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Office of Audits and Evaluations

VETERANS HEALTH ADMINISTRATION

Ineffective Use and Oversight of Medical/Surgical Prime Vendor Program Led to Increased Spending

Audit

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Executive Summary

The Veterans Health Administration (VHA) provides care for approximately six million veterans and uses the Medical/Surgical Prime Vendor (MSPV) program to supply medical and surgical items to nearly 1,300 care facilities.¹ The MSPV program allows for efficient and cost-effective ordering and distributing of healthcare supplies across VHA facilities. The MSPV program is complex, and many entities, including VA, prime vendors, and suppliers, are involved in making sure it operates effectively. VA's Strategic Acquisition Center develops and manages contracts with the prime vendors to provide supplies to VHA facilities, while VHA's Medical Supply Program Office is ultimately responsible for overseeing the MSPV program to ensure that all VA facilities routinely order from the MSPV program.

VHA implemented the first MSPV contract in 2010, with many subsequent iterations. Each prime vendor has an exclusive relationship with several VA medical facilities. VHA also has agreements with suppliers for products that are on the MSPV product list; medical facilities order from this product list, and prime vendors distribute those products. Prime vendors are responsible for establishing commercial agreements with authorized suppliers. During the scope of this audit, the MSPV Generation-Z (Gen-Z) transition contracts with three prime vendors were in place, effective beginning December 1, 2021.²

VHA policy requires medical facilities to use the MSPV program. When medical facilities consistently use the product list, they receive necessary medical and surgical supplies at a reduced cost. The VA Office of Inspector General (OIG) conducted this audit to assess the extent to which VHA medical facilities use the MSPV program.

What the Audit Found

The OIG found that medical facilities did not fully utilize or leverage the MSPV program. VHA monitors utilization of the program with a performance metric that requires 90 percent of the total amount that facilities spend on MSPV-eligible items to be spent through the MSPV program. The audit team's analysis of VHA data revealed that facilities spent about \$865 million on medical and surgical supplies during 2022 that were on the MSPV product list. Of that, VA medical facility staff spent about \$353 million (41 percent) through the open market instead of through the MSPV program. Facilities made some of these open market purchases from their own prime vendor. Additionally, although VHA monitors MSPV utilization for eligible products,

¹ About nine million veterans are enrolled to receive care.

² Later, in May 2023, VA awarded the MSPV Gen-Z Version 1 contracts to six prime vendors (including three that had held MSPV Gen-Z Transition contracts). According to VHA, ordering under the new contracts is projected to begin in September 2024. For more on this report's scope and methodology, see appendix A.

the audit team determined that medical facilities purchase numerous items that are not on the product list. These purchases are not considered in the MSPV performance metric.

Facility Staff Did Not Consistently Order through the MSPV Program

Facility staff did not always buy product list items through the MSPV program for several reasons, including unavailability of needed items. When items are not available, the contract requires the prime vendor to offer a suitable replacement. However, facility supply chiefs indicated in responses to an audit team survey that this is not always happening, or the substitutions are not always suitable for their clinicians. In these instances, facility ordering staff often procured these items from the open market rather than the MSPV program. When this happens, the prime vendor's inability to fill the order is not reflected in its fill-rate metrics.

The audit team also determined that the product list included items that were not always immediately available for order. New items require a prime vendor to establish an order number, which is not required until there is a demand from at least one medical center. The team found that about 120,000 of about 488,000 open market transactions (about 25 percent) did not have an order number. Delays in establishing order numbers can result in some inventory managers procuring needed supplies on the open market.

Additionally, the contract requires the prime vendor to maintain facility lists of core items that are ready to ship. Inventory managers reported that core items are not always available, and the managers procure from the open market instead of placing the order with the prime vendor. This creates a risk that the item will lose its core status for future purchases; further, the prime vendor's metric of fulfilling core items is not affected because the order was never made.

Medical facility staff also noted that frequent product list changes are often problematic because pricing is not automatically updated in the system, which can cause order rejections. According to the survey, 70 facility supply chiefs revealed that their staffs spend five to 24 hours per week to enter price updates affected by product list changes; an additional nine chiefs said it took more than 24 hours, on average.³

Even when product availability was not an issue, the audit team found that numerous inventory managers reported routinely going to the open market initially to buy an item. In some cases, inventory managers relied on source information from autogenerated reports, which populate the last place the item was purchased from. The audit team found that supervisory staff generally did not review open market purchases to see if an MSPV-eligible item was available, and leaders did not design or require such a practice.

³ Of the 5 respondents who selected "other," one stated that it took 8–10 hours on average, per week, on issues or challenges associated with product list changes.

Identified Issues Were Not Effectively Reported

Facility staff have channels to report issues with using MSPV, such as the program office's issue reporting tool and quarterly performance reports. However, medical center staff do not always report their issues with the prime vendor or unavailable products. The audit team found that many facility logistics staff were unaware of or did not have access to the issue reporting tool. Additionally, staff who were aware of the tool stated that they did not always use it because resolving issues locally was often easier. Nearly half of the surveyed facility supply chiefs noted that performance reports did not help or expressed uncertainty as to whether they helped to address issues; in interviews, other staff often cited the report as an administrative exercise in which they arbitrarily rated the prime vendor's performance. Without accurate information on prime vendor performance, program office and Strategic Acquisition Center leaders will remain unaware of issues that staff identify in the field.

The Program Office and Facility Leaders Were Not Providing Adequate Oversight

The program office is ultimately responsible for oversight and execution of the MSPV program. The audit team found that VA medical facility staff were not adequately trained on, or provided sufficient guidance and resources to execute, the MSPV program. Medical facility logistics staff were generally unaware of specific guidance pertaining to the MSPV program. Though the program office began to issue new guidance in April 2023, the audit team determined that numerous facility staff were unaware of this resource. Additionally, 53 percent of facility supply chiefs reported that they did not provide local standard operating procedures to their staff. Without this guidance, staff may not be adequately trained in using the MSPV program. Survey comments showed that training would be helpful to mitigate challenges with the MSPV program.

The audit team also concluded that local leaders are not always motivated to enforce the program's use. Survey results showed 94 percent of Veterans Integrated Service Network supply chiefs and 83 percent of facility supply chiefs thought the 90 percent MSPV usage metric was unachievable.⁴ During interviews, many staff expressed ambivalence about the metric and placed more importance on fully stocking their clinics to provide patient care.

VHA's Product List Was Not Comprehensive

The audit team determined that medical facilities purchase numerous items that are not on the product list, which are not considered in the MSPV usage metric. According to data for 2022, VA medical facilities spent \$2.4 billion on all medical and surgical supplies. Eligible product list

⁴ VHA divides the United States into 18 regional networks, known as VISNs, which manage day-to-day functions of medical centers and provide administrative and clinical oversight. VHA, "Veterans Integrated Services Networks (VISNs)," <https://www.va.gov/HEALTH/visns.asp>.

items made up about \$865 million of that total (about 36 percent)—meaning VA spent about \$1.5 billion on items that were not available to purchase through the MSPV program.

VHA leaders explained that the product list included items VA does not regularly purchase and excludes many items it does purchase because of incomplete procurement data and confusing procurement strategies when the product list was created. In fiscal year 2022, the program office developed a new strategy to identify items to add to the product list. This new strategy aims at increasing the product list to cover about 85 percent of total medical and surgical spending, an increase from its current rate of about 36 percent.

MSPV Program Deficiencies Led to Increased Spending

The audit team analyzed the data on about 210,000 open market purchases made during 2022 for MSPV-eligible items and found that if facilities had purchased those supplies through the MSPV program, VHA could have saved approximately \$35.5 million.⁵ More notably, medical facilities spent about \$13 million in about 22,000 of these open market transactions on supplies from their own prime vendor. Because these purchases were not made through the MSPV program, medical facilities overpaid by about \$4.9 million for the same items, from the same vendor.

Not only could VHA have achieved cost savings had these purchases gone through the MSPV program, but open market purchases also expose VHA to risks: before an item is added to the product list, it must be clinically vetted to ensure it meets quality and safety standards, whereas open market purchases lack that assurance.

What the OIG Recommended

The OIG made nine recommendations to the under secretary for health, including ensuring facility staff place all orders for MSPV-eligible items identified as on back order with their prime vendor, implementing controls to track ordered items that remain in back-ordered status, and providing training to logistics staff on the use of MSPV tools to identify commonly purchased open market items and convert them to MSPV purchases. VHA should also make sure product list updates are transferred effectively and identify a VA-owned system for staff to check product information such as availability and price. The OIG further recommended VHA implement a standardized review of open market purchases and ensure that MSPV reporting tools are effective and consistently applied. Finally, the OIG recommended that medical facility staff receive relevant guidance and training and that the program office make sure the product list includes items facilities regularly purchase so VHA can expand the savings and benefits the MSPV program offers.

⁵ See appendix B for more on the monetary benefits the audit team identified.

VA Management Comments and OIG Response

VHA concurred in principle with recommendation 1 and concurred with recommendations 2 through 9. VHA provided corrective action plans for all recommendations to address the issues identified in the report. These actions include ensuring facilities follow the ordering hierarchy to ensure compliance with the MSPV program, enhancing performance metrics to encourage program use, analyzing open market purchases, and allowing for automated updates in the ordering system.

Additionally, the program office has electronically linked prior trainings and communications to its SharePoint site so they are readily available to facility staff. The program office also plans to relaunch its reporting tool through SharePoint to simplify user access, as well as to develop the functionality of its Clinical Product Tool to enable facilities to track MSPV orders and identify routinely purchased items to be added to a facility's core list. This tool enables users to manage their core list and provides VA-wide visibility of these items, which allows for rapid escalation of performance issues.

VHA requested that the OIG close recommendations 3 and 5 based on actions taken. However, the OIG will seek further evidence of training and use of tools by facility staff before considering closure. The OIG will close all recommendations when VHA provides sufficient evidence meeting the intent of the recommendations and addressing the issues identified. The full text of the under secretary's comments can be found in appendix C.



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Abbreviations

BPA	blanket purchase agreement
FY	fiscal year
MSPV	Medical/Surgical Prime Vendor
OIG	Office of Inspector General
P&LO	Procurement and Logistics Office
SAC	Strategic Acquisition Center
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network



Introduction

The Veterans Health Administration (VHA) manages the largest integrated healthcare system in the United States, providing care for approximately six million veterans at close to 1,300 care facilities, including VA medical centers and outpatient sites of varying complexity.⁶ The healthcare system receives medical and surgical supply support through the Medical/Surgical Prime Vendor (MSPV) program.

VA established the MSPV program to provide an efficient and cost-effective method for ordering and distributing medical, surgical, dental, and select prosthetic and lab supplies across VHA facilities. The program uses competitive national agreements to provide VA facilities with the necessary supplies, flexible delivery options, and opportunities for savings.

According to VHA policy, medical facilities must use the MSPV program, in addition to other national contracts designated as mandatory in the policy, to purchase medical supplies.⁷ When an item is simultaneously available through the MSPV program and another mandatory contract, the MSPV contract must be used.⁸ VA's Strategic Acquisition Center (SAC) develops and manages the distribution contracts with the prime vendors to provide supplies to VHA facilities. The medical and surgical supplies included in this program are on a product list managed by VHA's Procurement and Logistics Office (P&LO). When medical facilities consistently use the product list, they receive necessary medical and surgical supplies that enable safe and effective health care for veterans at a reduced cost. The VA Office of Inspector General (OIG) conducted this audit to assess to what extent VHA medical facilities use the MSPV program.

Contract History

VHA implemented the first MSPV contract in 2010. Table 1 lists the contract's many iterations.

Table 1. MSPV Contract History

MSPV contract	Effective dates
Initial contract	April 20, 2010–April 19, 2015
Bridge contracts	April 20, 2015–July 19, 2016
Next Generation (NG)	February 24, 2016–March 31, 2020

⁶ About nine million veterans are enrolled to receive care.

⁷ VHA Directive 1761, *Supply Chain Management Operations*, December 30, 2020. At the time of this audit, medical facilities were using MSPV Generation-Z (Gen-Z) transition contracts, which were introduced in December 2021. These contracts were awarded to three prime vendors.

⁸ VHA Directive 1761. Other mandatory contracts are National Committed Use Contracts, Non-Expendable Equipment National Contracts, and mandatory VA Federal Supply Schedule blanket purchase agreements (BPAs).

MSPV contract	Effective dates
NG Bridge	April 1, 2020–November 30, 2021
Gen-Z Transition	November 30, 2021–November 30, 2022
Gen-Z Transition 2	November 16, 2022*–TBD [†]
Gen-Z Version 1 (V1)	Awarded May 2023; according to VHA, ordering under this contract projected to begin September 2024

Source: SAC.

* The Gen-Z Transition 2 contracts were awarded on November 15, 2022, and November 16, 2022.

[†] According to the program office, staff are expected to use the MSPV Gen-Z transition contracts until MSPV Gen-Z V1 begins.

