

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



Veterans Health Administration

*Audit of
Purchase Card Use
To Procure Prosthetics*

September 29, 2017
15-04929-351

ACRONYMS

| | |
|------|---------------------------------------|
| eCMS | Electronic Contract Management System |
| FAR | Federal Acquisition Regulation |
| FPDS | Federal Procurement Data System |
| FY | Fiscal Year |
| NCO | Network Contracting Office |
| OIG | Office of Inspector General |
| P&LO | Procurement and Logistics Office |
| PSAS | Prosthetic and Sensory Aids Service |
| SAC | Strategic Acquisition Center |
| VHA | Veterans Health Administration |
| VISN | Veterans Integrated Service Network |
| VPR | VISN Prosthetic Representative |

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Highlights: Audit of VHA's Purchase Card Use To Procure Prosthetics

Why We Did This Audit

The VA OIG received an allegation in 2015 that the Veterans Health Administration (VHA) inappropriately used Government purchase cards to procure commonly used prosthetics, instead of establishing contracts that would leverage VHA's purchasing power, and failed to ensure fair and reasonable prices were obtained. Furthermore, VHA allegedly did not report purchases in the Federal Procurement Data System (FPDS).

From FY 2012 through FY 2015, VHA's reported cardholder prosthetic purchases increased approximately 25 percent from about \$1.6 billion to nearly \$2 billion. About \$863 million of the \$2 billion spent (43 percent) was for purchases exceeding the micro-purchase limit. Prosthetics include any device that supports or replaces loss of a body part or function.

What We Found

We substantiated the allegation that for some prosthetic purchases above the micro-purchase limit, VHA did not leverage its purchasing power by establishing contracts and did not ensure fair and reasonable prices were paid. A micro-purchase is an acquisition using simplified acquisition procedures where the aggregate amount does not exceed \$3,500. During FY 2015, we identified about 87,100 VHA prosthetic transactions above the micro-purchase limit and estimated that about 26,100 (30 percent) were made without establishing contracts. In addition, for an estimated 5,500 of the

26,100 transactions, VHA did not ensure fair and reasonable prices.

These improper actions occurred because VHA controls did not ensure the Prosthetic and Sensory Aids Service (PSAS) sufficiently analyzed prosthetic purchases to identify commonly used prosthetics and the Procurement and Logistics Office (P&LO) did not adequately monitor Network Contracting Office (NCO) procurement practices to ensure contracts were established. As a result, we estimated VHA may have paid higher prices for an estimated \$256.7 million in prosthetics purchases during FY 2015 by not establishing contracts.

We did not substantiate the allegation that VHA failed to report prosthetic procurements in FPDS. We estimated VHA reported about 86,200 of the 87,100 FY 2015 prosthetic purchases (99 percent) in FPDS.

During the course of our audit, we identified an additional issue outside of the reported allegations. We determined that VA medical facility staff improperly procured prosthetics above the micro-purchase limit without authority. During FY 2015, of about 87,100 VHA purchase card prosthetic transactions, we estimated about 53,400 (61 percent) were improper payments and unauthorized commitments. This occurred because VHA controls did not ensure only staff with contracting or delegated authority procured prosthetics. As a result, we estimated VHA made improper payments and unauthorized commitments totaling about \$520.7 million when procuring prosthetics in FY 2015.

Unauthorized commitments require ratification. In summary, VHA did not have reasonable assurance that VA medical facilities used taxpayer funds efficiently when procuring prosthetics.

During our audit, as these controls were being examined, VHA initiated actions to pursue contracts for commonly used surgical implant prosthetics. In addition, VHA has established pre-authorization procedures and plans to authorize the use of ordering officers to help mitigate improper payments and unauthorized commitments associated with surgical implants. However, if VHA staff do not ensure P&LO and PSAS implement these controls along with our recommendations, they increase their risk for improper payments and unauthorized commitments totaling about \$2.6 billion over a five-year period.

What We Recommended

We recommended the Acting Under Secretary for Health take additional actions to identify all commonly used prosthetics that offer opportunities for leveraging VHA's purchasing power and pursue appropriate contracts. We also recommended the Acting Under Secretary review FYs 2015 and 2016 prosthetics transactions to identify unauthorized commitments for ratification, conduct annual reviews, and consider holding cardholders and their approving officials accountable for unauthorized commitments, as appropriate.

Agency Comments

The Acting Under Secretary for Health concurred with Recommendations 1, 2, and 5, and concurred in principle with Recommendations 3 and 4. For Recommendations 1, 2, and 5, the Acting

Under Secretary stated PSAS analyzed spending data, which resulted in contracts that standardize acquisition efficiency and leverage VA's buying power. She also stated VHA, through a weekly P&LO and PSAS meeting, continually monitors compliance with prosthetics purchasing requirements.

For Recommendations 3 and 4, the Acting Under Secretary acknowledged past practices accepted by VHA Heads of Contracting Activity resulted in unauthorized commitments for prosthetic purchases. She reported that contracting officers paid for the implants only after receiving a documented bona fide need and written assurance of funds. She stated that ratifying thousands of unauthorized commitments would not provide a benefit or monetary savings to Veterans, vendors, or taxpayers.

For Recommendations 1, 2, and 5, we consider the corrective action plans acceptable and will follow up on their implementation and close the recommendations as appropriate. For Recommendations 3 and 4, we continue to assert VHA should address its failure to ratify unauthorized commitments according to the Federal and VA Acquisition Regulations. We will close these recommendations when VHA provides a legal opinion from the Office of General Counsel specific to the identified procurements we reported on stating that ratification pursuant to applicable regulations is not required.



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INTRODUCTION

Objective In May 2015, we received an allegation that the Veterans Health Administration (VHA) inappropriately used Government purchase cards to procure prosthetics, which resulted in waste, fraud, and mismanagement. The complainant alleged that, for prosthetic purchases above the micro-purchase limit (aggregate \$3,500), VHA did not leverage its purchasing power by establishing contracts for purchases, ensuring fair and reasonable prices, or reporting purchases in the Federal Procurement Data System (FPDS). We performed an audit to evaluate the merits of these allegations and to determine if VHA controls ensured purchase cardholders maximized their use of contracts to procure prosthetics.

Prosthetic Purchases From FY 2012 through FY 2015, VHA's reported cardholder prosthetic purchases increased approximately 25 percent from about \$1.6 billion to nearly \$2 billion. About \$863 million of the \$2 billion spent (43 percent) was for purchases exceeding the micro-purchase limit. Prosthetics include any device that supports or replaces loss of a body part or function. VHA policies state VA transitioned the authority to purchase prosthetic appliances and sensory aids from the prosthetics staff to Network Contracting Office (NCO)-warranted contracting officers when procurement amounts are above the micro-purchase threshold established in the Federal Acquisition Regulation (FAR) and VA Acquisition Regulation.¹

Micro-Purchase Limit The FAR defines a micro-purchase as an acquisition using simplified acquisition procedures where the aggregate amount does not exceed \$3,500.² VA policies allow only warranted contracting officers or individuals with delegated authority to make purchases above this limit.³

Responsible Program VHA's Procurement and Logistics Office (P&LO) is responsible for monitoring compliance with procurement policies and procedures and ensuring establishment of VHA-wide, multi-Veterans Integrated Service Network (VISN), and VISN contracts to capitalize on economies of scale and pursue best pricing.⁵ VHA's Prosthetic and Sensory Aids Service (PSAS) is responsible for establishing processes for providing prosthetics in

¹VHA Directive 1081, *Procurement Process for Individual Prosthetic Appliances and Sensory Aids Devices Above the Micro-Purchase Threshold*, March 2014.

²FAR Subpart 2.1: Prior to October 2015, the micro-purchase limit was \$3,000.

³VA Financial Policies and Procedures, *Government Purchase Card*, Volume XVI, December 2014 and Veterans Affairs Acquisition Regulation, January 2008.

⁴ See Appendix E for more details.

⁵VHA Handbook 1761.02, *VHA Inventory Management*, October 20, 2009 and VHA Procurement and Logistics Standard Operating Procedure 160-10-01 *Procurement Process*, June 2010.

the most economical manner.⁶ The Office of Acquisition, Logistics, and Construction is responsible for directing the functions within the Department of Veterans Affairs such as acquisitions.⁷

⁶VA Patient Care Services, *2013-2018 Strategic Plan* (accessed December 2016) and VHA Directive 1081, *Procurement Process for Individual Prosthetic Appliances and Sensory Aids Devices Above the Micro-Purchase Threshold*, March 2014.

⁷VA Office of Acquisition, Logistics, and Construction web page, *Who We Are* (accessed December 2016).

RESULTS AND RECOMMENDATIONS

Finding 1 VHA Lacked Sufficient Controls To Ensure Contracts Were Established To Leverage Purchasing Power

We substantiated the allegation that for some prosthetic purchases above the micro-purchase limit, VHA did not leverage its purchasing power by establishing contracts or ensuring fair and reasonable prices.⁸ During FY 2015, we estimated about 26,100 of approximately 87,100 VHA prosthetic purchase card transactions above the micro-purchase limit (30 percent) were made without establishing contracts that leveraged VHA's purchasing power and pursued best pricing. In addition, for an estimated 5,500 of the 26,100 transactions, contracting officers did not ensure VHA paid fair and reasonable prices by obtaining competitive quotes or preparing price reasonableness statements before procuring prosthetics.⁹

This occurred because VHA controls did not ensure PSAS sufficiently analyzed prosthetic purchases to identify commonly used prosthetics and work with P&LO to request VA's Strategic Acquisition Center (SAC) establish VHA-wide or multi-VISN contracts. In addition, P&LO did not adequately monitor NCO procurement practices and ensure NCOs established VISN contracts for commonly used prosthetics, prepared competitive quotes, and documented price reasonableness statements. As a result, we estimated VHA made approximately \$256.7 million in prosthetics purchases above the micro-purchase limit during FY 2015 at likely higher prices than if they had been made under contracts.

We did not substantiate the allegation that VHA failed to report prosthetic procurements above the micro-purchase limit in FPDS. We estimated VHA reported about 86,200 of the 87,100 FY 2015 purchase card prosthetic procurements in FPDS (99 percent). For the remaining one percent of transactions, contracting officers did not report the procurements in VA's electronic Contract Management System (eCMS) as required, which resulted in the omission of the procurement transactions from FPDS.

