DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

DEPARTMENT OF VETERANS AFFAIRS

Inadequate Oversight of the Medical/Surgical Prime Vendor Program's Order Fulfillment and Performance Reporting for Eastern Area Medical Centers

AUDIT | REPORT #17-03718-240 | DECEMBER 17, 2019

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Executive Summary

The Medical/Surgical Prime Vendor-Next Generation (MSPV-NG) is a mandatory program that supports high-quality veteran care by having medical or surgical supplies readily available.[1] VA medical centers (VAMCs) procure supplies through a single source known as a prime vendor. In 2018, the VA spent approximately 28 percent ($450 million) of all medical or surgical supply dollars through four MSPV-NG contracts. The four contracts reportedly had a ceiling price of $4.6 billion. On February 24, 2016, VA awarded one of four MSPV-NG contracts to American Purchasing Services Limited Liability Company, doing business as American Medical Depot (AMD). This prime vendor serves VAMCs in the eastern area of the United States.

The VA Office of Inspector General (OIG) researched and identified potential risks with order fulfillment at eastern area VAMCs. These risks included the untimely delivery and availability of medical or surgical supplies, and prime vendor self-reporting of performance. Because of these risks, the OIG undertook this audit to determine whether VA adequately monitors order fulfillment and performance reporting to ensure the timely and complete shipment of MSPV-NG supplies. Accordingly, the audit examined orders fulfilled by AMD and placed by eastern area VAMCs.[2]

What the Audit Found

The OIG found that VA did not adequately monitor order fulfillment or performance reporting to ensure the timely and complete shipment of MSPV-NG supplies. This conclusion is based on two report findings:

- VA did not adequately monitor correct order fulfillment.
- VA did not ensure the prime vendor correctly reported the MSPV-NG unadjusted fill rate.

VA Did Not Adequately Monitor Correct Order Fulfillment

Using criteria from the MSPV-NG contract, the OIG found that from June 1 through August 31, 2017, VAMCs in the eastern area received correct orders only 40 percent of the time. The OIG estimated that AMD correctly fulfilled 3,300 of 8,300 total delivery orders and incorrectly fulfilled the remaining 4,900 orders.[3] The prime vendor, in accordance with the

[1] Medical supplies are used in the maintenance of health and the diagnosis and treatment of disease usually through nonsurgical means. Surgical supplies are used to generally treat disease or injury by operative intervention.

[2] This area includes Florida, where AMD headquarters is located.

[3] Delivery orders are for items that the VA purchases through an established contract with a vendor who supplies the items; The sum of correctly and incorrectly fulfilled orders will not equal 8,300 due to rounding.

MSPV-NG contract, is required to provide the correct product, in the correct quantity, to the correct location, delivered at the correct time, with the correct invoice and audit trail at least 95 percent of the time.

The prime vendor is also required to provide VA with facility-level correct order fulfillment percentages for all orders placed within a given month. At the Washington DC VAMC, the differences between percentages reported by AMD and those calculated by the OIG were large.[4] The OIG's percentages ranged between 79 points to 92 points below those reported by AMD for the review period. The large differences stemmed from the algorithm used by the prime vendor when assessing correct order fulfillment. The algorithm that AMD reported to the OIG did not include a verification step to ensure products were delivered to the correct location. In addition, the algorithm excluded products requested less than once per month, even though the MSPV-NG contract did not allow the exclusion.

The conditions occurred because the Veterans Health Administration's (VHA's) Healthcare Commodities Program Office and VA's Strategic Acquisition Center did not develop a formal process to validate prime vendor performance reporting and the algorithm used by AMD. The program office reportedly did not begin exploring the oversight of prime vendor metrics until December 2017 and could not assess the metrics without knowing what happened "off-paper"—that is, what unrecorded steps ordering officials took before placing orders.[5] The acquisition center reported relying on VAMCs to validate performance metric reporting. However, none of the chief logistics officers at the VAMCs reviewed said they assessed the accuracy of MSPV-NG performance metric results.

The conditions also occurred because the acquisition center did not fill MSPV-NG contracting officer representative (COR) positions at four of eight VAMCs reviewed in the eastern area. The MSPV-NG CORs, who report directly to the MSPV-NG contracting officer at the acquisition center, are responsible for monitoring the accuracy of prime vendor reporting. In addition, the program office did not ensure MSPV-NG CORs received the prime vendor's performance reports promptly.

[4] The audit team calculated correct order fulfillment percentages at the Washington DC VAMC for each month during the review period and compared them with percentages submitted by the prime vendor. The differences reported from this comparison are raw/actual differences and do not represent statistical estimates.

[5] The MSPV-NG contracting officer told the OIG that, before placing orders, ordering officers checked with AMD onsite representatives to determine what was in stock. The ordering officers then ordered only that quantity and went elsewhere for the remainder—presumably to expedite receipt. Facility chief logistics officers were reportedly made aware of this practice and instructed not to continue due to its impact on assessing compliance with the MSPV-NG contract.

Due to inadequate monitoring, VA potentially risked patients' quality of care when orders were incorrectly filled. VA also missed opportunities to mitigate program risks the audit team identified at the VAMCs reviewed, including

- Purchasing medical or surgical products outside the MSPV-NG formulary when just-in-time deliveries did not occur,[6]
- Indirectly asking AMD to work outside the contract's scope when requesting deliveries at unapproved MSPV-NG locations and not following procedures to obtain acquisition center approval for new or omitted locations, and
- Improperly obligating funds and the prime vendor improperly invoicing for payment under the MSPV-NG.

Between June 1 through August 31, 2017, the audit team estimated that approximately $4.2 million in improper payments were due to the improper obligation of funds by VAMCs and improper invoicing by the prime vendor. Specifically, delivery orders and invoice pricing did not match approved product costs in the MSPV-NG formulary, the prime vendor invoiced for products obtained from unapproved suppliers, and logistic staff obligated funds without proper delegated authority from the acquisition center.[7]

Unresolved internal control weaknesses increase the risk of improper payments to about $16.8 million over a 12-month period. This is a reasonable estimate based on a similar number of delivery orders occurring in the concluding three quarters of the review period. Further, if VA does not ensure the program office and acquisition center implement the OIG's recommendations, the risk of improper payments would total approximately $84 million over a five-year period.[8]

VA Did Not Ensure the Prime Vendor Correctly Reported the MSPV-NG Unadjusted Fill Rate

The unadjusted fill rate measures the percentage of orders filled based on total orders placed by a VAMC. For medical or surgical products requested at least once a month, the MSPV-NG contract requires prime vendors to fill these orders completely 95 percent of the time. From June 1 through August 31, 2017, the program office and acquisition center did not adequately

[6] The MSPV-NG formulary includes medical or surgical supplies that are eligible under the program.

[7] An improper payment is any payment that should not have been made or that was made in an incorrect amount (overpayments or underpayments) under statutory, contractual, administrative, or other legally applicable requirements. An improper payment also includes any payment made for an ineligible good, goods not received, and insufficient documentation to discern whether a payment was proper.

[8] The audit team multiplied the three-month estimate ($4.2 million) by four quarters ($4.2 x 4 = $16.8 million) to get a one-year estimate. The audit team further estimated the amount over a five-year period as about $84 million ($16.8 million x 5).

monitor unadjusted fill rate reporting to ensure the prime vendor correctly calculated percentages and consistently reported these percentages between the Supply Chain Measures Report and the Performance Dashboard.

The prime vendor incorrectly calculated unadjusted fill rates by using a methodology not prescribed by the MSPV-NG contract and by identifying core items—medical or surgical products requested at least once per month—inconsistently. The number of core items used to calculate fill rate percentages differed between reporting methods in the same month, with the smallest discrepancy being one core item and the largest discrepancy being as many as 754 core items.

The conditions occurred because VHA's Healthcare Commodities Program Office and VA's Strategic Acquisition Center did not develop a formal process to review unadjusted fill rate reporting and detect that AMD used a fill rate methodology allowable under the previous prime vendor contract but inconsistent with the MSPV-NG contract. The program office and acquisition center staff also had different opinions on who was responsible for monitoring prime vendor performance. According to the acting program executive officer, the acquisition center was responsible for monitoring the contract. However, the MSPV-NG administrative contracting officer said that the acquisition center was responsible for ensuring prime vendors submit performance data to VA, but the program office reviews the data.

Due to inadequate monitoring, VA relied on self-reported performance data in June 2017 when evaluating AMD's performance to continue as a prime vendor. Further, VA risked using erroneous data when exercising MSPV-NG contract options and future awards.

What the OIG Recommended

The OIG made 11 recommendations to ensure correct order fulfillment of MSPV-NG delivery orders and accurate reporting of the unadjusted fill rate performance metric. Specifically, the OIG recommended VA develop formal processes to validate correct order fulfillment, provide MSPV-NG CORs with access to performance metric reports in a timely manner, and ensure the reports are reviewed for accuracy. The OIG also recommended VA ensure that medical facilities use the MSPV-NG formulary for order accuracy, that the prime vendor use formulary sources when fulfilling requests for medical or surgical products, and that VAMCs' ordering officials obtain proper delegated authority to place orders under the MSPV-NG. Further, the OIG recommended VA develop and implement a process to validate unadjusted fill rate reporting, require and verify that all prime vendors use the unadjusted fill rate calculation methodology in accordance with the MSPV-NG contract, and require prime vendors to provide corrected unadjusted fill rates for the prior and current reporting periods.