According to a SAC division chief, after the MSPV NG contract, VA had planned to award a version called MSPV 2.0. This planned iteration would have built on lessons learned and enhanced the program for clinicians and logistics personnel. However, a ruling by the Court of Federal Claims on August 9, 2021, deemed MSPV 2.0 unlawful, in part, finding that “the VA’s MSPV 2.0 Solicitation does not reflect the current needs of the agency.”⁹ Stop-work orders were issued to the MSPV 2.0 prime vendors in August 2021. According to a SAC contract specialist, VA developed a long-term distribution contract while bridge contracts (MSPV NG through MSPV Gen-Z Transition 2) were put in place. On May 23, 2023, VA awarded the MSPV Generation-Z Version 1 (Gen-Z V1) contracts to six prime vendors.¹⁰ According to a VA news release, Gen-Z V1 is a key element of VA’s integrated supply chain improvement initiatives. The division chief said the Gen-Z V1 contract will have significant changes compared to previous versions, including increased deliveries, increased accuracy and validation of performance metrics, and additional formal procedures to enhance performance management.¹¹

MSPV Key Stakeholders

The MSPV program is a complex operation that relies on many separate entities for success—VA, prime vendors, and suppliers.

VA Offices Involved with the MSPV Program

Numerous offices within the procurement and logistics branches of VHA’s P&LO, as well as from VA’s SAC, work in tandem to facilitate the MSPV program. Ultimately, P&LO’s Medical

⁹ Medline Industries, Inc. v. United States, 155 Fed. Cl. 522 (2021).

¹⁰ The six prime vendors who were awarded MSPV Gen-Z V1 contracts included the three prime vendors who were contracted under MSPV Gen-Z Transition 2, the contract vehicle in place during the scope of this audit. According to VHA, ordering under these new contracts is projected to begin in September 2024.

¹¹ Examples of formal procedures include the ability for VA to reduce payment of fees to prime vendors based on standardized calculations for instances of noncompliance with required minimum-performance standards.

Supply Program Office, which falls under the logistics branch, is responsible for MSPV management support and oversight to ensure all VA facilities effectively obtain routinely ordered medical, surgical, and other supplies. Figure 1 shows the program office’s primary organizational functions.

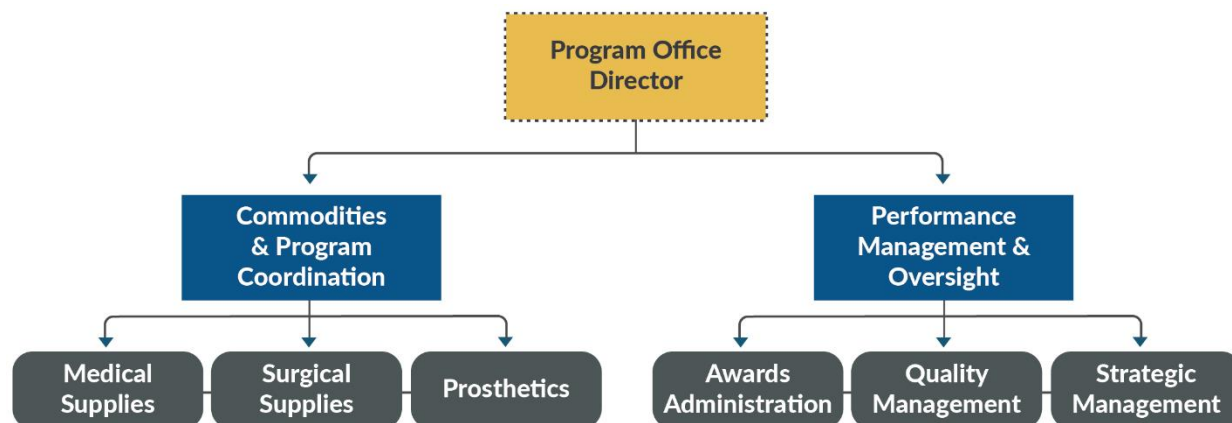


Figure 1. Program office functional organizational structure.

Source: MSPV Field Guide, “MSPV Organizational Overview,” June 2023.

The program office has two organizational branches: commodities and program coordination, and performance management and oversight. The performance management and oversight branch provides coordination and resources for the MSPV contract through awards administration, quality management, and strategic management, whereas the commodities and program coordination branch focuses on the product review process and other duties.

The program office relies on P&LO’s procurement office to award the appropriate medical and surgical supplies identified by the program office through blanket purchase agreements (BPAs), which source the product list. BPAs with suppliers generally simplify the filling of recurring needs of supplies by taking advantage of quantity discounts, saving administrative time and reducing paperwork. The program office also relies on the SAC to administer the distribution contracts with the prime vendors.¹²

Staff are responsible for using the MSPV program at their facilities to purchase medical and surgical supplies. Facility logistics staff include purchasing agents, inventory managers, and the assistant and chief supply chain officers. Inventory managers report to the chief supply chain officer (supply chief) at the facility, who reports directly to the facility director.¹³ Facilities work collaboratively with their prime vendors to place and receive orders daily.

¹² VA has BPAs with authorized suppliers for items on the product list and has contracts with prime vendors to distribute product list items.

¹³ This report refers to chief supply chain officers as supply chiefs.

Figure 2 highlights the working relationships between VA and VHA.

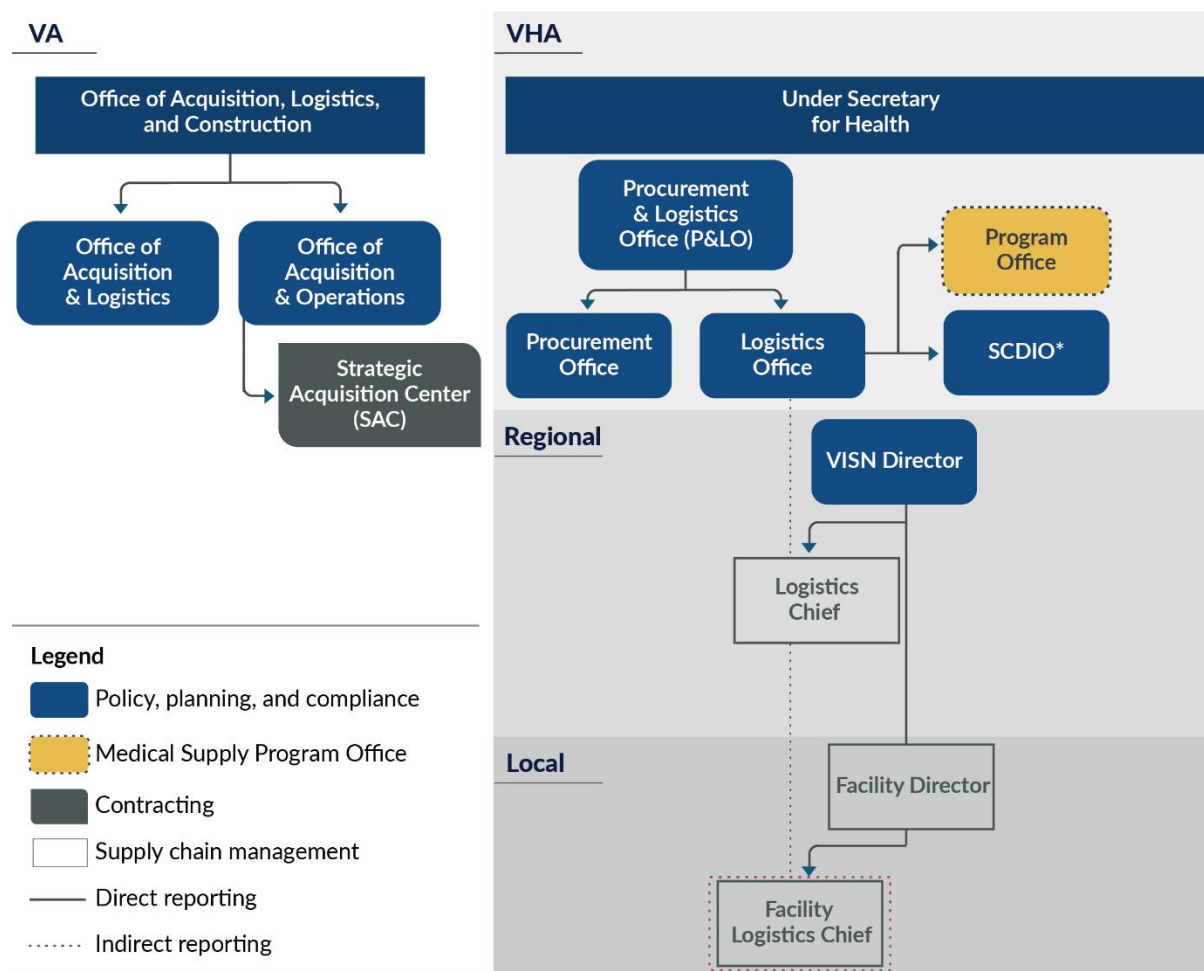


Figure 2. VA and VHA supply chain management organizational structure.

Source: OIG analysis of VA and VHA organizational charts relevant to supply chain management.

* SCDIO is the Supply Chain Data and Informatics Office.

Program office guidance requires facility staff to perform technical and administrative functions such as reporting issues with the prime vendor performance requirements, reviewing the monthly prime vendor core list, maintaining data files to ensure prices and item information are current, and reviewing quarterly reports.¹⁴

¹⁴ Medical Supply Program Office, *MSPV Field Guide*, “MSPV Organizational Overview,” June 2023. The core list captures the most frequently purchased and critical items of a facility.

Prime Vendors and Suppliers

The MSPV Gen-Z transition contracts are held by three prime vendors. The prime vendors are responsible for stocking and distributing medical, surgical, dental, and laboratory supplies on the product list. Each prime vendor has an exclusive relationship with multiple VA medical facilities.

VA identifies and contracts with suppliers and the prime vendors. Specifically, P&LO procurement personnel establish pricing agreements for medical and surgical supplies with numerous authorized suppliers through BPAs (or other applicable contracts). These suppliers agree to provide these items to the prime vendors at a fair and reasonable price. Once a VA-authorized supplier is awarded a BPA, one of the prime vendors, who have separate contracts with VA, must establish a commercial agreement with the supplier in order to provide MSPV product list supplies to medical facilities. VA is not involved with the commercial agreements established between the prime vendors and authorized suppliers; therefore, VA is not aware of the agreements' contents. Figure 3 illustrates the relationships between VA, suppliers, prime vendors, and medical facilities.

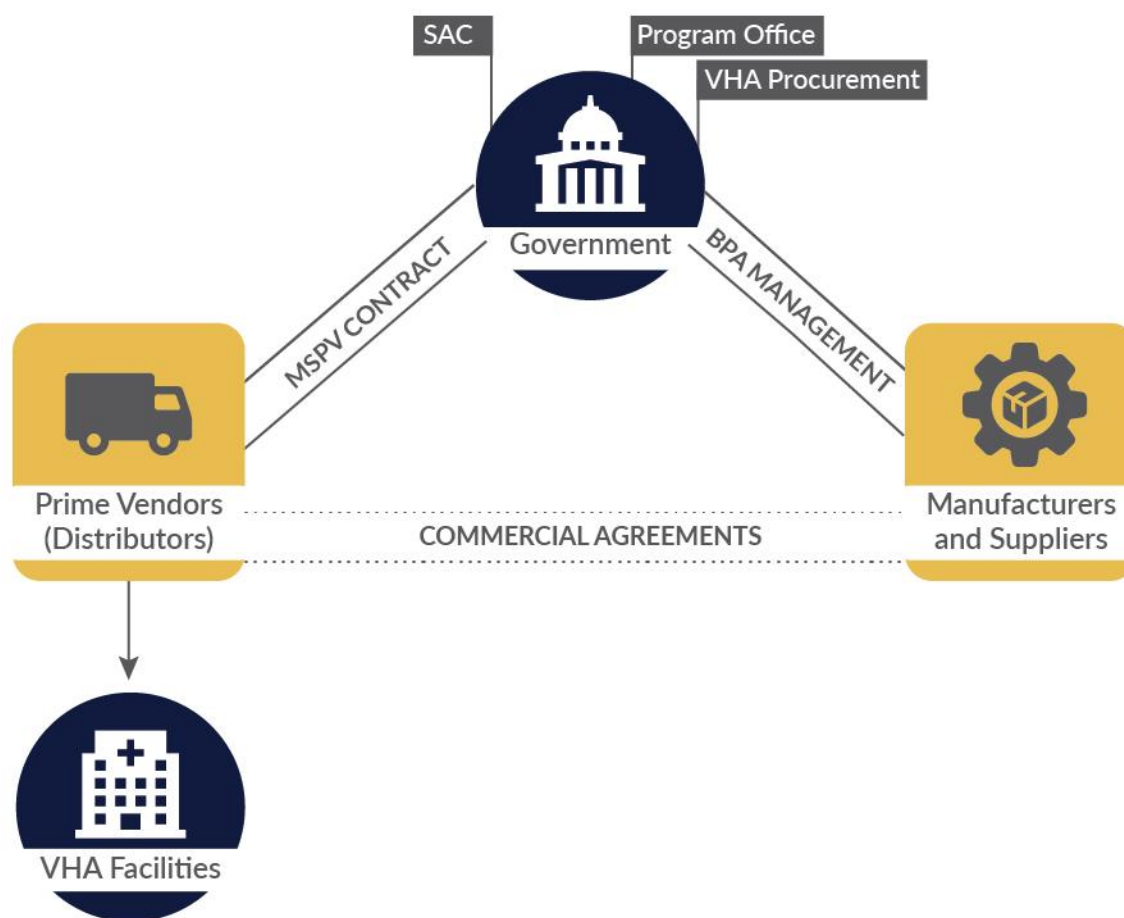


Figure 3. MSPV functional overview.

Source: MSPV Field Guide, "MSPV Organizational Overview," June 2023.

