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OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

VETERANS HEALTH ADMINISTRATION

Financial Efficiency Review of
the Marion VA Medical
Center in Illinois



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Executive Summary

The VA Office of Inspector General (OIG) conducted this review to assess the oversight and stewardship of funds by the Marion VA Medical Center in Illinois and to identify potential cost efficiencies in carrying out medical center functions.¹ To accomplish this goal, the OIG identified areas that draw on considerable VA financial resources and made recommendations to promote the responsible use of VA's appropriated funds.

This review assessed the following financial activities and administrative processes to determine whether the facility had appropriate oversight and controls in place:

- I. **Medical/Surgical Prime Vendor-Next Generation (MSPV-NG) program utilization.** The MSPV-NG program provides a collection of contracts with selected prime vendors that enables VA to streamline purchasing and just-in-time distribution for medical, surgical, dental, and certain prosthetic and laboratory supplies.² Supplies that can be purchased through the program appear on a list called a formulary. The VA Medical Supplies Program Office recommends that each medical center purchase at least 90 percent of medical supplies on the formulary from the region's assigned prime vendor.
- II. **Purchase card use.** The facility's purchase card program is governed by policies that help ensure facility personnel (1) use strategic sourcing to determine the appropriateness of contracts for commonly purchased products, (2) properly document transactions, and (3) avoid exceeding allowable amounts and avoid split purchases and duplicate payments.³ Documenting transactions as required helps VA and other oversight entities identify potential fraud, waste, and abuse. Using contracts for common purchases generally allows VA to leverage its purchasing power to obtain competitive pricing.
- III. **Open obligations.** Open obligations include contracted obligations for goods or services that are not considered closed or complete and have a balance associated with them. The

¹ The facility is part of a healthcare system consisting of 10 outpatient clinics that provide primary care and behavioral medicine services in Harrisburg, Carbondale, Effingham, and Mt. Vernon, Illinois; Paducah, Hanson, Owensboro, and Mayfield, Kentucky; and Vincennes and Evansville, Indiana. Two additional sites in Marion, Illinois, also provide primary care and behavioral medicine services.

² The just-in-time method is an inventory strategy in which materials are only ordered and received as they are needed. The OIG is aware that the VA announced its plans to eliminate the MSPV program within VA by September 2023 and to purchase medical supplies from the Defense Logistics Agency's MSPV catalog. As a result of this decision, several contractors who provide medical supplies under VA's MSPV filed civil suits in US federal court. These cases are pending. However, the pendency of litigation related to the transfer of VA facilities to use the Defense Logistics Agency's MSPV contract versus the VA's MSPV contract does not, at this time, affect either the substance or recommendations in this report.

³ VA Financial Policy, vol. XVI, chap. 1B, "Government Purchase Card for Micro-Purchases," October 22, 2019. Purchases over \$10,000—the micropurchase threshold—cannot be made on purchase cards. Split purchases occur when a cardholder circumvents this requirement by dividing a single purchase or need into two or more smaller purchases.

healthcare system finance office should review open obligations to ensure that beginning and end dates for performance periods are accurate; open balances are accurate and agree with source documents, such as receiving reports, invoices, and payments; and obligations without financial activity in the past 90 days are valid and should remain open. Failure to properly manage open obligations leaves funds attached to orders when the funds could be used for other purposes to benefit veterans.

- IV. **Pharmacy operations and cost-avoidance efforts.** Because pharmacy drug costs are high, it is important for healthcare system leaders to identify opportunities for safely reducing them. An efficient healthcare system anticipates how much drugs will cost and when inventory needs to be restocked by analyzing available data, such as prime vendor inventory management reports and inventory turnover rates. Doing so helps ensure that the system makes the best use of appropriated funds and has inventory when needed.

The review team selected these areas based on an analysis of VA data from the Office of Productivity, Efficiency & Staffing (OPES) Efficiency Opportunity Grid (EOG), the Supply Chain Common Operating Picture (SCCOP), and reports from the Veterans Health Administration (VHA) Support Service Center (VSSC). The EOG was used to obtain information on pharmacy operations, SCCOP was used for MSPV-NG information, VSSC reports were used for open obligations, and US Bank data were used for purchase cards.

The team reviewed data from fiscal year (FY) 2018 through FY 2020 and conducted a virtual site visit during the week of February 16, 2021. For a profile of the facility, see appendix A. For more information about the review's scope and methodology, see appendixes B and C.

The findings and recommendations in this report should help the facility identify opportunities for improving oversight and for ensuring the appropriate use of funds.

What the Review Found

The OIG found that the pandemic and other factors affected processes and, in some cases, oversight in each area reviewed:

- I. **Use of the MSPV-NG program.** The review team found that the facility did not meet the formulary utilization goal recommended by the Medical Supplies Program Office of purchasing 90 percent of the formulary items the facility procured from its MSPV-NG prime vendor, in part due to limitations on the amounts of formulary items available.

From November 1, 2019, until the onset of the COVID-19 pandemic in March 2020, the utilization rate was about 78.3 percent. However, due to the short supply and high demand for personal protective equipment and other supplies during the pandemic, allocation numbers were not high enough, which added to the need to go to other vendors for supplies. Facility officials noted the back order volume of 15 percent but did not use all reporting tools available for alerting program officials about the challenges with the

prime vendor. Additionally, the logistics staff did not update the source in the facilities' item master file to the prime vendor in the MSPV-NG formulary. As a result of these issues, the facility spent at least \$216,000 more for items from vendors other than the prime vendor.⁴

- II. **Purchase card use.** The team did not find staff were improperly splitting purchases to stay below the card limits. Moreover, facility staff did employ strategic sourcing and properly maintained supporting documentation for the 28 transactions sampled—totaling about \$259,850 for FY 2020. However, the purchase card program coordinator assigned to the facility did not perform required quarterly audits to evaluate and improve the effectiveness of internal controls. This was attributed to the pandemic and workload increases related to a computer system's implementation. Oversight on training could also be strengthened to ensure cardholders are aware of the most up-to-date information related to their duties.
- III. **Open obligations oversight.** The review team analyzed the data from April through September 2020 and selected the 10 largest unique open obligations that had been inactive for more than 90 days, totaling \$2.65 million. The team examined whether the healthcare system finance office performed required reviews to assess if the obligations were still valid and necessary. The team found that reviews were not completed for five of the 10 inactive obligations totaling \$1.7 million. Generally, this occurred because the facility staff were unaware of the policy to identify and review open inactive obligations. Failure to properly manage open obligations leaves the facility vulnerable to the risk that those funds will not be used in the year they were appropriated, as required. If unspent, these one-year funds cannot be reobligated and used for other goods or services to support veterans.
- IV. **Pharmacy operations and cost-savings efforts.** The review team found the facility had a significant gap between the facility's actual drug costs and expected drug costs when compared with similar facilities, using a VA efficiency rating system. The gap reportedly resulted from an increase in high-cost prescriptions issued by community care non-VA providers. The facility's rural location increased veterans' use of non-VA community providers who were prescribing drugs not on the formulary and at higher costs than VA care providers.

According to the OPES model, the facility averaged over \$8.2 million in potential opportunity over the last three fiscal years, and VA reported \$9.8 million alone in

⁴ A judgmental sample of 28 purchasing records, which covers 11 formulary supply items purchased 2,199 times in total from vendors other than the prime vendor, was selected for facility review and comment.

FY 2020.⁵ The facility used a lost opportunity cost report to evaluate cost-saving initiatives. However, there were no dedicated pharmacy personnel to oversee these initiatives, data analyses, and benchmarking, or actions taken to address inefficiencies. The facility has since hired a pharmacy informatics specialist and pharmacoeconomist dedicated to managing pharmacy systems, data, and lost opportunity cost-reduction initiatives.

Notably, the facility's turnover rate for pharmacy inventory (an efficiency measure) exceeded the national inventory turnover target rate of 12, as established by the national Pharmacy Benefits Management Office. The facility achieved an inventory turnover rate of 19 for FY 2020, which reduces inventory carrying costs.

What the OIG Recommended

The OIG made seven recommendations for improvement to the Marion facility director and one recommendation for improvement to the director of contracting for the network contracting office. The number of recommendations, however, should not be used as a gauge for the system's overall financial health. The intent is for system leaders to use these recommendations as a road map to improve financial operations. The recommendations address issues that, if left unattended, may eventually interfere with effective financial efficiency practices and the strong stewardship of VA resources.

The OIG recommended that the facility director develop a plan to routinely update the prime vendor when changes in stock levels are anticipated. The facility director should also ensure the MSPV-NG contracting officer's representative and logistics staff use the tools available to inform VA's Medical Supplies Program Office and Strategic Acquisition Center of issues with the prime vendor's performance or challenges the vendor is experiencing. In addition, the director should implement a process to routinely check the formulary for additions and update the ordering system to reflect the prime vendor as the source for those products added to the formulary.

The OIG recommended that the director of contracting for Network Contracting Office 15, VA Heartland Network, ensure purchase card audits are performed as required by the VHA standard operating procedure, "Internal Audits—Purchase Cards and Convenience Checks." The OIG also recommended the facility director ensure staff are made aware of VA financial policy requirements to conduct reviews on open obligations and that staff conduct the reviews as required.

⁵ The OPES pharmacy expenditure model uses the terms "observed minus expected" and "potential opportunity" to describe the gap between a facility's actual drug costs and expected drug costs. This difference represents the amount associated with potential efficiency improvements.

To strengthen the efficiency and oversight of pharmacy operations, the OIG recommended the facility director promote VA's mail order pharmacy program to increase its use by veterans. The program reduces the need for medical centers to incur the costs of maintaining inventory and results in lower processing costs for VA.

Additional recommendations included

- educating non-VA providers on prescribing lower-cost drugs, and
- implementing Veterans Integrated Service Network 15 recommendations to ensure that cost-saving initiatives are implemented, tracked, and monitored in ways that use pharmacy data to guide business decisions.

Management Comments

The Marion VA Medical Center director concurred with all recommendations and provided responsive corrective action plans. Additionally, the director of contracting for Network Contracting Office 15, VA Heartland Network, concurred with recommendation 4 and provided a responsive action plan.

The OIG considers all recommendations open. The OIG will monitor the implementation of all planned actions and will close the recommendations when the Marion VA Medical Center and the VA Heartland Network provide sufficient evidence demonstrating progress in addressing the intent of the recommendations and the issues identified. Appendix D includes the full text of the medical center director's comments. Appendix E includes the full text of the director of contracting's comments.