We substantiated the allegation that for some prosthetic purchases above the micro-purchase limit, VHA did not leverage its purchasing power by establishing contracts.

⁸VHA Directive 1081, *Procurement Process for Individual Prosthetic Appliances and Sensory Aids Devices Above the Micro-Purchase Threshold*, March 25, 2014, requires a review to identify opportunities for contracts, and FAR Subpart 13.106-3(a), *Awards and documentation*, March 2005, requires the contracting officer to determine a fair and reasonable price prior to award.

⁹FAR Subpart 13.106-3(a), *Awards and documentation*, March 2005, requires contracting officers to determine that a proposed price is fair and reasonable before making an award.

VHA Did Not Leverage Its Purchasing Power

During FY 2015, we estimated 26,100 of 87,100 VHA prosthetic purchase card transactions above the micro-purchase limit (30 percent) were made by NCO contracting officers without establishing contracts that leveraged VA's purchasing power. We did not identify concerns with contracting for the remaining approximately 61,000 transactions (70 percent). VHA purchased prosthetics without VHA-wide, multi-VISN, or VISN contracts for 77 of the 240 transactions we sampled.

VHA made these 77 transactions with 38 vendors. In FY 2015, VHA prosthetic procurements from these 38 vendors ranged from 10 to 9,545 transactions with total costs ranging from about \$125,000 to approximately \$120.7 million. Appendix B of this report includes the FY 2015 transactions and amounts for the 38 vendors. VHA missed opportunities to leverage purchasing power and pursue best pricing by not establishing VHA-wide, multi-VISN, or VISN contracts.

VHA policy requires VISN Prosthetic Representatives (VPR) and NCO Directors to pursue local or regional contracts to limit or mitigate the need to purchase prosthetics on the open market.¹⁰ Furthermore, VHA policy requires NCOs to request VA medical facility directors to report on a quarterly basis any known requirements that may exceed \$25,000 and to use acquisition strategies and methodologies to capitalize on economies of scale to reduce acquisition costs.¹¹ VHA Management and NCOs agreed with our results for the sampled transactions. Example 1 highlights a missed opportunity to place a commonly procured prosthetic item on a VHA-wide or multi-VISN contract.

Example 1

In June 2015, an NCO contracting officer prepared a purchase order and used a purchase card to pay for a heart valve replacement procured from Edward Lifesciences LLC at a retail price of \$32,500. This vendor offers six device categories, including the Transcatheter Heart Valve pictured here. Contracting officers in the same network contracting office made about 80 additional prosthetic purchases from this vendor totaling about \$1.5 million during FY 2015. Overall, 18 VISNs within VHA made about 1,200 prosthetic purchases from this same vendor ranging from \$3,200 to about \$1.5 million and totaling over \$13 million during FY 2015.



Source: Edward Lifesciences LLC "Heart Valves"

¹⁰VHA Directive 1081, *Procurement Process for Individual Prosthetic Appliances and Sensory Aids Devices Above the Micro-Purchase Threshold*, March 2014.

¹¹VHA Procurement and Logistics Standard Operating Procedure 160-10-01, *Procurement Process*, June 2010.

Example 2 highlights how VHA obtained significant cost savings by establishing a VHA-wide contract.

Example 2

In May 2015, an NCO contracting officer paid Smith & Nephew about \$4,300 for a total knee implant on a VHA-wide contract. Smith & Nephew's list price for the total knee implant totaled about \$11,600. The VHA-wide contract with Smith & Nephew saved VHA about \$7,300 (62.9 percent) for this item. The contract with Smith & Nephew saved from 31.4 to 89.8 percent off the list prices for various prosthetics.



*Source: Smith & Nephew
"Total Knee Implant"*

Fair and Reasonable Pricing Not Ensured

We substantiated the allegation that for some prosthetic purchases above the micro-purchase limit, VHA did not ensure fair and reasonable pricing. We estimated that NCO contracting officers did not properly obtain competitive quotes or prepare adequate price reasonableness determinations for 5,500 of 26,100 transactions.

The FAR requires contracting officers to determine that a proposed price is fair and reasonable before making an award.¹² This requirement applies to all purchases regardless of whether a requested item is available from a Government contract vehicle or as a noncontract item. When fair and reasonable pricing is not based on competitive quotes, the contracting officer is required to include a statement of price reasonableness in the contract file. Price reasonableness statements should include factors such as:

- Market research and current price lists
- Previous reasonably priced purchases
- Comparisons with similar items
- Contracting officer's personal knowledge of items purchased
- Comparisons with independent government cost estimates¹³

VHA policy requires prosthetics procurements to follow all applicable provisions of the FAR and VA Acquisition Regulation. When contracting officers receive prosthetic procurement requests, they must determine if use

¹²FAR Subpart 13.106-3(a), *Awards and documentation*, March 2005.

¹³Ibid.

of other than full and open competition or authority under Title 38 United States Code §8123 is justified.¹⁴

VHA policy also states authorization under Title 38 United States Code §8123 may be used only when prosthetics are not available for purchase on existing contracts and patients' medical needs cannot be met through the use of required sources of supplies or services and there is medical justification to support the need.¹⁵

For 16 of 78 sampled transactions made without established contracts, VHA did not ensure fair and reasonable pricing by properly obtaining competitive quotes or preparing adequate price reasonableness determinations. In addition, VHA did not use authority under Title 38 United States Code §8123. Based on the contract file documentation, NCO contracting officers did not obtain competitive quotes or prepare price reasonableness determinations for six of the 16 transactions. For the remaining 10 transactions, price reasonableness determinations occurred after contracting officers made awards. The delays between award and the fair and reasonable determination ranged from one to 211 days.

VHA management and NCOs agreed with our results for the sampled transactions. Example 3 highlights how an NCO contracting officer did not ensure fair and reasonable prices before procuring a prosthetic item.

Example 3

In September 2015, VA medical facility staff submitted a shoulder implant purchase request that did not cite the use of authority under Title 38 United States Code §8123 to the NCO. Also in September 2015, an NCO contracting officer prepared a purchase order and used a purchase card to pay for a shoulder implant from Tornier, Inc.



*Source: Tornier, Inc.
"Shoulder Implant"*

at the price of about \$15,100. The NCO contracting officer did not obtain competitive quotes or prepare a price reasonableness statement before purchasing the shoulder implant.

Prosthetic Purchases Reported in FPDS

We did not substantiate the allegation that VHA did not report prosthetic purchases above the micro-purchase limit in FPDS. We estimated VHA reported 86,200 of the 87,100 FY 2015 purchase card prosthetic procurements above the micro-purchase limit in FPDS (99 percent). For the remaining one percent of transactions, contracting officers did not report the

¹⁴VHA Directive 1081, *Procurement Process for Individual Prosthetic Appliances and Sensory Aids Devices Above the Micro-Purchase Threshold*, March 2014.

¹⁵Ibid.

procurements in VA's eCMS as required, which resulted in the omission of the transactions from FPDS. The FAR requires agencies to maintain information in FPDS for all procurements exceeding the micro-purchase limit. VHA policy requires contracting officers to record all procurements above the micro-purchase limit in eCMS.¹⁶ Contracting officers must report transactions in FPDS after awarding actions in eCMS. Since we concluded VHA reported 99 percent of purchase card transactions in FPDS and the exceptions were not systemic, we did not consider the allegation substantiated or make a recommendation to strengthen controls in this area.

Reasons VHA Did Not Leverage Its Purchasing Power

VHA did not leverage its purchasing power because it did not ensure PSAS sufficiently analyzed prosthetic purchases to identify commonly used prosthetics and work with P&LO to request the SAC establish VHA-wide or multi-VISN contracts. P&LO and PSAS also did not adequately monitor NCO procurement practices and ensure NCOs established VISN contracts for commonly used prosthetics and prepared competitive quotes and price reasonableness statements.

Insufficient Analysis of Prosthetic Purchases

PSAS did not sufficiently analyze prosthetic purchase data to identify commonly used prosthetics and identify opportunities for VHA-wide or multi-VISN contracts. PSAS responsibilities include establishing processes for providing prosthetics in the most economical and timely manner. VHA policy also requires PSAS to identify and pursue national strategic sourcing initiatives with P&LO and VA's Office of Acquisitions and Logistics. Furthermore, P&LO is responsible for overseeing acquisition activities including ensuring NCOs use acquisition strategies and methodologies to capitalize on economies of scale and facilitate VISN contracts to reduce prosthetic costs.¹⁷

The SAC, aligned under the Office of Acquisitions and Logistics, awards high-volume, multiple-award schedules; national contracts; and blanket purchase agreements for the acquisition of supplies and services. When PSAS identifies commonly used prosthetics that may provide opportunities for VHA-wide or multi-VISN contracts, PSAS should submit procurement requests to the SAC.

In June 2015, P&LO, PSAS, and the SAC established a memorandum of agreement to standardize business practices for contract management. VHA reported there were 39 contracts for prosthetic items awarded by the National Acquisition Center prior to FY 2015 that were transferred to the SAC for contract management after the memorandum of agreement was signed. VHA also reported three prosthetics contracts were awarded by the National

¹⁶VHA Directive 1081, *Procurement Process for Individual Prosthetic Appliances and Sensory Aids Devices Above the Micro-Purchase Threshold*, March 2014.

¹⁷Ibid. and VHA's Procurement and Logistics Standard Operating Procedure 160-10-01, *Procurement Process*, June 2010.

Acquisition Center during FY 2016. Although the SAC did not make any prosthetics contract awards during FY 2015, VHA reported coordination meetings took place between P&LO, PSAS, and the SAC to develop categories of prosthetic items for potential contracts. While some actions have been taken to increase prosthetics contracts, VHA should also consider the volume of transactions listed in Appendix B, to take advantage of more opportunities to leverage its buying power.

For 82 of 240 prosthetic purchase card transactions sampled, NCO contracting officers procured prosthetic items from 42 vendors without using VHA-wide, multi-VISN, or VISN contracts. For 31 of these vendors, we identified potential opportunities for VHA-wide or multi-VISN contracts. VHA made approximately 34,500 transactions totaling about \$316.4 million from these 31 vendors. Appendix B lists the 31 vendors and Table 1 shows the 10 vendors with the highest dollar amount of VHA-wide prosthetic transactions during FY 2015.