MSPV Contract Requirements

The MSPV contract statement of work outlines the contract background, scope, objective, and contractual requirements.¹⁵

Product List and Core List

VHA's Procurement Office and the commodities and program coordination group, a division under the program office, work to identify and create agreements for products, which are then added to the MSPV product list. According to a program office presentation to supply chiefs in February 2023, many items on the current product list are from prior MSPV program iterations.

According to VHA's MSPV documentation, the product list is a comprehensive directory of all medical/surgical supplies available for order and distribution under the MSPV program.¹⁶

Facilities can request changes and additions to the product list by submitting a change request. For a product to be added to the list, it must be clinically reviewed by a facility's designated product review group and approved prior to its use for direct patient care to ensure compatibility with current processes and equipment.¹⁷

The product list is the basis for creating each facility's core list, which comprises items that are frequently purchased. According to the Gen-Z Transition 2 statement of work, the core list includes the medical/surgical supplies that are ordered at least once per month.¹⁸ A program office field guide states that an up-to-date, well-maintained core list is important to the success of the MSPV program.¹⁹ The list captures the most frequently purchased and critical items used at a given medical facility; each facility is responsible for maintaining and updating its core list.²⁰

¹⁵ Federal Acquisition Regulations 8.405-2(b). Statements of work shall include a description of work to be performed, work location, performance period, deliverable schedule, applicable performance standards, and special requirements.

¹⁶ *MSPV Field Guide*, "MSPV Organizational Overview."

¹⁷ Each facility's clinical product review committee is responsible for ensuring that supplies are compatible with current processes and equipment prior to use in the medical facility.

¹⁸ MSPV Gen-Z Transition 2 statements of work, in VA contracts 36C10X23D0001, December 1, 2021; 36C10X23D0002, December 1, 2021; and 36C10X23D0003, December 1, 2021. The statement of work is identical in each vendor's contract with the exception of the following added language in section 27.8, "Annual Facility Purchase," in 36C10X23D0001: "Joint reconciliations will be conducted monthly to ensure that PV [prime vendor] and VHA accounts are accurate and resolve any discrepancies between invoice and payment amounts. Any identified amounts owed by the PV will be resolved as a credit to the facility to be applied against a future order or as a credit to an outstanding invoice. Any identified amounts due to the PV will be invoiced by the PV against a PO [purchase order] issued by the facility. In any situation where a service is not provided for a full year, the final reconciliation for that service will be completed no less than 30 calendar days from the last date of service." The OIG determined that this added wording has no effect on the team's methodology or finding.

¹⁹ Medical Supply Program Office, *MSPV Field Guide*, "Core List Creation & Maintenance," June 2023.

²⁰ MSPV Gen-Z Transition 2 statements of work, December 1, 2021.

Unadjusted Fill Rates and Unfilled Orders

According to contract requirements, prime vendors should fulfill the vast majority of order requests. The VA measures this with a contractual performance metric called the unadjusted fill rate, which has a target of 95 percent.²¹ When a prime vendor cannot completely fill requests for medical/surgical items at the time of order, this counts against its unadjusted fill rate. Per contract requirements, when the order is placed but the item cannot be filled, the prime vendor and medical facility have three options: fill/kill, accept it on the back-ordered status, or fill/call. These options are further described in figure 4.

²¹ This is a different metric than VHA's 90 percent MSPV usage metric.

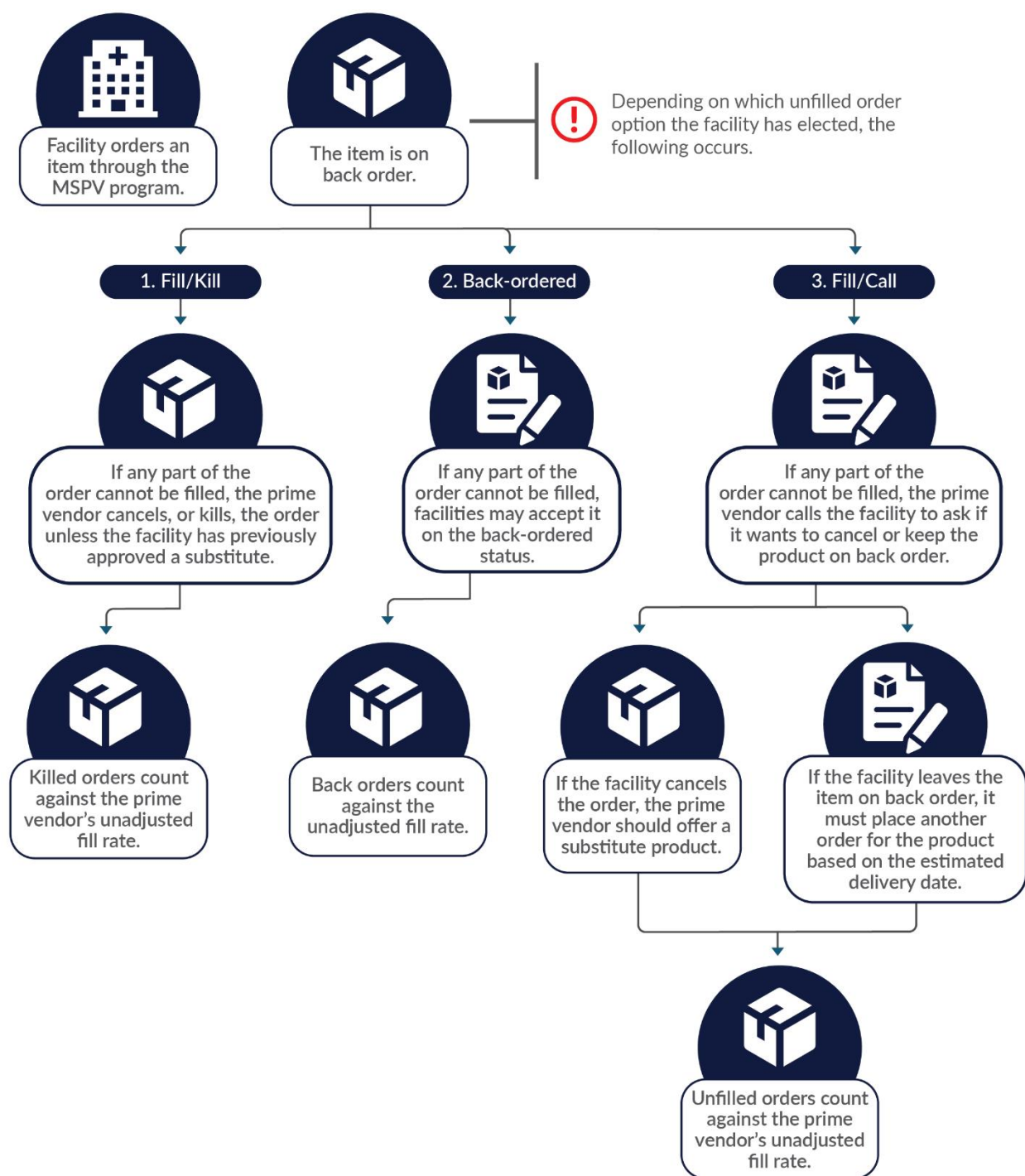


Figure 4. Unfilled orders process.

Source: OIG's analysis of the MSPV Gen-Z Transition 2 statement of work and meetings with the program office.

Furthermore, when the manufacturer cannot supply enough of an item to meet the full demand of the commercial market, prime vendors limit the item's availability of purchases (put it on

allocation) through MSPV. When an item is on allocation, facilities can provide their usage history for that item and receive an allocated amount based on their purchase records. Additionally, the facility must continually order its allocation amount so that it does not lose its dedicated stock.

According to the statement of work, the contracting officer is responsible for addressing any failures to meet acceptable performance standards.²² If noncompliance with contractual terms persists, the contracting officer can exercise available options under the contract and may ultimately terminate the contract.

Prime Vendor Order Number

Newly added items to the MSPV product list are not immediately available for facilities to order through the program. Prior to ordering, items require a prime vendor order number, which is unique to an individual item and must be assigned by the prime vendor. To establish an order number, the facility must provide its usage to the prime vendor.

In February 2023, program office representatives provided a presentation for supply chiefs that shared how facilities could improve their product list utilization metric. One of these strategies included leveraging the Prime Vendor Conversion and Recommendation Tool.²³ This tool provides the field with data, which is updated daily, that can be used to identify opportunities to purchase supplies through the MSPV program by comparing historical procurement data to what is available on the product list.

VA Medical Facility Responsibilities

VHA tracks and reports the utilization of the MSPV program by measuring how much is spent on MSPV-eligible items. Specifically, the rate is calculated by taking the total amount spent on product list items ordered from the prime vendor and dividing it by the total amount spent on product list items from all vendors, including prime vendors.²⁴ The MSPV utilization rate goal is 90 percent, which means that of the total amount spent for items that are on the MSPV product list, 90 percent should be spent through the MSPV program.²⁵ As VHA's data show in figure 5, VHA has historically fallen short of this target.

²² Contracting officers are responsible for ensuring compliance with all terms and conditions of the contracts they enter into for goods and services. Federal Acquisition Regulations 1.602-2 (2023).

²³ The Prime Vendor Conversion and Recommendation Tool is owned by P&LO's Supply Chain Data and Informatics Office.

²⁴ When an item is not purchased through the MSPV program, it is generally referred to as an open market purchase. These transactions are often made with government purchase cards.

²⁵ According to program office personnel, P&LO leaders determined the 90 percent goal.

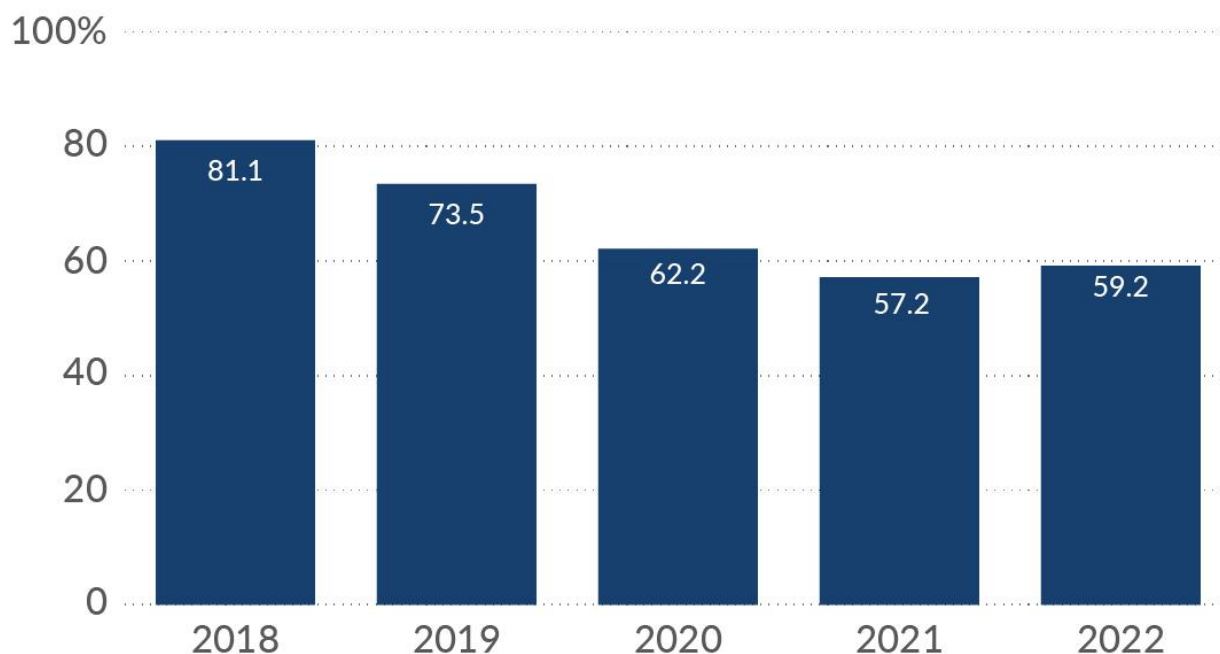


Figure 5. MSPV utilization rates from 2018 through 2022.

Source: Prime Vendor Conversion and Recommendation Tool.

Facility inventory managers are responsible for ordering supplies on the MSPV product list from the prime vendor and for reporting issues and discrepancies for MSPV-related processes to the facility contracting officer's representative. The facility contracting officer's representative monitors MSPV contract performance and ensures that reported issues are recorded for MSPV-related activities.²⁶ Facilities are also responsible for completing quarterly contracting officer's representative's performance evaluations on their prime vendor's performance.

Separately, in September 2022, the program office introduced the issue reporting tool to better manage and address MSPV-related issues reported by the facilities. According to VHA documentation, the issue reporting tool serves as a central location to manage, edit, and track issue reports while monitoring metrics for issues received and resolved. Facility staff can use the tool to report issues or report them directly to the contracting officer's representative.

²⁶ Facility contracting officer's representatives are the liaisons between the medical facility and the prime vendor. They are responsible for keeping the contracting officer apprised of events that occur in facilities concerning the prime vendor and monitoring prime vendor performance and fulfillment of contractual obligations. Federal Acquisition Regulations 1.602-2(d) (2023).

