be obtained as conveniently or economically by contracting directly with a private source?

Response: The original Determination and Findings (D&F) (Attachment 2) that was executed to support the initial SPAWAR IA is considered an “umbrella” D&F; therefore, it does not provide any specifics. Following the issuance of new OFPP guidance, VA determined that D&Fs should be executed specific to each amend-

ment. This resulted in the corrective action and the documentation provided by the TAC in support of the recent amendments issued by its staff.

Question 12: The Inspector General asserts that the Office of General Counsel (OGC) did a limited review of the Interagency Agreement and all amendments. Did OGC fail to identify that amendments 10 and 19 contained requirements that were outside the scope of the Interagency Agreement as asserted by the Inspector General?

Response: OGC reviewed the Interagency Agreement (IAA) and all subsequent amendments for legal sufficiency in accordance with OALC and OGC policies then in effect. Prior to determining the legal sufficiency of amendments 10 and 19, the reviewing attorney followed OGC's internal review procedures which consisted of reviewing the language, purpose, and scope contained in each amendment, and comparing them to the original IAA's purpose and scope. Targeted clauses included the amendment's purpose, the authority for both the IAA and given amendment, the tasks and deliverables for both, the additional services or supplies sought under the IAA amendment, the requisite funding information supporting the amendment, the IAA amendment point of contact information, terms for amending and terminating the agreement, dispute resolution, and acceptance of the agreement.

OALC submitted the amendments in questions, 10 and 19, to OGC for review and concurrence as part of typical document packages that contained a cover letter to SPAWAR enclosing the amendment, a Determination and Findings (D&F), and a funding document showing funds were available. A separate document package was provided for each amendment and submitted to OGC for a determination of legal sufficiency. Commonly, OGC only received the amendment document package; Statements of Work—the parts of the acquisition packages that described the tasks and requirements in detail—were not part of the document packages. The IAA amendments described the requirements needed, typically supplementing or modifying the requirements established in the original IAA.

After comparing the amendment's purpose and description of the changed services and supplies it would procure within the original IAA's tasks, purpose, and scope, the attorney determined that the software licenses and the hardware and software materials requested were necessary to support the Application Development Assessment task the IAA described and were within its original ambit. The attorney further determined that the funding documents were in order and indicated funding was available for the amendments. Upon reviewing the amendments in conjunction with the plain language of the original IAA, the attorney determined that legal authority existed for the acquisitions and that the amendments could be entered into pursuant to the authority of the Economy Act 1932 (31 U.S.C. § 1535), which authorizes the transfer of funds from one Federal agency to another under an IAA.

Based upon the attorney's review of amendments 10 and 19, and all supporting documentation provided by OALC, a determination that the amendments were legally sufficient was rendered and a concurrence was provided to OALC. Given the OALC and OGC routine practice at the time, OGC properly reviewed the amendments in question. Consequently, because the SOWs were not presented in the review packages and OGC was unaware of their existence, this determination was based on incomplete information. Therefore, when the OIG obtained the SOWs that were originally absent from the review packages submitted to OGC, it was able to conclude that the software licenses and hardware and software materials contained in amendments 10 and 19 were outside the scope of the original IAA. OGC has subsequently revised its review procedures.

As indicated in the response to question 3, OGC, working with OALC and OI&T, has adopted new policy and processes which will ensure a more comprehensive legal review to avoid a recurrence. Specifically, OGC requests and requires the following to conduct reviews: requisite statements of work, supporting agreement or amendment documentation, and documentation of the contracting officer's analysis for the D&F (including a within scope determination). OGC has increased participation in acquisition planning and processes to ensure compliance with VA policies, including Information Letter 001AL-09-04 (which follows OMB/OFPP guidance on Interagency Agreements). OGC believes that it has addressed the concerns raised by implementing the foregoing, innovative procedures.

Question 13: Under the current Interagency Agreement develop the long term solution, what percent of the work is being done by the Department of Veterans Affairs, Space and Naval Warfare and SPAWAR contractors?

Response: As previously provided to the House Committee on Veterans' Affairs, Subcommittee on Economic Opportunity, in a response to a Question for the Record,

from the June 25, 2009, Congressional Hearing: *Post-9/11 GI Bill: Is the VA Ready for August 1st*, 100 percent of the Post-9/11 GI Bill Long-Term Solution (LTS) work is being accomplished by an integrated team of SPAWARSYSCEN employees and contractors, led by SPAWARSYSCEN program managers, chief engineers, project engineers and analysts.