Table 1. Ten Vendors From OIG Sampled Transactions With The Highest Amounts of Non-Contract VHA-Wide Prosthetic Purchases (FY 2015)

| Vendor | FY 2015 Transactions | FY 2015 Amounts | Number of VISNs |
|--|----------------------|----------------------|-----------------|
| 1. Medtronic, Inc. | 9,545 | \$120,707,250 | 21 |
| 2. Zimmer, Inc. | 4,323 | \$27,089,108 | 21 |
| 3. Stryker Orthopedics/ Howmedica Osteonics Corp. | 2,635 | \$17,259,538 | 21 |
| 4. W.L. Gore & Associates, Inc. | 1,716 | \$16,371,431 | 21 |
| 5. Buffalo Supply, Inc. | 1,411 | \$16,216,202 | 21 |
| 6. Hanger, Inc. | 1,120 | \$13,143,176 | 19 |
| 7. Edwards Lifesciences LLC | 1,246 | \$13,098,930 | 18 |
| 8. DePuy Synthes, Inc. | 1,671 | \$12,116,725 | 17 |
| 9. Smith & Nephew plc | 2,133 | \$9,866,716 | 20 |
| 10. American Medical Depot | <u>1,202</u> | <u>\$8,283,016</u> | 21 |
| Total | 27,002 | \$254,152,092 | |

Source: OIG analysis of FY 2015 VHA-wide prosthetic purchase data

During our audit, VA initiated actions to leverage VHA purchasing power and pursue better pricing for surgical implants, which is one category of prosthetics. According to VA, the Prosthetics National Program Office hosted a strategic planning meeting where PSAS, P&LO, and the SAC

planned a strategic approach to establish VHA-wide contracts and identified the top 20 vendors that provided commonly procured surgical implants. Of these 20 vendors, 12 were included in the 38 vendors VA medical facilities used when making our sampled prosthetics transactions where VHA did not leverage its purchasing power. VHA reported the SAC plans to establish VHA-wide contracts for all 20 vendors during FY 2017.

VHA expects these contracts to provide smarter and consistent sources for VA medical facilities that lead to better value for implants. These contracts represent a significant step in leveraging VHA's purchasing power and pursuing better pricing for prosthetics. However, to further leverage VHA's purchasing power, VHA needs to proactively identify other commonly procured prosthetics and work with the SAC to establish more VHA-wide or multi-VISN contracts. As VHA takes steps to establish these types of contracts for prosthetic items, VHA should consider the volume of transactions listed in Appendix B.

*Inadequate
Monitoring of
NCO
Procurement
Practices*

P&LO and PSAS did not adequately monitor NCO procurement practices and ensure NCOs established VISN contracts for commonly used prosthetics and prepared competitive quotes and price reasonableness statements. When VHA-wide or multi-VISN contracts cannot be established, VISN contracts are the next best opportunity for leveraging VHA's purchasing power and pursuing best pricing. VHA policies state NCOs should use acquisition strategies that include VISN contracts and VISN Prosthetic Representatives (VPR) and NCO Directors should identify opportunities for VISN contracts.¹⁸

In addition, P&LO and PSAS did not monitor NCO contracting officers to ensure they completed competitive quotes or price reasonableness statements prior to making contract awards. P&LO is responsible for overseeing all activities associated with acquisition and implementation of VA acquisition policies and assisting in the development of those policies. P&LO is also responsible for monitoring procurement metrics to ensure procurement actions occur within specified time periods and in accordance with Federal and VA acquisition regulations. Therefore, P&LO should monitor NCO contracting officers to ensure the completion of competitive quotes or price reasonableness statements prior to contract awards.

P&LO and PSAS did not adequately monitor and track information on VISN prosthetic contracts, such as the number and value of contracts and the specific prosthetics available on the contracts. Therefore, P&LO and PSAS were unaware of the volume of VISN prosthetic contracts and whether the

¹⁸VHA Directive 1081, *Procurement Process for Individual Prosthetic Appliances and Sensory Aids Devices Above the Micro-Purchase Threshold*, March 2014, and VHA's Procurement and Logistics Standard Operating Procedure 160-10-01, *Procurement Process*, June 2010.

use of VISN contracts to procure prosthetics was increasing or decreasing. Because P&LO and PSAS did not adequately monitor procurement practices, they could not evaluate whether VPRs and NCOs were complying with VHA policies on establishing VISN contracts or taking appropriate action to ensure compliance.

For seven of the 38 vendors, we identified potential opportunities for VISN contracts. FY 2015 VHA-wide purchase data showed that for these seven vendors, individual VISNs made from 10 to 44 procurement transactions totaling from about \$45,200 to about \$372,600 with individual vendors instead of negotiating and establishing VISN-wide contracts. For the seven vendors combined, VHA made 160 transactions totaling about \$1.7 million during FY 2015. Table 3 in Appendix B lists the seven vendors. P&LO and PSAS should consider the volume of transactions with these seven vendors as P&LO and PSAS take actions to increase the use of VISN contracts when VHA-wide or multi-VISN contracts are not possible.

Adequate P&LO and PSAS oversight would encourage NCO Directors and VPRs to work with VA medical facilities within their VISNs to identify requirements for commonly procured prosthetic items. Further, by adequately monitoring and tracking VISN contracts for prosthetics, P&LO and PSAS could determine whether multiple VISNs had contracts for the same or similar prosthetics that could provide opportunities for pursuing VHA-wide or multi-VISN contracts to further leverage VA's purchasing power and realize larger cost savings.

Effects of Not Leveraging VHA's Purchasing Power

Because VHA did not leverage its purchasing power, VHA may have paid higher prices than necessary for an estimated \$256.7 million of prosthetic purchases above the micro-purchase limit during FY 2015. Without VHA-wide, multi-VISN, and VISN contracts, contracting officers will continue to make purchases without contracts and will miss opportunities to use economies of scale to reduce VHA prosthetic costs.

Conclusion

We did not substantiate the allegation that VHA did not report prosthetic purchases above the micro-purchase limit in FPDS. However, we substantiated allegations that VHA did not establish contracts when procuring prosthetics above the micro-purchase limit. VHA controls did not ensure purchase cardholders procured prosthetics using strategic sourcing contracts that aggregated requirements and streamlined processes in order to leverage spending to the maximum extent possible.

In addition, controls did not ensure contracting officers obtained competitive quotes or prepared price reasonableness statements before procuring prosthetics. VHA needs to strengthen controls to ensure VHA-wide, multi-VISN, and VISN contracts for prosthetics are established that leverage VHA's purchasing power. By doing so, VHA will more effectively fulfill its responsibility to spend taxpayer dollars wisely.

VHA's planning for purchasing prosthetics was not effective. To strengthen controls, VHA must ensure PSAS sufficiently analyzes prosthetic purchases to identify commonly used items and work with P&LO to request the SAC establish VHA-wide or multi-VISN contracts. In addition, P&LO must adequately monitor NCO procurement practices and ensure NCO planning divisions establish VISN contracts for commonly used prosthetics.

Recommendations

1. We recommended the Acting Under Secretary for Health require Prosthetic and Sensory Aids Service staff conduct periodic analyses of Veterans Health Administration prosthetic purchases to identify commonly used prosthetics that offer opportunities for VA's Strategic Acquisition Center to leverage purchasing power by pursuing Veterans Health Administration-wide or multi-Veterans Integrated Service Network contracts.
2. We recommended the Acting Under Secretary for Health require the Procurement and Logistics Office and Prosthetics and Sensory Aids Service to periodically monitor prosthetic procurements to ensure Veterans Integrated Service Networks and Network Contracting Offices identify and report prosthetics usage and cost data for use in developing Veterans Integrated Service Network contracts when Veterans Health Administration-wide or multi-Veterans Integrated Service Network contracts are not possible.

Management Comments

The Acting Under Secretary for Health concurred with Recommendations 1 and 2. For Recommendation 1, the Acting Under Secretary reported that beginning in 2015, PSAS, P&LO, and the SAC established a memorandum of agreement to establish standardized business practices for contract management activity related to prosthetic-specific contracts. She also reported that in January 2016, PSAS developed and implemented strategic enterprise-wide goals and processes to streamline procurement of prosthetic devices and services through implementation of an Integrated Project Team.

The Acting Under Secretary reported PSAS analyzed spending data, which resulted in contracts that standardized acquisition efficiency and leveraged VA's buying power during FY 2017. She stated PSAS continues to conduct annual and periodic analysis of spend data to assess current contract compliance and identify future contract opportunities by commodity cost and volume to leverage supply and demand. The Acting Under Secretary also reported PSAS and SAC leadership conduct recurring meetings to identify commonly used items for development of VHA-wide or multi-VISN contracts.

For Recommendation 2, the Acting Under Secretary reported that PSAS conducts quarterly calls with VISN Prosthetic Representatives to review data, including contract utilization and compliance as well as prosthetic procurements volume, timeliness, and disposition. She stated PSAS and VISN Prosthetic Representatives identify areas where VISN contracts for prosthetic commodities are the most appropriate to ensure timely access to care. She also reported PSAS and P&LO leadership have ongoing weekly meetings to monitor prosthetic procurements, contract processing and compliance, and plans for national and regional strategic acquisition. VHA requested closure of these recommendations.

OIG Response

While the Acting Under Secretary's response identified corrective actions that began during FYs 2015 and 2016, these actions were not fully effective as we substantiated allegations that VHA controls did not ensure purchase cardholders procured prosthetics using strategic sourcing contracts that leveraged VA's purchasing power.

The Acting Under Secretary's reported actions for FY 2017 were responsive to the recommendations. The OIG will review and monitor the actions VHA has taken and close these recommendations when we receive sufficient evidence demonstrating completion. Appendix G provides the full text of the Acting Under Secretary's comments.