Results and Recommendations

Finding: VHA Did Not Fully Utilize or Leverage the Medical/Surgical Prime Vendor Program

VHA policy requires its medical facilities to use the MSPV distribution contracts to purchase medical supplies.²⁷ However, the OIG found that medical facilities did not fully utilize or leverage the MSPV program, demonstrated by four main issues. First, facilities did not always purchase through the MSPV program because items were often unavailable—they were on back order, on allocation, or not stocked—or facility staff did not attempt to use the MSPV program before opting to procure items from the open market. Second, medical facility staff do not always report issues with the prime vendor or unavailable products. Facility staff told the audit team that the issue reporting tool is not effective and that using local work-arounds is quicker and easier than reporting issues to the program office; therefore, unreported problems persist. Third, the program office and medical center leaders have not provided comprehensive or adequate oversight. Without this guidance, staff may not be trained thoroughly in using the MSPV program, and local leaders are not always motivated to enforce the program's use. Fourth, the product list did not include the majority of medical and surgical supplies that facilities purchase, and therefore these supplies could not be obtained through the MSPV program.

The audit team's analysis of VHA data revealed that facilities spent about \$865 million on medical and surgical supplies during 2022 that were on the MSPV product list. Of that, VA medical facility staff purchased about \$353 million (41 percent) through the open market instead of through the MSPV program. Some of these purchases were made from the facilities' own prime vendor. The audit team determined that if the facilities made these same purchases through the MSPV program during 2022, VHA could have saved approximately \$35.5 million.

Further, the audit team determined that medical facilities spent a total of \$1.5 billion on items categorized as medical and surgical supplies that were not included on the product list.²⁸ Had these items been available on the product list and procured through the MSPV program, VA could increase its savings.

²⁷ VHA Directive 1761. When an item is simultaneously available through an MSPV distribution contract and another mandatory procurement instrument, the MSPV contract must be used. Covered medical/surgical supplies eligible for order and distribution under the MSPV program are defined as medical, surgical, dental, and laboratory supplies identified on the MSPV product list. This report refers to these as eligible items or supplies.

²⁸ The team calculated this total by extracting from the Integrated Funds and Distribution Control Point Activity Accounting and Procurement System the total amount spent on all medical and surgical supplies during 2022, and subtracting the total amount spent on MSPV-eligible items during the same time frame.

The following determinations support the OIG's finding:

- Facility staff did not consistently order through the MSPV program.
- Medical facility staff were not effectively reporting identified issues.
- The program office and facility leaders were not providing adequate oversight.
- VHA's product list was not comprehensive.
- MSPV program deficiencies led to increased spending.

What the OIG Did

The audit team examined VHA procurement data for MSPV-eligible items for 2022. The team judgmentally selected seven medical facilities based on how much they spent on and how often they purchased items through open market transactions with the prime vendor. From those facilities, the team analyzed a sample of 138 transactions made from July through September 2022 to validate information reported in VHA's data and determine why facility staff made open market purchases. The team also calculated potential cost savings for the entire universe of VHA purchases of MSPV-eligible items during 2022.²⁹

The audit team interviewed over 100 staff members, including VA and VHA officials, Veterans Integrated Service Network (VISN) and facility supply chain officers, and facility inventory and purchasing staff of the seven selected medical facilities.³⁰ Finally, the audit team surveyed VISN chief logistics officers and facility supply chiefs to obtain more information related to guidance and training, communication, and challenges encountered with the MSPV program. The OIG analyzed responses from 121 of 130 facility supply chiefs (93 percent), and 17 VISN supply chiefs surveyed.³¹

Facility Staff Did Not Consistently Order through the MSPV Program

VHA monitors the use of the MSPV program against a performance metric goal of 90 percent by measuring the total amounts that facilities spent on MSPV-eligible items through the MSPV program versus the open market.

VHA's data reveal that medical facilities spent a total of approximately \$865 million on MSPV-eligible products during 2022. Of that, about \$511 million (59 percent) was spent through

²⁹ The sample of transactions was not intended, nor used to project to the population.

³⁰ VHA divides the United States into 18 regional networks, known as VISNs, which manage day-to-day functions of medical centers and provide administrative and clinical oversight. VHA, "Veterans Integrated Services Networks (VISNs)," <https://www.va.gov/HEALTH/visns.asp>.

³¹ VISN 20 personnel were not included in the survey results because they did not use VA's MSPV program. During the scope of this audit, VISN 20 used the Defense Logistics Agency's MSPV contract under VA's previous pilot program.

the MSPV program, falling well short of the 90 percent goal. Facilities spent the remaining \$353 million (41 percent) on about 488,000 transactions for items that were on the MSPV product list but were purchased through open market purchases.

The audit team determined that facility staff did not always buy items through the MSPV program for several reasons, including unavailability of needed items (such as those on back order or allocation), or staff making an open market purchase without first attempting to use the program, sometimes due to the lack of automated updates in the ordering system.

Orders Not Fulfilled

Numerous facility logistics staff told the audit team that items on back order are a persistent challenge when using the MSPV program. In addition, 84 percent of facility supply chiefs who responded to the OIG survey reported that back orders are one of the challenges their facility faces when using the MSPV program.

When an item is on back order, the prime vendor cannot completely fill the order. Several inventory managers said they check the prime vendor's website for product availability, and if they learn an item is on back order, they do not attempt to order through MSPV but instead purchase it through the open market. However, if inventory managers do not place orders for back-ordered items through MSPV, these items will not count against the prime vendor's unadjusted fill rate. Therefore, when facilities make open market purchases without an initial order being placed through MSPV, VA cannot accurately verify the prime vendor's unadjusted fill rate. The audit team found that inventory managers were generally not aware that bypassing the MSPV program impacted the vendor's contractual requirements and metrics.

Of the survey respondents, 99 percent of facility supply chiefs stated that they or their staff encountered back orders when trying to order from the MSPV program. Nearly all those respondents said they had a process for when this occurs, including the following:

- “We will look for items on the open market from any vendor at the lowest price and fastest availability we can find.”
- “We have numerous vendors in the system we routinely use to provide the same or alternative product when MSPV has a back order.”
- “We unfortunately need to order from a vendor that is not our MSPV vendor, but we have no choice.”

These processes bypass the MSPV program, as illustrated in the following example.

Example 1

In August 2022, staff at the VA Loma Linda Healthcare System in California purchased a surgical product through the open market for \$5,327.88. The audit

team identified that this item was on the product list at the time of purchase. Had staff procured this item through the MSPV program, they would have spent \$2,551.25 and saved \$2,776.63. Staff stated they did not procure this item through the MSPV program due to its back-ordered status. The audit team reviewed the back order reports and could not determine that staff ever attempted to purchase this item through the MSPV program. As a result, the prime vendor's inability to fulfill this order was not recorded and therefore did not impact the prime vendor's fill rate.

Although logistics staff commonly cited back orders as the reason for not using the MSPV program, the audit team was unable to confirm this through available back order reports, which are generated by the prime vendors and record orders for items that had a back-ordered status when the order was placed.³² The team determined through its review of 138 open market purchases that facility staff reported they used the open market for 23 items (approximately 17 percent) because they claimed the items were on back order. However, the team reviewed available back order reports for these purchases and determined that none of the 23 items were on back order when the facility placed the order.³³ By way of explanation, the team learned through interviews that inventory managers do not always attempt to use the MSPV program and usually use the open market when they learn an item is on back order. Those types of purchases would therefore not be captured in back order reports.

The audit team also reviewed available back order reports and data for about 4,000 transactions of the five most commonly purchased items made via the open market and identified that 95 percent did not appear on a back order report, indicating a purchase was not initially attempted through the MSPV program.³⁴ See table 2 for additional details.

³² According to a program office representative, when facilities elect the fill/kill option for unfilled orders, that order is not tracked on any back order report. As of October 2023, 25 of 130 sites had elected this option.

³³ Monthly back order reports are a contractual requirement outlined in the statement of work. For 2022, the program office was only able to provide partial back order reports for two of the three prime vendors. According to a deputy program manager, the request to prime vendors to compile back order reports was sent out in the third quarter of FY 2022. The program office did not require submission of these reports prior to this direction.

³⁴ The audit team reviewed the top 11 items (in number and frequency) purchased through the open market, with a total of 5,673 transactions.

Table 2. Items Frequently Purchased on Open Market Compared to Back Order Reports

Item	Open market transactions	Transactions not on back order reports	Transactions on back order reports
Item 1	1,094	952 (87%)	142 (13%)
Item 2	1,090	1,065 (98%)	25 (2%)
Item 3	728	724 (99%)	4 (1%)
Item 4	617	609 (99%)	8 (1%)
Item 5	489	483 (99%)	6 (1%)
Total	4,018	3,833 (95%)	185 (5%)

Source: OIG analysis of VA's prime vendor back order reports.

In some instances, even when facility staff placed orders for items that could not be filled, other issues arose. Per contract requirements, when an order is placed for an item that cannot be filled or only partially filled, the vendor and the medical facility have three options.³⁵ In one option, called fill/kill, the prime vendor cancels the order if they are unable to fulfill it. Second, the facility can elect to accept back orders on unfulfilled orders. The final option, fill/call, is a hybrid of the previous two: the prime vendor can kill the order, or the facility can leave the unfulfilled or partially unfulfilled order as a back order. These options count against the unadjusted fill rate, which means VA should be aware that the prime vendor did not fulfill the order.

If the prime vendor cannot fulfill the order and automatically cancels it—fill/kill—the inventory manager still needs to procure the item to ensure inventories are adequately stocked to continue patient care. The prime vendor is required to cancel the order or any unfilled portion of the order unless the facility approves delivery of an acceptable replacement from the product list.³⁶ Before canceling, however, the prime vendors need to suggest suitable product substitutes from the product list, but only 55 percent of facility supply chiefs surveyed stated that this occurs at their facility. Further, when the prime vendor suggests product substitutes, the audit team learned through interviews that substitutions are not always acceptable to clinicians. Due to the time constraints and issues related to suitable product replacements, inventory managers noted that they often go to the open market to buy a specific item.

³⁵ According to a program office executive assistant, each facility is required to complete a form on how the prime vendor should handle unfilled orders (fill/kill, fill/call, or back order). Facilities must select only one option; however, they have the ability to complete another form to change their election during the life of the contract.

³⁶ MSPV Gen-Z Transition 2 statements of work, December 1, 2021.

When facilities elect to leave the item as a back order, inventory managers need to place another order to replenish the facility's stock, thus creating two orders for one product. If the facility receives the new order and cannot cancel the first order from the prime vendor in time, the facility could end up with both orders being fulfilled.

To accurately measure and know the prime vendors' ability to fulfill orders, recommendation 1 calls on VHA to ensure that facility staff place all orders for MSPV-eligible items, including those that are identified as on back order. Recommendation 2 is for VHA to implement tracking mechanisms for back orders to help facilities reduce duplicate orders.

Items on Allocation

Inventory managers also said allocations impede their ability to use the MSPV program. Items are put on allocation when the prime vendor does not have enough of the needed item. The prime vendor decides the allocation allotments based on information received from the facilities (most recent 12 months of purchases) and from the suppliers, who also allocate stock to their distributors based on the purchase data. In the OIG survey, 64 percent of facility supply chiefs responded that their staffs have issues with allocations when trying to use the MSPV program. Some commented that attempts to increase allocation with their prime vendors were often unsuccessful, including the following responses:

- “We ask the vendor to increase our allocation amount[;] however, that rarely works.”
- “[We] provide the rep usage for items on allocation[;] however that does not always increase the allocation.”
- “We will reach out to the vendor to explain our issue in an attempt to increase our allocations. We are not always successful.”

According to a deputy program manager, the program office routinely informs the facilities what supplies are on allocation and the allocated amount. The program office manager said that these communications reiterated to the facilities to continue to order “monthly allocations and core list items even if on back order for the medical facility supplies. Continuing to order allocations ensures that the facility will receive a market share of supplies in high demand and keep the supplies available for cross-leveling.”

Inventory managers also said that when an allocated item appears to be on back order, they often make the purchase on the open market rather than through the prime vendor. This creates a risk that allocation will decrease for future purchases, creating a cycle in which facilities resort to the open market to stock under-allocated items.

One program office official told the audit team that when a facility needs more than the allocated amount, the prime vendor may inform the facility that it has additional stock available at the open market price. A VHA division chief confirmed that this is a concern about the MSPV

program and stated that facility staff believe there is a risk that the prime vendor may inappropriately limit product availability beyond the allocated amount to sell at its open market price.

Product List Items Not Stocked

Not all items on the product list are immediately available for order. Before a facility orders new items from the product list, staff must provide their usage to their prime vendor, who must then assign an order number. According to the statement of work, “Order numbers are not required until there is a demand from at least one authorized customer.” In practice, this means that until one facility provides its usage so its prime vendor can generate an order number, no facility (operating under that same prime vendor) can order that item through the MSPV program, even if it is on the product list. The audit team found that during 2022, about 124,000 of approximately 488,000 open market transactions (about 25 percent) were for product list items that did not have an order number. This indicates that no ordering staff at any facility had provided usage to their prime vendor for some product list items before, so facilities continued to order these items outside of the MSPV program.

Some facility supply chiefs reported in survey comments that the MSPV utilization metric was not attainable because of the process for establishing order numbers. Survey comments include the following:

- “It takes far too long to get PVON’s [order numbers] created.”
- “Many supply items are on the formulary [product list] but is missing PVON# so we are unable to order.”
- “Time to get PVONS [order numbers].”

The team reviewed 138 open market purchases and determined that 28 transactions (20 percent) did not have an established order number. Per the statement of work, prime vendors have seven business days to establish an order number for items with a supplier already under a commercial agreement, and 60 days for items provided by a supplier without a commercial agreement. The audit team determined that the delay in establishing order numbers resulted in some inventory managers needing to resort to the open market to procure the needed item.