SPAWARSYSCEN is a level III compliant capabilities maturity model for integration (CMMI) systems engineering command and is the lead system integrator responsible to VA for providing the inherently governmental elements of a program to include: program management; systems engineering; and fiscal accountability for the Post-9/11 GI Bill LTS. SPAWARSYSCEN supplements VA personnel with industry leading experts in the various disciplines required to execute the program. Via performance-based contracting, the Post-9/11 GI Bill LTS team is composed of approximately 80 percent contract personnel.

Question 14: Of the people providing services under the Interagency Agreement, do you know how many are Federal employees, Space and Naval Warfare employees, Space and Naval Warfare contractors, where they work, who they are working for and if the hours billed have actually been worked?

Response: Yes. SPAWAR tracks all project resources as part of its project management responsibility and provides monthly rosters to VA indicating resources engaged by project, their location, and whether they are SPAWAR employees or sub-contracted. Presently 451 resources are engaged, of which 44 are SPAWAR employees. VA maintains additional information for resources requiring access to VA's facilities and computer systems. VA tracks the level of access requested by individuals, their organization, their security clearance level, satisfactory completion of VA security training and the date access is granted.

The amendments to the Interagency Agreement for services provided are performance-based. As such, performance is measured according to whether deliverables produced are within schedule and cost, not according to hours worked. To measure interim progress, VA meets weekly with SPAWAR to review project accomplishments and to review financial projections to ensure satisfactory completion of deliverables. In addition to weekly reviews, SPAWAR provides monthly financial reports that formally document completed and planned activities, deliverables produced, and financial performance.

Regarding verification if the hours billed have actually been worked, the verification pertains to invoices submitted by sub-contractors to SPAWAR. SPAWAR monitors and validates the billable hours. They are subject to FAR and are regularly audited for compliance. As such, specific information is available to VA from SPAWAR anytime upon request.

DEPARTMENT OF VETERANS AFFAIRS ACRONYMS

CIO—Chief Information Officer
 CO—Contracting Officer
 COTR—Contracting Officer's Technical Representative
 D&F—Determination and Findings
 DoD—Department of Defense
 eCMS—electronic Contract Management System
 FAR—Federal Acquisition Regulations
 IAA—Interagency Agreement
 IG—Inspector General
 IGCE—Independent Government Cost Estimate
 IL—Information Letter
 IPT—Integrated Project Team
 LTS—Post-9/11 GI Bill Long Term Solution
 OALC—Office of Acquisition, Logistics and Construction
 OED—Office of Enterprise Development
 OFPP—Office of Federal Procurement Policy
 OCI—Organizational Conflict of Interest
 OGC—Office of General Counsel
 OI&T—Office of Information and Technology
 PgM—Program Manager
 PM—Project Manager(s)
 PMAS—Project Management Accountability System
 PMO—Program Management Office

PSO—Program Support Office
 PWS—Performance Work Statement
 SOA—service-oriented architecture
 SOW—Statement of Work
 SPAWAR—Space and Naval Warfare
 SPAWARSYSCEN—Space and Naval Warfare Systems Center Atlantic
 TAC—Technology Acquisition Center
 VA—Department of Veterans Affairs

**ATTACHMENT #2
 DETERMINATION AND FINDINGS**

Authority to Place an Economy Act Order

Based upon the following determination and findings, the proposed services may be placed under an existing contract pursuant to Interagency Agreement between Department of Veterans Affairs (VA) and the Space and Naval Warfare Systems Center (SPAWARSYSCEN) Charleston (SSC-C) in accordance with FAR 17.503, Determination and Findings Requirements.

Findings

1. VA proposes to collaborate with SSC-C in support of the development of major VA IT applications that support the delivery of health benefits and services.
2. These VA IT applications provide access to: trusted health information; links to Federal and VA benefits and resources; a personal health journal for veterans; and, an online VA prescription refill service. They directly benefit the veteran and allow them to understand and manage their own health.
3. VA IT development projects are intended to directly support the mission of the VA and the veteran. The collaboration with SSC-C, as an agency partner, affords VA the opportunity to standardize core IT software development processes, implement industry standard/best practices and improve efficiencies and effectiveness.
4. The SSC-C mission is to engineer, deliver, and support integrated, interoperable information technology systems through the use of rigorous, disciplined development processes. SSC-C achieves excellence in engineering through an aggressive Systems Engineering Program that applies key industry standards and best practices to improve systems and software engineering processes.
5. Subsequent incremental finding will be appropriated subject to the availability of funds for fiscal year 2008. This agreement may be extended by mutual consent of both parties.
6. Use of an interagency acquisition is in the best interest of the government.
7. The supplies or services cannot be obtained as conveniently or economically by contracting directly with a private source.

Submitted by:

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Deputy CIO for Enterprise Development

Signed by:

Cynthia Brown
Contracting Officer

