

**Statement of the Honorable Gordon Mansfield  
Deputy Secretary of Veterans Affairs  
Before the Committee on Veterans' Affairs  
United States House of Representatives  
June 17, 2004**

\*\*\*

Chairman Smith and Members of the Committee:

Thank you for inviting me to testify today. As my predecessor said last year, the Administration, and the Department, take very seriously our stewardship of America's programs of veterans benefits and services. It remains incumbent on us to manage the considerable resources entrusted to us in the most effective manner so that we can best serve our nation's veterans as well as safeguard America's investment in these important programs.

Today I will provide you with an update of VA's responses to findings included in reports issued last year by the Office of Inspector General (OIG) and the General Accounting Office (GAO). I respectfully request that you include in the record of today's hearing a paper that describes our efforts in detail with respect to each of the OIG and GAO findings. While I am glad to discuss any of the issues covered in the paper, my testimony will highlight important steps taken by the Department to respond to some of the major findings of the OIG and GAO. While more remains to be done, be assured the Department is committed to successfully resolving all outstanding matters. In addition, I would like to take this opportunity to mention great strides made by VA to generally maximize the Department's resources.

Initially, I would like to comment on an issue of concern to both VA and Congress that came to light in recent months: The implementation of the CoreFLS software system at the VAMC Bay Pines. The Secretary and I remain firmly committed to the development of a financial logistics information technology system that benefits VA patients and health care providers. Towards that end, VA's management will oversee and ensure that all CoreFLS-specific concerns continue to be fully addressed. The Secretary will decide the appropriate future of CoreFLS based on the information gathered from the following on-going investigations and reports:

- o VA Office of Inspector General (OIG) report - due June 2004
- o House Committee on Appropriations Surveys and Investigations Staff - interim assessment due June 2004, final report due September 2004
- o Carnegie Mellon's Software Engineering Institutes (SEI) Independent Technical Assessment (ITA) – report due June 30, 2004

In the interim, the CoreFLS staff continues to work closely with VAMC Bay Pines to support operations at the station.

On the positive side, the CoreFLS pilot programs located at the St. Louis Veterans Benefits Administration Regional Office and the Florida National Cemetery have, in sharp contrast, not experienced problems of the magnitude that VAMC Bay Pines has experienced with this system. This is generally due to the fact that both NCA's and VBA's processes are less complex than VHA's processes and both use a more limited version of the CoreFLS program. Both pilot sites expect their use of CoreFLS to be operational with only minor problems by the end of June.

#### Part-Time Physician Time and Attendance

Last year the Department responded to a finding by OIG that in a number of instances part-time physicians had not worked their scheduled hours. The OIG found that some part-time physicians had performed no work for VA during the periods examined.

Mr. Chairman, we have made substantial progress in addressing this important matter. First, physicians whose services are not needed on a regular, recurring basis have been or will be converted to a more appropriate scheduling arrangement, e.g., fee basis or intermittent.

Second, to ensure that part-time physicians and managers understand and comply with the rules, VHA has required that every part-time physician be personally counseled about time and attendance requirements and that all part-time physicians certify that they understand the rules. Refresher training has also been given to all timekeepers, and every facility was required to review and update, as necessary, local time and attendance policies. Those policies were subsequently submitted to Headquarters for review to ensure that they are complete.

Finally, VA Network Directors' quarterly performance reviews will include these measures, to ensure continued attention to compliance with these mandates.

We believe these measures have helped us to significantly correct this previously identified shortcoming. Indeed, on August 15, 2003, the OIG conducted unannounced follow-up visits at 15 VA medical facilities to reassess time and attendance practices of part-time physicians. Their report, issued February 18, 2004, indicated progress was being made in this area. Of the 729 part-time physicians reviewed, only 2 percent were identified as not being in compliance with applicable VA policy. In addition, OIG found that comprehensive written agreements were documented for 98 percent of these physicians. Our

goal is full system-wide compliance, but we are nonetheless encouraged that our efforts thus far have resulted in such a high level of compliance.