Additionally, per the statement of work, each facility has a core list of facility-specific items that it orders frequently and estimates that it will order at least once every 30 days; if not ordered at that frequency, the items may fall off the core list. Per program office guidance, prime vendors are required to maintain a sufficient stock level of core items to allow for next-day delivery.³⁷ However, inventory managers expressed concerns with core items not being available and said

³⁷ Medical Supply Program Office, *MSPV Field Guide*, “Core List Creation & Maintenance,” May 2023.

that when this happens, they resort to the open market to procure needed supplies. As with fill/kill orders, when inventory managers do not place an order for core list items through the prime vendor, it creates a risk that the item will lose its core status for future purchases. In addition, when inventory managers go to the open market instead of the prime vendor, the prime vendor's fill rate of core items is not impacted, and therefore VA and VHA leaders do not have the information to contractually hold the prime vendor accountable.

VA medical facility staff can leverage the Prime Vendor Conversion and Recommendation Tool, created by P&LO, to identify commonly purchased items that are available on the product list. With this tool, they can work with their prime vendor to proactively establish order numbers to mitigate associated delays. They can also identify regularly purchased items and add those items to their core list. VA has offered multiple training opportunities designed to educate facility staff on using this tool; however, the audit team found that this tool is not being consistently used because numerous facility staff said they were either unaware the tool existed or were not trained in how to use it.

Recommendation 3 calls for the program office and facility leaders to ensure that logistics staff are trained and use the Prime Vendor Conversion and Recommendation Tool to identify commonly purchased open market items and convert those items to MSPV-eligible items.

Product List Changes

On a monthly basis, VHA procurement personnel update the BPAs for the products that compose the product list. These updates can include the number and the price of items. Table 3 depicts the number of items on the product list throughout 2022, along with the number of vendors for each.

Table 3. Month-to-Month Changes to the Product List During 2022

Month	Number of products	Change in number of products	Number of vendors
January	85,694	—	218
February	85,885	+191	215
March	85,815	-70	215
April	85,618	-197	215
May	85,921	+303	216
June	81,811	-4,110	215
July	75,557	-6,254	216
August	68,350	-7,207	212
September	69,361	+1,011	211

Month	Number of products	Change in number of products	Number of vendors
October	71,414	+2,053	211
November	73,771	+2,357	214
December	74,200	+429	213

Source: VA OIG's analysis of the program office's product lists.

Facility staff said the frequent changes in the product list are problematic because pricing is not automatically updated in the system. For example, when an item's price changes, even if it is minimal, the transaction might be rejected if the inventory ordering system does not reflect the price that the prime vendor and supplier agreed to. If an item is needed the next day, the rejection will delay the delivery until the inventory manager can remedy the situation. As a result, the inventory manager may go to the open market to procure the item, with the potential added expense of expedited shipping.

Product list changes also require significant manual updates for facility logistics staff. In OIG survey responses, 70 facility supply chiefs revealed that their staffs spend five to 24 hours weekly on issues or challenges associated with product list changes, while an additional nine chiefs said it took more than 24 hours, on average, per week.³⁸ Figure 6 breaks down the time facilities spent on product list issues.

³⁸ Of the 5 respondents who selected "other," one stated that it took 8–10 hours on average, per week, on issues or challenges associated with product list changes.

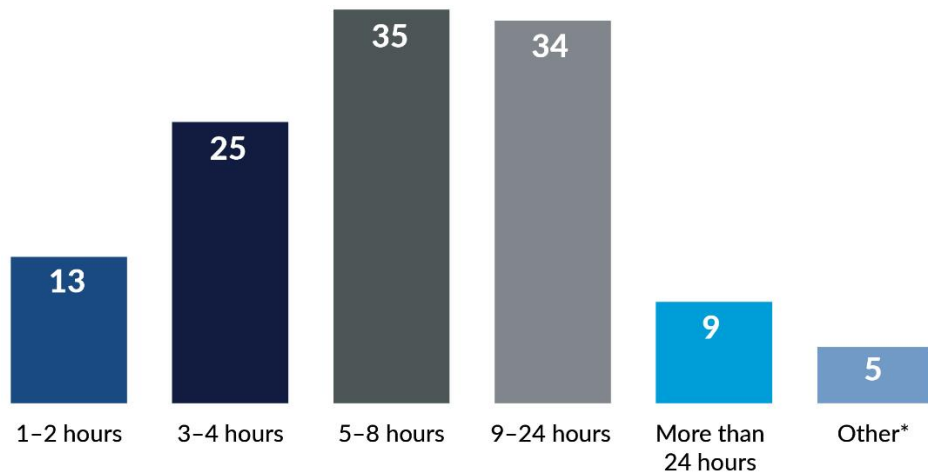


Figure 6. Staff time spent weekly on issues related to product list changes.

Source: VA OIG survey of supply chiefs.

* Other responses included a variety of answers. For example, one chief stated that it was sporadic from week to week, ranging from zero to four hours per week. Other chiefs noted that they did not know how long it took or didn't provide details.

According to a deputy program manager, VHA does not currently have the capability to automatically update the inventory ordering system with any product list changes, including prices. However, the audit team identified a practice at one facility where an analyst created an algorithm that can update all the prices for their facility within the inventory ordering system. Though this creative work-around alleviated some of the challenges for the individuals responsible for ordering supplies at that facility, it did not help other facilities. Federal internal control standards call on managers to design an organization's information system and related control activities to achieve objectives and respond to risks.³⁹ According to the Supply Chain Data and Informatics Office director, the office is working on a capability to automatically update prices in the system for all facilities.⁴⁰

Recommendation 4 is for VHA to identify and implement an efficient way to transfer product list updates to the inventory ordering system.

Inaccurate Product Status or Details

The audit team found that facility staff often visit their prime vendor's website to check the availability and pricing of a product before placing an order. According to a VHA division chief, VHA's website and product list should be the single source of accurate information. Facility staff

³⁹ Government Accountability Office, *Standards for Internal Control in the Federal Government*, Principle 11, GAO-14-704G, September 2014. See appendix A for details on the Government Accountability Office standards.

⁴⁰ The Supply Chain Data and Informatics Office is in VHA's P&LO logistics branch.

should not rely on the prime vendor websites since VA does not have assurance vendor information is accurate.

During site visits, some inventory managers stated that their MSPV purchases are often rejected due to pricing discrepancies. They noted that they would update the prices based on information on the prime vendor's website, but that the transaction would still be rejected because of inaccurate pricing. The audit team also identified instances where the prime vendor incorrectly informed inventory managers that a specific item was discontinued or not on the product list, as reflected in the following example.

Example 2

A facility ordered a product from its prime vendor, and the order was rejected. According to the prime vendor, the order was rejected because the product was discontinued. However, the facility checked with the manufacturer and they stated the item was available and ready to be shipped.

Recommendation 5 calls for VHA, in collaboration with the SAC, to identify a location for staff to review product information, such as availability and pricing, in a VA-owned system and to ensure applicable facility staff are aware of this location.

Inconsistent Verification of Product Availability

Even when back orders or allocations were not an issue, the audit team found that numerous inventory managers have adopted the practice of initially going to the open market to obtain needed supplies. According to program office guidance, facility supply chiefs are responsible for ensuring that the prime vendor is utilized for fulfilling supplies that are listed on the product list.⁴¹ Additionally, internal control standards call for managers to design control activities to achieve certain objectives and respond to risks—in this case, not utilizing the MSPV program.⁴² However, the audit team found that supervisory staff generally did not review open market purchases their staff made to see if an MSPV-eligible item was available, and leaders did not design or require such a practice.

In response to the audit team's sample review of 138 open market transactions at seven selected sites, staff at multiple facilities pointed out that for 23 items they used the open market either because the item had not been recently purchased through the MSPV program, or they presumed the item was not available through a prime vendor. One facility supply chief noted that facility staff generally rely on the prime vendor to alert them when a product becomes available on the product list, so they used the open market over the MSPV program because they did not notice

⁴¹ Medical Supply Program Office, *MSPV Field Guide*, "Roles and Responsibilities," April 2023.

⁴² Government Accountability Office, *Standards for Internal Control in the Federal Government*, Principle 10.

that the sampled item had been added to the product list. At the time of the purchase, the item had been on the product list for over a year.

In addition, VISN and facility staff attributed the low utilization of the MSPV program to a lack of automated updates within the inventory ordering system. Inventory managers stated they often rely on an auto-generated source field from the inventory ordering system when placing a new order. The audit team observed that these reports populate with the last known supplier, which means that if the inventory manager purchased the item from the open market instead of a prime vendor, it will default back to that open market supplier the next time someone tries to order the product. Recommendation 6 is for VHA to implement a standardized, routine review of open market purchases.

Medical Facility Staff Were Not Effectively Reporting Identified Issues

Reporting tools, such as the issue reporting tool and the quarterly contracting officer's representative performance reports, are channels that facility staff should use to report issues they encounter while using the MSPV program. However, the audit team determined staff are not always reporting those issues.

Issue Reporting Tool

Federal internal control standards call on managers to internally communicate the necessary quality information to achieve the organization's objectives.⁴³ In September 2022, the program office introduced the issue reporting tool to identify and resolve MSPV issues.⁴⁴ According to a deputy program manager, it is intended to help staff better manage MSPV issues, and all MSPV concerns should be reported using the tool, which would satisfy the federal control standard. However, the audit team found that many logistics staff were unaware of the tool. Survey results highlighted this: one facility supply chief acknowledged not reporting issues through the tool because the survey was the "first time I've heard about it."

Upon review of the Microsoft Teams channel where the reporting tool is located, the audit team identified that not all facility supply chiefs were members of the channel and therefore could not use the tool to report any issues.⁴⁵ Further, the audit team found that the supply chiefs who could

⁴³ Government Accountability Office, *Standards for Internal Control in the Federal Government*, Principle 14.

⁴⁴ Prior to the Issue Reporting Tool launch in 2022, facility staff had the Issue Management Tool, a SharePoint-based application developed by the program office and SAC to allow supply chain personnel and contracting officer's representatives to report prime vendor performance-related issues. That tool was launched on January 9, 2019, and is no longer in use.

⁴⁵ The audit team accessed the MSPV Utilization Report on the Supply Chain Common Operating Picture dashboard and determined a total of 130 facilities were measured on this metric. The team reviewed the MSPV Program Microsoft Teams Channel and assessed if the facility's supply chief, or someone who was acting in that position, was a member of this channel.

access the tool did not consistently use it to report issues. Figure 7 illustrates the access and usage of the issue reporting tool as of July 2023.

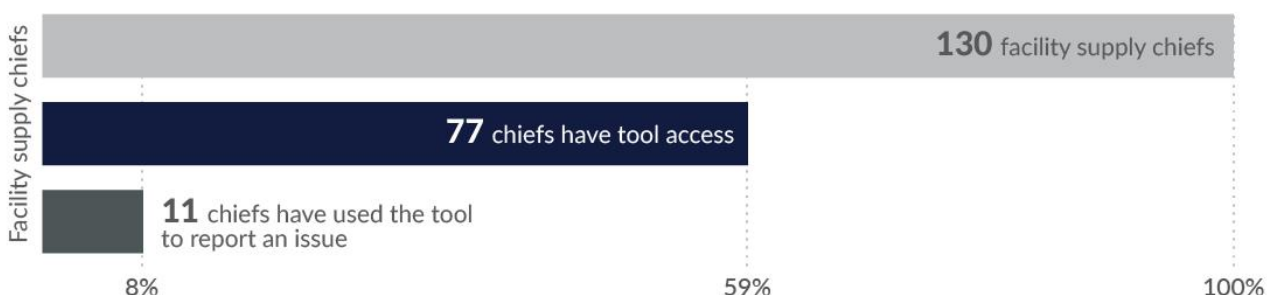


Figure 7. Facility access and use of issue reporting tool.

Source: VA OIG analysis.

Staff that were aware of the tool stated that they did not always use it because it was often easier to resolve the issue at the local level versus submitting the issue into the tool, which was an extra step. The program office stated that although using this tool is encouraged, it is not mandatory.

The following survey responses indicate why facility supply chiefs did not use the tool when they encountered an issue:

- “No training on this tool. Staff will use it if training available.”
- “Time consuming, we worked directly with the MSPV to overcome the challenges, not all issues are rectified to our satisfaction.”
- “Most of our issues come from backorders and delayed ETAs from the manufacturer. We handle this by directly sourcing the products from other vendors or [medical facilities] after we have discussed with Prime Vendor.”
- “Issues have been reported numerous times by numerous facilities and nothing has happened to correct them.”

The audit team reviewed the 212 reported issues from September 2022 through July 2023. The main issues submitted to the tool were categorized as product list and ordering issues, such as missing shipments, shipments to wrong locations, inability to order a core item, and incorrect information on the product list. The majority of these issues had been marked as addressed by the program office.

The team identified that VISNs varied in the number of issues reported and found that three of 17 VISNs (approximately 18 percent) had never reported an issue through the tool.⁴⁶ The audit

⁴⁶ During the scope of this audit, VISN 20 used the Defense Logistics Agency’s MSPV contract under VA’s previous pilot program, and therefore did not need to use the tool.

team conducted site visits to two facilities in one of the VISNs that did not use the tool to report issues and determined that they did in fact encounter difficulties with the MSPV program. Staff from both facilities told the audit team they had difficulties with product list changes, products on back order, and allocations. These issues are all reportable through the tool, but the facility staff did not use it.