Management Comments

The executive in charge, office of the under secretary for health, in collaboration with the Office of Acquisition, Logistics, and Construction (OALC) concurred with all 11 recommendations and provided corrective action plans that are responsive to the recommendations. The under secretary for health and the OALC requested the OIG close Recommendations 2, 5, and 6.

The OIG will close Recommendations 2, 5, and 6 after assessing VHA and OALC's efforts to ensure timely access to reports, confirm use of formulary sources, and ensure proper delegation of authority. The OIG will monitor implementation of the planned actions for Recommendations 1, 3, 4, and 7–11 and will close the recommendations when the OIG receives sufficient evidence demonstrating progress in addressing the identified issues.

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Contents

Executive Summary i

Abbreviations vii

Introduction 1

Results and Recommendations 6

Finding 1: VA Did Not Adequately Monitor Correct Order Fulfillment 6

Recommendations 1–6 22

Finding 2: VA Did Not Ensure the Prime Vendor Correctly Reported the MSPV-NG Unadjusted Fill Rate 25

Recommendations 7–11 35

Appendix A: Scope and Methodology 37

Appendix B: Statistical Sampling Methodology 42

Appendix C: Monetary Benefits in Accordance with Inspector General Act Amendments 46

Appendix D: Management Comments 47

OIG Contact and Staff Acknowledgments 52

Report Distribution 53

Abbreviations

AMD	American Medical Depot
COR	contracting officer representative
FY	fiscal year
Legacy MSPV	Legacy Medical/Surgical Prime Vendor
MSPV-NG	Medical/Surgical Prime Vendor-Next Generation
OALC	Office of Acquisition, Logistics, and Construction
OIG	Office of Inspector General
VAMC	VA medical center
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network

Introduction

The Medical/Surgical Prime Vendor-Next Generation Program (MSPV-NG) is VA's national program for procuring medical or surgical supplies across the Veterans Health Administration (VHA).[9] In 2018, VA spent approximately 28 percent ($450 million) of all medical or surgical supply dollars through four MSPV-NG contracts. The four contracts reportedly have a collective ceiling of $4.6 billion and are critical for ensuring the right supplies are provided timely for effective care.

The objective of the audit was to determine whether VA adequately monitors order fulfillment and performance reporting to ensure the timely and complete shipment of MSPV-NG supplies. The audit focused on order fulfillment processes at VA medical centers (VAMC) serviced by American Purchasing Services Limited Liability Company, doing business as American Medical Depot (AMD).[10] During audit research, the VA Office of Inspector General (OIG) identified risks with eastern area VAMCs including untimely deliveries and prime vendor self-reporting of performance.

Legacy Medical/Surgical Prime Vendor Program

On January 27, 2004, the VHA mandated use of a centralized medical or surgical prime vendor (MSPV) program, now known as Legacy MSPV. VA's Office of Acquisition and Logistics' National Acquisition Center administered seven contracts that allowed VAMCs to obtain a variety of medical or surgical supplies from single sources, known as prime vendors. VHA's use of these single-source distributors consolidated and simplified ordering, receiving, invoicing, and payment.

Before the performance period ended for the Legacy MSPV contracts in April 2015, VHA's Procurement and Logistics Office reported on key lessons learned, including concerns with prime vendor self-reporting and VA's inability to verify prime vendors' metrics.[11] Specifically, metrics were not standardized across prime vendors, and prime vendors used internal criteria to define backorders, stockouts, and fill rates. In developing the next generation MSPV contract,

[9] Medical supplies are used in the maintenance of health and the diagnosis and treatment of disease usually through nonsurgical means. Surgical supplies are used to generally treat disease or injury by operative intervention.

[10] AMD's contract award represents approximately $1.2 billion (27 percent) of the aggregate award amount.

[11] The base contract period for Legacy MSPV was 16 months with an effective date of April 20, 2010, and two option periods at 20 months each. The end of the second option period was April 22, 2015. Two bridge contracts were awarded after the second option period, but these contracts were not included in the initial performance period established by the Legacy MSPV contracts.

VA attempted to address some of the concerns by adding and modifying existing prime vendor reporting and performance metric requirements to assist with program monitoring.

Medical/Surgical Prime Vendor – Next Generation Program

The MSPV-NG, VHA's current national mandatory program for procuring medical or surgical supplies, succeeded Legacy MSPV. As part of the MyVA initiative, the MSPV-NG supports VA's Supply Chain Transformation, which aims to increase efficiency across VA by standardizing purchasing and ordering processes.[12]

On February 24, 2016, VA's Strategic Acquisition Center awarded MSPV-NG indefinite-delivery, indefinite-quantity contracts to four prime vendors with an aggregate ceiling of $4.6 billion. The contracts were established for 2016 through 2021 and included one base period and two option periods. Contract awardees were American Medical Depot (AMD), Cardinal Health 200 LLC, Kreisers LLC, and Medline Industries Inc. The MSPV-NG contracts require prime vendors to maintain adequate inventories of medical or surgical supplies so they can be delivered to VAMCs when needed. In exchange, VA pays prime vendors for requested products plus a distribution fee to cover the costs associated with managing VAMC inventories. Each prime vendor provides requested products to the VAMCs in its region, as shown in Figure 1.

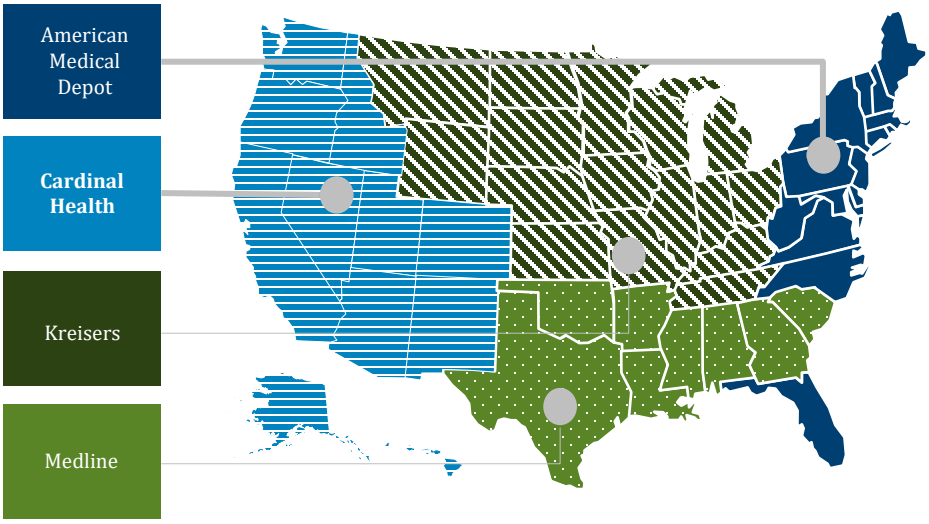


Figure 1. *MSPV-NG prime vendors' regions*
Source: VHA's Healthcare Commodities Program Office

[12] VA describes the MyVA initiative, announced in late 2014, as the largest department-wide transformation in VA history designed to put veterans in control of how, when, and where they want to be served.

One of the MSPV-NG goals is to support high-quality veteran care by making necessary supplies available just in time. The MSPV-NG contract defines just-in-time delivery as an inventory and distribution method used to reduce stock at the using facility by receiving next business day delivery after orders are placed. VHA reported that 320 VAMCs and clinics order medical or surgical supplies from one of four prime vendors. The MSPV-NG contract requires prime vendors to process and acknowledge orders from VAMCs using an electronic data interchange interface. The MSPV-NG contract further requires prime vendors to provide products on a delivery day agreed on by the prime vendors and each VAMC. Most sampled VAMCs received deliveries three days per week—typically Monday, Wednesday, and Friday. Figure 2 provides a general overview of the MSPV-NG order fulfillment process.

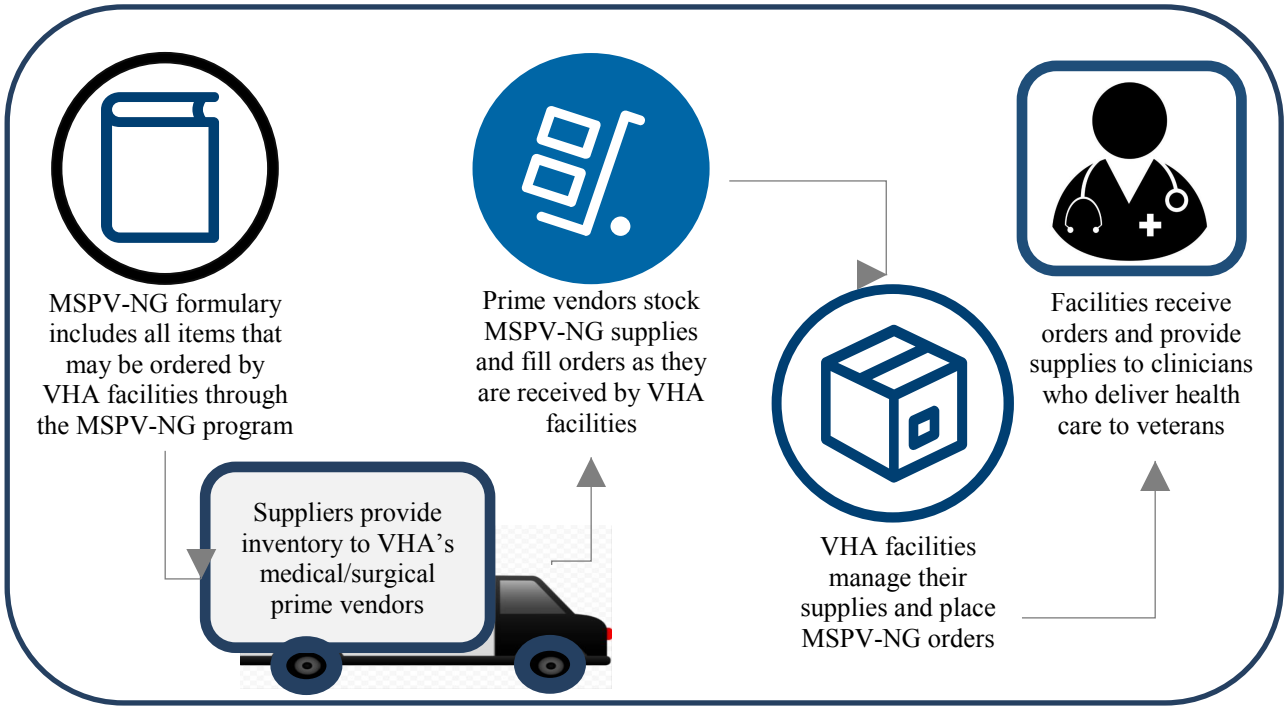


Figure 2. *MSPV-NG order fulfillment*
Source: VA Office of Procurement and Logistics' Virtual Office of Acquisition