### Purchase Cards

VA's Office of Finance continues to be very proactive in responding to systematic management weaknesses and vulnerabilities identified during OIG's audits and program office reviews related to the purchase card. Specifically, VA developed and published Directive and Handbook 4080, which established policy and procedures for obtaining a purchase card, the proper uses of a purchase card, and management and employee responsibilities for use of the card. An important aspect of this policy is that it provides for disciplinary action when an employee does not follow policy relating to proper use of these cards. The directive and handbook are currently being revised in response to the April 26, 2004, OIG report on VA purchase card practices. When completed we will provide a copy of these policies to the Committee.

The Office of Finance is also providing purchase card data to the Office of Business Oversight (OBO) so that OBO can conduct audits of any questionable transactions beginning in FY 2005. These focused audits will be in addition to the OBO's routine ongoing financial audits, which include review of purchase card internal controls and compliance with the Federal Acquisition Regulation (FAR) and VA policy. These efforts will enhance the overall effectiveness and oversight of the purchase card program within VA. They also respond directly to the OIG's April 26, 2004, purchase card recommendations.

While working to improve internal controls, VA also continues to identify additional ways these cards can be used to reduce operational costs and increase rebates. VA's recently re-competed purchase card contract (2003) resulted in substantially greater rebates to VA—rebates are double what they were prior to the re-competition, and anticipated rebates for FY 2004 and beyond are expected to exceed \$33 million annually. VA is currently piloting use of the card with non-VA providers of medical services and supplies. Since inception of the pilot in mid-September 2003, VA has processed 8,644 transactions worth \$1.6 million and earned \$25,000 in additional rebates. Currently 66 providers are participating in the pilot.

Even though GAO and OIG reports have consistently found less fraud and misuse in VHA's purchase card program than in most large federal programs, we recognize that our purchase card program still has weaknesses that may leave it vulnerable to fraud and misuse. We will continue to improve the program to eliminate such vulnerability.

## Federal Supply Schedule

In addition, VA's Federal Supply Schedule (FSS) programs have enjoyed substantial growth in the last four years. In FY 1999 VA's FSS sales were approximately \$2 billion. This last fiscal year, sales topped \$6 billion. The FSS for medical services, which was nonexistent in FY 1999, is expected to exceed \$200 million this year. Most importantly, our schedules reflect very favorable pricing. GAO found that VA's aggressive efforts to ensure most favorable pricing in awarding FSS and national contracts for medical products and services have saved taxpayers hundreds of millions of dollars per year.

## Capital Asset Management

GAO's May 8, 2003 report noted that many of VA's buildings remain underutilized and that its large and aged infrastructure is not always well aligned to efficiently meet veterans' needs. The Department, at the highest levels, has worked earnestly to address these problems. We recognize that we must update our facilities to reflect changes in the practice of medicine as well as the changing needs of our veterans.

To this end, the Secretary recently submitted the CARES package to Congress. Overall, the CARES plan identifies 100 major construction projects in 37 states, the District of Columbia and Puerto Rico and minor construction projects throughout our system. Investment in modernization, as well as costs avoided through vacating obsolete or redundant space, will pay off in resources committed to medical care rather than maintaining vacant or obsolete space.

Implementation of the CARES plan will also reduce vacant space in the Veterans Health Administration from 8.57 million square feet to 4.93 million square feet, a reduction of 42.5%. Further, the CARES plan will reduce the cost of maintaining vacant space over the period 2006 to 2022 by \$2.65 billion and allow VA to direct those funds to patient care.

We next identified major construction capital requirements needed to implement CARES for fiscal years 2004 through 2010. These projects were identified through the CARES planning process to meet the challenges of providing veterans' health care in the 21st century and to implement the decisions identified in the Secretary's decision document released on May 7, 2004. VA will use available funds (FY 2004 and prior year appropriations) along with funds included in the FY 2005 President's budget request to carry out VA's highest priority projects in FY 2004 and FY 2005. VA's five-year asset plan will be submitted to the Congress in the near future.