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Abbreviations

EOG	Efficiency Opportunity Grid
FAR	Federal Acquisition Regulation
FTE	full-time equivalent
FY	fiscal year
MSPO	Medical Supplies Program Office
MSPV-NG	Medical/Surgical Prime Vendor-Next Generation
OIG	Office of Inspector General
OPES	Office of Productivity, Efficiency & Staffing
SCCOP	Supply Chain Common Operating Picture
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network
VSSC	VHA Support Service Center



Introduction

The VA Office of Inspector General (OIG) conducts financial efficiency reviews to assess the oversight and stewardship of funds used by VA healthcare facilities and to identify opportunities to achieve cost efficiencies. To promote best practices, OIG review teams identify and examine financial activities that are under the healthcare facility's control and can be compared with those VA healthcare facilities that are similar in size and complexity.⁶

This review focused on the Marion VA Medical Center in Marion, Illinois. The OIG team assessed the facility's effectiveness in four areas:

- I. Medical/Surgical Prime Vendor-Next Generation (MSPV-NG) program utilization.**
The MSPV-NG program provides a collection of contracts with selected prime vendors that enables VA to streamline supply chain management for an array of medical, surgical, dental, and select prosthetic and laboratory supplies. The program achieves long-term savings by using a just-in-time logistics approach.⁷ VA medical facilities are required to use MSPV-NG contracts for products that are available through the program, which appear on a list called a formulary. The VA Medical Supplies Program Office (MSPO) recommends that if the medical supplies that facilities wish to buy are on the formulary, each medical center should purchase at least 90 percent of those supplies from the program's assigned prime vendor.⁸ The OIG review team examined whether the facility met Veterans Health Administration (VHA) goals for utilizing the program.
- II. Purchase card usage and oversight.** The team examined whether the facility's purchase card program ensured compliance with policies and procedures that reduce the risk of error, fraud, waste, or abuse. The review focused on the consideration of contracts for commonly purchased products (strategic sourcing) to provide optimal savings to VA.
- III. Open obligations oversight.** Open obligations are not considered closed or complete and have a balance associated with them, whether undelivered or unpaid. These obligations should be reviewed by the healthcare system finance office to ensure that time frames are

⁶ The Veterans Health Administration uses a facility complexity model that classifies its facilities at levels 1a, 1b, 1c, 2, or 3, with level 1a being the most complex and level 3 being the least complex. Marion is rated as a 2, medium complexity facility.

⁷ The just-in-time method is an inventory strategy in which materials are only ordered and received as they are needed. The OIG is aware that the VA announced its plans to eliminate the MSPV program within VA by September 2023 and to purchase medical supplies from the Defense Logistics Agency's MSPV catalog. As a result of this decision, several contractors who provide medical supplies under VA's MSPV filed civil suits in US federal court. These cases are pending. However, the pendency of litigation related to the transfer of VA facilities to use the DLA MSPV contract versus the VA MSPV contract does not, at this time, affect either the substance or recommendations in this report.

⁸ Medical Supplies Program Office, "The Formulary Utilization Metric: A Deep Dive Explanation," accessed May 6, 2021, <https://vaww.va.gov/plo/docs/mspo/mspvFormularyUtilizationMetricOverview.pdf>.

correct (i.e., performance period beginning and ending dates are accurate); open balances are accurate and agree with source documents (e.g., receiving reports, invoices, and payments); and obligations without activity in the past 90 days are valid and should remain open. The review team assessed whether the facility performed monthly reviews and reconciliations to ensure sampled obligations with no activity for more than 90 days were valid and should remain open, and whether changes to obligations' end dates were supported by evidence.

- IV. **Pharmacy operations and cost avoidance.** The review team assessed whether the facility complied with policies and used cost and performance data to track progress toward goals, improve pharmacy program operations, and identify and correct problems.

Marion VA Medical Center

The healthcare system that includes the Marion VA Medical Center serves veterans in 27 counties in southern Illinois, eight counties in southwestern Indiana, and 17 counties in northwest Kentucky. The medical center in Marion, Illinois, was built in 1942 and provides care to 43,722 veterans annually. The center is a general medical and surgical facility that operates 55 acute care beds and a 60-bed community living center. For more information about the facility, see appendix A. The healthcare system also includes 10 outpatient clinics that provide primary care and behavioral medicine services, located in Harrisburg, Carbondale, Effingham, and Mt. Vernon, Illinois; Paducah, Hanson, Owensboro, and Mayfield, Kentucky; and Vincennes and Evansville, Indiana. There are two additional sites in Marion, Illinois, that provide primary care and behavioral medicine services: Primary Care Annex and Behavioral Medicine Annex. According to the fiscal year (FY) 2020 Office of Productivity, Efficiency & Staffing (OPES) pharmacy model, the healthcare system had a medical care cost of approximately \$417 million with almost 1,522 full-time equivalent (FTE) employees and provided services to nearly 42,000 veterans.

Facility and Efficiency Selection

The review team evaluated VA data to identify those facilities with the greatest potential for financial efficiency improvements. The OIG obtained this data from the OPES Efficiency Opportunity Grid (EOG), the Supply Chain Common Operating Picture (SCCOP), and reports from the VHA Support Service Center (VSSC). The EOG was used to obtain information on pharmacy operations, SCCOP was used for MSPV-NG information, VSSC reports were used for open obligations, and US Bank data were used for purchase cards.

VHA developed the EOG to give facility leaders insight into areas of opportunity for improving efficiency when compared with other VHA facilities. The EOG, a collection of 12 statistical models, allows for comparisons between VHA facilities by adjusting data for variations in

patient and facility characteristics and geography. The EOG describes possible inefficiencies and areas of success by showing the difference between a facility's actual costs and expected costs.

The team obtained the facility rankings from three EOG models to assist in the facilities' selection: the stochastic frontier analysis model, the administrative FTE model, and the pharmacy expenditure model. The team then used a SCCOP report to gather MSPV-NG data for all VA medical centers and rank them by utilization percentages.

Results and Recommendations

I. Use of the Medical/Surgical Prime Vendor-Next Generation Program

VHA medical facilities are required to use MSPV-NG for products that are available through the program, which appear on a list called a formulary.⁹ As previously mentioned, the VA MSPO recommends that each medical center purchase at least 90 percent of medical supplies on the formulary from its region's assigned prime vendor.¹⁰

During the COVID-19 pandemic, VA recognized that there was increased stress on its supply chain. In March and May of 2020, VA issued memos suspending certain performance measures related to medical supply purchases to maintain operations. The 90 percent metric was not one of the suspended performance measures; however, the Veterans Integrated Service Network (VISN) 15's chief supply chain officer for the Marion medical center and area facilities advised Marion facility logistics managers and staff to acquire personal protective equipment from any available source. For example, in response to an inquiry about purchasing personal protective equipment from China, the VISN chief supply chain officer told at least one acquisitions utilization specialist, "If you can find it buy it china works" [sic].¹¹

According to the MSPV-NG formulary utilization dashboard, the facility spent about \$1.1 million from November 1, 2019, to October 31, 2020, through the MSPV-NG program.¹² As of April 2020, Concordance Healthcare Solutions LLC replaced Kreisers Inc. as the facility's prime vendor. According to a press release published in April 2016, Kreisers Inc. had merged with Seneca Medical Inc. and MMS into a single company.¹³

⁹ VHA memorandum, "Use of Medical/Surgical Prime Vendor (MSPV) Contracts is Mandatory," June 22, 2015.

¹⁰ The Medical Supplies Program Office is a VHA entity in the Procurement & Logistics Office that is primarily responsible for supporting VHA's healthcare requirements and overseeing strategic sourcing efforts for supplies ordered through the MSPV-NG program. It was formerly known as the Healthcare Commodities Program Office.

¹¹ Email communication from the VISN 15 chief supply chain officer to a Marion acquisition utilization specialist, March 22, 2020. Generally, federal government purchases are limited to supplies made in America or certain countries with which the US has trade agreements (Trade Agreements Act-compliant products). However, Federal Acquisition Regulation (FAR) part 25 prescribes procedures for purchases from foreign countries, including exceptions for when the Trade Agreements Act does not apply. In addition, FAR Subpart 18.1 identifies acquisition flexibilities that are available when certain conditions are met. FAR 18.119 states that "the policies and procedures of FAR 25.4 may not apply to acquisitions not awarded under full and open competition (see 25.401(a)(5))." The review team did not assess facility purchases to determine if any items were purchased from China and, if so, whether those purchases complied with federal procurement requirements.

¹² The OIG team did not assess the accuracy of the summary data in the MSPV-NG formulary utilization dashboard.

¹³ PR News, "Kreisers, MMS and Seneca Complete Merger" April 1, 2016, <https://www.prnewswire.com/news-releases/kreisers-mms-and-seneca-complete-merger-300244503.html>.

The review team focused on three areas of MSPV-NG program use:

- **Formulary utilization rate** measures the extent to which facilities use prime vendors for formulary item purchases.
- **Contract performance monitoring** includes a facility's oversight of the prime vendor, as well as the use of reporting tools that allow the facility to report on prime vendor performance and to provide MSPV-NG program feedback. One element of prime vendor performance is the order fulfillment rate, a contractual requirement to fulfill at least 95 percent of monthly orders placed by a facility for items on the formulary.
- **Formulary updates and conversion** are required by VHA guidance. The facility must update its master file when the MSPO updates the items listed in the MSPV-NG formulary each month, showing that the MSPV-NG prime vendor is the source for purchasing. If the vendor information is not updated to the prime vendor, ordering officers run the risk of purchasing these items at a higher cost than stated in the formulary, as well as reducing the facility's formulary utilization rate.

Finding 1: The Facility Did Not Meet the MSPV-NG Utilization Goal and Should Routinely Use All Reporting Mechanisms on Prime Vendor Performance

The facility did not meet the 90 percent formulary utilization goal for purchases made through the MSPV-NG program from November 1, 2019, through October 31, 2020, according to MSPV-NG formulary utilization data from the SCCOP.¹⁴ Its formulary utilization rate for the four months prior to the COVID-19 pandemic, November 2019 through February 2020, averaged 78.3 percent. During the pandemic, from March 2020 through October 2020, the utilization rate for the facility dropped to an average of 49.9 percent. Combining these 12 months, the facility's formulary utilization averaged 53.6 percent, according to the MSPV-NG performance metrics dashboard.