MSPV-NG Reporting and Monitoring Requirements

After the MSPV-NG began on December 1, 2016, prime vendors were contractually required to self-report on compliance with 22 performance metrics. The OIG audit team identified potential risks associated with order fulfillment, including the untimely delivery and unavailability of

medical or surgical supplies, as well as prime vendor self-reporting of performance. [13] The OIG audit team determined these risks were primarily associated with the following metrics:

- **Supply chain measures report—**This report includes compliance results for each of the required 22 performance metrics. According to the MSPV-NG contract, there will be one nationally mandated format with data gathered and metrics displayed identically to help ensure the MSPV-NG is monitored using a common methodology. Acceptable performance for this requirement is defined as two or fewer reports per government fiscal year not delivered by the fifth business day of the month after the end of the month being reported on. This is a new performance metric that did not exist under MSPV Legacy.
- **Correct order fulfillment—**This performance metric measures the percent of orders providing "the correct product, in the correct quantity, at the correct location, with the correct invoice, delivered at the correct time with the correct audit trail." The performance metric measures the percent of orders that are completely accurate upon delivery and on paper. The performance standard is at least 95 percent. This is a new performance metric that did not exist under MSPV Legacy.
- **Unadjusted fill rate—**This metric measures the percentage of orders completely filled out of all orders placed. The performance standard is at least 95 percent. A similar metric existed under MSPV Legacy. However, the MSPV-NG contract changed how this metric is calculated.

According to the information and communication component of internal control in the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, management should use quality information to support the internal control system. This means when information is obtained from external sources, such as a prime vendor, the data should be reasonably free from error and represent what it purports to show. In addition, management should evaluate external sources of data for reliability and obtain data on a timely basis to ensure effective monitoring.

Specific VA roles and responsibilities for monitoring the program are laid out in VHA's Healthcare Commodities Program Office guidance and program control plan. The guidance states that facility contracting officer representatives (CORs), who report directly to the MSPV-NG contracting officer at the Strategic Acquisition Center, are responsible for monitoring the accuracy of prime vendor reporting. The control plan states the program office is responsible

[13] Among the other 19 MSPV-NG performance metrics are the stock-out report, the continuous improvement report, and buy-back requests for discontinued medical and surgical supplies.

for defining and monitoring the performance standards (for example, at least 95 percent) for prime vendors.

Responsible Program Office

VHA established the Healthcare Commodities Program Office to support program management and the transition from Legacy to MSPV-NG.[14] This program office, in partnership with VAMCs and the Strategic Acquisition Center, is responsible for monitoring prime vendor performance.[15]

The acquisition center provides contracting and program support for MSPV-NG:

- Receiving contract deliverables from prime vendors such as the Supply Chain Measures Report
- Establishing MSPV-NG contracting officer representatives
- Authorizing MSPV-NG ordering officers
- Establishing agreements with authorized suppliers in the MSPV-NG formulary
- Updating product and pricing information in the MSPV-NG formulary

[14] The Healthcare Commodities Program Office falls under VHA's Procurement and Logistics Office.

[15] The Strategic Acquisition Center falls under VA's Office of Procurement, Acquisition, and Logistics.

Results and Recommendations

Finding 1: VA Did Not Adequately Monitor Correct Order Fulfillment

From June 1 through August 31, 2017, the Healthcare Commodities Program Office and Strategic Acquisition Center did not adequately monitor prime vendor reporting on the correct order fulfillment performance metric. From a review of sampled delivery orders, the OIG estimated that VAMCs in the eastern area received correct orders—the correct products and quantities, delivered to the correct location, at the correct time, and with correct invoicing—only about 40 percent of the time.[16] At the Washington DC VAMC, correct order percentages calculated by OIG ranged from 79 points to 92 points lower than percentages reported by the prime vendor.[17] The OIG also reviewed all 41 delivery orders at the Washington DC VAMC and identified only six orders that were correctly fulfilled, even though AMD reported that all 41 orders were correct during the review period.

These conditions occurred because the program office and acquisition center did not develop a formal process to validate prime vendor performance reporting or the algorithm used by AMD. In addition, the acquisition center did not ensure all MSPV-NG COR positions at four of eight sampled VAMCs were filled, and the program office did not ensure MSPV-NG CORs received AMD's Supply Chain Measures Reports promptly.

As a result, VA potentially risked patients' quality of care when orders were incorrectly filled. Further, VA missed opportunities to identify MSPV-NG program risks when prime vendor reporting was not validated. If a formal review process had been in place, the program office and the acquisition center would have identified program risks such as VAMCs

- Purchasing medical or surgical products outside the MSPV-NG formulary when just-in-time deliveries did not occur,
- Indirectly asking AMD to work outside the contract's scope when requesting deliveries at unapproved MSPV-NG locations and not following procedures to obtain acquisition center approval for new or omitted locations, and
- Improperly obligating funds in response to improper invoices from the prime vendor.

[16] Delivery orders are for items that the VA purchases through an established contract with a vendor that supplies the items.

[17] The audit team calculated correct order fulfillment percentages at the Washington DC VAMC for each month during the review period and compared them with percentages submitted by the prime vendor. The differences reported from this comparison are raw/actual differences and do not represent statistical estimates.

The audit team estimated that from June 1 through August 31, 2017, approximately $4.2 million improper payments occurred due to the improper obligation of funds by VAMCs and improper invoicing by the prime vendor. Specifically, delivery orders and invoice pricing did not match approved product costs under the MSPV-NG, the prime vendor invoiced for products obtained from unapproved suppliers, and logistic staff obligated funds without proper delegated authority from the acquisition center. The unresolved internal control weaknesses increased the risk of improper payments to about $16.8 million over a 12-month period. If VA does not ensure the program office and acquisition center implement the OIG's recommendations, the risk of improper payments would total approximately $84 million over a five-year period.[18]

What the OIG Did

The OIG selected the Washington DC VAMC as the first site and then statistically selected seven of the remaining 48 VAMCs serviced by AMD.[19] From a population of about 8,300 delivery orders over the eight sites, the OIG selected 263 MSPV-NG delivery orders consisting of 2,607 line items placed from June 1 through August 31, 2017.[20] The prime vendor, in accordance with the MSPV-NG contract, is required to provide the correct product, in the correct quantity, to the correct location, delivered at the correct time, with the correct invoice and audit trail at least 95 percent of the time. However, the OIG did not assess whether the audit trail requirement of correct order fulfillment was met because the audit scope was not intended to review the adequacy of the prime vendor's automated order-processing system.[21]

The MSPV-NG contract stipulates that correct order fulfillment should be calculated as total correct orders divided by total orders, multiplied by 100. For the 251 sampled delivery orders, the OIG reviewed each order's line items to determine the number of correct orders. To determine whether the 95 percent performance standard was met, the audit team calculated a correct order fulfillment percentage for the entire sample by dividing the total number of correct orders by the total number of orders reviewed and multiplying by 100.[22] VA receives self-reported performance data from AMD monthly by facility. Therefore, the OIG also

[18] The audit team multiplied the three-month estimate ($4.2 million) by four quarters ($4.2 million x 4 = $16.8 million) to get a one-year estimate, which is a reasonable estimate based on a similar number of delivery orders occurring in the concluding three quarters of this period. The audit team further estimated the amount over a five-year period, equating to about $84 million ($16.8 million x 5).

[19] The first facility was excluded from the random selection process.

[20] The audit team reviewed only 251 orders (2,521 line items) because 12 of the 263 orders were cancelled by the sampled VAMCs.

[21] According to the prime vendor, the audit trail component of the correct order fulfillment metric refers to the system used to track from the time the MSPV order is received from VA to when the ordered items are invoiced and shipped to VAMCs.

[22] Appendix B details how the audit team calculated sample percentages.

calculated correct order fulfillment percentages for each month during the review period at the Washington DC VAMC and compared them with percentages submitted by the prime vendor. For all delivery orders that were deemed incorrect, the OIG also identified program risks associated with each category of correct order fulfillment. Appendix A details the audit's scope and methodology.