Finding 2 VHA Medical Facility Staff Improperly Procured Prosthetics Without Authority

During the course of our audit, we identified an additional issue outside the reported allegations. VA medical facility staff improperly procured prosthetics above the micro-purchase limit without authority to enter into the purchase agreement on behalf of the Government. In FY 2015, of 87,100 VHA purchase card prosthetic transactions above the micro-purchase limit, we estimated about 53,400 (61 percent) were improper payments and unauthorized commitments.¹⁹ This occurred because VHA lacked adequate controls to ensure that only staff with contracting or delegated contracting authority procured prosthetics above the micro-purchase limit.

As a result, we estimated VHA made improper payments and unauthorized commitments totaling approximately \$520.7 million when procuring prosthetics in FY 2015.²⁰ In addition, VHA did not have reasonable assurance that taxpayer funds were used efficiently when procuring prosthetics. During our audit, VHA authorized the use of ordering officers and established pre-authorization procedures to help mitigate improper payments and unauthorized commitments associated with surgical implants. However, if VHA leadership does not ensure P&LO and PSAS implement and follow these controls along with our recommendations, they increase the risk for improper payments and unauthorized commitments totaling about \$2.6 billion over a five-year period.

Improper Procurement of Prosthetics

During FY 2015, of 87,100 VHA prosthetic purchases above the micro-purchase limit, we estimated 53,400 (61 percent) were improper payments and unauthorized commitments. For the sampled improper payments and unauthorized commitments, VA medical facilities procured prosthetic items such as surgical implants and stair lifts. The cost of the improperly procured prosthetics ranged from \$3,020 to \$32,500.

¹⁹Of the estimated 53,400 purchase card transactions that were identified as Improper Payments/Unauthorized Commitments, 16,400 were included in the 26,100 transactions discussed in Finding 1 as procured without leveraging VHA's purchasing power.

²⁰We identified 142 (valued at \$1,389,312.34) of the 240 (valued at \$2,383,775.98) statistically sampled prosthetics purchases that were unauthorized commitments. We projected the 142 unauthorized commitments to the population of 87,149 prosthetics purchases totaling \$851,652,756. As a result, we estimated VHA staff made 53,370 unauthorized commitments totaling \$520,748,367.

Improper Payments

The Office of Management and Budget Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* defines improper payments:

An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.

The estimated 53,400 purchase card transactions for prosthetics were improper since NCO contracting officers should not have made the payment because VA medical facility staff procured the prosthetics without following statutory requirements in FAR Subpart 1.6 and VA Directive 7401.7, *Unauthorized Commitments and Ratification*. The FAR states contracts may be entered into and signed on behalf of the Government only by contracting officers. Further, VA Directive 7401.7 states only appointed contracting officers, including purchase cardholders, or other authorized officials, within their level of authority, may commit VA to pay for supplies or services. VHA Directive 1081 states VA has transitioned the authority to purchase prosthetic appliances and sensory aids from the prosthetics staff to warranted contracting officers when procurement amounts are above the micro-purchase limit.²¹

To become warranted, VA policy requires contracting officers to receive specific training and VA's Deputy Senior Procurement Executive to issue the contracting officers Certificates of Appointment that describe their warrant authority and limitations. The limitations can include monetary spending limits; types of contracts they are limited to using for purchases; or the categories of purchases they are limited to, such as equipment, supplies, or services.²²

Unauthorized Commitments

For the estimated 53,400 unauthorized commitments for prosthetics, unwarranted VA medical facility staff procured the prosthetics before NCO contracting officers authorized the procurements. When unwarranted VA medical facility staff enter into agreements to purchase prosthetics, they circumvent the warranted contracting officers who are required to have the education, training, and experience to establish contracts.

FAR Subpart 1.6 defines an unauthorized commitment as an agreement that is not binding solely because the Government representative who made it lacked the authority to enter into that agreement on behalf of the

²¹VHA Directive 1081, *Procurement Process for Individual Prosthetic Appliances and Sensory Aids Devices Above the Micro-Purchase Threshold*, March 2014.

²²Veterans Affairs Acquisition Regulation 801.601 *General*; 801.690-3, *Responsibilities under the COCP* [Contracting Officer Certification Program]; and 801.690-6, *Appointment*, January 2008.

Government. Only appointed contracting officers, including purchase cardholders, or other authorized officials, within their level of authority, may commit VA to pay for supplies or services. Individuals who make unauthorized commitments circumvent the FAR and eliminate an important system of checks and balances in performing procurement functions.²³ Example 4 highlights how an unwarranted VA medical facility employee procured a vertical platform lift.

Example 4

In May 2015, a VA medical facility employee made an unauthorized commitment by obtaining a vertical platform lift for about \$6,100 from Frontier Access & Mobility Systems, Inc., without contracting officer authorization. In July 2015, an NCO contracting officer established a sole-source agreement with Frontier Access & Mobility Systems, Inc. for the vertical platform lift. The payment was improper because the VA medical facility staff did not comply with FAR and VA requirements, which only allow contracting officers to procure prosthetics above the \$3,000 micro-purchase limit. VHA management agreed the VA medical facility employee made an unauthorized commitment and the contracting office made an improper payment.



Source: Bruno Independent Living Aids, Inc. "Vertical Platform Lift"

The FAR allows Federal agencies to perform ratification actions for unauthorized commitments to protect the Government's interest. Ratification must be done by an official who has the authority to perform the action. VHA's Head of Contracting Activity has authority to ratify unauthorized commitments made by employees at VA medical facilities.²⁴ The Ratification Official must deny requests that violate public law or are an unauthorized use of appropriated funds.²⁵ Example 5 highlights how a VA medical facility employee procured knee implants and a surgeon implanted the prosthetic knees in a veteran before an NCO contracting officer authorized the procurement.

²³VHA Handbook 1730.01, *Use and Management of the Government Purchase Card Program*, August 2008.

²⁴FAR Subpart 1.6, 1.602-3, *Ratification of Unauthorized Commitments*, March 2005.

²⁵VA Handbook 7401.7, *Unauthorized Commitments and Ratification*, October 2004.

Example 5

In June 2015, an unwarranted VA medical facility employee made an unauthorized commitment by obtaining two knee implants for about \$8,000 from Tryco Incorporated, without contracting officer approval. Later, a surgeon implanted the knee implants in a veteran. After the surgery, a VA medical facility employee requested an NCO contracting officer pay Tryco Incorporated for the knee implants. VHA management agreed the VA medical facility employee made an unauthorized commitment and the contracting officer made an improper payment.



*Tryco Incorporated
"InterSpace Knee"*

Reasons for Improper Procurement of Prosthetics

VA medical facility employees improperly procured prosthetics because P&LO did not ensure VHA controls included adequate procedures to ensure only staff with contracting or delegated authority procure prosthetics above the micro-purchase limit.

Inadequate Procedures

VHA controls did not include adequate procedures to ensure only authorized staff procure prosthetics above the micro-purchase limit. VA policy allows only authorized warranted contracting officers or designated individuals to obligate and procure prosthetics above the micro-purchase limit.²⁶ VHA procurement procedures require VA medical facility staff to plan prosthetic procurements and submit purchase requests to contracting officers with adequate lead-time to ensure prosthetics are available when needed by clinicians. VA policy requires staff to submit all prosthetics requests for items above the micro-purchase limit to NCO contracting officers for procurement. This includes emergency requests for prosthetic items that are needed within 24 hours to treat conditions directly threatening the life or health of a patient and are not in VA medical facility inventories.²⁷

Despite these procedures, we estimated 53,400 of 87,100 VHA prosthetic purchase card transactions above the micro-purchase limit (61 percent) during FY 2015 were made by VA medical facility staff without authority and before contracting officers were requested to establish contracts for the procurements. VHA officials recognized VHA needed to revise procurement procedures to prevent improper payments and unauthorized commitments more effectively.

²⁶VHA Handbook 1730.01, *Use and Management of the Government Purchase Card Program*, August 2008.

²⁷VHA Directive 1081, *Procurement Process for Individual Prosthetic Appliances and Sensory Aids Devices Above the Micro-Purchase Threshold*, March 2014, and VHA's Procurement and Logistics Standard Operating Procedure 160-10-01, *Procurement Process*, June 2010.

In April 2016, VA established procedures standardizing the use of ordering officers who have authority to place orders within the limits established in contracts or agreements.²⁸ Supervisors may nominate VA medical facility staff to become ordering officers via appointment letters detailing the limitations of delegated authority, such as the contract or agreement number, contract-specific ordering procedures, and dollar value and other order limitations. Contracting officers responsible for the contract or agreement will sign the appointment letters and provide contractors the names of the ordering officers.

VHA's National Director, PSAS, planned to have ordering officer procedures for prosthetics established at all VA medical facilities during FY 2017. Consistent compliance with these procedures could help prevent improper payments and unauthorized commitments when ordering officers procure prosthetics from established contracts. However, when VHA does not use contracts to procure prosthetics, these procedures may not prevent improper payments and unauthorized commitments because ordering officers can only place orders against contracts.

In March 2016, VHA established pre-authorization procedures for procuring implants.²⁹ The procedures require warranted contracting officers to pre-authorize implant procurements over the \$3,500 micro-purchase limit before clinical staff use implants to treat veterans.

These procedures will address improper payments and unauthorized commitments for implants. However, VHA should also evaluate the current controls designed to prevent improper payments and unauthorized commitments for non-implant prosthetics procured above the micro-purchase limit. Furthermore, to ensure the effectiveness of these controls, VHA should conduct annual reviews to evaluate compliance with the procedures established in March and April 2016 in addition to the requirements established in VHA Directive 1081.

**Effect of
Improper
Procurement
of Prosthetics**

As a result, we estimated VHA made improper payments and unauthorized commitments totaling approximately \$520.7 million when procuring prosthetics during FY 2015. In addition, VHA did not use taxpayer funds efficiently when procuring prosthetics. Due to the volume of estimated unauthorized commitments, VA needs to conduct a special review to identify FYs 2015 and 2016 prosthetic procurements made by VA medical facility staff without appropriate warrant authority. VA should also perform ratification actions, and consider holding cardholders and their approving officials accountable for unauthorized commitments, as appropriate.

²⁸VA Procurement Policy Memorandum 2016-02, *VA-Wide Procedures Regarding the Use of Ordering Officers*, April 2016.

²⁹VHA Memorandum, *Implementation of the Implant Pre-authorization Process*, March 2016.