Generally, this occurred when Concordance did not have adequate stock on hand to provide supplies when ordered because its suppliers could not meet demand. The unavailability of supplies from the prime vendor resulted in the need to purchase formulary supplies from other vendors. Nonetheless, the facility reported in a quarterly evaluation that the prime vendor met the contract's quality performance requirements and did not make use of an issue-reporting tool. The OIG also found that the facility spent approximately \$216,181 more for 1,735 supply items

¹⁴ The Supply Chain Common Operating Picture is an interactive dashboard that enables supply chain leaders to observe supply chain metrics at the enterprise, VISN, and facility levels. Users can access the Supply Chain Common Operating Picture data through the Supply Chain Data and Informatics Office interface, which contains tools suited for daily monitoring.

purchased from November 1, 2019, through October 31, 2020, from non-prime-vendor sources because of these issues.¹⁵

Formulary Utilization Rate Challenges

The facility’s annual average MSPV-NG utilization rate of about 54 percent included a month that reached just over 85 percent prior to the pandemic and another that was as low as 30 percent after the pandemic started. In response to the urgencies and medical supply shortages that medical centers incurred during the pandemic, VA adjusted expectations for medical center inventory and purchasing. For example, a VA memo dated March 15, 2020, provides purchasing flexibilities that include increasing the emergency acquisition threshold for government purchase cards and contracts to expedite the delivery of goods and services.¹⁶ While VA did not specifically suspend the 90 percent formulary utilization goal, the impact of the pandemic on the supply chain is evident in the utilization rate. Figure 1 shows the facility’s monthly MSPV-NG formulary utilization rates.

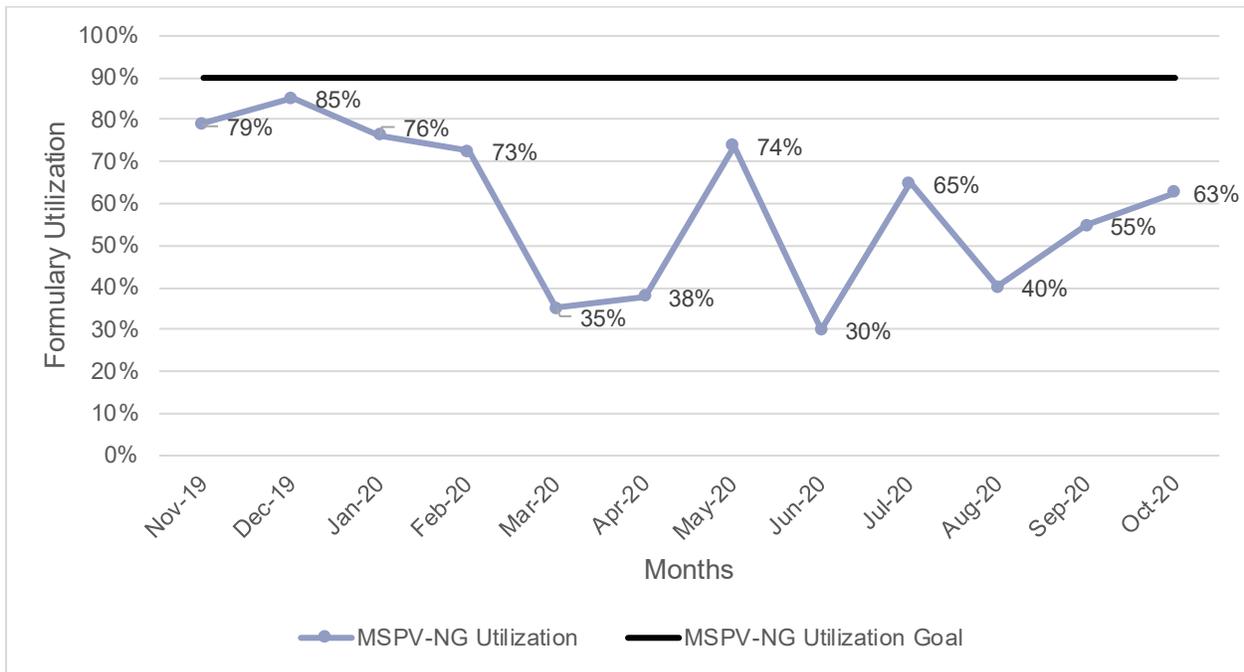


Figure 1. MSPV-NG utilization rate for the Marion VA Medical Center.
 Source: VA OIG analysis of the Marion VA Medical Center’s MSPV-NG Formulary Utilization Report.
 Note: Percentage rates in figure are rounded.

¹⁵ A judgmental sample of 28 purchasing records, which covers 11 formulary supply items purchased 2,199 times in total from vendors other than the prime vendor, was selected for facility review and comment.

¹⁶ VA memo, “Emergency Acquisition Flexibilities—Emergency Assistance Activities in Support of Global Pandemic for Coronavirus Disease 2019 (COVID-19),” March 15, 2020.

The facility spent over \$1 million purchasing 17,809 formulary supply items from non-prime-vendor sources (just over 46 percent of the total potential MSPV-NG expenditure), versus purchasing from Concordance as the prime vendor for supply items. Using the MSPV-NG formulary utilization report from the SCCOP dashboard, the review team judgmentally sampled 28 purchase records of formulary items acquired from non-prime-vendor sources to assess why these items were purchased using these sources. The team provided these records to facility staff and requested comments from them to understand why these items were not purchased through the prime vendor and to assess the potential cost differences. These 28 records cover 11 frequently acquired formulary supply items, purchased 2,199 times in total at a cost of \$283,169.

The review team interviewed the facility’s logistics leaders, managers, and ordering staff to determine what challenges the staff faced when purchasing supplies from the MSPV-NG prime vendor. Table 1 shows the reasons that facility staff gave for not purchasing these items from the prime vendor.

Table 1. Reason Categories for Sample of Non-Prime-Vendor Purchases, November 1, 2019, through October 30, 2020

Reason category	Number of purchases	Number of items	Sample amount
Back order or allocation limitation	13	1,596	\$247,948
Prime vendor not listed as source in ordering system	6	173	\$20,625
Pharmacy purchase (logistics had no oversight over purchase)	8	174	\$5,717
No reason provided	1	256	\$8,878
Total	28	2,199	\$283,169

Source: VA OIG analysis of Marion VA Medical Center sampleresponses.

Note: Numbers may not addup due to rounding.

The facility’s logistics staff explained that 13 of the 28 records reviewed, or 1,596 formulary items, were purchased from non-prime-vendor sources due to back orders—that is, the good or service could not be filled at the time due to allocation-related issues or a lack of available supply. When items are on allocation, it means the prime vendor limits the amount that a single customer can purchase of the item. In addition to personal protective equipment such as masks, gloves, and gowns, items such as syringes, catheters, and tracheostomy tubes were placed on allocation during the review time frame.

Due to the short supply and high demand for personal protective equipment and other supplies during the pandemic, the prime vendor maintained these allocations. Consequently, the facility attempted to purchase items from other sources. Logistics staff also stated that the prime vendor

allocation limits were based on pre-COVID-19 usage levels. Given the increased use during the pandemic, these allocation numbers were not high enough, which added to the need to go to other vendors for supplies.

Logistics staff explained that their requested items were frequently on back order. They also provided the team with resolutions reports (order status reports) from March and June 2020 that listed items on back order. For September and October 2020, the facility reported to the MSPO in its monthly facility execution surveys that “15 percent of our facility’s total orders were on back order.” One staff member explained that he felt “forced to go to the open market” because of these frequent back orders.

The review team compared the purchase prices for 12 of the 13 records that the facility identified as non-prime-vendor purchases, due to back orders and allocation-related issues, to the prices listed in the MSPV-NG formulary.¹⁷ This analysis determined that the facility paid over \$244,524 for the items from non-prime-vendor sources, which was about \$203,815 more when compared to prices listed in the formulary. According to the prices stated in the formulary, these items would have totaled about \$40,709.

Concordance’s contractual requirements included maintaining the necessary inventory levels to provide the required supplies to participating facilities and distributing supplies at an unadjusted fill rate of 95 percent.¹⁸ The review team requested from the contracting officer’s representative reports from the Strategic Acquisition Center that are provided once a month. These reports list prime vendor performance metrics, which include order accuracy and unadjusted fill rates that are validated. However, the contracting officer’s representative was only able to locate and provide the Strategic Acquisition Center metrics reports for July through October 2020. The team reviewed these reports and found that Concordance was not supplying the facility at the required 95 percent fill rate but averaged 90 percent during these four pandemic months. Figure 2 shows Concordance’s self-reported unadjusted fill rate for these four months.

¹⁷ Medical items listed in one of the samples were removed from the MSPV price comparison because the purchasing agent canceled the purchase in March 2021.

¹⁸ The unadjusted fill rate is the calculation of orders fulfilled against orders requested (that is, any medical/surgical supply item not filled at the time of request for any reason counts against this measure).

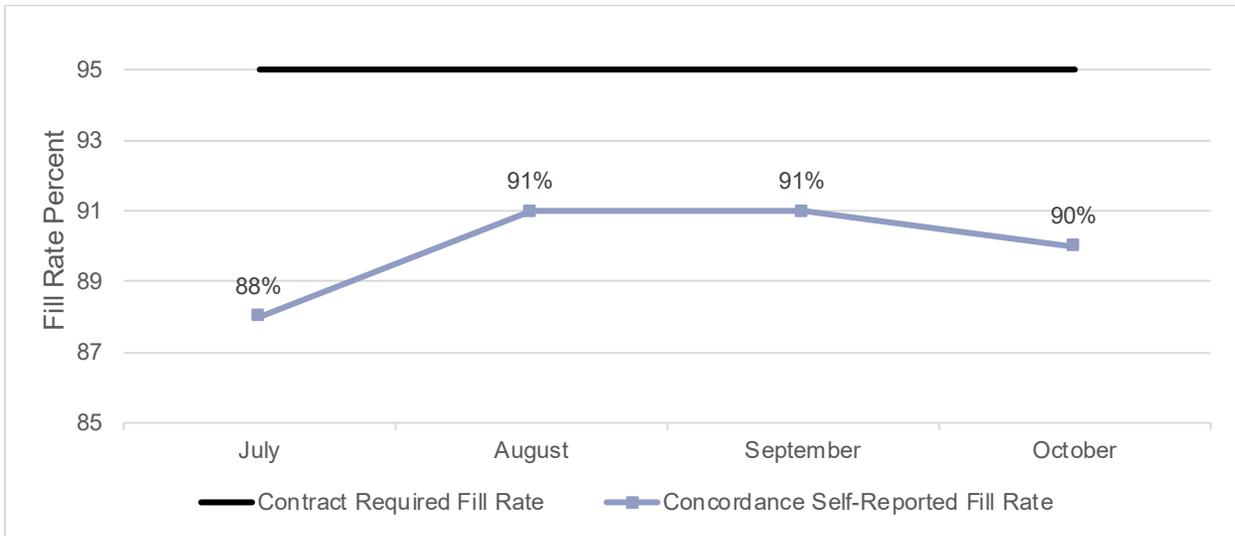


Figure 2. Concordance self-reported unadjusted fill rates, July through October 2020.

Source: VA OIG analysis of the facility’s supply chain measure reports.