Finding 1 discusses how the program office and acquisition center did not adequately monitor prime vendor reporting on the correct order fulfillment performance metric. It has five sections:

- Reporting and monitoring requirements
- Monitoring of prime vendor performance reporting
- Order fulfillment not adequately monitored
- Factors contributing to inadequate monitoring
- Resulting program risks

Reporting and Monitoring Requirements

The correct order fulfillment metric measures a prime vendor's ability to completely and accurately fulfill VAMCs' requests for medical or surgical supplies. The MSPV-NG contract defines acceptable performance as at least 95 percent of total orders placed. Prime vendors self-report compliance with the correct order fulfillment performance metric in the Supply Chain Measures Report. This report provides a standard format to help ensure consistent performance metric reporting throughout the MSPV-NG. Prime vendors submit Supply Chain Measures Reports to VA's Strategic Acquisition Center monthly, and the acquisition center provides these reports to VHA's program office.

The Healthcare Commodities Program Office's program control plan specifically requires the controls division within the program office to monitor performance standards for prime vendors, such as the 95 percent standard associated with the correct order fulfillment performance metric. However, according to guidance issued by the program office, MSPV-NG CORs are responsible for monitoring Supply Chain Measures Reports for accuracy. The guidance further states that each VAMC must have at least one certified MSPV-NG COR and that facilities without a COR put MSPV-NG's success at risk.

VA Monitoring of Prime Vendor Performance Reporting

The prime vendor self-reports through the Supply Chain Measures Report, but there was very limited monitoring of the accuracy of that self-reporting.[23] The program office used a survey to collect monthly feedback from VAMCs to help understand the effectiveness of MSPV-NG and determine areas for improvement. However, only three of the eight sampled VAMCs completed the optional survey during the review period. These three VAMCs submitted survey comments in June 2017 but none of the comments were related to prime vendor reporting. The program office did not receive any survey results from these VAMCs in July or August 2017.

The program office and the acquisition center also received unsolicited emails from VAMCs expressing concerns about the accuracy of AMD's reporting. For example, in July 2017, a chief logistics officer said, "[AMD] appear[s] to be reporting incorrect information to make their performance look better than it really is." In an August 2017 email, a program analyst from a Veterans Integrated Service Network (VISN) chief logistics office aggregated concerns of colleagues, including the following statement: "I have very little confidence in this report. As soon as I saw AMD for the month of June was reporting 95 percent in correct order fulfillment, I knew it was highly suspect."

Order Fulfillment Not Adequately Monitored

From June 1 through August 31, 2017, program office and acquisition center staff did not adequately monitor performance reporting on the correct order fulfillment performance metric. The OIG estimated that VAMCs in the eastern area received correct orders only 40 percent of the time. Specifically, the audit team estimated that AMD correctly fulfilled 3,300 of 8,300 total delivery orders—medical or surgical supplies that were delivered at the correct time, to the correct location, and with correct invoicing, products and/or quantities. However, the prime vendor did not correctly fulfill the remaining 4,900 delivery orders. Table 1 summarizes the OIG's overall estimates for correct order fulfillment. Total unique orders that AMD did not correctly fulfill will not total 4,900 (100 percent) because some orders fell into more than one category.

[23] During the review period, the program office also monitored MSPV-NG by measuring the utilization of the MSPV-NG formulary and MSPV-NG spending levels at VAMCs. However, these program metrics were not related to prime vendor performance.

Table 1. Estimates of Correct Order Fulfillment

Category	Unique Orders Correctly Filled	Unique Orders Not Correctly Filled
Correct invoice	3,300	2,900
Correct time		2,100
Correct location		1,800
Correct product or quantity		860
Total orders	**3,300 of 8,300 (40%)**	**4,900 of 8,300 (60%)**

Source: VA OIG statistical projections
Note: The sum of correct correctly and incorrectly fulfilled orders will not equal 8,300 due to rounding.

To estimate the 3,300 orders that AMD fulfilled correctly, the OIG analyzed 251 sampled delivery orders at eight VAMCs using the criteria and methodology presented in Table 2. The MSPV-NG contract did not explain how to assess the categories of correct order fulfillment. Therefore, the OIG used criteria from the MSPV-NG contract and discussed contractual terms and definitions with the MSPV-NG contracting officer. The MSPV-NG contract also did not define what makes an order correct. As a result, the audit team used a 5 percent error margin, the same error margin for correct order fulfillment, before designating an order as incorrect. For example, if an order included a request for 25 unique products (that is, 25 line items) and only one of the products failed criteria, the OIG deemed the order correct because at least 95 percent of the order met correct order fulfillment criteria (24/25 x 100 = 96 percent).

Table 2. OIG Criteria and Methodology Used to Determine Correct Orders

Category	Criteria	Methodology
Correct time*	• The MSPV-NG contract requires AMD to provide medical or surgical supplies based on a delivery day agreed on by AMD and VAMCs. • The MSPV-NG contract requires AMD to provide next-business-day delivery for supplies ordered by VAMCs at least once per month. Orders should be placed before noon on the day before the next scheduled delivery day. • The MSPV-NG contract requires AMD and VAMCs to establish a delivery time for medical or surgical supplies ordered less than monthly.	For medical or surgical supplies requested at least monthly, the OIG determined the next scheduled delivery date from the time the order was placed at each sampled VAMC. The OIG then compared the next scheduled delivery date with the date each item was received by the VAMCs. For medical or surgical supplies requested less than monthly, the OIG obtained the agreed-on delivery date between the prime vendor and each sampled VAMC. The OIG then compared the agreed delivery date with the date each item was received by the VAMCs.
Correct invoice**	• The MSPV-NG contract states that the government master listing of approved supplies is the authoritative source for product prices. • The MSPV-NG contract requires AMD to invoice VAMCs when medical or surgical supplies are shipped versus ordered. • The MSPV-NG contract requires AMD to use contracts in the government master listing and not purchase from any other sources of supply. • VA policy requires the MSPV-NG contracting officer to notify AMD to accept orders against the contract only from authorized ordering officers.	The OIG compared • Product pricing between AMD invoices and the government master listing, • Dates on AMD invoices and shipping documentation, • Suppliers for requested products as recorded in the government master listing and AMD's shipping documentation, and • Ordering officer names from sampled delivery orders to acquisition center appointment memorandums.
Correct location	• The MSPV-NG contract and related modifications contain approved delivery locations for VAMCs.	• The OIG compared approved delivery locations to shipping addresses on sampled delivery orders.

Category	Criteria	Methodology
Correct product and quantity	• The MSPV-NG contract requires AMD to ship only medical or surgical supplies on the government master listing and provide an order confirmation to VAMCs after an order is received. The order confirmation should include item descriptions, the quantity ordered and confirmed, and the status of unconfirmed items (for example, back-ordered).	• The OIG verified all products on sampled delivery orders were included on the government master listing. The OIG also compared product descriptions, quantities ordered and received, and the status of unconfirmed products to the same information on the sampled delivery order and related VAMC receiving report(s).

Source: OIG team analysis of MSPV-NG contract
** The MSPV-NG contacting officer stated the untimely delivery of these products counts against correct order fulfillment when delivered after the agreed to date.*
*** The MSPV-NG contracting officer stated there should be no payment to prime vendors for orders outside approved sources of supply and prime vendors should ensure orders are not processed from unauthorized ordering officers.*

In the Supply Chain Measures Report, AMD provides facility-specific percentages for all orders placed within a given month. For the Washington DC VAMC, AMD reported 100 percent for the correct order fulfillment performance metric in June 2017, July 2017, and August 2017. According to the MSPV-NG contract, this percentage means that the prime vendor delivered all medical or surgical supplies at the correct time; to the correct location; and with correct invoicing, products, and quantities for all three months at this facility.

To verify prime vendor performance reporting, the OIG reviewed all 41 delivery orders at the Washington DC VAMC placed from June 1 through August 31, 2017. The OIG identified only six orders that were correctly fulfilled. The OIG-calculated percentages ranged from 79 points to 92 points lower than those AMD reported for the review period.[24] Table 3 compares prime vendor and OIG results at the Washington DC VAMC for the correct order fulfillment performance metric.

[24] The audit team calculated correct order fulfillment percentages at the Washington DC VAMC for each month during the review period and compared them with percentages submitted by the prime vendor. The differences reported from this comparison are raw/actual differences and do not represent statistical estimates.

Table 3. Correct Order Fulfillment: Prime Vendor Reporting Versus OIG Analysis of Orders to the Washington DC VA Medical Center

Month	Categories	Prime Vendor Reporting	OIG Analysis	Difference
June 2017	Total orders	14	14	0
	Correct orders	14	2	12
	Correct order fulfillment	100%	14%	86%
July 2017	Total orders	14	14	0
	Correct orders	14	3	11
	Correct order fulfillment	100%	21%	79%
August 2017	Total orders	13	13	0
	Correct orders	13	1	12
	Correct order fulfillment	100%	8%	92%

Source: AMD's Supply Chain Measures Report submissions for June through August 2017 and OIG analysis

The OIG percentages in Table 2 were based on total correct orders divided by total orders, multiplied by 100. The audit team deemed an order correct if at least 95 percent of the line items met the criteria for each category of correct order fulfillment. For example, one Washington DC VAMC order had 12 line items, one of which was delivered four days after the expected delivery date.[25] This order was deemed incorrect because less than 95 percent of the line items met correct time criteria (11/12 = 92 percent).

