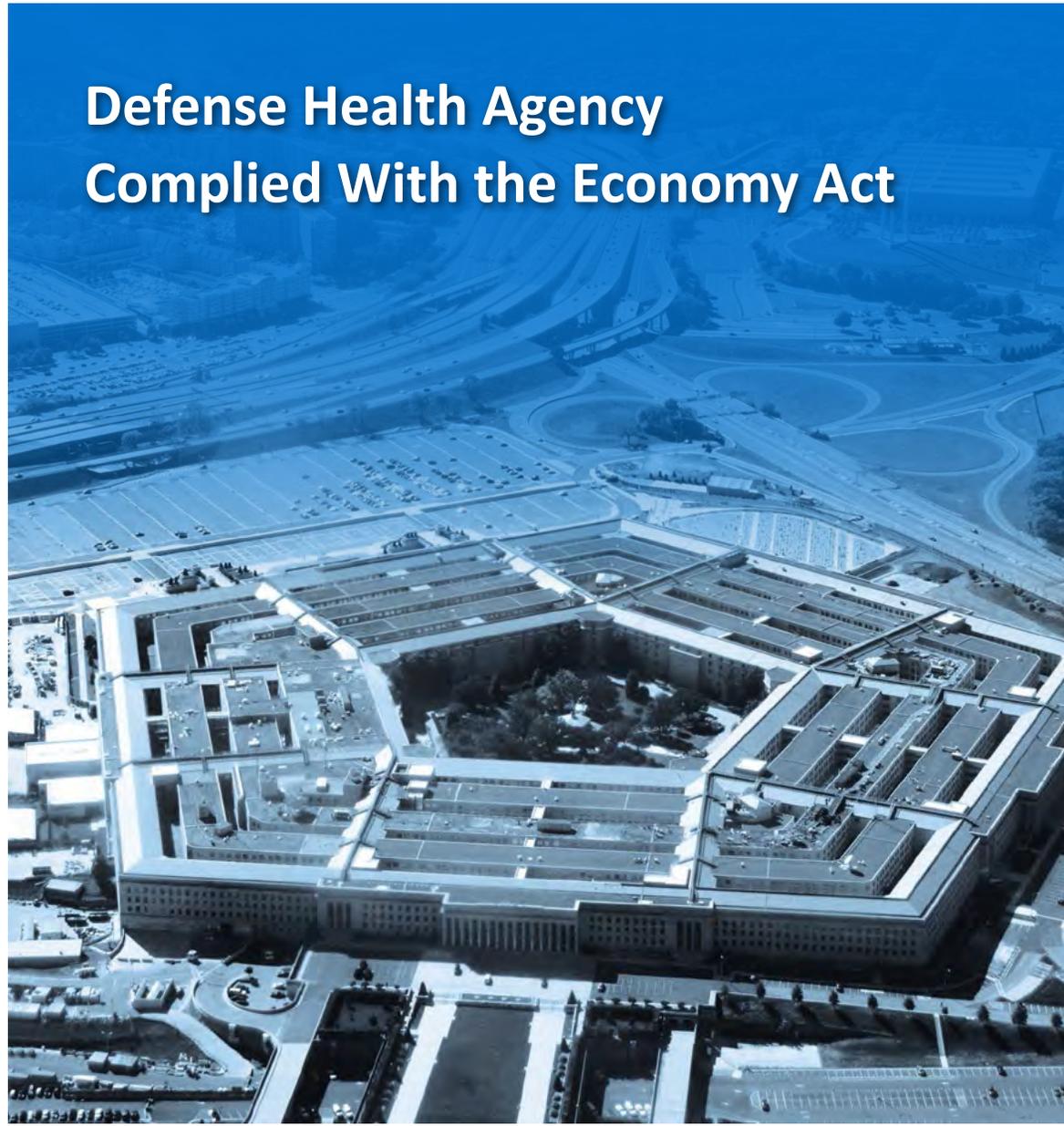




# INSPECTOR GENERAL

*U.S. Department of Defense*

JUNE 9, 2015



## Defense Health Agency Complied With the Economy Act

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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# Results in Brief

## *Defense Health Agency Complied With the Economy Act*

June 9, 2015

### Objective

Our objective was to determine whether the determinations and findings prepared by the Defense Health Agency support the use of Economy Act orders.

### Finding

Defense Health Agency (DHA) personnel complied with Economy Act requirements for 31 Economy Act orders that were nonstatistically selected, totaling \$52.3 million, issued between October 1, 2013, and December 31, 2014. DHA used a support agreement with the U.S. Army Medical Research Acquisition Activity and Universal Purchase Requisitions as Economy Act orders.