Concordance also provided the team with its own summary fill rate report for the period from November 1, 2019, through October 31, 2020. It showed the prime vendor’s overall unadjusted fill rate was 91 percent, further demonstrating that the prime vendor did not meet the required 95 percent fill rate.

A Concordance representative explained that Concordance was also experiencing allocation issues with its suppliers. Using a report provided by the Concordance representative, the team calculated that suppliers were only filling about 76 percent of Concordance’s supply requests. The Concordance representative advised that, to help mitigate further supply issues, the facility should notify Concordance when it anticipates requesting new items and indicate the demand for each item so inventory can be stocked.

Contract Performance Monitoring

If prime vendors do not meet their obligations, it is important that facility personnel alert program leaders and other VHA staff. One tool for doing so is the monthly facility execution survey, which informs the MSPO of the facility’s feedback on the MSPV-NG program and the MSPV-NG prime vendors. The team identified that the contracting officer’s representative did indeed use these monthly surveys to report back-order issues. Specifically, for the months of August through October 2020, the contracting officer’s representative noted that “15% of our facility’s total orders were on back order.”

Another method for reporting concerns with the prime vendor’s performance is the issue management tool, which is used by contracting officer’s representatives, supply chain staff, and the prime vendor. The review team found the contracting officer’s representative was not using the issue management tool to report concerns with the prime vendor’s inability to meet

contractual requirements. The team only identified one entry made by the facility, which was a test entry in September 2019. The contracting officer's representative stated in February of 2021 that she had just recently received access to the tool and had not been using it.

When the team asked facility staff about their interactions with the prime vendor when issues arose, the facility contracting officer's representative expressed she was unaware of issues that ordering personnel encountered when ordering from the facility's prime vendor. Ordering personnel explained that they would contact Concordance directly to find a solution and did not include the contracting officer's representative in their communications.

The team also obtained the contracting officer's representative's Quarterly Evaluations report for the fourth quarter of FY 2020. This report assesses Concordance's performance in areas such as quality, schedule, management, and regulatory compliance. The evaluation by the contracting officer's representative in this report did not reflect the fulfillment rate issues the facility was experiencing with the prime vendor. The contracting officer's representative rated the prime vendor as satisfactory (on a five-level scale of unsatisfactory to exceptional) in all areas. A satisfactory rating, which is third in the ratings scale, indicates that there were only minor problems, or major problems that the contractor recovered from without impact to the contract. This rating is contrary to the 15 percent back order that was noted in the monthly facility execution survey.

Facility personnel should use all the available tools to report issues with the prime vendor and provide accurate and consistent evaluations and feedback to the MSPO and Strategic Acquisition Center. By doing so, they would have the information needed to evaluate the effectiveness of the prime vendor and the MSPV-NG program and to remind Concordance of its contractual obligations.

Formulary Verification

According to VA guidance for the MSPV-NG program, logistics staff need to update the facility's item master file once an item appears on the MSPV-NG formulary, which identifies the vendor from which the items should be purchased.¹⁹ However, the medical center's logistics staff did not consistently review the MSPO's monthly updates to the formulary to determine if items previously purchased from non-prime-vendor sources had been added.

For five of the 28 records reviewed, which account for the purchase of 159 formulary items, logistics staff explained that their respective vendor information had not been updated in the item master file to show Concordance as the items' mandatory source for purchasing; thus, the items

¹⁹ Medical Supplies Program Office, "The Formulary Utilization Metric: A Deep Dive Explanation." The item master file is stored in the Veterans Health Information Systems and Technology Architecture Integrated Funds Distribution, Control Point Activity, Accounting and Procurement software program. The file includes information such as item description, mandatory source (or required vendor), vendor, and product and manufacturer information.

were ordered from the still-listed non-prime-vendor sources that were previously used, for a reported cost of about \$19,767. However, using MSPV-NG formulary prices, the team calculated that these items would have cost about \$7,401 from the prime vendor. Therefore, staff at the facility paid \$12,366 more than if they had purchased the items through Concordance.

Finding 1 Conclusion

The facility did not meet its MSPV-NG utilization goal from November 1, 2019, through October 31, 2020. Its prime vendor, Concordance, also appeared to average below the unadjusted order fill rate of 95 percent. This was due to several factors, which included supply limitations the prime vendor faced during the pandemic and logistics staff not updating the source information to the prime vendor for items added to the MSPV-NG formulary, which contributed to other vendors being used. In addition, staff at the facility did not consistently use the available reporting tools to provide comprehensive feedback on the prime vendor's performance and related challenges. These tools are important for the facility to use to ensure VHA has the information to take corrective action as needed. Moreover, the facility contracting officer's representative reported not being aware of some of the issues that staff encountered with prime vendor back orders. As a result of these issues, the facility overpaid approximately \$216,181 for medical supplies purchased through suppliers other than the prime vendor.

Recommendations 1–3

The OIG made the following recommendations to the director of the Marion VA Medical Center:

1. Develop a plan to routinely provide updates when changes in stock levels are anticipated and work with the prime vendor to address having adequate stock to meet orders.
2. Ensure logistics staff and contracting officer's representative use the tools available to inform the Medical Supplies Program Office and Strategic Acquisition Center of prime vendor performance concerns and challenges.
3. Implement a process to routinely check the formulary for additions and update the ordering system to reflect the prime vendor as the source for purchasing newly added supplies.

Management Comments

The Marion VA Medical Center director concurred with recommendations 1–3. The director's responses to the report recommendations are provided in full in appendix D.

To address recommendation 1, the director reported a written plan was established and provided to all staff that describes how to monitor stock levels, including routine communication with the medical/surgical prime vendor about anticipated stock level adjustments. The chief of logistics will monitor 10 MSPV-NG items each month for six months or two consecutive quarters to

identify fluctuations in stock level requirements and communications with the prime vendor. The target compliance rate will be 90 percent, and compliance data will be reported to the Executive Leadership Council monthly.

For recommendation 2, the director reported the chief of logistics determined reeducation was needed for logistics staff and the contracting officer's representative. The education needs to cover the evaluation of prime vendor performance and utilization of reporting tools established by the MSPO and Strategic Acquisition Center. The chief of logistics will audit facility reports to validate that reporting tools were consistently used for six months or two consecutive quarters with a target of 90 percent compliance. Compliance documentation will be presented to the Executive Leadership Council monthly.

To address recommendation 3, the director reported that the chief of logistics determined a written process for adding new supply items was needed and the chief will implement a standard operating procedure that details the steps required to complete the process, including a review of items on the current formulary. The chief of logistics will conduct monthly audits of new items procured to validate that the formulary was reviewed and the medical/surgical prime vendor was the source, if applicable. The target compliance rate will be 90 percent for six months or two consecutive quarters. The compliance data will be reported to the Executive Leadership Council.

OIG Response

The medical center director's action plan is responsive to the recommendations. The OIG will monitor implementation of the planned actions and will close the recommendations when the OIG receives sufficient evidence demonstrating progress in addressing the intent of the recommendations and the issues identified.

II. Purchase Cards

VA established its Government Purchase Card program to reduce the administrative costs related to the acquisition of goods and services. When used properly, purchase cards can help facilities simplify acquisition procedures and provide an efficient vehicle for obtaining goods and services directly from vendors. In FY 2020, the facility spent approximately \$18 million through purchase cards, representing about 36,550 transactions. The amount and volume of spending through the program make it important to have strong controls over purchase card use to safeguard government resources and ensure compliance with policies and procedures that reduce the risk of error, fraud, waste, and abuse.

The review team focused on three areas related to purchase cards:

- **Purchase card transactions.** The review team examined whether the facility ensured employees considered the most appropriate purchasing mechanism, which entails obtaining proper contracts when procuring goods and services on a regular basis. VA refers to this as “strategic sourcing.” The use of contracts lowers the risk of split purchases and duplicate payments on purchase cards by reducing open market or individual purchases and enables VA to leverage its purchasing power.²⁰
- **Supporting documentation.** The review team examined whether the facility maintained supporting documentation. Supporting documentation is required for purchases to provide assurance of payment accuracy and to justify the need to purchase a good or service. This includes approved purchase requests, purchase orders, receiving reports, and vendor invoices. Supporting documentation enables program oversight and helps prevent fraud, waste, and abuse.
- **Purchase card oversight.** The review team assessed whether the facility’s purchase card coordinator provided oversight of the purchase card program by conducting quarterly internal audits and ensuring that purchase cardholders completed required training. These activities are examples of systematic controls that reduce the risk of error, fraud, waste, and abuse within the purchase card program (e.g., periodic and continuous monitoring, checks and balances, policies, procedures, and segregation of duties).²¹

²⁰ VA Financial Policy, vol. XVI, chap. 1B, “Government Purchase Card for Micro-Purchases,” October 22, 2019. Purchases over \$10,000—the micropurchase threshold—cannot be made on purchase cards. Split purchases occur when a cardholder circumvents this requirement by dividing a single purchase or need into two or more smaller purchases.

²¹ VA Financial Policy, vol. XVI, chap. 1B, sec. 0103.

Finding 2: The Purchase Card Coordinator Did Not Conduct Required Quarterly Internal Audits but Nearly All Sampled Cardholders Completed Required Training

Regarding the first two areas of examination—appropriately using purchase cards instead of contracts and maintaining proper supporting documentation—the facility was found to be in general compliance. The review team evaluated a judgmental sample of 28 transactions totaling about \$259,850 from FY 2020 to determine whether the facility’s purchase card program cardholders and officials associated with the sampled transactions pursued opportunities for strategic sourcing and properly documented transactions.²² The review disclosed cardholders employed strategic sourcing and maintained required supporting documentation for all the sampled transactions.

The OIG review team, however, found deficiencies regarding purchase card program oversight. The purchase card program coordinator assigned to the facility did not perform quarterly audits to evaluate and improve the effectiveness of internal controls over purchase card use as required by VHA standard operating procedures.²³ The purchase card program manager and the program coordinator informed the review team that quarterly audits were not performed due to workload increases resulting from implementing the VA charge card portal and the COVID-19 pandemic.²⁴

Purchase Card Transactions and Supporting Documentation

Pursuant to VA financial policy, VA should enhance its purchasing authority by using strategic sourcing to consider contracting options, which generally provide greater savings to VA than using purchase cards for open market acquisitions without a negotiated price.²⁵ Cardholders are instructed to reduce individual purchases made with the purchase cards and leverage VA’s purchasing power. VA should generally employ contracts if the purchase is for ongoing repetitive orders of goods or services and the total value of the requirement exceeds the micropurchase threshold of the purchase card. Cardholders must not modify a requirement or order into smaller parts to avoid exceeding the purchase card threshold that requires using more

²² A judgmental sample is a nonstatistical sample that is selected based on auditors’ opinions, experiences, and knowledge.