During our audit, VHA authorized the use of ordering officers and established pre-authorization procedures to help mitigate improper payments and unauthorized commitments associated with surgical implants. However, if VHA does not ensure P&LO and PSAS implement and follow these controls along with our recommendations, VHA increases the risk for improper payments and unauthorized commitments totaling about \$2.6 billion over a five-year period.

Conclusion

VHA controls did not prevent VA medical facility staff from improperly procuring prosthetics above the micro-purchase limit without authority to enter into purchase agreements on behalf of the Government. By strengthening controls, VHA can help prevent improper payments and unauthorized commitments. VHA's unauthorized commitments circumvented the FAR and VA Acquisition Regulation and eliminated an important system of checks and balances.

By identifying unauthorized commitments made by VA medical facility staff, performing individual ratification actions, and taking steps to prevent future unauthorized commitments, VHA can provide reasonable assurance that resources are properly used to provide services to veterans. VHA employees have a fundamental responsibility to be effective stewards of taxpayer resources and to safeguard those resources against improper payments and unauthorized commitments.

Recommendations

3. We recommended the Acting Under Secretary for Health require the Procurement and Logistics Office to review fiscal years 2015 and 2016 prosthetic purchase card transactions above the micro-purchase limit and submit identified unauthorized commitments to Heads of Contracting Activities for ratification actions.
4. We recommended the Acting Under Secretary for Health direct Heads of Contracting Activities to perform ratification actions for unauthorized commitments identified by the Procurement and Logistics Office review of fiscal years 2015 and 2016 prosthetic purchase card transactions above the micro-purchase limit and consider holding cardholders and their approving officials accountable for unauthorized commitments, as appropriate.
5. We recommended the Acting Under Secretary for Health require the Procurement and Logistics Office to develop a process for conducting periodic reviews to evaluate compliance with the requirements of VHA Directive 1081, VA Procurement Policy Memorandum 2016-02, and the Veterans Health Administration's Memorandum, *Implementation of the Implant Pre-authorization Process*.

**Management
Comments**

The Acting Under Secretary for Health concurred with Recommendation 5 and concurred in principle with Recommendations 3 and 4. For Recommendations 3 and 4, the Acting Under Secretary acknowledged that VHA's accepted practice in place during FY 2015 and part of FY 2016 resulted in unauthorized commitments. She reported that contracting officers paid for implant orders only after they received a documented bona fide need and written assurance of funds.

The contracting officers then made a determination regarding whether prices were fair and reasonable and awarded a written purchase order to document the binding contract. She further stated these are the same steps required by the FAR to ratify an unauthorized commitment. The Acting Under Secretary noted the payments were made with implied approval from the Heads of Contracting Activity, and therefore, she believes taking the additional step of obtaining written approval to ratify from the Head of Contracting Activity would not provide benefit or monetary savings.

The Acting Under Secretary also reported that in 2016, VHA implemented a pre-authorization process to correct the root cause of unauthorized commitments. She reported VHA began the pre-authorization process in April 2016 and achieved full implementation of the process in November 2016. Since November 2016, VHA Heads of Contracting Activity have ratified any unauthorized commitments for implants before contracting officers pay the vendor.

The Acting Under Secretary also reported that VHA considered holding cardholders and their approving officials accountable for the identified unauthorized commitments. However, because prior to November 2016 the P&LO implicitly allowed warranted cardholders to pay for implant purchases without performing ratification, action will not be taken to hold cardholders and approving officials accountable. She further stated their noncompliant practice is now expressly prohibited and warranted cardholders and approving officials seek Head of Contracting Activity ratification approval before paying vendors.

For Recommendation 5, the Acting Under Secretary reported VHA's Procurement Audit Office carried out a review of prosthetics purchasing, which included reviewing compliance with Directive 1081 in FY 2016. In April 2016, VHA added monitoring implementation of the implant pre-authorization process to the weekly joint meeting agenda. The weekly meeting attendees review the PSAS dashboard that shows progress towards implementation of the pre-authorization process. VHA submitted the link to the dashboard they use to monitor the implant pre-authorization process to OIG for evidence of compliance. VHA requested closure of these recommendations.

OIG Response

For Recommendations 3 and 4, the OIG continues to assert VHA should address its failure to ratify unauthorized commitments in accordance with the FAR and the VA Acquisition Regulation. We will close these recommendations when VHA provides a legal opinion from the Office of General Counsel specific to the identified procurements we reported on stating that ratification pursuant to applicable regulations is not required.

The Acting Under Secretary for Health's reported actions are responsive for Recommendation 5. The OIG reviewed documentation and information submitted by the Acting Under Secretary for Health. VHA provided documentation demonstrating staff conducted a periodic review of prosthetics purchasing during FY 2016. However, we could not access the link provided to us in order to verify that VHA monitors the implant pre-authorization process. The OIG will close this recommendation when we receive sufficient evidence demonstrating that VHA monitors the implant pre-authorization process. Appendix G provides the full text of the Acting Under Secretary for Health's comments.

Appendix A Background

VHA Definition of Prosthetics

VHA defines prosthetics as any device that supports or replaces the loss of a body part or function. These include items that are wearable, such as artificial limbs and hearing aids; improve accessibility, such as ramps and vehicle modifications; and surgical implants, such as hips and pacemakers.

VHA's broad definition of prosthetics also includes such items as sensory aids, stump socks, hearing aid batteries, cosmetic restorations, medical accessories, dental prostheses supplies, and raw materials used in the fabrication or repair of such items.

Prosthetic and Sensory Aids Service

PSAS is a VHA program office that provides comprehensive support to optimize the health and independence of veterans. PSAS coordinates the provision of prosthetic equipment, sensory aids, and devices in the most economical manner and in accordance with laws, regulations, and policies. PSAS also provides subject matter expertise to VHA Network Medical Center Directors on national program issues related to prosthetic services.

Contracting Officer Responsibilities

The FAR requires contracting officers to ensure compliance with the terms of contracts and safeguard the interests of the Government in contractual relationships. The VA Acquisition Regulation allows contracting officers to delegate another Government employee as a contracting officer's technical representative who can perform functions such as inspecting and certifying compliance with the requirements of contracts.

eCMS

VA's eCMS is a centralized web-based system for procurement actions that replaced a primarily manual and paper-based contract management operation. The system is intended to provide a seamless flow of information from stakeholders and agency systems throughout the life-cycle of procurements. For reporting purposes, eCMS has a direct interface with FPDS with the capability of reporting procurement actions individually or consolidating multiple orders via Express Reporting.

FPDS

FPDS is a system for collecting, developing, and disseminating procurement data to Congress, the Executive Branch, and the private sector. Executive departments and agencies are responsible for collecting and reporting data to FPDS as required by the FAR. The Office of Federal Procurement Policy requires that each department and agency certify annually that all data within FPDS are valid and complete. Contracting offices must submit complete and accurate data on contract actions to FPDS within three workdays after contract award. VA's eCMS is one method of reporting to FPDS.

**Related Prior
OIG Report**

In March 2012, the OIG report *Audit of VHA Management and Acquisition of Prosthetic Limbs*³⁰ found that overpayments for prosthetic limbs were a systemic issue at each of VHA's 21 VISNs. Furthermore, VHA's prosthetic acquisition practices were not effective because of internal control weaknesses in prosthetic limb payments. Due to these weaknesses, VHA overpaid about \$2.2 million in FY 2010 to procure prosthetic limbs.

VHA also did not receive the best prices for about \$49.3 million spent in FY 2010 to procure prosthetic limbs. Specifically, VISN contracting officers were not negotiating for better discount rates with vendors and VHA purchased some items without specific pricing guidance. The OIG recommended the then-Under Secretary for Health improve VHA's management and acquisition practices used to procure prosthetic limbs. The Under Secretary for Health concurred with the audit findings and recommendations and submitted action plans to address the recommendations. The OIG closed all recommendations as of August 27, 2014 after VA provided evidence it implemented the action plans.

In May 2014, the OIG report *Review of VA's Alleged Unauthorized Commitments*³¹ found that VA purchase cardholders made unauthorized commitments and VA had not performed individual ratification actions. The OIG estimated during FYs 2012 and 2013, VA made about 15,600 potential unauthorized commitments valued at approximately \$85.6 million, which required ratification actions. Furthermore, VA bundled thousands of unauthorized commitments made with a Pharmaceutical Prime Vendor instead of performing individual ratification actions for each unauthorized commitment.

The OIG recommended the Executive in Charge, Office of Management and Chief Financial Officer, review FYs 2012 and 2013 purchase card transactions and submit identified unauthorized commitments for ratification. We also recommended the Principal Executive Director, Office of Acquisition, Logistics, and Construction, maintain an accurate database of warranted contracting officers and limit institutional ratifications. The Executive in Charge, Office of Management and Chief Financial Officer, and the Principal Executive Director, Office of Acquisition, Logistics, and Construction, concurred with the review findings and recommendations and submitted action plans to address the recommendations. OIG closed all recommendations as of April 7, 2015 after VA provided evidence it implemented the action plans.

³⁰ Report No. 11-02254-102, March 8, 2012.

³¹ Report No. 13-00991-154, May 21, 2014.

Appendix B Vendors VHA Used Without Contracts To Leverage Purchasing Power and Pursue Best Pricing

OIG-Identified Vendors

During our review of 240 statistically sampled prosthetic purchase card transactions above the micro-purchase limit, we identified 38 vendors that VA medical facilities used to make prosthetics procurements without establishing contracts to leverage VHA's purchasing power and pursue best pricing. To evaluate and identify opportunities for establishing or extending VHA-wide, multi-VISN, or VISN contracts for prosthetics, we performed data mining to determine the amount of prosthetic transactions VHA made with these vendors during FY 2015.

VHA policy requires NCOs to request VA medical facility directors report on a quarterly basis any known requirements that may exceed \$25,000 and use acquisition strategies and methodologies to capitalize on economies of scale to reduce acquisition costs.³² For the 38 vendors, the amount of VHA prosthetic transactions exceeded \$25,000 during FY 2015 and provided contracting opportunities. We compared these vendors with the top 20 vendors that PSAS identified by evaluating the dollar value of implant procurements during FY 2015 and found only 12 vendors were included in the 38 vendors we identified. Table 2 shows the FY 2015 prosthetic transactions and dollar amounts for 12 prosthetic vendors that were in VHA's top 20 implant vendors and identified by the OIG as providing opportunities for VHA-wide and multi-VISN prosthetics contracts.