DHA complied because DoD Instruction 4000.19, "Interservice and Intragovernmental Support," August 9, 1995, and reissued DoD Instruction 4000.19, "Support Agreements," April 25, 2013, allows the use of support agreements as a method to comply with Economy Act requirements. In addition, DHA's universal purchase requisitions included information required for Economy Act orders.

There was no indication that issuing orders to the U.S. Medical Research Acquisition Activity under the Economy Act was not in the Defense Health Agency's best interest.

### Management Comments

We provided a discussion draft of this report on May 15, 2015. No written response to this report was required, and none was received. Therefore, we will publish this report in final form.

## ***Recommendations Table***

<b>Management</b>	<b>Recommendations Requiring Comment</b>
Director, Defense Health Agency	None



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

June 9, 2015

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
ASSISTANT SECRETARY OF DEFENSE FOR HEALTH AFFAIRS  
DIRECTOR, DEFENSE HEALTH AGENCY

SUBJECT: Defense Health Agency Complied With the Economy Act  
(Report No. DODIG-2015-131)

We are providing this report for information and use. Defense Health Agency personnel supported their use of the Economy Act when placing 31 Economy Act orders, totaling \$52.3 million, issued between October 1, 2013, and December 31, 2014. We conducted this audit in accordance with generally accepted government auditing standards.

We provided a discussion draft of this report on May 15, 2015. No written response to this report was required, and none was received. Therefore, we will publish this report in final form.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9187 (DSN 664-9187). If you desire, we will provide a formal briefing on the results.

A handwritten signature in black ink, appearing to read "M. Roark", is positioned above the typed name.

Michael J. Roark  
Assistant Inspector General  
Contract Management and Payments



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## Acronyms and Abbreviations



# Introduction

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## Objective

Our objective was to determine whether the determinations and findings prepared by the Defense Health Agency (DHA) support the use of Economy Act orders. See Appendix A for scope, methodology, and prior coverage.

## Economy Act

Title 31 United States Code, Section 1535, commonly referred to as the Economy Act, states that the head of an agency or major organizational unit within an agency may place an order with a major organizational unit within the same agency or another agency for goods or services if the:

- amounts are available;
- head of the ordering agency or unit decides the order is in the best interest of the Government;
- agency or unit to fill the order is able to provide or get by contract the ordered goods or services; and
- head of the agency decides ordered goods or services cannot be provided by contract as conveniently or cheaply by a commercial enterprise.

Those determinations are to be made for each order placed under the Economy Act and are usually supported in a determination and findings document.

## Guidance on Use of Support Agreements

DoD Instruction 4000.19, "Interservice and Intragovernmental Support," August 9, 1995, stated that DoD activities shall provide requested support to other DoD activities when the head of the requesting activity determines it would be in the best interest of the Government, and the head of the supplying activity determines capabilities exist to provide the support without jeopardizing assigned missions. These determinations are signified by signing a support agreement. DoD activities may request support from other DoD activities when in-house capabilities do not exist or when support can be obtained more efficiently or effectively from other existing DoD capabilities.

On April 25, 2013, DoD reissued DoD Instruction 4000.19 and renamed it as DoD Instruction 4000.19, "Support Agreements." The 2013 version states that reimbursable support agreements between DoD Components that are signed by both the supplier and the receiver serve as certification that Economy Act requirements have been met and serve as the determination and findings. It also states:

Existing support agreements documented by DD Form 1144 [support agreement], MOA [memorandum of agreement], or memorandum of understanding (MOU) in which a DoD Component is the supplier that are in effect upon the publication of this instruction will be modified to comply with the requirements of this instruction or terminated no later than 3 years from the date of this instruction.

## Defense Health Agency

The Secretary of Defense established DHA on October 1, 2013.<sup>1</sup> DHA supports the delivery of integrated, affordable, and high quality health services to beneficiaries of the Military Health System. DHA also executes responsibility for shared services, functions, and activities of the Military Health System and other common clinical and business processes in support of the Military Services.

DHA is the program manager for the Tricare health plan, medical resources, and the market manager for the National Capital Region enhanced Multi-Service Market. DHA manages the execution of policy as issued by the Assistant Secretary of Defense for Health Affairs and exercises authority, direction, and control over the inpatient facilities and their subordinate clinics assigned to DHA in the National Capital Region Directorate.