²³ VHA Government Purchase Card Program, Standard Operating Procedure, “Internal Audits—Purchase Cards and Convenience Checks.”

²⁴ The charge card portal is a VA internet-based system that provides a variety of features intended to assist in the effective management of the purchase card program, including training logs and electronic storage of supporting documents related to purchase card transactions.

²⁵ VA Financial Policy, vol. XVI, chap. 1B.

formal contracting procedures. The requirement for the goods or services should be communicated to the contracting office for procurement.²⁶

The review team performed data analysis and selected a judgmental sample of 28 transactions representing potentially split purchases totaling \$259,850 from the US Bank database. Six of the facility's 46 cardholders made these 28 transactions. The review team analyzed the transactions to determine if cardholders were adhering to strategic sourcing guidelines when making purchases as well as maintaining proper documentation for each transaction in accordance with policy. This test of potentially split purchases disclosed that no purchases reviewed were intentionally modified from a known requirement into two or more purchases to circumvent formal procurement procedures. Furthermore, when purchase cardholders buy goods and services using a purchase card, they must maintain supporting documentation, such as approved purchase requests, vendor invoices, purchase orders, and receiving reports, for six years. The review team found cardholders maintained proper documentation to support these purchases.

Purchase Card Oversight

The review team focused on two areas of oversight by the facility's purchase card coordinator: conducting quarterly internal audits as required and ensuring that purchase cardholders completed mandatory training.

Quarterly purchase card audits are intended to evaluate and improve the effectiveness of internal controls and compliance with regulations and policies. The internal audits include procedures such as ensuring cardholders reconcile obligations to the correct purchase orders, the purchases met a bona fide business need, and cardholders use the appropriate or mandatory source.

VHA procedures require purchase card coordinators to send a formal memo of the audit results to the medical center director, with copies to the approving official or supervisor, no later than the end of the calendar month after the close of the quarter.²⁷ The purchase card program coordinator acknowledged that the required quarterly audits were not conducted while the facility focused on implementing the VA charge card portal. In addition, responding to the need to obtain supplies and services during the pandemic was understandably a top priority. It is important, however, to ensure that quarterly audits are conducted going forward. Not performing the quarterly audits resulted in a missed opportunity by the facility to evaluate the purchase card program and its compliance with regulations and policies, as well as to improve the effectiveness of internal controls.

In addition, VA financial policy states that approving officials and cardholders must complete mandatory training prior to their participation in the purchase card program, and refresher

²⁶ VA Financial Policy, vol. XVI, chap. 1B.

²⁷ VHA Government Purchase Card Program, Standard Operating Procedure.

training is required every two years for all program participants.²⁸ Purchase card coordinators are responsible for ensuring mandatory purchase card training is completed and up-to-date for all cardholders. Cardholders are responsible for taking mandatory training related to their purchase card duties and for understanding purchase card policies and their spending thresholds. Failure to complete training by the due date results in immediate suspension of the cardholder's account(s) or revocation of the approving official's duties.

During the COVID-19 crisis, VA was operating in a national emergency response environment with the objective of meeting its mission-critical work by obtaining goods and services in an efficient and timely manner. To address this issue, beginning March 2020, VA granted an exception to certain refresher training requirements outlined in VA policy to ensure accounts were not affected during this emergency response. This training exemption expired September 30, 2020.

The team reviewed the training records for the six cardholders from the sampled transactions. This test disclosed one instance in which the purchase card coordinator did not ensure that a cardholder had completed refresher training prior to the training's March 2020 expiration date. In September 2021, the cardholder confirmed the refresher training had still not been completed. Additionally, the team found that the cardholder's account was not suspended during this period as required. The review team was advised by the purchase card program manager that as of September 2021 the cardholder account had not been suspended because the training could not be readily completed by the cardholder due to problems with logging into the training system.

Finding 2 Conclusion

The OIG found that VA employees considered the most appropriate purchasing mechanism and there was no evidence that split purchases were made using purchase cards for transactions the OIG team reviewed. Supporting documentation for these reviewed transactions was also found to be compliant with VA policy. However, the purchase card program coordinator assigned to the facility did not perform quarterly audits due to focusing on the charge card portal implementation and pandemic demands. Further, required retraining was not completed for one of six purchase cardholders selected for testing. All purchase cardholders must complete mandatory training to ensure they are aware of the most up-to-date information related to their duties. The review team did not find evidence that purchase card training noncompliance was a pervasive problem at the facility, so the OIG made no recommendations in this area.

²⁸ VA Financial Policy, vol. XVI, chap. 1A, "Administrative Actions for Government Purchase Cards," sec. 010501, para. F, June 14, 2018.

Recommendation 4

The OIG made the following recommendation to the director of contracting for the Network Contracting Office 15, VA Heartland Network:

4. Ensure quarterly purchase card audits are performed as required by the Veterans Health Administration standard operating procedure, “Internal Audits—Purchase Cards and Convenience Checks.”

Management Comments

The director of contracting for Network Contracting Office 15, VA Heartland Network, concurred with recommendation 4. The director’s response to the recommendation is provided in full in appendix E.

To address recommendation 4, the director of contracting reported that a tool will be developed for tracking quarterly audits to ensure timely completion. The director of contracting, or someone designated in writing, will review the tool quarterly to assess compliance with program requirements.

OIG Response

The director of contracting’s action plan is responsive to the recommendation. The OIG will monitor implementation of the planned action and will close the recommendation when the OIG receives sufficient evidence demonstrating progress in addressing the intent of the recommendation and the issues identified.

III. Open Obligations

VA's management of open obligations has been a longstanding problem and was included as a material weakness in VA's last two financial statement audit reports.²⁹ Additionally, the OIG's 2019 report on undelivered orders recommended that VHA ensure staff conduct reviews and reconcile open orders, identify and deobligate excess funds on those orders, and ensure staff follow VA policy regarding required reviews of open obligations.³⁰

As stated earlier, obligations that are not considered closed or complete and have a balance associated with them, whether undelivered or unpaid, should be reviewed by the healthcare system finance office to ensure that performance beginning and end dates are accurate; open balances are accurate and agree with source documents, such as receiving reports, invoices, and payments; and obligations without recent activity are still valid and should remain open. Failure to properly manage open obligations leaves funds attached to orders that could be closed and used for other purposes to benefit veterans.

The review team focused on the following areas related to open obligations:

- **Inactive obligations.** The review team assessed whether the facility performed monthly reviews and reconciliations to ensure sampled obligations with no activity for more than 90 days were valid and should remain open.
- **End-date modifications.** The review team identified open obligations with changes to the end date for the period of performance and reviewed evidence from the facility that supported those changes. The period of performance is the time frame during which the goods or services are to be provided.

Finding 3: Inactive Obligations Were Not Being Reviewed

VA policy requires VA finance offices to perform monthly reviews and reconciliations of open inactive obligations to ensure the obligation is still valid and funds are not underused.³¹ According to the policy, an open obligation is considered inactive when there has been no activity on the obligation for more than 90 days. The policy states that reports from VA's Financial Management System should be reviewed against supporting documentation by the responsible VA finance office to ensure reports, subsidiary records, and systems reflect proper costing, accurate delivery dates and end dates for the open obligations or purchase orders, and a correctly calculated unliquidated balance. For these inactive obligations, healthcare system fiscal

²⁹ VA OIG, *Audit of VA's Financial Statements for Fiscal Years 2020 and 2019*, Report No. 20-01408-19, November 24, 2020; VA OIG, *Audit of VA's Financial Statements for Fiscal Years 2019 and 2018*, Report No. 19-06453-12, November 19, 2019.

³⁰ VA OIG, *Insufficient Oversight of VA's Undelivered Orders*, Report No. 17-04859-196, December 16, 2019. All recommendations in this report have been closed and implemented.

³¹ VA Financial Policies and Procedures, vol. II, chap. 5, "Obligations Policy," January 2018.

officers should verify with the ordering service department (the department that requested the goods or services) or contracting officer, if applicable, that the goods or services have not been received and are still needed.

Figure 3 shows the facility’s inactive obligations from April through September 2020.

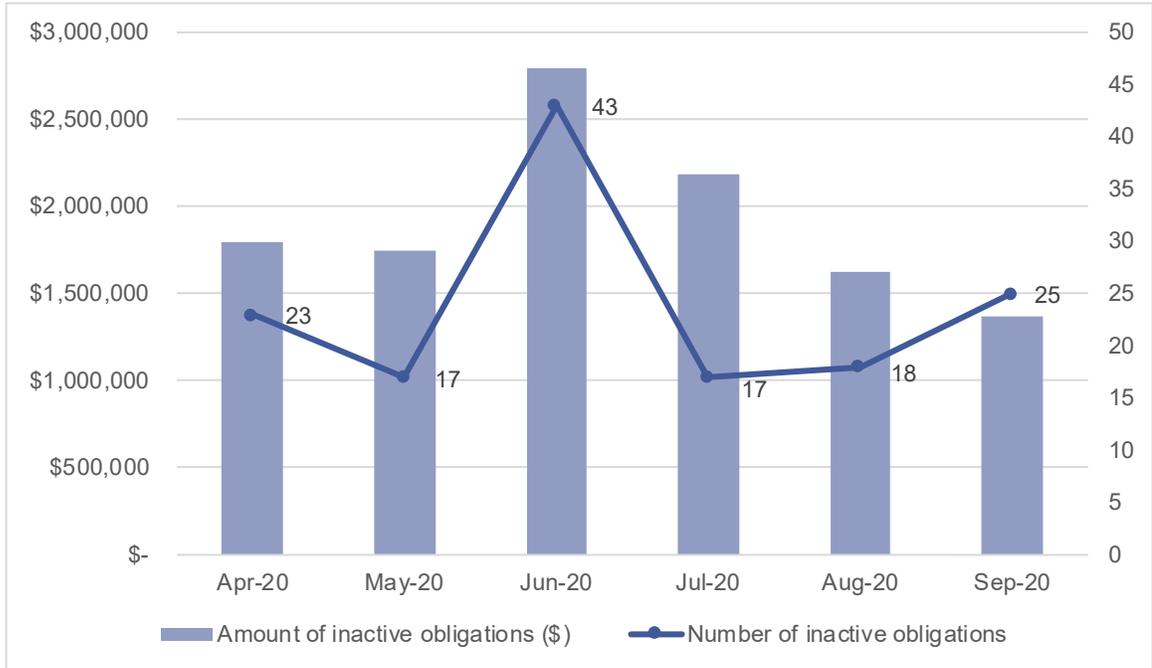


Figure 3. Inactive obligations for the Marion VA Medical Center, April through September 2020.
 Source: VA OIG analysis of VA Financial Management System F850 Report.