AMD stated that the facility-level reporting was derived from automatic processes within its order processing system and that verification steps exist throughout the system to ensure order fulfillment accuracy. From receipt of order to delivery, an advanced algorithm verifies the item number, unit of measure, order quantity, price, and expected delivery date at each stage of the fulfillment process only for items ordered at least monthly. This formula compares the number of orders with one or more exceptions during the fulfillment process against the total number of orders fulfilled. Further, the formula removes errors such as customer returns or credit memos issued to customers from total correct orders during the prime vendor's fulfillment process.

Although the OIG did not audit the prime vendor's information technology system to confirm the automatic processes and verification steps used to assess correct order fulfillment, inherent limitations exist in the algorithm AMD described to the OIG. The algorithm does not include a verification step related to the correct location for order fulfillment. In addition, the algorithm assesses correct order fulfillment only for medical or surgical products requested at least once

[25] A delivery order can include multiple requests for individual medical and surgical items, also known as line items.

per month; products requested less often are excluded from the algorithm even though the MSPV-NG contract does not allow the exclusion. These inherent limitations help explain the stark differences between the number of correct orders reported by AMD and those estimated by the OIG.

Factors Contributing to Inadequate Monitoring

VA did not adequately monitor prime vendor performance reporting on correct order fulfillment for three reasons:

- The program office and the acquisition center did not develop a formal process to validate prime vendor performance reporting.
- The acquisition center did not fill vacant MSPV-NG COR positions at four of eight sampled VAMCs.
- The program office did not ensure MSPV-NG CORs had timely access to AMD's Supply Chain Measures Reports.

Lack of a Formal Review Process

VA did not adequately monitor the accuracy of prime vendor reporting on the correct order fulfillment performance metric. The inadequate monitoring occurred because the program office and acquisition center did not develop a formal process to validate prime vendor performance reporting or the algorithm used by the prime vendor. From June 1 through August 31, 2017, the program office's only involvement with MSPV-NG contractual performance metrics was obtaining Supply Chain Measures Reports from the acquisition center and posting them to a SharePoint site for facility access. A VA contractor stated the program office was just starting to explore the oversight of prime vendor metrics in December 2017 and could not measure the metrics internally because it was hard to know what happened "off paper" (that is, what occurred before order placement).[26] The acquisition center and VISN chief logistics officers reported relying on the facilities to review performance metric reporting, but none of the facility chief logistics officers at the sampled VAMCs said they assessed the accuracy of MSPV-NG performance metric results. In addition, CORs were unaware of any facility processes for assessing the accuracy of MSPV-NG performance metrics, such as the correct order fulfillment.

Despite the VA's reliance on validation at facilities, sampled VAMCs reported not receiving any guidance from the acquisition center to advance facility-level monitoring. The program office

[26] Prior to the June 1 through August 31, 2017, period, the MSPV-NG contracting officer told the OIG that VAMC ordering officials were calling AMD to determine what was in stock. They then ordered only that quantity and went elsewhere for the remainder—presumably to expedite receipt. Ordering officials reportedly were instructed not to order elsewhere because doing so interfered with assessing AMD's contract compliance; Deloitte Consulting provides support to HCPO for MSPV-NG program and contractual performance metrics.

guidance held CORs responsible for monitoring performance metrics, but CORs—who report directly to the MSPV-NG contracting officer—stated they did not receive monitoring instruction from the acquisition center about how to verify the metrics. At one sampled VAMC, the COR realized it was his responsibility to monitor correct order fulfillment but stated he had not been given any specific guidance on how self-reporting should be verified. Similarly, at another sampled VAMC, the COR stated that she did not have tools to verify self-reported performance metrics.

Although a formal process to review performance metric reporting was not in place during the review, the acquisition center reported establishing an integrated product team with VHA's Fiscal Department and the program office on January 23, 2018. The team was responsible for creating a formal process to validate supply chain measures reporting. The MSPV-NG contracting officer reported that as of December 2018, validation is done by the program office even though the OIG previously found no evidence of validation efforts that office.

Unfilled COR Positions

VA did not adequately monitor the accuracy of prime vendor reporting on correct order fulfillment because the acquisition center did not fill MSPV-NG COR positions at all sampled VAMCs. Guidance issued by the program office states that each VAMC must have at least one certified MSPV-NG COR who is responsible for monitoring the accuracy of Supply Chain Measures Reports, including reporting on the correct order fulfillment performance metric. The COR certification process requires the completion of Federal Acquisition Certification-Contracting Officer's Representatives (FAC-COR) Level II training and a designation letter signed by the facility chief logistics officer, the designated COR, and the contracting officer.[27]

At four of eight sampled VAMCs, the acquisition center had not filled all MSPV-NG COR positions. Specifically, the acquisition center did not have a MSPV-NG designation letter on file for three of four sampled VAMCs and reported that two of three facilities still did not have a designated COR as of April 3, 2019. At the fourth sampled VAMC, the acquisition center signed a designation letter. However, the designated COR had only completed the FAC-COR Level I training at the time of the appointment. The designated COR completed the FAC-COR Level II training on October 19, 2017, approximately five months after the beginning of the audit period.

[27] There are three FAC-COR Levels, and Level II is required for the MSPV-NG contract. To meet Level II requirements, an individual must have at least one year of previous COR experience and 40 hours of training. Level II is generally appropriate for contract vehicles of moderate to high complexity, including both supply and service contracts.

Untimely Access to Supply Chain Measures Reports

VA did not adequately monitor the accuracy of prime vendor reporting because the program office did not ensure MSPV-NG CORs had timely access to the Supply Chain Measures Reports. The MSPV-NG contract requires the prime vendor to provide the Supply Chain Measures Report to VA by the fifth business day of the month after the end of the month being reported on. The acquisition center received prime vendor reporting submitted for June 2017 and July 2017 in accordance with contract requirements. However, the acquisition center did not receive prime vendor reporting submitted for August 2017 until September 14, 2017, four business days after the due date.

In August 2017, the VAMCs gained access to the June 2017 and July 2017 Supply Chain Measures Reports when a SharePoint repository was developed by the program office and VHA's Supply Chain Data Informatics Office. (The repository did not include the August 2017 Supply Chain Measures Report until January 17, 2018.) Although the SharePoint repository was accessible to VAMCs in August 2017, none of the designated CORs at the sampled VAMCs were aware of the repository when interviewed in November 2017 and January 2018.

Resulting Program Risks

VA potentially risked patients' quality of care when orders were filled incorrectly. In addition, VA missed opportunities to identify MSPV-NG program risks when prime vendor reporting was not validated. If a formal review process had been in place, the program office and the acquisition center would have discovered internal control weaknesses that allowed VAMCs to

- Purchase medical or surgical products outside the MSPV-NG formulary when just-in-time deliveries did not occur;
- Indirectly ask AMD to work outside the contract's scope when requesting deliveries at unapproved MSPV-NG locations, and not follow procedures to obtain acquisition center approval for new or omitted locations; and
- Improperly obligate funds and the prime vendor improperly invoicing for payment.

The OIG estimated that from June 1 through August 31, 2017, $4.2 million in improper payments occurred because delivery orders and invoice pricing did not match approved product costs under the MSPV-NG; the prime vendor invoiced for products obtained from unapproved suppliers; and logistics staff obligated funds without proper delegated authority from the acquisition center.[28] The unresolved internal control weaknesses increase the risk of improper

[28] An improper payment is any payment that should not have been made or that was made in an incorrect amount (overpayments or underpayments) under statutory, contractual, administrative, or other legally applicable requirements. An improper payment also includes any payment made for an ineligible good, goods not received, and insufficient documentation to discern whether a payment was proper.

payments to about $16.8 million over a 12-month period. If VA does not ensure the program office and acquisition center implement the OIG's recommendations, improper payments could be about $84 million over a five-year period. Program risks identified through OIG analysis are discussed in the subsections that follow.

Untimely Deliveries Inconsistent with Just-In-Time Program Goal

When VA did not adequately monitor the correct time component of correct order fulfillment, VAMCs in the eastern area did not benefit from just-in-time delivery. Individual product delays for sampled VAMCs ranged from one to 241 days after the expected delivery date. When just-in-time delivery did not occur, logistics staff at sampled medical facilities stated that they

- Looked for possible substitutes on the formulary,
- Went outside the MSPV-NG to purchase items on the open market,
- Waited for back-ordered products if the estimated arrival date was reasonable, or
- Borrowed products from local hospitals.

As presented in Example 1, the OIG observed an MSPV-NG product shortage during an onsite visit that was attributed to an untimely delivery. When the just-in-time delivery did not occur, the VAMC had to place an order directly with the manufacturer and borrow blood tubes from another VAMC.

Example 1

On Friday, November 24, 2017, an ordering officer placed an order for white-top blood tubes knowing that all the facility's product would expire on midnight Thursday, November 30, 2017. White-top blood tubes are used for blood draws related to communicable diseases such as hepatitis C and HIV. The medical facility staff reported that previous attempts to obtain the product from AMD failed due to unit packing concerns and resulted in the facility receiving products with little to no shelf life remaining. When the prime vendor received the order on Friday, November 24, 2017, it reported the items were on back order with an expected delivery of December 8, 2017. As a result, the medical facility placed an emergency purchase card order directly with the manufacturer with overnight shipment, but the blood tubes were not shipped on time due to an unknown situation at the manufacturer. The facility then contacted local hospitals around the area and found a VA facility willing to share 200 blood tubes.

Due to the shortage of white-top blood tubes, the medical facility's chief of pathology and laboratory medicine service sent an email to medical staff on Thursday, November 30, 2017, stating that the team scheduled to draw blood for

lab collection on Friday morning would be unable to collect specimens for seven tests associated with the white-top blood tubes. The white-top blood tubes on hand expired at midnight Thursday, November 30, 2017, and the inventory levels for the tubes were still at zero around 9:55am.