## United States Army Medical Research Acquisition Activity

The United States Army Medical Research Acquisition Activity (USAMRAA) is a subordinate command of the U.S. Army Medical Research and Materiel Command, which is the Army's medical materiel developer, and is responsible for medical research, development, acquisition, and medical logistics management. The Command has 12 subordinate commands located throughout the world.

USAMRAA provides contracting support to the Command Headquarters and its global network of laboratories and medical logistics organizations. USAMRAA's mission is to provide quality, timely, and cost-effective business advice and solutions for its customers and other stakeholders.

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<sup>1</sup> DoD Directive 5136.13, "Defense Health Agency (DHA)," September 30, 2013.

## Economy Act Orders Reviewed

We reviewed 31 DHA Economy Act orders<sup>2</sup> that were nonstatistically selected (totaling \$52.3 million) issued between October 1, 2013, and December 31, 2014, under Support Agreement W81XWH-101021-04-0002<sup>3</sup> between the Tricare Management Activity and USAMRAA, effective October 1, 2012. The support agreement was used to obtain procurement and contracting services from USAMRAA. The support agreement stated that the statutory (legal) authority of the Economy Act would be used. Effective October 1, 2013, DoD disestablished the Tricare Management Activity and transferred its functions to DHA. According to DoD Directive 5136.13, any reference in law, rule, regulation, or issuance to the Tricare Management Activity will be deemed to be a reference to DHA.

## Review of Internal Controls

DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are cooperating as intended and to evaluate the effectiveness of the controls. We did not identify any internal control weaknesses.

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<sup>2</sup> DHA issued Economy Act orders using a universal purchase requisition. A universal purchase requisition is a printable document that is the result of an individual creating a request for goods or services that contains a brief a description of the goods or services to be procured, unit price, quantity, line of accounting and approving signatures.

<sup>3</sup> The support agreement was issued on a DD Form 1144, “Support Agreement,” November 2001.

## Finding

### Defense Health Agency Complied with the Economy Act

DHA personnel complied with Economy Act requirements for 31 Economy Act orders, totaling \$52.3 million, by using:

- a support agreement with USAMRAA; and
- universal purchase requisitions as Economy Act orders.

DHA personnel complied because DoD Instruction 4000.19 (August 1995 and April 2013 versions) allows requesting activities to use support agreements as a method to comply with Economy Act requirements. DHA personnel also complied because the universal purchase requisitions included information required for Economy Act orders in accordance with the DoD Financial Management Regulation (FMR).<sup>4</sup> There was no indication that issuing orders to USAMRAA under the Economy Act was not in DHA's best interest.

<sup>4</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 11A, chapter 3, "Economy Act Orders," paragraph 030501, "Ordering Procedures."

### Support Agreement Was Properly Used

DHA personnel complied with Economy Act requirements for 31 orders, totaling \$52.3 million, by using a support agreement with USAMRAA. DHA's predecessor agency, the Tricare Management Activity, entered into a support agreement with USAMRAA in October 2012. DHA personnel performed annual reviews of that support agreement in FY 2014 and FY 2015.

DoD Instruction 4000.19, August 9, 1995,<sup>5</sup> stated:

DoD activities shall provide requested support to other DoD activities when the head of the requesting activity determines it would be in the best interest of the United States Government, and the head of the supplying activity determines capabilities exist to provide the support without jeopardizing assigned missions. These determinations are signified by signing a support agreement (blocks 8 and 9 on DD form 1144)—no further written determinations are required for agreements between DoD activities.

<sup>5</sup> The August 1995 version of the DoD Instruction was the version in effect at the time the support agreement was signed.

DHA personnel entered into the support agreement with USAMRAA in accordance with the instruction's requirements. In addition, DHA reviewed the support agreement in FY 2014 and FY 2015 as required by the April 2013 DoD Instruction 4000.19.

## Universal Purchase Requisitions Were Properly Used

DHA personnel properly used universal purchase requisitions as Economy Act orders. The DoD FMR states:

An Economy Act order may be placed on DD Form 1144 or any form that is acceptable to both the requesting and servicing agencies involved based upon the documentation standards in Chapter 1, Paragraph 010204 of [this regulation].

In the support agreement with USAMRAA, DHA agreed to use the PRWeb<sup>6</sup> system to submit universal purchase requisitions. See Appendix B for the 31 DHA Economy Act orders, and a description of the services purchased.