As of September 2020, the healthcare system had 25 obligations totaling \$1.37 million with no activity in more than 90 days. To provide a more accurate view of open inactive obligations, figure 4 presents a snapshot of the 25 open inactive obligations for September 2020. For the 25 obligations identified, 18 obligations totaling almost \$1.427 million had no activity for over 120 days.

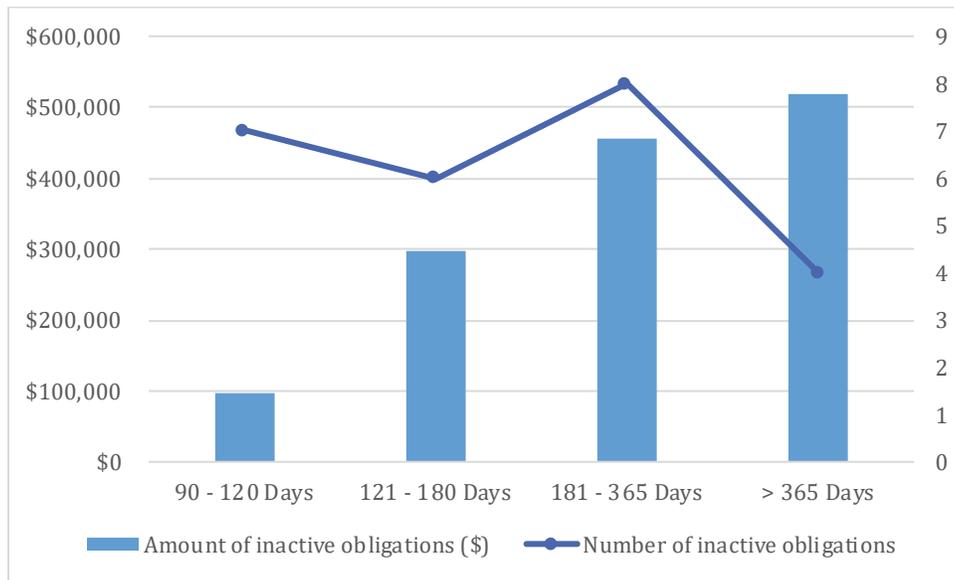


Figure 4. *Composition of inactive obligations for September 2020.*
 Source: *OIG analysis of VA Financial Management System F850 Report.*

The review team analyzed the data and selected the 10 largest unique inactive open obligations from April through September 2020, totaling \$2.65 million. The team reviewed supporting documentation to determine if the facility assessed the inactive obligations to see if they were still valid and necessary, in accordance with VA financial policy.³² The review team found that the facility did not assess five of the 10 inactive obligations totaling \$1.7 million. The fiscal staff stated they were unaware of the policy to review open obligations without activity over 90 days. The facility assessed the other five inactive obligations through routine communication between project engineers and finance and contracting staff; therefore, the team did not consider these as errors.

The five obligations the facility did not assess were funded by single-year appropriations. Single-year appropriated funds are available for obligation only during the fiscal year in which the appropriation is made.³³ If appropriated funds are not obligated in that fiscal year, they expire and are no longer available for new obligations for goods and services. Here, the unused funds associated with the five unreviewed obligations would therefore expire at the end of the fiscal year, potentially having \$1.7 million in funds that cannot be reobligated or available for other uses to benefit veterans.

³² VA Financial Policies and Procedures, vol. II, chap. 5.

³³ VA Financial Policies and Procedures, vol. II, chap. 5. In contrast, some appropriated funds are available for multiple years and no-year funds have no time limit.

Obligation End-Date Modifications Were Supported

The review team evaluated the sample of 10 open obligations to determine if there were any end-date modifications and, if so, whether the modifications were supported. The review team identified one such modification in VA's Financial Management System of the 10 inactive obligations reviewed. The facility had evidence to support the change, including email correspondence between fiscal and contracting staff and purchase order amendments in the Financial Management System.

Finding 3 Conclusion

Healthcare system personnel were noncompliant with VA policies and reported being unaware of requirements for routine follow-up of open obligations. The review team found open obligations with no activity for more than 90 days were not being reviewed for validity. Failure to properly manage open obligations increases the risk of failing to spend appropriations in the associated fiscal year and leaving funds attached to orders that could be closed and used for other purposes to benefit veterans. Healthcare system finance staff could improve management and oversight of open obligations. For open obligation end-date modifications, the facility had properly documented evidence to support the change for the one obligation identified in the sample.

Recommendation 5

The OIG made the following recommendation to the director of the Marion VA Medical Center:

5. Ensure healthcare system finance office staff are made aware of policy requirements and the responsible finance office conducts reviews on all open obligations as required by VA Financial Policies and Procedures, vol. II, chap. 5, "Obligations Policy," January 2018.

Management Comments

The Marion VA Medical Center director concurred with recommendation 5. The director's response to the report recommendation is provided in full in appendix D.

To address recommendation 5, the medical center director reported that the obligation-tracking tool was modified by adding additional fields that allow staff to review orders without activity for over 90 days and document the action needed. The director further reported that staff education for using the tool was completed.

OIG Response

The medical center director's action plan is responsive to the recommendation. The OIG will monitor implementation of the planned action and will close the recommendation when the OIG receives sufficient evidence demonstrating progress in addressing the intent of the recommendation and the issues identified.

IV. Pharmacy Operations

The FY 2020 OPES pharmacy model, based on FY 2019 VA data, reported that prescription drug spending at the facility exceeded \$48 million. This spending represented over 11 percent of the facility's \$417 million cost. It is important for medical center leaders to analyze spending and identify opportunities to use pharmacy dollars more efficiently. The review team used the pharmacy cost model in the OPES Efficiency Opportunity Grid to identify opportunities for improvement at the facility.

The team reviewed the following pharmacy areas:

- **OPES pharmacy expenditure data** help VHA facilities track cost performance and identify potential opportunities for improvement.
- **Cost-saving initiatives** in VA medical center action plans are intended to reduce the cost of pharmacy operations and increase efficiency, and are reported to the national Pharmacy Benefits Management Office.
- **Inventory turnover** is the number of times inventory is used during the year and the primary measure to monitor the effectiveness of inventory management per VHA policy.³⁴ A low inventory turnover rate indicates inefficient use of financial resources.

Finding 4: The Marion Medical Center's Pharmacy Expenditures Were Relatively High and Cost-Savings Initiatives Could Be Better Managed, but Efficiency in Turning Over Inventory Exceeded VA Goals

In rural locations, veterans are more likely to use non-VA providers at community care centers versus VA facilities. These non-VA providers tend to prescribe higher-cost drugs in comparison to VA providers. According to the FY 2020 OPES pharmacy model, Marion spent approximately \$9.8 million more than expected on prescription drugs. The OIG found this was due in part to an increase in veterans visiting non-VA care providers who tended to prescribe higher-cost drugs not on the VA formulary.

The OIG also determined that the facility implemented pharmacy cost-savings initiatives; however, the pharmacy chief said more could be done by hiring staff dedicated to managing the initiatives. The team observed that the facility met and exceeded the VHA inventory turnover target rate of 12, achieving a turnover rate of 19. Improving the management of pharmacy operations can help further reduce replenishment costs and make better use of funding to meet

³⁴ VHA Directive 1761(2), *Supply Chain Inventory Management*, app. I, October 24, 2016, amended October 26, 2018. Inventory turnover rates are based on total dollar value purchased for the year divided by the dollar value of items on the shelf.

facility and patient care needs. The following sections address the facility’s policy compliance and use of data to track and correct identified problems.

OPES Pharmacy Expenditure Data

The FY 2020 OPES pharmacy expenditure model, which identifies variations in pharmacy costs among VHA facilities, showed that the Marion facility had about \$48.2 million in drug costs. According to the model, this amount was approximately \$9.8 million higher than the expected costs of about \$38.4 million. Based on these numbers, the facility’s observed-to-expected ratio was 1.256, which ranked it 138 out of 139 VHA facilities for pharmacy drug cost efficiency.

For FY 2018 through FY 2020, the OPES model shows that the facility averaged just over \$8.2 million in overall opportunity costs. Figure 5 shows the observed, expected, and observed-minus-expected drug costs for the facility for FY 2018 through FY 2020.³⁵ The increases in the observed-minus-expected costs showed persistent variation, suggesting that the facility can reduce pharmacy costs.

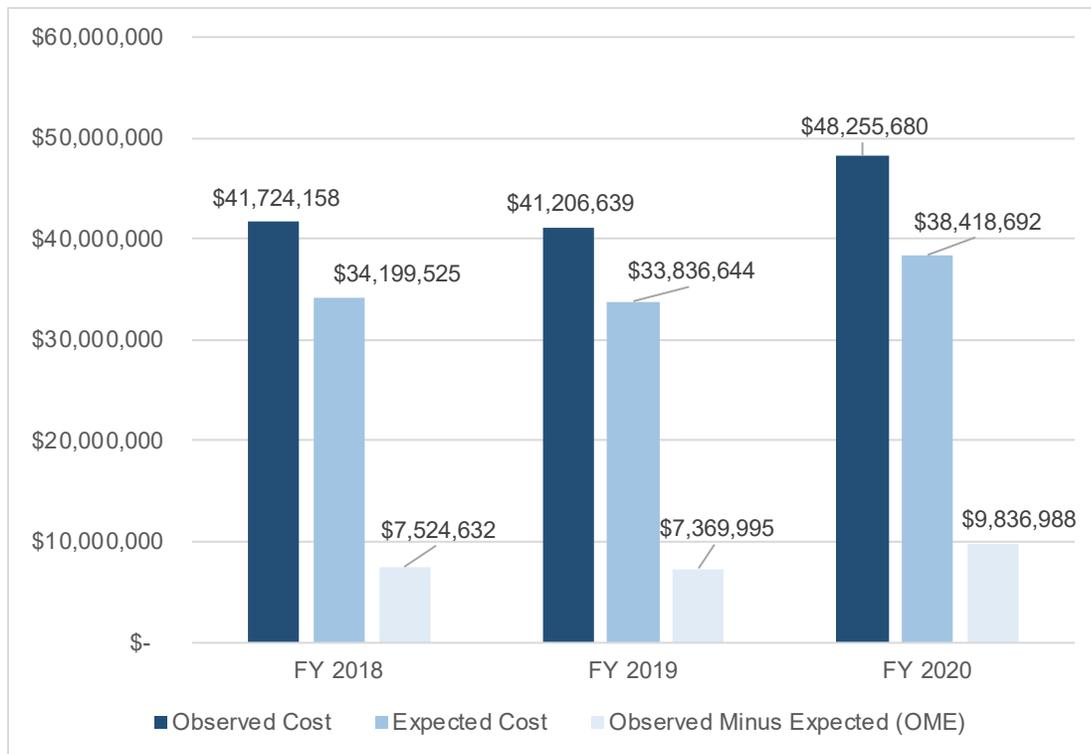


Figure 5. Observed versus expected drug costs, FYs 2018–2020 OPES model.