³²VHA's Procurement and Logistics Standard Operating Procedure 160-10-01, Procurement Process, June 2010.

Table 2. Vendors PSAS and the OIG Identified as Providing Opportunities for VHA-Wide Prosthetics Contracts During FY 2015

| Vendor | Transactions | Amounts | Number of VISNs |
|--|---------------|----------------------|-----------------|
| 1. Medtronic, Inc. | 9,545 | \$120,707,250 | 21 |
| 2. Zimmer, Inc. | 4,323 | \$27,089,108 | 21 |
| 3. Stryker Orthopedics/ Howmedica Osteonics Corp. | 2,635 | \$17,259,538 | 21 |
| 4. W.L. Gore & Associates, Inc. | 1,716 | \$16,371,431 | 21 |
| 5. Buffalo Supply, Inc. | 1,411 | \$16,216,202 | 21 |
| 6. Edwards Lifesciences LLC | 1,246 | \$13,098,930 | 18 |
| 7. DePuy Synthes, Inc. | 1,671 | \$12,116,725 | 17 |
| 8. Smith & Nephew plc | 2,133 | \$9,866,716 | 20 |
| 9. American Medical Depot | 1,202 | \$8,283,016 | 21 |
| 10. Cook Medical Inc. | 800 | \$7,925,651 | 21 |
| 11. Endologix, Inc. | 309 | \$5,076,150 | 21 |
| 12. Academy Medical, LLC | <u>827</u> | <u>\$4,823,385</u> | 21 |
| Totals | 27,818 | \$258,834,102 | |

Source: OIG analysis of FY 2015 VHA-wide prosthetics purchase data

Table 3 shows the other 26 of 38 vendors the OIG identified as providing opportunities for VHA-wide, multi-VISN, or VISN contracts for prosthetics.

Table 3. Additional Vendors OIG Identified as Providing Opportunities for Prosthetics Contracts During FY 2015

| Vendor | Transactions | Amounts | Number of VISNs |
|---|---------------|----------------------|-----------------|
| Table 2 Totals | 27,818 | \$258,834,102 | |
| 13. Hanger, Inc. | 1,120 | \$13,143,176 | 19 |
| 14. Invacare Corporation | 689 | \$6,803,320 | 21 |
| 15. Geo-Med, LLC | 896 | \$5,982,332 | 21 |
| 16. Dynavox | 381 | \$4,641,054 | 21 |
| 17. Tryco Inc. | 550 | \$4,596,286 | 21 |
| 18. Exatech, Inc. | 238 | \$3,181,032 | 16 |
| 19. TiSport, LLC | 719 | \$2,718,188 | 21 |
| 20. Tornier, Inc. | 187 | \$2,628,183 | 16 |
| 21. Veterans Healthcare Supply Solutions | 201 | \$2,479,510 | 9 |
| 22. Integra Lifesciences Corporation | 352 | \$2,215,450 | 21 |
| 23. Cochlear Ltd. | 310 | \$2,113,734 | 21 |
| 24. Wright Medical Group N.V. | 277 | \$1,820,643 | 20 |
| 25. Arthrex, Inc. | 281 | \$1,505,582 | 21 |
| 26. Musculoskeletal Transplant Foundation | 242 | \$1,381,841 | 17 |
| 27. Trivascular, Inc. | 57 | \$1,035,375 | 12 |
| 28. Scott Sabolich Prosthetics & Research | 65 | \$895,129 | 6 |
| 29. Biocompatibles, Inc. | 52 | \$196,566 | 9 |
| 30. Aspen Seating Clinic | 37 | \$176,954 | 9 |
| 31. Janus Development Group, Inc. | <u>23</u> | <u>\$91,300</u> | 11 |
| Subtotals – VHA-Wide or Multi-VISN | 34,495 | \$316,439,756 | |
| 32. Ability Prosthetics and Orthotics | 35 | \$372,606 | 1 |
| 33. Hill Country Mobility LLC. | 44 | \$353,551 | 1 |

| Vendor | Transactions | Amounts | Number of VISNs |
|--|---------------------|---------------------------|------------------------|
| 34. Alamo Mobility | 16 | \$339,341 | 1 |
| 35. J.F. Rowley Prosthetic & Orthotic Laboratory, Inc. | 24 | \$317,994 | 1 |
| 36. Mobility Store & More | 19 | \$172,455 | 1 |
| 37. Abilities in Motion | 10 | \$125,314 | 1 |
| 38. Lions Eye Institute for Transplant & Research | <u>12</u> | <u>\$45,159</u> | 1 |
| Subtotals – VISN | <u>160</u> | <u>\$1,726,420</u> | |
| Totals | 34,655 | \$318,166,176 | |

Source: VA OIG in consultation with Office of Audits and Evaluation from VistA data

Appendix C Scope and Methodology

Scope

We conducted our audit work from January 2016 to July 2017. The audit covered a population of 87,100 prosthetic purchase card transactions above the \$3,000 micro-purchase limit, totaling approximately \$851.7 million during FY 2015 (October 2014 through September 2015).³³ The audit determined if VHA controls ensured purchase cardholders used adequate contracts to procure prosthetics above the \$3,000 micro-purchase limit. The audit did not determine the dollar amount VHA could save by establishing adequate contracts. We conducted audit work at VA's Central Office in Washington, DC. In addition, Table 4 shows the eight NCOs we audited during site visits and the associated eight VA medical facilities we statistically sampled from a total of 143 medical facilities.³⁴

Table 4. NCOs Visited and Sampled VA Medical Facilities

| NCO | Sampled VA Medical Facility |
|----------------------------|---|
| NCO 8 Tampa, FL | Malcom Randall VA Medical Center Gainesville, FL |
| NCO 16 Ridgeland, MS | Oklahoma City VA Medical Center Oklahoma City, OK |
| NCO 17 Duncanville, TX | Audie L. Murphy VA Hospital San Antonio, TX |
| NCO 21 Sacramento, CA | VA Sierra Nevada Health Care System Reno, NV |
| NCO 10 Cincinnati, OH | Cincinnati VA Medical Center Cincinnati, OH |
| NCO 11 Indianapolis, IN | Richard L. Roudebush Medical Center Indianapolis, IN |
| NCO 19 Glendale, CO | Cheyenne VA Medical Center Cheyenne, WY |
| NCO 23 Minneapolis, MN | Omaha VA Medical Center Nebraska-Western Iowa, NE |

Source: Office of Audits and Evaluations statistician

³³Effective October 1, 2015, FAR Part 2, Subpart 2.1, February 1, 2016 increased the goods micro-purchase limit to \$3,500.

³⁴Although our sample transactions were statistically chosen by individual medical facilities, we conducted site visits only at the NCOs responsible for processing the transactions.

Methodology

To accomplish the audit objective, we reviewed applicable regulations, VA and VHA policies, procedures, directives, and handbooks. We also interviewed VA Office of Acquisition and Logistics executives, VHA P&LO and PSAS executives, and a Strategic Acquisition Office executive. Furthermore, we interviewed VPRs; NCO Directors of Contracting, Prosthetic Procurement Leads, and contracting officers; and PSAS managers and staff for the eight sampled VA medical facilities.

We used statistical sampling to select 30 prosthetic purchase card transactions from each of the eight sampled VA medical facilities for a total of 240 transactions from the population of 87,100 prosthetic purchases above the \$3,000 micro-purchase limit during FY 2015. Appendix D provides more details on the statistical sampling methodology.

For the sample purchase card transactions, we reviewed eCMS and FPDS procurement data, contracts, purchase orders, prosthetics procurement requests, invoices, cardholder warrants, and other available supporting documentation. We also reviewed available warrant information in VA's electronic Certification System for cardholders who made purchase card transactions. We discussed the results of our review of sampled transactions with a PSAS executive and NCO management.

Fraud Assessment

The audit team assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur. The audit team exercised due diligence in staying alert to any fraud indicators by taking actions, such as asking NCO contracting officers if they were aware of any fraud or abuse and analyzing sampled prosthetic transactions for anything out of the ordinary or not satisfactorily explained. The audit team also determined if required documentation was lacking, altered, or did not exist. We did not identify any instances of potential fraud during the audit.

Data Reliability

We used computer-processed data from VA's Veterans Health Information Systems and Technology Architecture, eCMS, FPDS, and the electronic Certification System during the audit. To assess the reliability of these data, we compared selected data elements, such as purchase cardholder and vendor names, contract and purchase order numbers, dates, and amounts to hard copy documentation such as purchase orders, warrants, and prosthetic procurement request documents. We found no significant discrepancies and concluded the computer-processed data were sufficiently reliable to accomplish the audit objective.

Government Standards

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

Appendix D Statistical Sampling Methodology

Approach To accomplish the audit objective, we reviewed a statistical sample of prosthetics purchase card transactions above the \$3,000 micro-purchase limit.³⁵ We used statistical sampling to quantify the extent of purchase card transactions where VHA did not pursue best pricing and ensure fair and reasonable prices or made improper payments and unauthorized commitments.

Population The audit population included 88,328 prosthetic purchases totaling \$863,281,948 million above the micro-purchase limit made by cardholders from FY 2015. For our audit, we reduced the population to 87,149 prosthetic purchases totaling \$851,652,756 million. We excluded an estimated 1,200 transactions that were used to correct erroneous transactions.

Sampling Design We divided the universe of transactions into three strata. The first stratum included VA medical facilities with total prosthetic purchases above the FY 2015 micro-purchase limit but below \$10 million. The second stratum included VA medical facilities with total purchases from \$10 million up to \$20 million. The third stratum included VA medical facilities with total purchases greater than \$20 million. We selected a statistical sample of eight of 143 VA medical facilities—three VA medical facilities from both the first and second strata and two VA medical facilities from the third strata. Furthermore, we selected a statistical sample of 30 transactions from each of the eight VA medical facilities for a total of 240 transactions. Table 5 shows the details of our statistical sampling.