## Economy Act Orders Were Justified

DHA personnel complied with Economy Act requirements and there was no indication that issuing Economy Act orders to USAMRAA was not in DHA's best interest. DHA personnel explained that DHA, beginning under the former Tricare Management Activity, used USAMRAA to contract for nonmedical services for more than 15 years. DHA personnel provided the 2004 support agreement with USAMRAA and a point paper DHA prepared in March 2015 that explained they used USAMRAA because of its:

- contracting experience;
- experience as a component organization within the Military Health System; and
- previous positive performance in meeting Tricare Management Activity's contracting needs.

There was no indication that issuing Economy Act orders to USAMRAA was not in DHA's best interest. Therefore, we are not making any recommendations.

<sup>6</sup> PRweb is a direct paperless channel between the requesting office and a contracting office's database. PRWeb allows requiring activities to create purchase requests from a desktop web browser without adding/installing any additional software. PRWeb allows activities to keep track of the purchase request status through their desktop web browser.

## Appendix A

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### Scope and Methodology

We conducted this performance audit from January 2015 through June 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We used the Federal Procurement Data System–Next Generation to identify Economy Act orders that DHA placed with USAMRAA. The audit universe consisted of 50 contract actions,<sup>7</sup> totaling \$84.6 million, that Defense agencies placed with other DoD components from January 1, 2013, through December 31, 2014. We focused our sample on contracts for Program Management/Support Services (R408) and Other Professional Services (R499). We selected those types of services for review because they were the common types of services that most contracting offices would have the expertise to award. Of the 50 contracts, 43 contracts, totaling \$79.3 million, were contracts that USAMRAA awarded to fill DHA Economy Act orders.

We eliminated 20 contracts from our sample, totaling \$26.8 million, that USAMRAA awarded for Economy Act orders issued before October 1, 2013, because those Economy Act orders were issued by the Tricare Management Activity. We nonstatistically selected contracts that USAMRAA awarded for Economy Act orders between October 1, 2013, and December 31, 2014, to review because those were DHA Economy Act orders. During our review, we eliminated contract W81XWH-14-F-0076 and two related universal purchase requisitions from our sample because DHA did not issue Economy Act orders for that contract. The eliminations resulted in a modified universe of 22 contracts, totaling \$52.3 million. The 22 contracts we selected for review included 31 DHA Economy Act orders.

We collected, reviewed, and analyzed documents for the 31 Economy Act orders to determine whether DHA personnel complied with the requirements of the Economy Act. Specifically, we reviewed the following.

- Support Agreement No. W81XWH-101021-04-0002 that DHA personnel used as the basis for complying with Economy Act requirements to determine whether the support agreement complied with DoD Instruction 4000.19.

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<sup>7</sup> The Federal Procurement Data System-Next Generation does not contain Economy Act orders. The system includes a data element that identifies whether a contract action was subject to the statutory authority of the Economy Act.

- Thirty-one universal purchase requisitions that DHA personnel used as Economy Act orders to determine whether they included information required for Economy Act orders.
- Twenty-two contracts that USAMRAA issued for the 31 Economy Act orders to identify the services purchased.

See Appendix B for a list of the 31 Economy Act orders, the 22 contracts that USAMRAA awarded for the Economy Act orders, and the support agreement that DHA used to comply with the Economy Act.

We used the following criteria as the basis for our analysis:

- Section 1535, title 31, United States Code (2010);
- DoD Instruction 4000.19, "Interservice and Intragovernmental Support," August 9, 1995;
- DoD Instruction 4000.19, "Support Agreements," April 25, 2013; and
- DoD FMR volume 11A, chapter 3, "Economy Act Orders."

We met with the following personnel during a site visit to DHA Headquarters, Falls Church, Virginia:

- Acting Director and Deputy Director of Procurement;
- Chief of Program Manager Support Service;
- Associate General Counselor, and Chief, Administration and Civil Law Counselor;
- Comptroller;
- Chief, Contract Policy; and
- Support Agreement Manager.

We reviewed documentation dated from August 1995 through May 2015.

## **Use of Computer-Processed Data**

We did not use computer-processed data to perform this audit.

## **Use of Technical Assistance**

We received technical assistance from the Department of Defense Office of Inspector General's Quantitative Methods and Analysis Division to select a nonstatistical sample of Economy Act orders to review.