Source: VA OIG analysis of OPES pharmacy expenditure model.

³⁵ The OPES pharmacy expenditure model uses the terms “observed minus expected” and “potential opportunity” to describe the gap between a facility’s actual and expected drug costs. This difference represents the amount associated with potential efficiency improvements.

The VISN 15 pharmacy executive conducted an annual site visit in March 2020. One purpose was to assess key aspects of the facility's pharmacy and medication management programs. As a result of her assessment, the VISN pharmacy executive found that the facility had seen up to a 20 percent increase in the number of community care drugs prescribed each month and saw up to a 35 percent increase in prescription costs for community care. As mentioned above, this was attributed to the facility's rural location, which led to an increase in veterans' use of non-VA providers who do not always prescribe using the VA formulary. The chief of pharmacy acknowledged one way to reduce the variation in pharmacy drug expenditures is for more veterans to take advantage of VA's mail order pharmacy program to have their prescriptions mailed instead of filled at the facility.³⁶ Use of the mail order program results in lower processing costs for VA and reduces the need for medical centers to incur the costs of maintaining inventory.

During the FY 2020 site visit, the VISN pharmacy executive was concerned about the continued effect of community care on outpatient pharmacy operations considering other issues she identified, such as staffing vacancies, increased workload for pharmacists, and prescription-processing complexities. Based on the rapid growth of outpatient pharmacy operations and inherent difficulties coordinating care with non-VA providers, the VISN pharmacy executive recommended the facility consider additional pharmacy resources to support processes associated with the community care workload.

The review team found that although the rural location may be a contributing factor, the OPES model takes geography into consideration and uses a variable that adjusts for facilities with rural locations. The facility's chief of pharmacy also agreed with the VISN pharmacy executive's assessment of the impact of the facility's rural location on higher pharmacy costs.

Cost-Saving Initiatives

The facility's pharmacy department implemented the national Pharmacy Benefits Management Office's FY 2020 cost-saving initiatives despite not having dedicated pharmacy personnel to evaluate and manage them. The facility used a FY 2020 lost opportunity cost report with data to assess pharmacy operations cost and performance and to evaluate initiatives for cost-saving and cost-avoidance opportunities. The review team examined the FY2020 lost opportunity cost report, which outlined the facility's achievement of an annual cost avoidance of over \$3 million using nine initiatives. Although the FY 2020 lost opportunity cost report identified the facility had achieved some cost savings, a \$9.8 million gap remained between actual and expected drug costs.

³⁶ VA's mail order pharmacy program employs seven highly automated pharmacies throughout the United States to fill veterans' prescriptions through the mail.

During the FY 2020 site visit, the VISN pharmacy executive recommended hiring specific pharmacy personnel to oversee the facilities' cost-saving initiatives and address any pharmacy cost inefficiencies—for example, hiring a pharmacy informatics specialist to assist with pharmacy automation systems and data analytics, and hiring a pharmacoeconomist to improve the pharmacy efficiency lost opportunity cost initiatives. The VISN pharmacy executive stated that addressing the two long-time pharmacy vacancies will ease the pharmacy service's burden from an expected increase in community care prescriptions by having both employees focus only on the pharmacy cost activities. In addition, the VISN pharmacy executive recommended the facility continue supporting the VISN 15 Academic Detailing Program by providing educational tools and materials to non-VA providers. Educating non-VA providers to use lower-cost alternatives from the VA formulary could decrease the amount of high-cost drugs they prescribe, which are costing the facility millions of dollars.³⁷

The chief of pharmacy and VISN pharmacy executive told the review team that hiring the specified pharmacy personnel dedicated to managing its systems, data, and lost opportunity cost initiatives could have improved the facility's pharmacy efficiency during FY 2020. The review team noted that the facility hired a pharmacy informatics specialist in November 2020 and a pharmacoeconomist in March 2021.

Inventory Turnover Rate

VHA policy states that inventory turnover is the primary measure of the efficiency of inventory management.³⁸ For FY 2020, the facility's pharmacy reported an inventory turnover rate of 19, which exceeded the national recommended level of 12 established by the Pharmacy Benefits Management program office. Increasing the inventory turnover rate decreases inventory carrying costs associated with holding inventory in storage. The directive further notes that the appropriate balance must be struck to keep total replenishment costs low. VHA policy also mandates that pharmacy services use the pharmaceutical prime vendor's inventory management software for facility inventories.³⁹

Finding 4 Conclusion

The facility needs to improve pharmacy efficiency by taking a more proactive approach to reducing the difference between the facility's observed drug costs and expected drug costs, and by decreasing the influx of high-cost drugs prescribed by non-VA, community care providers. The facility exceeded the national inventory turnover target rate of 12, achieving an inventory

³⁷ Academic detailing is an educational service for clinicians, by clinicians, that provides individualized, face-to-face outreach, to encourage evidence-based decision making to improve Veteran health.

³⁸ VHA Directive 1761(2), *Supply Chain Inventory Management*, October 2018.

³⁹ VHA Directive 1761(2), app. I.

turnover of 19, which reduces inventory carrying costs. Increased use of VA's mail order pharmacy program could further decrease inventory carrying costs. An efficient pharmacy department anticipates how much drugs will cost and by doing so helps ensure that the facility makes the best use of appropriated funds. The VISN pharmacy executive has worked with the facility to improve efficiencies, suggesting the hiring of a pharmacy informatics specialist and pharmacoeconomist dedicated to managing pharmacy systems, data, and lost opportunity cost initiatives.

Recommendations 6–8

The OIG made the following recommendations to the director of the Marion VA Medical Center:

6. Promote veterans' use of the Consolidated Mail Outpatient Pharmacy.
7. Educate non-VA providers on prescribing lower-cost drugs.
8. Implement Veterans Integrated Service Network 15 recommendations to ensure the cost-saving initiatives are implemented, tracked, and monitored to achieve identified efficiency targets and use available pharmacy data to make business decisions.

Management Comments

The Marion VA Medical Center director concurred with recommendations 6–8. The director's responses to the report recommendations are provided in full in appendix D.

To address recommendation 6, the director reported that education on the Consolidated Mail Outpatient Pharmacy Program will be provided to 90 percent of prescribing providers.

In response to recommendation 7, the director stated the medical center filled two key positions. Both positions will work to improve inefficiencies and develop educational tools for non-VA providers to increase the use of VA formulary medications and lower costs. Targeted education has been developed and provided to the top 25 non-VA prescribing providers monthly.

To address recommendation 8, the director reported the medical center hired a pharmacoeconomist in March 2021 and since then has an estimated annual savings of over \$1.1 million through therapeutic conversion and therapy optimization. The director also reports the medical center has implemented six initiatives in response to VISN 15's recommendations and will continue tracking and monitoring to ensure that cost-saving efforts are sustained.

OIG Response

The medical center director's action plans are responsive to the recommendations. The OIG will monitor implementation of the planned actions and will close the recommendations when the OIG receives sufficient evidence demonstrating progress in addressing the intent of the recommendations and the issues identified.

Appendix A: Facility Profile

Table A.1 provides general background information for this level 2, medium complexity facility reporting to VISN 15 leaders.⁴⁰

Table A.1. Profile for the Marion, VA Medical Center, October 1, 2017, through September 30, 2020

Profile element	Facility data FY 2018	Facility data FY 2019	Facility data FY 2020
Total cost	\$338,530,448	\$354,005,939	\$416,765,781
Number of unique patients	43,220	45,269	41,917
Outpatient visits	479,970	475,921	409,831
Total medical care full-time equivalents (FTEs)*	1,442	1,503	1,522
Type and number of operating beds:			
• Hospital	39	39	48
• Domiciliary operating beds	9	20	20
• Community living center	54	54	54
Average daily census:			
• Hospital	15	14	13
• Domiciliary operating beds	8	12	7
• Community living center	26	26	17

Source: For total medical care cost row, Stochastic Frontier Analysis (SFA) Overall Efficiency Profile; for other rows, VHA Support Service Center (VSSC), Trip Pack and Operational Statistics report.

Note: Values are rounded. The OIG did not assess VA's data for accuracy or completeness.

* Total medical care FTEs include direct medical care FTEs in budget object code 1000-1099 (Personal Services) and all cost centers.

⁴⁰ The Facility Complexity Model classifies VHA facilities at levels 1a, 1b, 1c, 2, or 3, with level 1a being the most complex and level 3 being the least complex.

Appendix B: Scope and Methodology

The OIG conducted its review of the Marion VA Medical Center in Illinois from February to September 2021, including a virtual site visit during the week of February 16, 2021. The review team evaluated financial efficiency practices from November 1, 2019, through October 31, 2020, for MSPV-NG utilization; from October 1, 2019, through September 30, 2020, for purchase card transactions; and from April 1 through September 30, 2020, for open obligations. The team also analyzed financial efficiency practices related to the facility's pharmacy costs using the FY 2020 OPES data model; however, the FY 2020 data model was based on FY 2019 data.

To conduct the review, the team

- interviewed facility leaders and staff;
- identified and reviewed applicable laws, regulations, VA policies, operating procedures, and guidelines related to financial efficiency practices for MSPV-NG utilization, overseeing purchase card transactions, monitoring open obligations, and addressing inefficiencies in pharmacy costs;
- judgmentally sampled 28 purchase card transactions to determine if there was proper oversight and governance of the purchase card program, as well as to assess the risk for illegal, improper, or erroneous purchases; and
- judgmentally sampled 10 open obligation transactions with inactivity dates greater than 90 days to determine whether the transactions were reviewed to see if they were still valid and needed to remain open in accordance with VA financial policy.

Data Reliability

The review team used computer-processed data obtained from US Bank files. To test for reliability, the team determined whether any data were missing from key fields, included any calculation errors, or were outside the time frame requested. The review team also compared purchase order numbers, payment dates, payee names, payment amounts, vendor ID number, and check number as provided in the data received in the samples reviewed. Testing of the data disclosed that they were sufficiently reliable for the review objectives.

In addition, computer-processed data used included reports from the SCCOP dashboard to determine MSPV-NG utilization rates. The team found that purchasing data were missing one month during the review period. However, the dashboard summary-level data were sufficiently reliable for reporting on the facility's MSPV-NG utilization rate.

The OIG determined and used computer-processed data to support its findings, conclusions, and recommendations. Data were obtained from the OPES Efficiency Opportunity Grid, FY 2020 FMS 830/887 reports, and the FY 2020 MCA Pharmacy Cube. To test for reliability, the team determined whether any data were missing from key fields, included any calculation errors, or

were outside the time frame requested. The review team also assessed whether the data contained obvious duplication of records, alphabetic or numeric characters in incorrect fields, or illogical relationships among data elements. Testing of the data disclosed that they were sufficiently reliable and documented for the review objectives.