At 10:50 a.m. Friday, December 1, 2017, the medical facility chief logistics officer reported that the 200 blood tubes had been received and distributed. On December 1, 2017, the VAMC also received the emergency shipment placed directly with the supplier and the order placed with AMD. These three deliveries on December 1, 2017, resulted in the VAMC having excess inventory.

As shown in Table 4, the VAMC spent $2,043 for both orders in Example 1.

Table 4. Amount Spent on White-Top Blood Tubes

Supplier	Requested Amount	Amount
Manufacturer	1 case/1000 blood tubes	$1,142
Prime vendor	1 case/1000 blood tubes	$901
Total		**$2,043**

Source: VHA MSPV-NG purchase data.
Note: The $1,142 amount includes overnight cost of $51.37. The $901 amount does not include MSPV-NG fees that can be assessed by the prime vendor, such as distribution fees.

Prime Vendor Worked Outside the Contract Scope

Without close monitoring by VA, sampled VAMCs bypassed procedures to obtain acquisition center approval for new or omitted delivery locations. This in turn caused AMD to work outside the contract's scope and potentially increased the risk of stolen or lost supplies when approved locations were not used. The MSPV-NG contract includes approved locations for medical or surgical supply deliveries. According to the acquisition center, the facility chief logistics officer should notify the COR to modify or add locations to the contract. However, as previously mentioned in this finding, some sampled VAMCs had unfilled COR positions, and facility chief logistics officers did not ask to formally modify delivery locations in the MSPV-NG contract. The acquisition center did not identify any requests for delivery address changes submitted by sampled VAMCs for the review period.

Improper Obligation of Funds and Invoicing Under MSPV-NG

When VA did not adequately monitor the correct invoice, products, and quantity components of correct order fulfillment, VAMCs in the eastern area improperly obligated funds and the prime vendor improperly invoiced for payment under the MSPV-NG due to inadequate internal controls.

Improper obligations stemmed from

- Pricing and unit of issue discrepancies between VAMCs' item master files and the MSPV-NG formulary,
- The prime vendor's use of nonformulary suppliers/sources when fulfilling MSPV-NG order requests, and
- VAMC logistics staff placing MSPV-NG orders without proper authorization from the acquisition center.

Pricing and Unit of Issue Discrepancies Under MSPV-NG

MSPV-NG payment for medical or surgical supplies should be based on products and pricing contained in the MSPV-NG formulary.[29] MSPV-NG products requested by VAMCs correspond to a unique item master file. The item master file stores the prime vendor's stock number and medical product information such as the description, unit price, and packaging type, which links with delivery orders transmitted to the prime vendor via the electronic data interchange.[30] When ordering officers and the prime vendor do not ensure that price or packaging information in the item master file matches the formulary, VAMCs can receive incorrect invoices and quantities of items, and improperly obligate funds for payment.

Example 2 highlights the risk of discrepancies in packaging information and no clear definition for unit of issue in the MSPV-NG contract.

Example 2

> *On July 21, 2017, an ordering officer placed an MSPV-NG order for five cases of catheters for a total cost of $133.20. The facility's item master file priced the catheters at $26.64 per case of 30 items, whereas the July 2017 MSPV-NG formulary showed a unit price of $26.64 per box of 30 items. On July 21, 2017, the prime vendor shipped only five catheters and invoiced for $133.20, the cost for five cases, versus $4.44, the cost for five items. The VAMC recorded the shipment as five cases received, and as a result, paid the prime vendor $133.20 even though AMD provided only five items.*[31]

Both the acquisition center and the prime vendor in Example 2 expressed concerns about whether unit of issue, also known as unit of measure, should be based on how a product is

[29] The formulary is maintained by staff in the acquisition center, while item master files are updated by individual VAMCs.

[30] The stock number is a nine-digit product number from the prime vendor that determines what products are used to fulfill medical facilities' requests.

[31] VA's Financial Service Center should authorize payment for MSPV-NG delivery orders only when receipt of medical and surgical supplies has been confirmed.

packaged versus how it is sold. The acquisition center manager responsible for formulary management defined unit of issue as how the prime vendor purchases the item from the supplier. However, she acknowledged that some people view unit of issue as how the item is used by the medical facility. Adding to the complexity, the prime vendor's president stated the U.S. Food and Drug Administration's approvals of medical or surgical supplies includes a bulk unit of measure that is considered safe handling for the manufacturer. However, this unit of measure may not be the unit a reseller uses when selling the product to the prime vendor. The prime vendor's president also stated that this difference causes discrepancies between units of measure in the MSPV-NG formulary and the prime vendor's reselling units.

Use of Nonformulary Suppliers

The MSPV-NG contract states that payment for medical or surgical supplies should be based on products and pricing in the MSPV-NG formulary.[32] The MSPV-NG formulary also contains approved sources, also known as suppliers, that are authorized to provide the medical or surgical supplies. When a prime vendor uses a nonformulary supplier to fulfill requests, VAMCs might not receive the right product and could affect the quality of care received by veterans, as illustrated in Example 3.

Example 3

> *In August 2017, a VISN MSPV-NG COR from the eastern area reported to the program office and acquisition center that an eastern area VAMC received 80 wheelchairs that were inoperable.[33] The wheelchairs had no leg rests because the order was fulfilled directly from the manufacturer versus the formulary supplier. The VAMC reportedly had to store the wheelchairs in a warehouse until the prime vendor could provide the leg rests. The facility's chief supply chain officer stated that the VAMC resolved the issue within two weeks of receiving the wheelchairs.*

Although the VAMC in Example 3 may have received the requested wheelchairs in a timely manner, VA risks paying for medical or surgical supplies that cannot be used immediately when products are provided from nonformulary suppliers. According to the MSPV-NG contracting officer, prime vendors may request approval to use nonformulary contract sources if there is a manufacturer issue, but the acquisition center reported that no such approvals had been given as of October 21, 2018. The prime vendor's president stated that it is AMD's policy to utilize the formulary contract holders as sources of supply. However, the prime vendor was reportedly

[32] Subsection 2.9 of the MSPV-NG contract. In addition, although the contract does not use the term "formulary," it does state that the MSPV shall not ship any supplies "that are not on the Government provided master listing of approved medical and surgical supplies."

[33] This Region 1 facility was not included in our sample review.

forced to source products directly from manufacturers, instead of the contracted sources, so facilities could receive products in a timely manner.

MSPV-NG Ordering Without Proper Authorization

The MSPV-NG uses ordering officers—unwarranted government personnel acting as agents of the MSPV-NG contracting officer—to place orders against the MSPV-NG contract.[34] VA policy requires an employee's supervisor to initiate an ordering officer nomination for each contract.[35] The MSPV-NG contracting officer or administrative contracting officer then reviews the nomination and signs an appointment letter for the nominee. The nominee, however, should not place orders before electronically acknowledging receipt of the appointment. The acknowledgment indicates a nominee's understanding of his or her ordering officer responsibilities.

VA policy requires prime vendors to accept orders against the MSPV-NG contract only from the MSPV-NG contracting officer or authorized ordering officers. VA policy also requires the MSPV-NG contracting officer to provide the prime vendor with an updated listing of ordering officers authorized to place orders against the MSPV-NG contract. The contracting officer must notify the prime vendor to accept orders only from the contracting officer or authorized ordering officers, as fulfilling orders from other persons may result in an unauthorized commitment.

From June 1 through August 31, 2017, an ordering officer at one sampled VAMC was placing MSPV-NG orders without being officially appointed. At two additional sampled VAMCs, three ordering officers did not acknowledge receipt of their appointments prior to placing orders. When these individuals placed orders under MSPV-NG, AMD's chief executive officer stated that AMD did not have a method to detect delivery orders from unauthorized ordering officers. The acquisition center similarly noted that it did not have a real means to prevent staff from placing orders, even though it identified noncompliant ordering officers during the review period.

[34] Ordering officer responsibilities include ensuring medical or surgical supplies conform to contract requirements and reporting deficiencies in contract performance to the contracting officer's representative or contracting officer.

[35] VA Procurement Policy Memorandum (2016-02), *VA-Wide Procedures Regarding the Use of Ordering Officers* (VAIQ 7696245).

Conclusion

The audit team estimated that over a 12-month period, about $16.8 million in improper payments were made under the MSPV-NG due to VA's inadequate oversight of correct order fulfillment reporting.[36] These improper payments were due to pricing and unit of issue discrepancies between VAMCs' item master files and the MSPV-NG formulary, the prime vendor invoicing for products obtained from unapproved suppliers, and logistics staff obligating funds without proper delegated authority from the acquisition center. If VA does not ensure the program office and acquisition center implement the OIG's recommendations, improper payments could reach $84 million over the next five years.