## Prior Audit Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) issued three reports on Economy Act requirements. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

### ***DoD IG***

Report No. DODIG-2015-063, “United States Air Forces Central Command Complied With the Economy Act,” January 7, 2015

Report No. DODIG-2012-117, “DoD Needs to Improve Controls Over Economy Act Orders With U.S. Agency for International Development,” August 14, 2012

Report No. D-2011-102, “Afghan National Police Training Program Would Benefit From Better Compliance With the Economy Act and Reimbursable Agreements,” August 25, 2011

## Appendix B

### Economy Act Orders Reviewed

DHA issued all 31 Economy Act Orders to USAMRAA under Support Agreement No. W81XWH-101021-04-0002.

Universal Purchase Requisition Number (Economy Act orders)	Contract Number	Contract Amount (in millions)	Description of Services Ordered (Based on Statement of Work)
<b>Program Management/Support Services (R408)</b>			
1. HT000349427	1. W81XWH-14-P-0706	\$2.0	Defense Health Agency Manpower and Human Resource Support Contract
2. HT000347821	2. W81XWH-08-D-0025/0042	4.3	Clinical Support Division, Patient Safety Program and Clinical and Program Policy Programmatic and Technical Support
3. HT000347822			
4. HT000347823			
5. HT000347824			
6. HT000347801	3. W81XWH-08-D-0024/0031	1.1	External Relations and Performance Management Program Management Support
7. HT000349260	4. W81XWH-14-P-0569	4.0	Space Planning and Facilities Support
8. HT000348381	5. W81XWH-14-P-0497	0.6	Defense Health Agency Management and Analytical Support Services
9. HT000348880	6. W81XWH-08-D-0025/0040	0.6	Defense Health Agency Infrastructure Support Services
10. HT000348369	7. W81XWH-08-D-0025/0039	1.0	Defense Health Agency Management and Analytical Support contract
11. HT000347875	8. W81XWH-08-D-0028/0035	1.3	Program Management, Analysis, Consultation, Evaluation and Decision Support
12. HT000347224	9. W81XWH-08-D-0032/0012	2.9	Defense Health Service System Program Office Program Management Support
13. HT000347226			
14. HT000347648	10. W81XWH-08-D-0024/0029	1.1	Health Policy Analysis and Implementation Support

## Economy Act Orders Reviewed

Universal Purchase Requisition Number (Economy Act orders)	Contract Number	Contract Amount (in millions)	Description of Services Ordered (Based on Statement of Work)
<b>Other Professional Services (R499)</b>			
15. HT000348866	11. W81XWH-14-F-0246	1.7	Joint Medical Asset Repository Support
16. HT000348828	12. W81XWH-14-F-0239	3.7	Defense Health Services Systems Medical Logistics Division Joint Medical Logistics Functional Development Center Support
17. HT000348865	13. W81XWH-14-F-0245	1.4	Core Sustainment For The Joint Medical Asset Repository Joint Medical Logistics Readiness Tool
18. HT000348724	14. W81XWH-14-F-0205	6.1	Theater Enterprise Wide Logistics System Sustainment and Development
19. HT000348143	15. W81XWH-14-F-0238	12.0	Engineering Fixers and Systems Upgrades for the Armed Forces Health Longitudinal Technology Application and the Composite Health Care System
20. HT000348144			
21. HT000348146			
22. HT000348147			
23. HT000348148			
24. HT000348594	16. W81XWH-14-F-0244	0.9	Nutrition Management Information System and Special Needs Program Management Information System Sustainment/ Maintenance Support For Defense Health Agency Defense Health Services Systems Clinical Support Division Program Executive Office
25. HT000348595			
26. HT000348888	17. W81XWH-14-F-0167	3.2	Hardware And Software Technical and Operational Support for the Joint Medical Logistics Functional Development Center
27. HT000349270	18. W81XWH-14-P-0580	0.7	Clinical Engineering Support Services
28. HT000347028	19. N00104-08-A-ZF42/B305	0.7	Non-personal consulting services, knowledge transfer and functional requirements supporting the continued development and maintenance of the Theater Enterprise Wide Logistics System intermediate level supply capabilities.
29. HT000348358	20. W81XWH-14-F-0124	0.6	Pharmacy Analytics Support Section Information Technology Support
30. HT000348596	21. W81XWH-14-P-0406	0.4	Defense Health Headquarters' Shuttle Bus Services
31. HT000347751	22. W81XWH-14-P-0395	2.0	Defense Health Agency Procurement Support Services
	<b>Total</b>	<b>\$52.3</b>	

Note: Amounts are rounded.

## Acronyms and Abbreviations

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**DHA** Defense Health Agency

**FMR** DoD Regulation 7000.14R, "Financial Management Regulation"

**USAMRAA** United States Army Medical Research Acquisition Activity



# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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