In addition, computer-processed data used included reports from VA's Financial Management System to determine open obligation amounts. The team found that summary-level data were sufficiently reliable for reporting on the facility's open obligations.

Government Standards

The OIG conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

Appendix C: Sampling Methodology

Purchase Cards

The review team evaluated a judgmental sample of FY 2020 purchase card transactions to determine if (1) the reviewed purchase card payments were adequately monitored to prevent split purchases and (2) cardholders from reviewed transactions were adhering to strategic sourcing guidelines when making purchases as well as maintaining proper documentation for each transaction in accordance with policy.

Population

During FY 2020, purchase cardholders at the facility made about 36,550 purchase card transactions totaling approximately \$18 million.

Sampling Design

The review team developed a judgmental sample of high-risk transactional areas that identified potential split purchases. The team defined potential split purchases as transactions with the same purchase date, purchase card number, and merchant, and an aggregate sum of greater than the cardholder's micropurchase limit.

In applying this definition, the team identified 2,909 potential split purchases totaling approximately \$822,642. The team then selected the 10 highest-value bundles of transactions.⁴¹ This sample of 10 bundles included 28 total individual transactions amounting to approximately \$259,280 in spending.

To review the sampled transactions, the team requested supporting documentation for each of the 28 sampled transactions. From the cardholders, the team also requested their VA Form 0242 and completion certificates for purchase card training.

Projections and Margins of Error

The review team did not use projections and margins of error because it did not use a statistical sample.

Open Obligations

The review team evaluated a judgmental sample of open obligation transactions from April 1 through September 30, 2020, to determine if (1) the facility performed monthly reviews and reconciliations of the reviewed obligations with no activity for more than 90 days to ensure

⁴¹ The review team defined a bundle as a group of transactions grouped by vendor fitting the defined criteria of potential split purchases.

they were valid and should remain open and (2) the facility identified and supported the reviewed open obligations with end-date modifications to the period of performance.

Population

From April 1 through September 30, 2020, open obligations with inactivity dates greater than 90 days at the facility consisted of 143 records totaling approximately \$11.5 million.

Sampling Design

The review team developed a judgmental sample by selecting 10 orders from the universe for further review—those with the 10 largest undelivered amounts and that had been inactive for more than 90 days. The sample included 10 total open obligations with inactivity dates greater than 90 days totaling approximately \$2.7 million.

To review the sampled transactions, the team requested supporting documentation for each of the 10 transactions, including monthly reviews and reconciliations, and email and other correspondence related to the obligations.

Projections and Margins of Error

The review team did not use projections and margins of error because it did not use a statistical sample.

Appendix D: Management Comments: Marion VA Medical Center Director

Department of Veterans Affairs

Memorandum

Date: October 21, 2021
From: Director, Marion VA Medical Center
Subj: Draft Report, Financial Efficiency Review of the Marion VA Medical Center in Illinois
(Project Number 2021-00960-AE-0036)
To: Assistant Inspector General for Audits and Evaluations (52)

Recommendation 1

Develop a plan to routinely provide updates when changes in stock levels are anticipated and work with the prime vendor to address having adequate stock to meet orders.

Concur.

Target date for completion: April 30, 2022

Director Comments

The Chief of Logistics conducted a comprehensive review of the stock level monitoring system and determined that a written plan was needed to formalize the process. A written plan was established describing how staff monitor stock levels to include a communication plan to routinely relay anticipated adjustments of stock levels to the Med Surg Prime Vendor (MSPV). All staff have been provided a written copy of the monitoring plan and education emphasizing anticipated stock levels and routinely communicating to the Med Surg Prime Vendor. The Chief of Logistics will ensure compliance by monitoring 10 MSPV items monthly for 6 months or two consecutive quarters to identify fluctuations of stock level requirements and communication to the MSPV with a compliance rate of 90%. The compliance data will be reported to the Executive Leadership Council monthly.

Recommendation 2

Ensure logistics staff and contracting officer's representative use the tools available to inform the Medical Supplies Program Office and Strategic Acquisition Center of prime vendor performance concerns and challenges

Concur.

Target date for completion: April 30, 2022

Director Comments

The Chief of Logistics reviewed the Med Surg Prime Vendor Contracting Officer Representative (COR) reporting process and determined reeducation was needed for logistics staff and the COR regarding prime vendor performance evaluation and utilization of reporting tools established in the Medical Supplies Program Office and Strategic Acquisition Center website. The Chief of Logistics will ensure compliance by auditing facility reports to validate reporting tools were utilized consistently for 6 months or two

consecutive quarters with target of 90% compliance. Compliance documentation to be presented to Executive Leadership Counsel monthly.

Recommendation 3

Implement a process to routinely check the formulary for additions and update the ordering system to reflect the prime vendor as the source for purchasing newly added supplies

Initiative.

Concur.

Target date for completion: April 30, 2022

Director Comments

The Chief of Logistics reviewed the recommendation and determined that a written process was needed when adding new supplies items. The Chief of Logistics will implement a standard operating procedure that details the steps needed to complete the procurement process of new items to include a review of the current formulary for additions to be documented in the Clinical Product Review comments. The Chief of Logistics will conduct monthly audits for 10 or 100% of new item procurements to validate that the formulary was reviewed, and Med Surg Prime Vendor was the source if applicable with a compliance rate of 90% for 6 months or two consecutive quarters. The compliance data will be reported to the Executive Leadership Council.

Recommendation 4

Ensure quarterly purchase card audits are performed as required by the Veterans Health Administration standard operating procedure, "Internal Audits—Purchase Cards and Convenience Checks".

Concur.

Target date for completion: April 22, 2022

Director Comments

Network Contracting Office (NCO) 15 will develop a tool for tracking quarterly audits to ensure timely completion. The Director of Contracting will review the tool quarterly to assess compliance with program requirements.

(input from VISN 15 Contracting)

Recommendation 5

Ensure healthcare system finance office staff are made aware of policy requirements and the responsible finance office conducts reviews on all open obligations as required by VA Financial Policy, vol. II, chap. 5, "Obligations" (2018).

Concur.

Target date for completion: January 31, 2022

Director Comments

The facility director reviewed the recommendation and concurred with the findings. The Chief of Finance reviewed the obligation tracking tool and determined that additional fields were needed to improve open obligation tracking. The tracking tool was modified by adding additional fields that allow staff to review orders without activity over 90 days and document the appropriate action. Staff education was completed

on 10/05/2021 and included the Financial Policy requirements for routine follow up for open obligations past 90 days and how to document the information in the tracking tool's new fields. The Chief of Finance will conduct monthly audits of 10 current obligations to ensure that the added monitor field is being utilized with a target compliance of 90% for 6 months or two consecutive quarters. The compliance data will be reported to the Executive Leadership Council.

Recommendation 6

Promote veterans' use of the Consolidated Mail Outpatient Pharmacy

Concur.

Target date for completion: April 30, 2022

Director Comments

The Chief of Pharmacy concurred with the findings and will develop an education plan for all prescribing providers that promotes the use and understanding of the Consolidated Mail Outpatient Pharmacy (CMOP) Program and the cost saving benefits and avoidance opportunities for veteran care. The Chief of Pharmacy will provide CMOP education to 90% of the prescribing providers promoting the economic efficiencies and benefits of the program. Education will be provided during several sessions to ensure maximum participation and include an educational email to all prescribing providers. The status of the education will be monitored and reported to the Clinical Executive Counsel until 90% attendance rate for VA providers is achieved for six months or two consecutive quarters.

Recommendation 7

Educate non-VA providers on prescribing lower cost drugs

Concur.

Target date for completion: March 31, 2022

Director Comments

The Chief of Pharmacy reviewed the recommendation and determine that additional staff and resources were needed to improve non-VA provider prescribing and cost saving efforts. Two key positions were recently filled that included a pharmacy informatics specialist on August 30, 2020 and a pharmacoeconomist on March 14, 2021, both positions will work collaboratively to improve inefficiencies and developed educational tools for non-VA providers the goal of increasing the use of VA formulary medications and lower costs. Monthly targeted education has been developed and provided to the top 25 non-VA prescribing providers monthly. The Chief of Pharmacy will monitor compliance by conducting 20 chart audits of the identified top 25 Non-VA provider prescriptions validating the use of VA formulary when feasible until 90% compliance is achieved for six months or two consecutive quarters. Audit results will be reported to the Executive Leadership Council.

Recommendation 8

Implement Veterans Integrated Service Network 15 recommendations to ensure the cost saving initiatives are implemented, tracked, and monitored to achieve identified efficiency targets and use available pharmacy data to make business decisions.

Concur.

Target date for completion: March 31, 2022

Director Comments

The Chief of Pharmacy reviewed the recommendation and concurred that the Veterans Integrated Service Network 15 cost saving initiative had not been fully implemented. The Marion VA Medical Center Pharmacy made a great deal of progress with implementation and improving efficiencies by hiring a Pharmacoeconomist in March of 2021. The Pharmacoeconomist is an active member of the VISN 15 Formulary Management Workgroup that identified additional savings opportunities and actions to reduce costs. Since, March of 2021 the Marion IL VAMC, through therapeutic conversion and therapy optimization, has an estimated annual savings of \$1,106,693.33. Marion VA Medical Center has implemented six of the six initiatives, tracking and monitoring will continue to ensure that cost saving efforts are sustained. The Chief of Pharmacy will report implementation progress to the Executive Leadership Committed until full implementation is sustained for six months.

(Original signed by)

Jo-Ann Ginsberg, RN, MSN

Medical Center Director

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

Appendix E: Management Comments: Network Contracting Office 15

Department of Veterans Affairs

Memorandum

Date: October 22, 2021
From: Director of Contracting, Network Contracting Office 15
Subj: Draft Report, Financial Efficiency Review of the Marion VA Medical Center in Illinois
(Project Number 2021-00960-AE-0036)
To: Assistant Inspector General for Audits and Evaluations (52)

Recommendation 4

Ensure quarterly purchase card audits are performed as required by the Veterans Health Administration standard operating procedure, "Internal Audits—Purchase Cards and Convenience Checks".

Concur.

Target date for completion: December 31, 2021

Director of Contracting, Network Contracting Office 15 Comments

Network Contracting Office (NCO) 15 will develop a tool for tracking quarterly audits to ensure timely completion. The Director of Contracting, or someone designated in writing, will review the tool quarterly to assess compliance with program requirements.

(Original signed by)

Andrew J. Raiber, CPCM

Director of Contracting

Network Contracting Office 15

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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