Table 5. Stratified Population of Prosthetic Transactions Above \$3,000 (FY 2015)

| Strata – VA Medical Facility Total Prosthetic Purchases (in Millions) | Sampled VA Medical Facilities | Sampled Purchases | Transactions | Amounts |
|---|-------------------------------|-------------------|---------------|----------------------|
| Below \$10 | 3 | 90 | 33,048 | \$310,367,458 |
| From \$10 Up to \$20 | 3 | 90 | 42,325 | \$417,353,359 |
| Greater Than \$20 | 2 | 60 | 12,955 | \$135,561,131 |
| Totals | 8 | 240 | 88,328 | \$863,281,948 |

Source: Office of Audits and Evaluations statistician

³⁵Effective October 1, 2015, FAR Part 2, Subpart 2.1, February 1, 2016 increased the goods micro-purchase limit to \$3,500.

Weights

We calculated estimates in this report using weighted sample data. Sampling weights were computed by taking the product of the inverse of the probabilities of selection at each stage of sampling.

Projections and Margins of Error

The margins of error and confidence intervals are indicators of the precision of the estimates. If we repeated this audit with multiple samples, the confidence intervals would differ for each sample, but would include the true population value 90 percent of the time. For example, we are 90 percent confident the true universe of micro-purchases transactions, where VHA did not leverage its purchasing power, is between 21,363 and 30,881. For our audit results, we used the estimates of the 90 percent confidence interval. Table 6 presents our projections over the entire population, including the estimate, margin of error, lower 90 percent value, and upper 90 percent value.

Table 6. Statistical Projections

| Description | Sample Results | Estimates | Margin of Error | Lower 90 Percent | Upper 90 Percent |
|---|----------------|---------------|-----------------|------------------|------------------|
| Purchasing Power Not Leveraged | | | | | |
| Transactions | 77 | 26,122 | 4,759 | 21,363 | 30,881 |
| Amounts | \$785,516 | \$256,682,892 | \$46,688,423 | \$209,994,469 | \$303,371,315 |
| Percent | 32.1 | 30.0 | 5.5 | 24.5 | 35.4 |
| Fair and Reasonable Pricing Not Ensured | | | | | |
| Transactions | 15 | 5,537 | 2,609 | 2,928 | 8,146 |
| Amounts | \$124,190 | \$54,211,830 | \$25,602,089 | \$28,609,742 | \$79,813,919 |
| Percent | 6.3 | 6.4 | 3.0 | 3.4 | 9.4 |
| Improper Payments/Unauthorized Commitments | | | | | |
| Transactions | 142 | 53,370 | 5,159 | 48,211 | 58,529 |
| Amounts | \$1,389,312 | \$520,748,367 | \$50,573,502 | \$470,174,865 | \$571,321,869 |
| Percent | 59.2 | 61.2 | 5.9 | 55.4 | 67.1 |
| FPDS Reported | | | | | |
| Transactions | 238 | 86,242 | 1,740 | 84,503 | 87,982 |
| Amounts | \$2,373,956 | \$824,588,584 | \$17,188,139 | \$825,400,445 | \$859,776,723 |
| Percent | 99.2 | 99.0 | 1.4 | 97.6 | 100.3 |

Source: Office of Audits and Evaluations statistician

VHA's controls did not prevent purchase cardholders from making improper payments and unauthorized commitments when procuring prosthetics during

FY 2015. We projected VHA made improper payments and unauthorized commitments totaling \$520,748,367. VHA planned to implement some corrective actions including establishing procedures standardizing the use of ordering officials with authority to place orders from contracts and pre-authorization procedures for procuring implants by the end of FY 2017.

Appendix E VHA Procurement Responsibilities

| Office | Responsibilities |
|---|---|
| VHA Procurement | |
| VHA Procurement and Logistics Office | Provides ongoing logistics liaison support among the VISNs, VHA Central Office, and Office of Acquisition and Logistics. In addition, provides guidance to all VHA facilities in all areas of logistics, including issuing implementation regulations, monitoring compliance with directives, collecting and reporting usage and cost data, and forming strategies to improve logistics operations. |
| Service Area Offices | Ensure NCOs in their region procure prosthetic appliances and sensory aids in accordance with FAR, VA Acquisition Regulation, and 38 United States Code §8123 as applicable. |
| NCO Director | Ensures contracting officers assigned to their office comply with FAR, VA Acquisition Regulation guidance, or Title 38 U.S.C. §8123, as applicable. Works closely with VPRs to ensure prosthetic appliances and sensory aids are procured in accordance with the level of urgency associated with the request and that the requestor is using the appropriate level of urgency. |
| NCO Contracting Officer | Ensures clinician's prescriptions adequately support use of sole-source authority. Determines the best method to procure the prosthetic appliance or sensory aid required by the prescription when using other than full and open competition is required, citing the FAR. |
| VHA Prosthetic and Sensory Aids | |
| Chief Consultant, Rehabilitation and Prosthetic Service | Establishes all PSAS performance metrics and establishes and improves processes for providing prescribed and clinically appropriate, state-of-the-art prosthetic devices, sensory aids, and equipment in the most economical and timely manner. |
| National Program Director, Prosthetics and Sensory Aids Service | Collaborates with VHA's P&LO and the VA Office of Acquisition and Logistics to identify and pursue national strategic sourcing initiatives for prosthetic devices and sensory aids. Maintains a system of information management for procurement requests. Aligns standards of care and clinical practices and PSAS purchasing. |
| VISN Director | Oversees VPRs and Medical Center Directors, and shares in the responsibility of prosthetic's activity oversight and ensuring performance measures related to the acquisition and delivery of prosthetic items are being met. Works closely with the NCO Directors of Contracting and VPRs to ensure coordination and prioritization of prosthetic acquisition activity. |
| VISN Prosthetic Representative | Monitors compliance of all prosthetic transactions in the VISN. Collaborates with the NCO Director of Contracting to identify opportunities for local and regional contracts to limit the need for using 38 U.S.C. §8123 as the cited authority to procure items with other than full and open competition. |

Appendix F Potential Monetary Benefits in Accordance With Inspector General Act Amendments

| Recommendations | Explanation of Benefits | Better Use of Funds | Questioned Costs |
|-----------------|---|-----------------------------|------------------------|
| 5 | Improper payments based on prosthetic purchase card transactions above the micro-purchase limit in FY 2015. | \$0 | \$520.7 million |
| 5 | Potential improper payments over a five-year period if corrective actions are not taken to ensure only authorized staff procure prosthetics above the micro-purchase limit. | \$2.6 billion ³⁶ | \$0 |
| Total | | \$2.6 billion | \$520.7 million |

³⁶ We identified 142 (valued at \$1,389,312.34) of the 240 (valued at \$2,383,775.98) statistically sampled prosthetics purchases that were unauthorized commitments. We projected the 142 unauthorized commitments to the population of 87,149 prosthetics purchases totaling \$851,652,756. As a result, we estimated VHA staff made 53,370 unauthorized commitments totaling \$520,748,367. If VHA does not ensure P&LO and PSAS implement the initiated controls and our recommendations, they increase the risk of improper payments and unauthorized commitments totaling about \$2.6 billion over a five-year period (FYs 2016–2020).

Appendix G Management Comments

Department of Veterans Affairs Memorandum

Date: September 06, 2017

From: Acting Under Secretary for Health (10)

Subj: OIG Draft Report, Audit of Purchase Card Use to Procure Prosthetics (VAIQ 7819976)

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

1. Thank you for the opportunity to review the Office of Inspector General (OIG) draft report, Audit of Purchase Card Use to Procure Prosthetics. I concur with recommendations 1, 2, and 5 and concur in principle with recommendations 3 and 4. I provide the attached action plan to address these recommendations.

2. The Department of Veterans Affairs (VA) appreciates OIG's review of our prosthetics purchasing program. We are pleased to report fundamental changes to our purchasing process since this inquiry began in fiscal year (FY) 2015. We acknowledge that in FY 2015, item pricing varied by location even though each price was determined to be fair and reasonable by a warranted contracting officer. The Veterans Health Administration (VHA) Procurement and Logistics Office (P&LO) corrected this in September 2016, by awarding contracts to the Top 20 vendors at enterprise-wide discounts. With respect to prosthetic purchases that were awarded, delivered, and paid for in FY 2015 and FY 2016, VHA determined at the time of payment that each purchase was a bona fide need and the invoiced price was fair and reasonable. Therefore, P&LO will not devote resources to ratify unauthorized commitments two years after payment. Since April 2016, to fully comply with the Federal Acquisition Regulation, VHA established additional internal controls on new purchases.

3. VHA's Prosthetic and Sensory Aids Service (PSAS) provides medically appropriate equipment, supplies, and services that optimize Veteran health and independence. PSAS served 3.3 million Veterans in FY 2016 which represents 51 percent of all unique Veterans treated by VHA. PSAS is committed to ensuring devices and services for Veterans are strategically sourced and consistent with Veterans' needs.

4. PSAS utilizes national acquisition strategies to leverage economies of scale to ensure Veterans and the government are getting high quality prosthetics at the best value. PSAS worked collaboratively with the Strategic Acquisition Center (SAC) to establish better value national contracts with top implant vendors that ensure competitive pricing with standardized and consistent terms and conditions. VA awarded \$400 million in FY 2017 for PSAS items that comprise the greatest demand across VHA.

5. In FY 2016, VHA identified significant risk of improper payments in the prosthetics program. In compliance with improper payments legislation, VA formally assessed the risk of improper payments and reported its determination of high risk in its November 2016 Agency Financial Report (AFR), located at the following website: <https://www.va.gov/finance/docs/afr/2016VAafrFullWeb.pdf>. In FY 2017, VHA began valid statistical testing of FY 2016 payments to report projected improper payments in the FY 2017 AFR. PSAS streamlined procurement procedures to eliminate unauthorized commitments and reduce improper payments while ensuring compliance with Federal Acquisition Regulation. VHA continued to work to address the root causes of improper payments in FY 2016 and completed implementation of new processes in early FY 2017. As such, while program and procurement officials are confident that the processes in place now correct the issues identified in the OIG report, VA will report improper payments for prosthetics in FY 2017 which were based on processes in place during FY 2016.

6. PSAS is deploying the Advanced Prosthetics Acquisition Tool (APAT) nationally, a software program that enables PSAS to operate as a high performing network that integrates and upgrades multiple national VA software programs, consolidates processes and documentation, and permits enterprise level access to patient prosthetic activity.