Quarterly Evaluation Reports

Program office guidance states that facility contracting officer's representatives must complete and submit quarterly evaluation reports on the prime vendor's performance.⁴⁷ In addition to the program office guidance, federal internal control standards state that managers should establish and operate monitoring activities to evaluate results.⁴⁸ However, similar to interview responses concerning the reporting tool, many staff stated that they were more likely to handle the issue at the local level rather than track and document it.

The audit team reviewed FY 2022 quarter 4 performance evaluation reports and found that 30 of 130 facility contracting officer's representatives (23 percent) did not complete the evaluation for the quarter.⁴⁹

Nearly half of the facility supply chiefs who completed the survey either noted that the performance evaluation reports did not help address any issues or said they were unsure if the reports helped.

In addition, staff characterized completing the performance evaluation reports as an administrative exercise in which contracting officer's representatives arbitrarily noted the prime vendor's performance was satisfactory, although the staff might have been facing difficulties. The audit team identified several instances where the rating did not always match the report comments. For example, one facility rated the prime vendor as satisfactory for all rating categories, but evaluation comments noted issues with back orders that led to open market purchases.

Without accurate information on prime vendor performance, the program office and SAC personnel will remain unaware of issues that staff identify in the field. Effective use of reporting tools, such as the issue reporting tool and the evaluation reports, is critical to capturing this required data. Lack of documentation for identified problems can lead to continued poor prime vendor performance and increased VA open market spending. Recommendation 7 is for VHA to make sure that reporting tools are effective and consistently used, and that reported issues are resolved.

⁴⁷ *MSPV Field Guide*, "Roles and Responsibilities."

⁴⁸ Government Accountability Office, *Standards for Internal Control in the Federal Government*, Principle 16.

⁴⁹ The team reviewed quarterly evaluation reports relevant to the 130 facilities that use the MSPV program.

The Program Office and Facility Leaders Are Not Providing Adequate Oversight

The program office ultimately has responsibility for oversight and execution of the MSPV program, and facility leaders are responsible for managing their logistics staff to ensure they provide veterans quality and timely care.⁵⁰ The audit team found that VA medical facility staff were not adequately trained or provided with sufficient guidance and resources pertinent to the MSPV program. Also, facility leaders generally did not enforce the use of the MSPV program and often characterized the 90 percent metric as unattainable.

Inadequate Training and Communication

The audit team determined that logistics staff at medical facilities were generally unaware of MSPV program guidance and desired additional training opportunities. Internal control standards call on managers to implement oversight activities through policies.⁵¹ In April 2023, the program office began issuing a new *MSPV Field Guide*, chapter by chapter, using the program office channel in the Microsoft Teams application.⁵² Program office personnel said that they also shared the newly released chapters of the guidebook via an email newsletter. Despite program office efforts, the audit team determined while conducting site visits that numerous facility staff were unaware of the new guidebook. Additionally, the audit team found that about 44 percent of facility supply chiefs were not members of this Teams channel, which the program office intends as a communication forum for VISN and facility supply chiefs. As a result, facility supply chiefs may not be informed of important information that the program office communicates and therefore are not disseminating this information to their staff.

Survey results also illustrated some lapses in communication, including dissemination of guidance. According to the program office field guide, facility supply chiefs are responsible for providing leadership for logistics activities within the facility, including network and logistics operations and policies and performance management.⁵³ The audit team identified that 53 percent of facility supply chiefs responded that they did not provide local standard operating procedures or guidebooks to the individuals in their facility responsible for ordering medical supplies.

⁵⁰ *MSPV Field Guide*, “MSPV Organizational Overview.”

⁵¹ Government Accountability Office, *Standards for Internal Control in the Federal Government*, Principle 12.

⁵² The *MSPV Field Guide* is a training resource for the field to address current knowledge gaps and standardize best practices and processes. The Microsoft Teams application is the same channel where the issue reporting tool is located.

⁵³ *MSPV Field Guide*, “Roles and Responsibilities.”

Federal internal control standards also state management should demonstrate a commitment to develop and retain competent staff.⁵⁴ While program office staff reported that training is offered for every position in the supply chain series, the program office said staff are not required to take any specific MSPV training. During audit team site visits, some facility staff noted that they desired additional training opportunities. Survey comments suggested that additional training would be helpful to mitigate challenges:

- “Better hands-on training that shows the ‘how to.’”
- “Training from a National level would help. Guides, videos, TMS classes would benefit the VA greatly to push this program forward.”
- “Required MSPV training and updates.”

Facility supply chiefs reported through the survey that they provided MSPV training to the individuals responsible for ordering medical supplies, but their survey comments revealed that much of that was on-the-job training.

P&LO’s Supply Chain Data and Informatics Office offers multiple training opportunities designed to educate facility staff on using the MSPV program and the Prime Vendor Conversion and Recommendation Tool. Through interviews, the audit team determined that many staff are unaware that this tool exists or have not attended such training. Recommendation 8 is for VHA to ensure that logistics staff receive relevant MSPV program guidance and training opportunities.

Lack of MSPV Program Enforcement

Facility leaders, including the facility supply chief, are responsible for ensuring that logistics staff meet the healthcare needs of veterans and order medical and surgical supplies through the MSPV program.⁵⁵ Federal internal control standards call on management to evaluate performance and hold individuals to their internal control responsibilities.⁵⁶ However, medical facilities are not enforcing or sufficiently emphasizing that staff should use the MSPV program. According to a VHA management analyst, staff in the program office are not rated on MSPV utilization as part of their performance appraisals. More notably, according to the Office of the Assistant Under Secretary for Health for Operations, MSPV utilization is also not included in performance standards for any medical facility directors.

Survey results showed that 94 percent of VISN supply chiefs and 83 percent of facility supply chiefs do not think the 90 percent usage metric for the MSPV program is achievable. Many interviewees told the audit team they were ambivalent about meeting the established metric and

⁵⁴ Government Accountability Office, *Standards for Internal Control in the Federal Government*, Principle 4.

⁵⁵ VHA Directive 1761.

⁵⁶ Government Accountability Office, *Standards for Internal Control in the Federal Government*, Principle 5.

instead strove to ensure their clinics were fully stocked so they could fulfill their main priority: continuity of veteran care.

VHA's Product List Was Not Comprehensive

Although VHA monitors MSPV utilization for eligible products, the audit team determined that medical facilities purchase numerous items that are not on the product list. Medical facility purchases of items not on the product list are not considered in the MSPV utilization metric.

According to VA data, during 2022, VA medical facilities spent a total of about \$2.4 billion on all medical and surgical supplies. MSPV product list items made up only about \$865 million (36 percent) of that, and facilities spent about \$1.5 billion on medical and surgical supplies that were not included on the MSPV product list, as shown in figure 8.⁵⁷

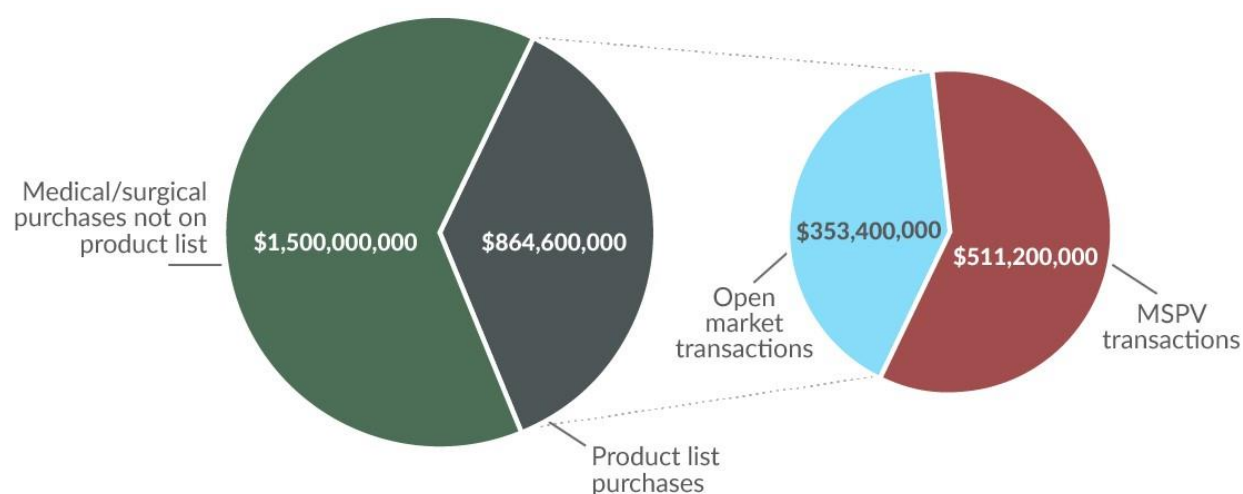


Figure 8. Medical and surgical total spending and MSPV program spending.

Source: OIG analysis of VA's Supply Chain Common Operating Picture Dashboard Procurement data.

According to a VHA division chief, the previous acquisition strategy for creating the product list was problematic. This strategy was implemented in October 2019, with all awards for products completed by April 2021. A deputy program manager noted that although VHA solicited industries with a list of required medical and surgical supplies, the outcome was a noncomprehensive list that did not include all items medical facilities needed but did include additional items that were not needed.⁵⁸ A VHA division chief explained that the initial list of most-used products for solicitation was flawed because it was created with old and incomplete data. The data did not include all pertinent fields, such as manufacturer, and was based on

⁵⁷ The \$865 million spent on items identified as being on the product list included about \$511 million spent through the MSPV program (59 percent) and about \$353 million through the open market (41 percent). (These totals do not sum due to rounding.)

⁵⁸ Some unneeded supplies that were included in the product list under this strategy are still on the product list that facility staff use under the current MSPV transition contracts.

prior-year medical/surgical supply spending. P&LO leaders noted that this strategy allowed vendors to propose new items for use at medical facilities.

According to P&LO leaders, VA was also considering changing contract vehicles to the Defense Logistics Agency's MSPV program at the time, causing confusion among suppliers. The P&LO leaders believed that many suppliers did not offer products during the acquisition because they assumed VA was moving forward with the Defense Logistics Agency change. According to VA program office personnel, insufficient data and the confusion in the vendor community led the program office to award contracts for supplies that medical facilities had not previously purchased, resulting in a product list that included unneeded items but missed items that are frequently purchased.

According to a division chief, the program office implemented a new strategy in its FY 2022 quarter 3 solicitation effort to identify and add items to the product list. Per the strategy, new supply items could be added to the product list if they met one of the following criteria:

- Accounted for a minimum of \$20,000 in total spending
- Accounted for a minimum of 100 unique purchase orders
- Were purchased by at least 25 medical facilities

Due to limitations in staffing, P&LO staff told the audit team that prior to establishing new criteria for identifying products, they did not prioritize adding items to the product list. Rather, they focused on cleaning the historical procurement data to target and add the right items. P&LO leaders said they hope the new strategy will increase the product list to cover about 85 percent of their total spending on medical/surgical supplies.

Medical facilities currently use a product list that does not contain all the items they regularly purchase. Although not all medical/surgical supplies can be added to the MSPV program, the audit team recognizes that VHA has room to identify and add eligible items to increase the product list, which would give medical facilities flexibility in their procurement practices.⁵⁹ Recommendation 9 calls for VHA to ensure the product list includes items that facilities need and regularly purchase so it can expand the savings and benefits the MSPV program offers.

⁵⁹ The P&LO leaders noted that some medical and surgical supplies are not MSPV-eligible items, such as items that are identified as not compliant with the US Trade Agreement Act, and therefore cannot be included in the MSPV program. Products manufactured in countries that are not designated under the act's compliance rules are generally not eligible for federal government procurement unless they undergo a substantial transformation in a designated country or are covered by specific exceptions or waivers.

MSPV Program Deficiencies Led to Increased Spending

The audit team analyzed data for about 210,000 open market purchases during 2022 of items that were on the product list and found that if facilities had purchased these supplies through the MSPV program, VHA could have saved approximately \$35.5 million during that year.⁶⁰

Of these open market purchases, the team determined that for about 22,000 transactions, medical facilities spent about \$13 million on supplies from their own prime vendor. Since these purchases were not made through the MSPV program, medical facilities overpaid by about \$4.9 million for the same items from the same vendor, as table 4 shows.

Table 4. Open Market Purchases from the Prime Vendor

Prime vendor	Cost of open market purchases	Cost of the same purchase if made through the MSPV program	Calculated cost savings (product list pricing minus open market pricing)
Vendor 1	\$7,574,468	\$5,381,922	\$2,192,546
Vendor 2	\$5,245,951	\$2,578,909	\$2,667,041
Vendor 3	\$59,208	\$46,018	\$13,190
Total	\$12,879,627	\$8,006,849	\$4,872,778*

Source: OIG analysis of open market purchases made to prime vendors.

** Estimates may not sum exactly due to rounding.*

According to VA procurement data, during the following calendar year, 2023, medical facilities spent a total of about \$857 million on medical and surgical supplies that were on the product list. Of that, medical facilities spent about \$274 million on these items through the open market instead of through the MSPV program. Because facilities were still purchasing product list items through the open market during this period, the OIG estimated additional cost savings of about \$27.6 million for this period.⁶¹

In addition to cost savings, open market purchases create the risk that VHA does not have full oversight of the integrity of the items that are being purchased and used throughout its medical facilities. For an item to be added to the product list, it must be clinically vetted to ensure it

⁶⁰ The audit team only compared like items, where the open market purchase and product list item had the same units of issue and packaging. In addition, the audit team only included items in its analysis that had an established prime vendor order number.