Recommendations 1–6

The OIG made the following recommendations:

1. The executive in charge, office of under secretary for health, and the principal executive director, office of acquisition, logistics, and construction, require the Healthcare Commodities Program Office and Strategic Acquisition Center to develop a formal process to validate correct order fulfillment reporting by the prime vendors, ensure the correct algorithms are used, and help prevent missed opportunities to identify and mitigate issues.
2. The executive in charge, office of under secretary for health, requires the Healthcare Commodities Program Office to ensure Medical/Surgical Prime Vendor-Next Generation contracting officer's representatives get timely access to the performance metric reporting, such as reporting on correct order fulfillment.
3. The executive in charge, office of under secretary for health, and the principal executive director, office of acquisition, logistics, and construction, require the Healthcare Commodities Program Office and Strategic Acquisition Center to monitor contracting officer's representatives to ensure performance metric reporting is reviewed for accuracy.
4. The executive in charge, office of under secretary for health, and the principal executive director, office of acquisition, logistics, and construction, require the Healthcare Commodities Program Office and Strategic Acquisition Center to strengthen processes and procedures so that staff use the Medical/Surgical Prime Vendor-Next Generation formulary to change unit of issuance and product pricing information in the item master files.
5. The executive in charge, office of under secretary for health, and the principal executive director, office of acquisition, logistics, and construction, require the Healthcare Commodities Program Office and Strategic Acquisition Center to confirm that prime vendor

[36] The audit team multiplied the three--month estimate of ($4.2 million) by four quarters ($4.2 x 4 = $16.8 million) to get a one-year estimate, which is a reasonable estimate based on a similar number of delivery orders occurring in the concluding three quarters of this one-year period. The audit team further estimated the amount over a five-year period equating to about $84 million ($16.8 million x 5).

American Medical Depot uses formulary sources when fulfilling requests for medical or surgical products under the Medical/Surgical Prime Vendor-Next Generation.

6. The executive in charge, office of under secretary for health, requires the director, VHA Procurement and Logistics Office, to see that all those who order supplies under the Medical/Surgical Prime Vendor-Next Generation contract have proper delegated authority.

Management Comments

The executive in charge, office of the under secretary for health, in collaboration with the OALC, concurred with Recommendations 1 through 6.

For Recommendation 1, the Procurement and Logistics Office, Healthcare Commodities Program Office, and the Supply Chain Data and Informatics Office will analyze how to validate prime vendor self-reports, including examining if data from the Electronic Data Interchange could be used to validate reporting.

For Recommendation 2, VHA has ensured that MSPV-NG CORs get timely access to the performance metric reporting and requests OIG close the recommendation.

For Recommendation 3, the Strategic Acquisition Center will verify and update the COR email list every two months using the electronic COR list file. Further, the metric report accuracy will be confirmed by the Healthcare Commodities Program Office with information provided by the chief supply chain officer and the prime vendor on-site representative and shared with the CORs.

For Recommendation 4, staff currently update item master files manually, but VHA is developing a supply chain master catalog solution that will automatically supply the necessary data to VA medical facility item master files to ensure consistency. The supply chain master catalog solution is planned to be implemented in March 2020.

For Recommendation 5, VHA has completed actions related to prime vendors automatically substituting sources without first obtaining approval from the VA medical facility on an order-by-order basis. The VHA requests the OIG close this recommendation.

For Recommendation 6, VHA has ensured that all those who order supplies under the MSPV-NG contract have proper delegated authority and requests OIG close the recommendation.

OIG Response

The executive in charge and the OALC's comments and actions are responsive to the recommendations. VHA and OALC requested the OIG close Recommendations 2, 5, and 6. The OIG will close recommendations 2, 5, and 6 after assessing VHA and OALC's efforts to ensure timely access to reports, confirm use of formulary sources, and ensure proper delegation of authority. The OIG will also monitor the implementation of the planned actions for Recommendations 1, 3, and 4 and will close the recommendations when it receives sufficient evidence demonstrating progress in addressing the identified issues.

Finding 2: VA Did Not Ensure the Prime Vendor Correctly Reported the MSPV-NG Unadjusted Fill Rate

From June 1 through August 31, 2017, the program office and acquisition center did not adequately monitor unadjusted fill rate reporting to ensure the prime vendor correctly calculated fill rate percentages and consistently reported these percentages in the Supply Chain Measures Report and on the Performance Dashboard.[37] The prime vendor calculated unadjusted fill rates using a methodology similar to the one for Legacy MSPV—having been a prime vendor under that contract—instead of using the methodology under MSPV-NG, and did not consistently identify core items used in the calculation. For example, the number of core line items used to calculate fill rate percentages differed between reporting methods in the same month, with the smallest discrepancy being one core line item and the largest discrepancy being 754 core line items. This occurred because the program office and the acquisition center did not develop a formal process to review unadjusted fill rate reporting and detect that AMD was using an incorrect methodology. As a result, VA relied on self-reported performance data when evaluating AMD's performance in June 2017 and risks using erroneous data when exercising MSPV-NG contract options and future awards.

What the OIG Did

The OIG selected the Washington DC VAMC as the first site and statistically selected seven of the remaining 48 VAMCs serviced by AMD.[38] From a population of about 8,300 delivery orders from the eight sites, the OIG selected a total of 263 MSPV-NG delivery orders consisting of 2,607 line items placed from June 1 through August 31, 2017.[39] To assess whether VA adequately monitored unadjusted fill rate reporting, the OIG gained an understanding of VA monitoring requirements and procedures used by the program office and the acquisition center, determined AMD's method for calculating the unadjusted fill rate, gained an understanding of the Legacy MSPV and MSPV-NG fill rate methodologies, reviewed 41 (100 percent) delivery orders at one VAMC to calculate the actual unadjusted fill rate based on the MSPV-NG contract methodology, and compared results to prime vendor reporting during the review period.

Finding 2 discusses

- Reporting requirements,
- Monitoring of fill rate reporting,

[37] Fill rates, in general, measure the percentage of orders filled out of total orders placed and provide an assessment of a supplier's ability to meet demand with on-hand inventory

[38] The first facility was excluded from the random selection process.

[39] The audit team reviewed only 251 orders (2,521 line items) because 12 of the 263 orders were canceled by the sampled VAMCs.

- Inadequate monitoring of prime vendor performance, and
- Lack of formal process to validate prime vendor performance reporting.

Reporting Requirements

The unadjusted fill rate measures the percentage of orders filled based on total orders placed by a VAMC. For medical or surgical products requested at least once a month, the MSPV-NG contract requires prime vendors to fill these orders completely 95 percent of the time. Prime vendors contractually self-report on this performance standard monthly using the Supply Chain Measures Report and the Performance Dashboard. The Supply Chain Measures Report includes unadjusted fill rates for VAMCs that a prime vendor serves. The Performance Dashboard captures the unadjusted fill rates for each facility in the prime vendor's service area and is accessible by medical facilities' logistics staff on the prime vendor's website.

Change in Fill Rate Calculation from Legacy MSPV to MSPV-NG

The transition from Legacy MSPV to MSPV-NG imposed new requirements that modified the fill rate percentage calculation. Under the Legacy MSPV contract, the adjusted fill rate allowed the inclusion of some core products that a prime vendor was unable to fill.[40] Specifically, prime vendors could increase the fill rate percentage by adding core products that met one of two exception categories: (1) manufacturer back orders and (2) requests for products that exceeded 30-day demand levels by 10 percent. Figure 3 illustrates the method used to calculate the fill rate under the Legacy MSPV contract.

$$\text{Adjusted Fill Rate} = \frac{\begin{array}{c}\text{\# of Core Line Items Shipped on the Scheduled Delivery Date +} \\ \text{\# of Lines with a Manufacturer Backorder +} \\ \text{\# of Lines Reduced/Rejected when 30 Day Usage Level Exceeded 10\%}\end{array}}{\text{Total \# of Core Line Items Ordered by Facility}}$$

Figure 3. *Legacy MSPV method for calculating fill rate*
Source: OIG analysis of the Legacy MSPV contract

Although these exceptions were contractually based, VA medical facility logistics staff reportedly had concerns about their accuracy. For example, a former acting program executive officer stated that prime vendors were applying the exception categories and VA had no way to verify the exceptions. She recalled a discussion in which medical facilities asked the prime

[40] The Legacy MSPV contract did not use the term "adjusted" when explaining fill rate requirements. However, because the MSPV-NG contract uses the term "unadjusted" to describe the fill rate, the term "adjusted" was used to explain the calculation difference between the two contracts.

vendor about adjusted fill rates that did not match up with their experiences and the prime vendor did not have any documentation to support exceptions used. These concerns were shared with the Legacy MSPV contracting officer, who reportedly said there was nothing in the contract about validating exceptions. The former acting program executive officer further stated that there were other VISNs and medical facilities reporting similar concerns with adjusted fill rates.

However, effective July 20, 2016, the MSPV-NG contract removed the exception categories previously permitted under Legacy MSPV and introduced a revised performance metric known as the unadjusted fill rate performance metric. The MSPV-NG contract states that canceled medical or surgical supplies, back orders, partial order fulfillment, and split shipments count against the unadjusted fill rate. These types of orders should not be excluded from the unadjusted fill rate calculation. Figure 4 illustrates the MSPV-NG contract unadjusted fill rate computation that all prime vendors should use to ensure compliance.

$$\text{Unadjusted Fill Rate} = \frac{\text{\# of Core Line Items Not Completely Filled at the Time of Request}}{\text{Total \# of Core Line Items Ordered by Facility}}$$

Figure 4. *Fill rate calculation under MSPV-NG*
Source: OIG analysis of the MSPV-NG contract

Monitoring of Fill Rate Reporting

The Federal Acquisition Regulation holds the contracting officer responsible for compliance with the terms of the MSPV-NG contract. The program office's program control plan states that the Program Controls Division is responsible for defining and monitoring performance standards for the MSPV-NG contract, including the unadjusted fill rate.[41] From June 1 through August 31, 2017, the acquisition center and program office received feedback from VAMCs—MSPV-NG Facilities Execution Survey results and emails—to monitor prime vendor performance reporting.[42] However, for the May 15 through June 15, 2017 period, the MSPV-NG contracting officer stated that the acquisition center tracked orders from VAMCs and AMD's fill rates on those orders.[43]

[41] The program office's program control plan establishes the governance, quality, and measurement standards for the MSPV-NG program.