If you have any questions, please email Karen Rasmussen, M.D., Director, Management Review Service at VHA10E1DMRSAction@va.gov.

(original Signed by)

Poonam Alaigh, M.D.

Attachments

For accessibility, the format of all the original documents in this appendix has been modified to fit in this document.

**VETERANS HEALTH ADMINISTRATION (VHA)
Audit of Purchase Card Use to Procure Prosthetics
Draft Report Responses**

Recommendation 1: We recommended the Acting Under Secretary for Health require Prosthetic and Sensory Aids Service conduct periodic analyses of Veterans Health Administration prosthetic purchases to identify commonly used prosthetics that offer opportunities for VA's Strategic Acquisition Center to leverage Veterans Health Administration's purchasing power by pursuing Veterans Health Administration-wide or multi-Veterans Integrated Service Network contracts.

VHA Comments: Concur.

Beginning in 2015, the Veterans Health Administration's (VHA) Prosthetic and Sensory Aids Service (PSAS) and Procurement and Logistics Office (P&LO) identified areas for improvement and developed and implemented corrective actions, to include:

PSAS, P&LO and the Strategic Acquisition Center (SAC) established a memorandum of agreement (MOA), dated June 9, 2015, to establish standardized business practices for contract management activity related to prosthetic-specific contracts. The MOA defined the transition and primary responsibility of prosthetic contracting activity from the National Acquisition Center to the SAC, which included procurement and spend analysis, procurement planning, and project identification and management.

In January 2016, PSAS developed and implemented strategic enterprise-wide goals and processes to streamline procurement of prosthetic devices and services through implementation of an Integrated Project Team (IPT) which:

- a. reduced unauthorized commitments and achieved Federal Acquisition Regulation compliance through implementation of the pre-authorization process;
- b. rectified material weakness findings in Improper Payments Elimination and Recovery Act and the Department's annual Financial Statement of Assurance related to implant procurement; and
- c. established national contracts with the top implant vendors based on fiscal year (FY) 2015 spend analysis. Sole-source contracts were awarded to 18 implant vendors by December 2016. These implant contracts provide better value to VA by ensuring better pricing and standard and consistent terms and conditions.

In FY 2016, PSAS worked collaboratively with the SAC on contractual procurement and awarded \$400 million in FY 2017 for PSAS items that comprise the greatest demand across VHA. The contracts will continue to standardize acquisition efficiency and leverage VA's buying power to procure these items at lower cost while maintaining high quality.

In FY 2017, PSAS analyzed spend data, resulting in pursuit of several national and regional contracts, such as Continuous Positive Airway Pressure (C-Pap), wheelchairs, and artificial limb/ components. PSAS continues to conduct annual and periodic analysis of spend data to assess current contract compliance and identify future contract opportunities by commodity cost and volume to leverage supply and demand.

PSAS and SAC leadership have ongoing weekly meetings to discuss current contract progress and newly identified concerns requiring resolution. PSAS and SAC leadership conduct additional recurring meetings to identify commonly used items for development of VHA-wide or multi-Veterans Integrated Service Network (VISN) contracts.

VHA requests closure on this recommendation.

Status: Complete

Completion Date: August 2017

Recommendation 2: We recommended the Acting Under Secretary for Health require the Procurement and Logistics Office and Prosthetics and Sensory Aids Service to periodically monitor prosthetic procurements to ensure Veterans Integrated Service Networks and Network Contracting Offices identify and report prosthetics usage and cost data for use in developing Veterans Integrated Service Network contracts when Veterans Health Administration wide or multi-Veterans Integrated Service Network contracts are not possible.

VHA Comments: Concur.

VHA previously completed an in-depth analysis, identified areas for improvement and developed and implemented corrective actions, to include:

PSAS reviews and assess commonly used prosthetic items determined by volume and/or cost utilizing the National Prosthetic Patient Database (NPPD). When PSAS identifies commodities and prosthetic items that may offer opportunities to leverage the agency's buying power through strategic sourcing, they forward those to P&LO. P&LO then develops independent government cost estimates and spend analyses to determine the feasibility of pursuing a national contract or VISN contracts.

PSAS conducts quarterly calls with VISN Prosthetic Representatives to review data, including contract utilization and compliance as well as prosthetic procurements volume, timeliness, and disposition. These calls identify opportunities for additional contracts, internal controls, consignment agreements and collaboration with P&LO to develop VISN contracts. PSAS and VISN Prosthetic Representatives identify areas where VISN contracts for prosthetic commodities, such as eyeglasses and ramps, are the most appropriate to ensure timely access to care.

PSAS and P&LO leadership have ongoing weekly meetings to monitor prosthetic procurements, contract processing and compliance, and plans for national and regional strategic acquisition.

PSAS and P&LO leadership have ongoing weekly meetings with VISN Prosthetic Representatives and National Contracting Officers to review VISN-specific data, contract compliance, procurement processing timeliness. The group also identifies opportunities to streamline processes and establish additional local/VISN contracts.

VHA requests closure of this recommendation.

Status: Complete

Completion Date: August 2017

Recommendation 3: We recommended the Acting Under Secretary for Health require the Procurement and Logistics Office to review fiscal years 2015 and 2016 prosthetic purchase card transactions above the micro-purchase limit and submit identified unauthorized commitments to Heads of Contracting Activities for ratification actions.

VHA Comments: Concur in principle.

During FY2015 and part of FY2016, the accepted VHA practice for medical and surgical implants created an unauthorized commitment for every implant used. In FY2015, VHA P&LO and PSAS chartered an Integrated Project Team (IPT) to make implant purchasing compliant. In January 2016, VHA P&LO and PSAS leadership received the IPT report and directed the implementation of the pre-authorization process to correct the root cause of unauthorized commitments. The pre-authorization process began April 12, 2016 and fundamentally corrected purchasing procedures for clinics, PSAS, and contracting officers. Full implementation was achieved on November 1, 2016. Since November 2016, VHA Heads of Contracting Activity have ratified any implant unauthorized commitments before contracting officers pay the vendor.

Based on the practice of FY 2015 and part of 2016, unauthorized implant orders were paid for by contracting officers. Contracting officers paid for implants only after they received a documented bona fide need and written assurance of funds. Contracting officers then made a determination of price fair and

reasonable and awarded a written purchase order to document the binding contract. These are the same steps required by the Federal Acquisition Regulation to ratify an unauthorized commitment. These payments were carried out with implied approval from the Heads of Contracting Activity. Taking the additional step of getting written approval to ratify from the Head of Contracting Activity and then adding the written approval to thousands of contract files would not provide benefit or monetary savings to Veterans, vendors, or taxpayers.

VHA requests closure of this recommendation.

Status: Complete

Completion Date: November 1, 2016

Recommendation 4: We recommended the Acting Under Secretary for Health direct Heads of Contracting Activities to perform ratification actions for unauthorized commitments identified by the Procurement & Logistics Office review of fiscal years 2015 and 2016 prosthetic purchase card transactions above the micro-purchase limit and consider holding cardholders and their approving officials accountable for unauthorized commitments, as appropriate.

VHA Comments: Concur in principle.

As stated in recommendation 3, based on the practice of FY 2015 and part of 2016, unauthorized implant orders were paid for by contracting officers. Contracting officers paid for implants only after they received a documented bona fide need and written assurance of funds. Contracting officers then made a determination of price fair and reasonable and awarded a written purchase order to document the binding contract. These are the same steps required by the Federal Acquisition Regulation to ratify an unauthorized commitment. These payments were carried out with implied approval from the Heads of Contracting Activity. Taking the additional step of getting written approval to ratify from the Head of Contracting Activity and then adding the written approval to thousands of contract files would not provide benefit or monetary savings to Veterans, vendors, or taxpayers.

VHA P&LO considered holding cardholders and their approving officials accountable for unauthorized commitments made during FY 2015 and part of 2016. However, prior to November 2016, VHA P&LO implicitly allowed warranted cardholders to pay for implant purchases without performing ratification actions. This noncompliant practice is now expressly prohibited. Warranted cardholders and approving officials are aware of this change and are seeking Head of Contracting Activity ratification approval before paying vendors. VHA requests closure of this recommendation.

Status: Complete

Completion Date: November 1, 2016

Recommendation 5: We recommended the Acting Under Secretary for Health require the Procurement and Logistics Office to develop a process for conducting periodic reviews to evaluate compliance with the requirements of VHA Directive 1081, VA Procurement Policy Memorandum 2016-02, and the Veterans Health Administration's Memorandum, Implementation of the Implant Pre-authorization Process.

VHA Comments: Concur.

VHA P&LO and PSAS wrote VHA Directive 1081 and implemented it immediately when it was published in March 2014. P&LO uses a weekly, joint P&LO and PSAS meeting to continually monitor the prosthetic purchasing compliance and timeliness. VHA Directive 1081 compliance was added to the meeting agenda in March 2014. Also, the VHA Procurement Audit Office carried out a review of Prosthetics purchasing which included compliance with Directive 1081 in FY16. VHA has submitted the results of the FY16 review to OIG for evidence of compliance separately.

With respect to VA Procurement Policy Memorandum 2016-02, while the government purchase card is used as the method of payment for the implant pre-authorization process, VHA P&LO is not able to implement ordering officer delegation.

In April 2016, monitoring VHA's Implementation of the Implant Preauthorization Process was added to the weekly joint meeting agenda. The weekly meeting attendees review the PSAS dashboard that shows the progress with implementation of the pre-authorization process. VHA has submitted the link to the dashboard VHA uses to monitor the implant preauthorization process to OIG for evidence of compliance.

VHA requests closure of this recommendation.

Status: Complete

Completion Date: November 1, 2016

Appendix H Office of Inspector General Contact and Staff Acknowledgments

| | |
|---------|---|
| Contact | For more information about this report, please contact the Office of Inspector General at (202) 461-4720. |
|---------|---|

| | |
|-----------------|--|
| Acknowledgments | Cherie Palmer, Director Curtis Boston Glenn Dawkins Earl Key Christine Mursalim Michael Schiltz Nelvy Viguera Butler Dedra Williams |
|-----------------|--|

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