⁶¹ The OIG considers the \$35.5 million in 2022 and the \$27.6 million in 2023 (a total of about \$63.1 million) as funds that could have been put to better use. See appendix B for more on the monetary benefits the audit team identified.

meets quality and safety standards. Open market purchases create a risk that unsafe items may be purchased, which could compromise patient care.

The deficiencies in the MSPV program also resulted in inefficiencies creating and maintaining the product list and ordering supplies. During 2022, the product list did not include a majority of the items facilities purchased. Furthermore, as of March 2023, VHA's product list included over 31,000 items with no record of being purchased by a VA medical facility over the prior 12 months.⁶²

Conclusion

When medical facilities purchase items via the open market rather than through the MSPV program, they often miss the cost savings and efficiency the program was designed to provide. If the facilities had purchased these product list items through the MSPV program, VHA could have saved approximately \$63.1 million. VHA needs to ensure the program office provides the tools, training, and resources required by medical facilities to fully leverage the MSPV program and hold facility staff accountable when they do not consistently use the program. Facilities should always attempt to make purchases through the MSPV program and report on identified issues. Doing so will provide the program office with the information it needs to effectively manage and monitor the prime vendor's performance in accordance with contractual obligations. In addition, VHA needs to ensure that the product list includes items that medical facilities regularly purchase to realize potential cost savings.

Recommendations 1–9

The OIG made the following recommendations to the under secretary for health:

1. Ensure facility staff place all orders for eligible items through the Medical/Surgical Prime Vendor program, including those that are identified as on back order.
2. Implement tracking mechanisms for back orders to assist the facilities in not obtaining excess supplies.
3. Ensure that logistics staff receive training and use the Prime Vendor Conversion and Recommendation Tool to identify commonly purchased open market items and convert those items to Medical/Surgical Prime Vendor purchases.
4. Identify and implement an efficient way to transfer product list updates to the inventory ordering system.

⁶² During calendar year 2022, the product list averaged about 78,600 items.

5. In collaboration with the Strategic Acquisition Center, identify a VA-owned system for staff to check product information, such as availability and pricing, and ensure applicable facility staff are aware of this location.
6. Implement a standardized, routine review of open market purchases.
7. Ensure that reporting tools are effective and consistently applied, and that reported issues are resolved.
8. Ensure that logistics staff receive relevant Medical/Surgical Prime Vendor program guidance and training.
9. Ensure the product list includes items that facilities need and regularly purchase so the Veterans Health Administration can expand the savings and benefits the Medical/Surgical Prime Vendor program offers.

VA Management Comments

VHA concurred in principle with recommendation 1, concurred with recommendations 2 through 9, and submitted corrective action plans for all recommendations to address the issues identified in the report. For recommendation 1, VHA reported that the program office will follow the ordering hierarchy to ensure staff follow rules governing the prime vendor program and will use enhanced performance metrics to encourage staff to use the program. VHA also noted that the program office, in response to both recommendations 1 and 2, is developing a feature in the Clinical Product Tool to track whether orders were placed through the program, including for back-ordered items. Additionally, for recommendation 2, VHA noted that the program office plans to proactively review all reported back orders and validate the status and product availability with suppliers.

Regarding recommendation 3, VHA stated it has provided and recorded live training sessions on the Prime Vendor Conversion and Recommendation Tool, and plans to link those training recordings to the program office's central SharePoint site. VHA said the program office provided training to staff of all 18 VISNs on the recommendation tool data within the Clinical Product Tool. VHA requested that the OIG close this recommendation.

To address recommendation 4, VHA's Supply Chain Data and Informatics Office plans to develop a system capability to allow for automated updates of items on the product list to transfer to the ordering system.

In response to recommendation 5, VHA noted that the program office launched a Core List Management Portal in the Clinical Product Tool in November 2023. The portal allows users to modify, add, or remove core list items for ease of management; view item availability; and escalate issues. According to VHA, training on this tool began in November 2023 and had been provided to all VISNs, reaching over 545 users, as of March 2024. VHA requested that the OIG close this recommendation.

For recommendation 6, in addition to conducting training on the Prime Vendor Conversion and Recommendation Tool, VHA noted the program office is enhancing the Clinical Product Tool to identify product list items being purchased through alternative sources, such as the open market.

Regarding recommendation 7, the program office plans to relaunch the issue reporting tool to SharePoint to simplify user access, and include a new feature to track issues across VHA.

Additionally, as it pertains to the reporting tool, the program office plans to update guidance and training documentation.

To respond to recommendation 8, VHA stated that the program office plans to use their central SharePoint site as a location for all links, information, and tools to keep users up to date. The program office plans to finish and publish the final chapters of the MSPV Field Guide along with series of training, change management activities, and communications on the SharePoint site to prepare for future contract iterations.

Finally, to address recommendation 9, VHA has increased data analysis to identify and document issues so it can minimize known causes for medical supplies being purchased outside of the MSPV program. Additionally, the program office plans to enhance the Clinical Product Tool to enable facilities to identify medical items that they would like added to the MSPV product list.

Appendix C includes the full text of VHA's comments.

OIG Response

VHA's planned actions are generally responsive to recommendations 1 through 9 and address the issues identified in the report; however, the OIG found that some responses lacked specifics. For recommendation 6, VHA plans to develop a functionality to review open market purchases, but the response lacked a plan for a standardized, routine review of such purchases. As discussed in the finding, the audit team found that numerous inventory managers have adopted the practice of initially going to the open market to obtain needed supplies. A standardized, routine review of open market purchases will allow facility leaders to identify and correct noncompliant purchasing behavior. Therefore, the OIG expects to see evidence of regular use of the functionality.

VHA requested that recommendations 3 and 5 be closed. Prior to closing recommendation 3, the OIG will seek evidence that logistics staff received training and that facilities are using the Prime Vendor Conversion and Recommendation Tool as intended. For recommendation 5, the OIG will seek further evidence and details on who has and has not completed the training.

All recommendations remain open at this time. The OIG will continue to evaluate VA's actions and supporting documentation to ensure compliance with ordering through the MSPV program. The OIG will close all recommendations when VA provides sufficient evidence addressing the intent of the recommendations and the issues identified.

Appendix A: Scope and Methodology

Scope

The audit team performed its work from March 2023 through February 2024. The review focused on assessing to what extent medical facilities are utilizing the Medical/Surgical Prime Vendor (MSPV) program by evaluating Veterans Health Administration (VHA) data for January 1 through December 31, 2022. The audit team also examined reasons why the MSPV program was not used and whether challenges that occurred with the MSPV program were efficiently mitigated.

Methodology

To accomplish the objective, the audit team identified and reviewed contracting officer's representative evaluation reports, contract documentation, back order reports, MSPV training materials, issue reporting tool awareness and participation, applicable laws and regulations, VA policies and procedures, and guidelines related to VHA's implementation of the MSPV program. The audit team also interviewed leaders in the Procurement and Logistics Office, Strategic Acquisition Center, and the sampled facilities. Other facility staff (ordering officials) and prime vendor on-site representatives were engaged as well. The team conducted interviews with facility, Veterans Integrated Service Network (VISN), and program office personnel to determine the processes, risks, internal controls, and general governance structure used to manage the MSPV program.

The audit team also conducted site visits to seven judgmentally selected facilities in Durham, North Carolina; Saginaw, Michigan; Houston, Texas; Denver, Colorado; Albuquerque, New Mexico; Loma Linda, California; and Minneapolis, Minnesota.⁶³ The team reviewed a random sample of 138 of about 120,000 open market transactions for t July 1 through September 30, 2022, from those facilities to assess the validity of VHA's data and to determine why the MSPV program was not used.⁶⁴

The team subsequently analyzed about 488,000 transactions made during 2022 for items that were on the MSPV product list but were purchased through the open market, as well as MSPV product lists, to assess MSPV utilization rates and to determine cost savings.⁶⁵

⁶³ There are 130 medical facilities that utilize the MSPV program.

⁶⁴ The random sample of transactions was not intended or used to project to the population.

⁶⁵ To calculate cost savings, the audit team analyzed the data of about 210,000 open market purchases during 2022. The audit team only compared like items, where the open market purchase and product list item had the same units of issue and packaging. In addition, the audit team only included items in its analysis that had an established prime vendor order number.

The audit team conducted an electronic survey of 17 VISN and 130 facility supply chiefs nationwide to obtain information related to their experiences with the MSPV program.⁶⁶ The team analyzed 17 completed surveys from the VISN supply chiefs, for a response rate of 100 percent, and 121 completed surveys from the facility supply chiefs, for a response rate of 93 percent.

The audit team's analysis is based on survey responses from 121 facility supply chiefs and 17 VISN supply chiefs. The numerator and denominator used to calculate question response percentages are detailed in the report.

Survey results are self-reported data, which the audit team could not verify without conducting site visits or observing all personnel while they took the survey. However, the team took steps to protect the data, which included limiting respondents from submitting survey responses more than once. Access to the survey was limited to a list of preprogrammed email addresses.

Internal Controls

The audit team determined that internal controls were significant to the review objective. This included an assessment of the five internal control components: control environment, risk assessment, control activities, information and communication, and monitoring.⁶⁷ In addition, the team reviewed the principles of internal controls associated with the objective. The team identified internal control weaknesses in the following four components and seven principles, and made recommendations to address those weaknesses:

- Component 1: Control Environment
 - Principle 4—Demonstrate commitment to competence.
 - Principle 5—Enforce accountability.
- Component 3: Control Activities
 - Principle 10—Design control activities.
 - Principle 11—Design activities for the information system.
 - Principle 12—Implement control activities.
- Component 4: Information and Communication
 - Principle 14—Communicate internally.

⁶⁶ The audit team utilized the Supply Chain Common Operating Picture dashboard to obtain a list of 130 sites that VA measured against the MSPV performance metric. VISN 20 personnel were not included in the survey results because they did not use VA's MSPV program.

⁶⁷ Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014.

- Component 5: Monitoring
 - Principle 16—Perform monitoring activities.

Fraud Assessment

The audit team assessed the risk that fraud, and noncompliance with provisions of laws, regulations, contracts, grant agreements, and waste and abuse, significant in the context of the audit objectives, could occur during this audit. The team exercised due diligence in staying alert to any fraud indicators by soliciting the VA Office of Inspector General's (OIG) Office of Investigations for indicators, and completing a fraud indicators and assessment checklist.

The OIG did not identify any instances of fraud or potential fraud during this audit.

Data Reliability

The team obtained data from various sources during the review and assessed the reliability of the data used to support findings, conclusions, or recommendations related to the review objectives. The sources included Supply Chain Common Operating Picture dashboard and MSPV product lists.⁶⁸

To test the accuracy, reliability, and completeness of the data, the audit team assessed a random sample of 138 open market transactions for items identified as being product list items, from seven facilities for July 1 through September 30, 2022.⁶⁹ To do this, the audit team obtained invoices and purchase orders, compared them to dashboard transactions, and found no material inaccuracies. Additionally, the audit team ensured that the procured item was MSPV eligible by comparing it to the applicable product list.⁷⁰ As a result, the team relied on the dashboard for broad analysis to support review objectives for transactions from January 1 through December 31, 2022.

To identify the universe of facility and VISN supply chiefs, the audit team utilized the Supply Chain Common Operating Picture dashboard to obtain a listing of sites that use the MSPV program. The audit team also used a listing of facility and VISN supply chiefs from VA. The team tested the completeness and accuracy of the facility and supply chief lists by sending survey notification emails to potential survey participants. The notification informed the individuals that they had been identified as supply chiefs, and to inform the audit team if that was not correct. Lastly, the survey included a qualifying question to ensure that the survey respondent

⁶⁸ The Supply Chain Common Operating Picture dashboard contained a monthly summation of facility purchases, both MSPV and open market purchases.

⁶⁹ Facilities were judgmentally selected based on the amount of money spent and the frequency of open market transactions with the prime vendor they had an exclusive relationship with.

⁷⁰ The audit team did not validate pricing information for items on the product list.

was a supply chief. As a result, the team determined that the staff listings were reliable and utilized them to disseminate surveys.

Government Standards

The OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that the OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on audit objectives. The OIG believes the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

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

Recommendations	Explanation of Benefits	Better Use of Funds	Questioned Costs ⁷¹
1–8	The audit team's analysis of VHA's 2022 spending data concluded that if facilities had fully leveraged the MSPV program, VHA could have saved approximately \$35.5 million during that year. The OIG further estimated that open market transactions during 2023 could have resulted in additional savings of \$27.6 million.	\$63,100,000	\$0
	Total	\$63,100,000	\$0

Note: Recommendation 9 is not applicable to the monetary benefits identified in this appendix.

To identify cost savings, the audit team reviewed VA's monthly product lists for calendar year 2022 and calculated the differences between the open market pricing and what VA would have spent had it purchased through the MSPV program.⁷² The audit team excluded transactions with incomplete data and, to conservatively compare, did not calculate cost savings for transactions without an established order number. Additionally, the audit team only compared like items, where the open market purchase and product list product had the same units of issue and packaging.

For calendar year 2022, medical facility staff purchased about \$353 million (about 41 percent) on medical and surgical supplies that were on the product list. Of that, the team calculated that cost savings equated to about \$35.5 million—about 10 percent of the total open market spending. The team conducted its audit work throughout 2023 and determined that facilities were still purchasing product list items on the open market during the year. Throughout 2023, facilities spent about \$857 million on medical and surgical supplies that were on the product list. Of that,

⁷¹ The OIG questions costs when VA action or inaction (such as spending or failure to fully compensate eligible beneficiaries) is determined by the OIG to violate a provision of law, regulation, contract, grant, cooperative agreement, or other agreement; when costs are not supported by adequate documentation; or when they are expended for purposes that are unnecessary or unreasonable under governing authorities. Within questioned costs, the OIG must, as required by section 405 of the Inspector General Act, report unsupported costs. Unsupported costs are those determined by the OIG to lack adequate documentation at the time of the audit.