Another tool we developed to improve management of VA's capital assets is the Capital Asset Management System (CAMS). This is an integrated, Department-wide system that enables VA to establish, analyze, monitor and manage its portfolio of diverse capital assets. The asset classes include: leases,

IT, equipment, agreements, buildings and land. CAMS extracts key information, including planned cost, actual cost and performance data from several existing data sources in order to provide a strategic view of existing assets, in-process investments and proposed assets across VA. CAMS implementation is innovative, and particularly impressive, because no tool previously existed that provided comprehensive portfolio management. VA is the first federal agency to consider all asset classes and to implement a tool to manage them collectively.

### Procurement

In response to OIG's report on the subject of VA purchasing practices, the Secretary chartered the VA Procurement Task Force in 2001. Since its inception, the VA Procurement Reform Task Force has examined the extent to which VA obtained best available prices; complied with federal and VA acquisition regulations; used purchase cards appropriately; used adequate systems to track and document purchases; and ensured an adequate acquisition work force.

Some notable accomplishments of the task force include the following:

1). The establishment of a contract hierarchy which mandates VA use of national contracts and VA's FSS over open market purchases. This has dramatically changed the way VA does business. Companies that were previously reluctant to enter into national contracts or FSS Contracts are now aggressively seeking opportunities to refocus their participation in the new VA system. The National Acquisition Center in Hines, IL, received more than 100 new sources as a result of executing this new initiative.

2). The establishment of the High Tech/High Cost Equipment Consolidation Program, which has been in place since January 31, 2003. The program has resulted in the savings of approximately \$11 million. New workgroups have been established to build on the successes of the Program. These clinically driven workgroups are charged with establishing national contracts for some specific high cost/high tech commodities.

3). Substantial savings under the National Standardization Program (NSP). In particular, over \$8 million dollars was realized in cost avoidance for FY 03 for the Medical Surgical Standardization Program. An additional \$12 million dollars in cost avoidance was realized for the Prosthetics and Sensory Aids (PSAS) Clinical Management Program. Currently, VHA is restructuring the NSP to incorporate the strengths, processes and guidelines of the very successful PSAS Clinical Management Program.

We are also taking other proactive measures to generally maximize Department resources. Two programs bear special mention.

First, VA's post-award audit program is an area of notable progress. Under this program, audits are performed after the award of FSS and other contracts to ensure that the contracts were properly awarded. When it is determined that they are not, VA is able to seek price reductions and refunds from the contractors. Through April 2004, refunds have totaled approximately \$200 million; these refunds have been deposited in VA's Supply Fund.

Because contractors are aware of VA's audit activities, there has been a beneficial effect on their business practices. Since 1993, 94 companies have voluntarily disclosed situations where errors were made in their contracts and have made refund offers to VA. The OIG is currently reviewing 13 such disclosures, with refund offers amounting to \$10.8 million. In certain cases, the OIG might make a referral of a company to VA's Debarment and Suspension Committee for its review.

Second, we are currently re-organizing VHA's business activities to strengthen and ensure compliance with finance, acquisition and capital asset policies and procedures. The following three positions will be created: Chief Financial Officer (CFO), Chief Asset Management Officer (CAM), and Chief Logistics Officer (CLO). Until now, oversight of these areas varied at each medical center, with no direct line of control and accountability. Each position will report to a VISN director and have authority over their respective areas of expertise across the VISN. Implementing these positions throughout VA will enforce corporate discipline, enabling greater accountability and uniformity in VA operations.

I am excited about the progress we have made thus far in correcting shortcomings identified by the OIG and GAO in the management of our programs. Thank you for this opportunity to share what VA has accomplished during the past year to ensure that the resources entrusted to us for the benefit of our nation's veterans are used in a wise and responsible manner.

I will be glad to respond to any questions that you or any member of the Committee may have.