⁷² The audit team conducted a cost comparison against VA's product lists. The product list, which contains pricing information, is available on VA's public-facing website (<https://www.va.gov/opal/sac/mspv.asp>). The audit team did not validate individual pricing for product list items.

staff purchased about \$274 million (about 32 percent) through the open market instead of the MSPV program. Therefore, the OIG estimates that additional cost savings of about \$27.6 million could have been realized.

Appendix C: VA Management Comments, Under Secretary for Health

Department of Veterans Affairs Memorandum

Date: April 11, 2024

From: Under Secretary for Health (10)

Subj: Office of Inspector General (OIG) Draft Report, Audit of VHA's Use and Oversight of the Medical/Surgical Prime Vendor Program (VIEWS 11554980)

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

1. Thank you for the opportunity to review and comment on OIG's draft report on VHA's Use and Oversight of the Medical/Surgical Prime Vendor Program. The Veterans Health Administration (VHA) concurs in principle with recommendation 1 and concurs with recommendations 2-9. VHA provides action plans for the recommendations in the attachment.

2. The Medical Supply Program Office (MSPO) established a process to systematically request Prime Vendor Order Numbers (PVONs) (in bulk) on behalf of VA Medical Centers (VAMCs). VHA also provided live, instructor-led trainings at least once per quarter to the field between September 2022 and January 2024. These trainings provided guidance on how to convert items to prime vendor purchases and other data to assist with inventory management. Training was provided to all 18 VISNs, reaching over 545 users.

As a part of enhanced performance metrics in Medical/Surgical Prime Vendor (MSPV) Gen-Z V1, Prime Vendors (PVs) are required to meet certain adjusted and unadjusted fill rate performance standards. MSPV Gen-Z V1 has also enhanced training and guidance documentation. MSPO has created the MSPV Field Guide, a comprehensive, cradle-to-grave training resource for the field to address current knowledge gaps, standard operating procedures, and leading practices. MSPO created the Clinical Product Tool (CPT), a fully integrated, end-to-end procurement and fulfillment tool supporting VHA Logisticians. The CPT specifically addresses Product List and Core List management challenges.

<i>The OIG removed point of contact information prior to publication.</i>

(Original signed by)

Shereef Elnahal M.D., MBA

Attachment

Attachment

VETERANS HEALTH ADMINISTRATION (VHA)

Action Plan

**OIG Draft Report, Audit of VHA's Use and Oversight of the MSPV Program
(OIG Project Number 2023-01397-AE-0058)**

Recommendation 1. Ensure facility staff place all orders for eligible items through the Medical/Surgical Prime Vendor program, including those that are identified as on back order.

VHA Comments: Concur in Principle

VHA acknowledges the importance of facility staff utilizing the Medical Surgical Prime Vendor (MSPV) program. The Medical Supply Program Office (MSPO) will utilize the Ordering Hierarchy to ensure facilities and staff comply with the prime vendor program. Additionally, MSPO will use enhanced performance metrics as part of MSPV Gen-Z V1 to encourage utilization of the MSPV program. The MSPO has taken a series of concrete steps to prepare comprehensive training and guidance documentation for Gen-Z V1 users.

Additionally, MSPO is currently in the process of developing Clinical Product Tool (CPT) functionality to enable facilities to track whether orders were placed through the MSPV program or other sources of supply. This functionality will include back-ordered items.

The CPT can identify facility-specific items that require price changes. This includes an export that can be used in accordance with a price change macro, which many facilities employ to address price changes for MSPV Product List items. MSPO is currently in the process of adding functionality that will also identify if those price changes have been completed within the VAMC's supply chain systems.

Status: In Progress Target Completion Date: August 2024

Recommendation 2. Implement tracking mechanisms for back orders to assist the facilities in not obtaining excess supplies.

VHA Comments: Concur

One of the features of CPT's Core List functionality is the automated identification of items routinely purchased by a facility and recommendation items should be added to their Core List. Adding an item to the Core List is the facility's way of indicating to the PV they would like to routinely purchase this item and therefore, would like it stocked at the distribution center. Increased item availability (i.e., items not on back order) at the distribution centers reduces the need for facilities to look beyond the MSPV program for supplies (i.e., the open market). Furthermore, PVs are required to provide feedback to VA regarding the status of stock within the distribution center, increasing transparency on item availability. The CPT makes item status information provided from PVs available to users, including PVON establishment status and if an item is on backorder or allocation.

MSPO is currently in the process of developing CPT functionality to enable facilities to track whether orders were placed through the MSPV program or other sources of supply. This functionality will include backordered items.

In addition, MSPO is also proactively reviewing all PV reported backorders and validating the status and product availability with the actual Suppliers. Inconsistencies or inaccuracies between the PVs' and

Suppliers' account of the true status of items will be escalated to the contracting officers in VHA Procurement (VHA-P) and the Strategic Acquisition Center (SAC) for remediation.

Finally, MSPO is performing analysis on open market purchases to identify trends and conduct outreach to the VAMCs to understand their reasons.

Status: In Progress Target Completion Date: August 2024

Recommendation 3. Ensure that logistics staff receive training and use the Prime Vendor Conversion and Recommendation Tool to identify commonly purchased open market items and convert those items to Medical/Surgical Prime Vendor purchases.

VHA Comments: Concur

Since September 2022, VHA P&LO's Supply Chain Data and Informatics Office (SCDIO), which manages the Prime Vendor Conversion and Recommendation Tool (PVCaRT), has provided live, instructor-led trainings at least once per quarter. These trainings cover the PVCaRT Dashboard, as well as guidance on how to convert items to PV purchases and other data to assist with inventory management. These trainings were broadly distributed, and recordings of the trainings are available on SCDIO's SharePoint site (Training dates: 09/2022, 10/2022, 11/2022, 12/2022, 04/2023, 07/2023, 11/2023, 01/2024). MSPO will link to those trainings via the MSPO One-Stop-Shop to ensure the trainings are readily accessible to the field. Additionally, MSPO will continue coordination with SCDIO to increase distribution and awareness of forthcoming training scheduled for May 2024.

Separately, MSPO uses PVCaRT data within the CPT to support facilities in identifying items purchased that require updates such as price changes as well as make recommendations for additions to a facility's Core List. This was covered during trainings on the CPT, which have been completed at all 18 Veterans Integrated Services Networks (VISNs) as of March 2024. VHA requests closure on publication based on the evidence provided.

Status: Complete Target Completion Date: March 2024

Recommendation 4. Identify and implement an efficient way to transfer product list updates to the inventory ordering system.

VHA Comments: Concur

VHA P&LO's SCDIO is developing enhancements via VA Logistics Integration Platform (VALIP) to address this issue through the development of a Vista "write-back" capability. The capability would allow for automated updates to MSPV Product List items to be carried over to Vista.

SCDIO is coordinating the development and testing of the solution. SCDIO is exploring the viability of the solution to address the challenges posed by frequent price changes and expects this solution will present the most efficient way to transfer Product List updates to the inventory ordering system.

MSPO is coordinating closely with SCDIO on this effort and, once the functionality is developed and tested, will coordinate the development and training materials to be provided to field users.

Status: In Progress Target Completion Date: September 2024

Recommendation 5. In collaboration with the Strategic Acquisition Center, identify a VA-owned system for staff to check product information, such as availability and pricing, and ensure applicable facility staff are aware of this location.

VHA Comments: Concur

The CPT was developed with the goal of creating a fully integrated, end-to-end procurement and fulfillment tool supporting VHA Logisticians. Through the CPT, the MSPV Product List is tailored to each medical center based on their historic purchases, for items with a change to their PVON, price, and/or unit of measure can be quickly identified and resolved automatically on a monthly basis. This includes monthly status updates from the PVs regarding item availability.

CPT's new Core List Management Portal, launched November 2023, enables facility users to manage Core Lists by easily making modifications, additions, and removals. Facility users can manage their Core Lists continuously and collaboratively through a weekly feedback loop established with PVs that provides transparency on item availability within the PV distribution centers. Enterprise visibility of these items now allows for rapid escalation of performance issues within MSPO.

CPT Core List training was launched November 2023 to provide users a detailed understanding of the new CPT Core List functionality. As of March 2024, training to all 18 VISNs have been conducted, reaching over 545 users. VHA requests closure on publication based on the evidence provided.

Status: Complete Target Completion Date: March 2024

Recommendation 6. Implement a standardized, routine review of open market purchases.

VHA Comments: Concur

SCDIO manages the PVCaRT, which enables facilities to review open market purchases for items within their Item Master File (IMF) and convert them to MSPV purchases. Extensive trainings on PVCaRT exist and MSPO will make those trainings available through the MSPO One-Stop-Shop.

In addition to PVCaRT, MSPO is developing new functionality within CPT, which will allow facilities to identify which Product List items are being purchased through another source, such as open market. This functionality will include identification of whether the item was established correctly within the requesting inventory location with the correct mandatory source flag marked.

Status: In Progress Target Completion Date: June 2024

Recommendation 7. Ensure that reporting tools are effective and consistently applied, and that reported issues are resolved.

VHA Comments: Concur

VHA acknowledges the importance of timely issue resolution, and providing issue resolution guidance to facility users that is standard, routine, and repeatable. As a part of MSPO's comprehensive preparations for MSPV Gen-Z V1 implementation, representatives from MSPO, VHA-P, and SAC met in February 2024 to align on collaboration opportunities to proactively close communication gaps, identify customer issues, and establish processes to resolve emerging issues more quickly during MSPV Gen-Z V1 implementation. This collaboration will continue through MSPV Gen-Z V1 implementation.

With respect to the Issue Reporting Tool (IRT), MSPO will update guidance and training documentation, as well as the MSPV Field Guide in preparation for go-live. Additionally, in consultation with VHA-P and SAC, MSPO will ensure all stakeholders assisting in issue resolution (e.g., MSPO, SAC, Field Site Representatives) are appropriately trained and familiar with issue resolution processes, enabling the timely routing of field requests for support to the appropriate MSPO stakeholders for resolution.

MSPO is planning to relaunch IRT within the MSPO One-Stop-Shop, simplifying access for relevant field users and include a report back feature to track and trend enterprise level issues.

MSPO anticipates completing revisions to guidance and training documentation, as well as surveying the field to identify the appropriate user access for IRT prior to MSPV Gen-Z V1 go-live.

As it relates to the Quarterly Prime Vendor Evaluation Reports, the SAC will provide a quarterly MSPV Gen-Z V1 business review with the MSPO to report on any identified trends with the performance reporting and any required corrective actions.

Status: In Progress Target Completion Date: October 2024

Recommendation 8. Ensure that logistics staff receive relevant Medical/Surgical Prime Vendor program guidance and training.

VHA Comments: Concur

The MSPO One-Stop-Shop, launched Fall 2023, is a resource easily located and provides all links, information, and tools related to the Gen-Z V1 implementation in one location (SharePoint), keeping all stakeholders informed and aligned. The One-Stop-Shop is also the platform that will host the Facility Readiness Checklist & Dashboard to guide facilities through the transition, and all associated Completion Guides.

MSPO is creating the MSPV Field Guide, a comprehensive, cradle-to-grave training resource for the field to address current knowledge gaps, standard operating procedures, and leading practices. The MSPV Field Guide encompasses 12 chapters, 10 of which have been published and are available on the MSPO One-Stop-Shop.

MSPO created the CPT to specifically addresses Product List and Core List management challenges. CPT Product List functionality was launched May 2023; live, instructor-led trainings were provided between May 2023 – July 2023, reaching more than 125 users. CPT Core List functionality was launched November 2023; live, instructor-led trainings were provided between November 2023 – March 2024 to all 18 VISNs, reaching more than 545 users.

MSPO has created a series of training, change management activities, and communications to prepare for MSPV Gen-Z V1 implementation. These include the Facility Readiness Checklist and associated Completion Guides, Field Guides, and MSPV Implementation SharePoint page on the MSPO One-Stop-Shop. Activities began January 2024 and are planned through Gen-Z V1 go-live.

MSPO publishes a monthly MSPO Newsletter via GovDelivery and on the MSPO One-Stop-Shop providing the field with priority operational and organizational messaging from the program office. The newsletter announces upcoming training opportunities and provides the field with guidance on the program and instructions for accessing MSPO tools and resources, such as the MSPV Field Guide, CPT, and Gen-Z V1 Implementation training resources.

Status: In Progress Target Completion Date: November 2024

Recommendation 9. Ensure the product list includes items that facilities need and regularly purchase so the Veterans Health Administration can expand the savings and benefits the Medical/Surgical Prime Vendor program offers.

VHA Comments: Concur

Increased data analysis has been established to identify, document, and take the necessary action to minimize known causes for medical supplies to be purchased outside of the MSPV Program, including drop shipments, backorders, allocations, emergencies, etc. This effort will reduce purchases made outside the MSPV by identifying the need to increase the acquisition of functionally equivalent supplies for trends and demand changes.

In addition to these efforts, MSPO plans to expand the CPT to include functionality that will allow facilities to identify medical items not currently on the Product List they would like added for purchase through the MSPV Program.

Status: In Progress Target Completion Date: December 2024

For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.

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