[42] During the review period, the program office also monitored MSPV-NG by measuring use of the MSPV-NG formulary and MSPV-NG spending levels at VAMCs. However, these program metrics were not related to prime vendor performance.

[43] June 1 through June 15, 2017, falls within the review period (June 1 through August 31, 2017).

The acquisition center reportedly began monitoring fill rates after determining that AMD could not fulfill contractual responsibilities in a U.S. territory and other unresolved issues. When the OIG asked the acquisition center for the data used to track fill rates, the MSPV-NG contracting officer stated that the program office tracked the fill rates and provided feedback to the acquisition center regarding their progress.[44]

According to the acting program manager, the program office did not track fill rates for AMD from May 15 through June 15, 2017, except as done by the prime vendors themselves. The program office reported that some of the VAMCs were manually tracking fill rates and passing data forward to the acquisition center and the program office. However, the acting program manager was unable to verify who received the data at the program office.

Inadequate Monitoring of Prime Vendor Performance Reporting

From June 1 through August 31, 2017, AMD used a methodology similar to the adjusted fill rate under Legacy MSPV instead of the unadjusted fill rate required by the MSPV-NG contract. AMD's president and the director of managed information systems explained that the unadjusted fill rate is calculated by dividing the total lines ordered in a 30-day period by the sum of the total lines filled and total lines exempted. Exemptions represent items that could not be filled because of issues outside the prime vendor's control, such as

- An item not being on the formulary at the time it is requested,
- An item not designated as core by a facility,[45]
- An item not designated as core for at least 90 days,
- Usage spikes by medical facilities, and
- Manufacturer back orders.

In the opinion of the AMD president, this methodology represents the prime vendor's "true" fill rate and is labeled the contractual fill rate by the prime vendor. The prime vendor provided the OIG with raw unadjusted and contractual fill rates for each sampled VA medical facility. The raw unadjusted fill rate reportedly represents the fill rate before exemptions are applied, and the contractual fill rate represents the fill rate reported to the acquisition center.

The AMD president also provided an email to the OIG that explained the methodology used to compute raw and contractual unadjusted fill rates. The AMD director of managed information systems confirmed that the contractual fill rate calculation shared with the OIG on

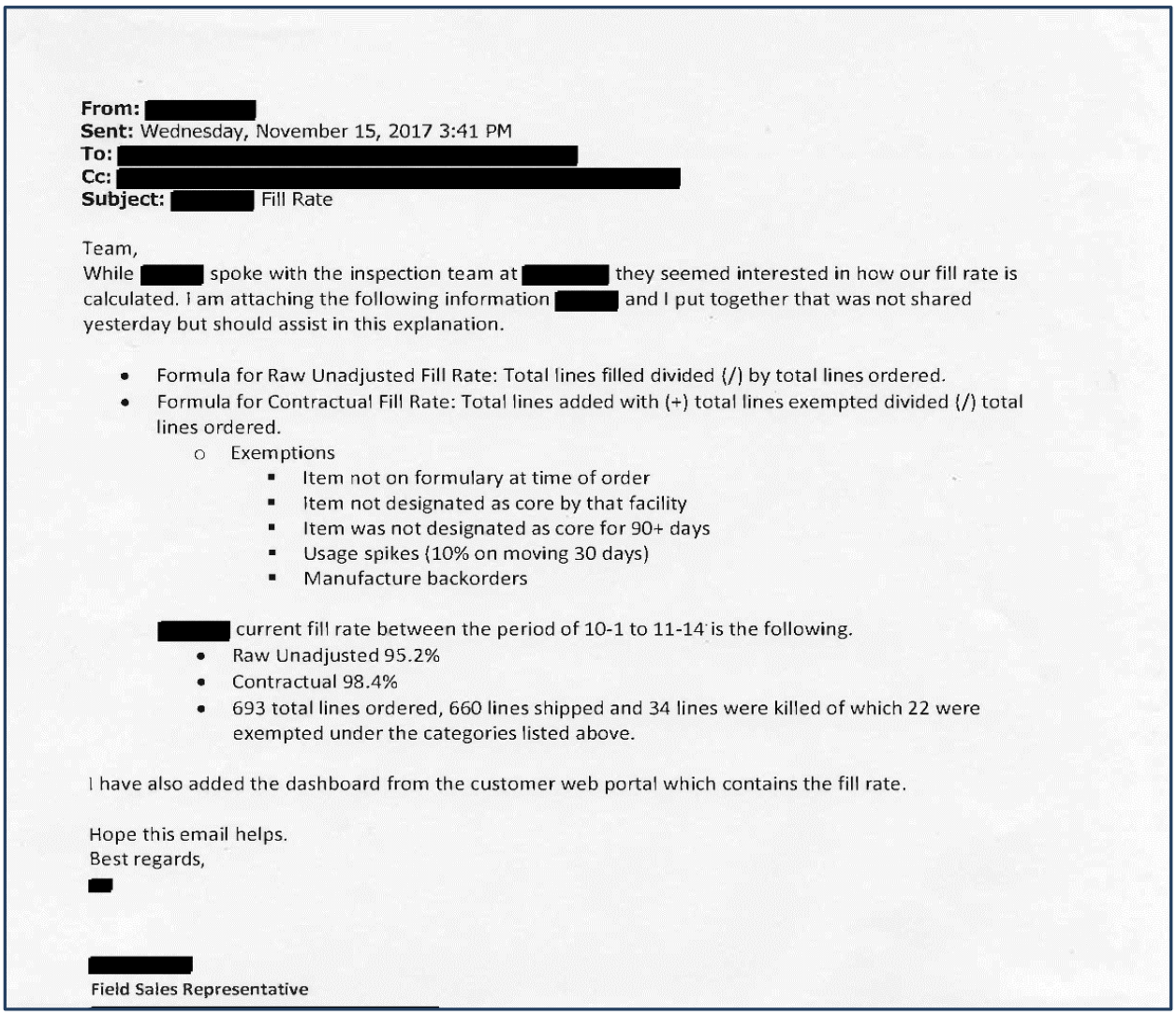
[44] The contracting officer was unable to provide support for the feedback reportedly provided by the program office.

[45] Based on the "Fill rate calculation under MSPV-NG" above, the contractor would be allowed to remove noncore items from their calculations.

November 16, 2017, was the same methodology outlined in the email. Figure 5 represents the email provided and highlights the fill rate methodologies explained by the prime vendor.

Logistics staff at sampled medical facilities and their VISNs expressed concerns about the accuracy of fill rates reported by the prime vendor. The program office's program manager and a management analyst from the Programs Control Division stated that the program office did not have any responsibilities related to the MSPV-NG contractual performance metrics, such as the unadjusted fill rate. However, the MSPV-NG contracting officer said the acquisition center had been working for months to validate prime vendor reporting for the unadjusted fill rate.

The MSPV-NG contracting officer reportedly held a meeting with the prime vendor on February 6, 2018, and learned that the prime vendor was excluding orders from the unadjusted fill rate calculation that should have been included. The contracting officer stated the prime vendor was to provide corrected numbers to the acquisition center on February 13, 2018. As of March 2019, the acquisition center could not provide evidence that AMD had provided corrected fill rate percentages.



From: [redacted]
Sent: Wednesday, November 15, 2017 3:41 PM
To: [redacted]
Cc: [redacted]
Subject: [redacted] Fill Rate

Team,
While [redacted] spoke with the inspection team at [redacted] they seemed interested in how our fill rate is calculated. I am attaching the following information [redacted] and I put together that was not shared yesterday but should assist in this explanation.

- Formula for Raw Unadjusted Fill Rate: Total lines filled divided (/) by total lines ordered.
- Formula for Contractual Fill Rate: Total lines added with (+) total lines exempted divided (/) total lines ordered.
    - Exemptions
        - Item not on formulary at time of order
        - Item not designated as core by that facility
        - Item was not designated as core for 90+ days
        - Usage spikes (10% on moving 30 days)
        - Manufacture backorders

[redacted] current fill rate between the period of 10-1 to 11-14 is the following.

- Raw Unadjusted 95.2%
- Contractual 98.4%
- 693 total lines ordered, 660 lines shipped and 34 lines were killed of which 22 were exempted under the categories listed above.

I have also added the dashboard from the customer web portal which contains the fill rate.

Hope this email helps.
Best regards,
[redacted]

[redacted]
Field Sales Representative

Figure 5. *Email regarding prime vendor's fill rate calculation*
Source: Provided by AMD

At the Washington DC VAMC, the prime vendor reported unadjusted fill rates on the Supply Chain Measures Report for all three months at 95 percent or higher.[46] However, the audit team reviewed 100 percent of delivery orders placed by the medical facility during these months and calculated unadjusted fill rates of 95 percent, 78 percent, and 81 percent for June, July, and August 2017.

Almost three years into MSPV-NG, VAMCs continue to raise concerns regarding the accuracy of fill rate reporting. In June 2018, a VISN deputy chief logistics officer emailed the acquisition center and the program office citing continued frustration with prime vendor fill rate reporting. He stated that "many facilities have just given up and don't even pay attention to the [f]ill [r]ates

[46] See Table 5 for unadjusted fill rate reporting submitted by the prime vendor.

that AMD claims." Similarly, September 2018 MSPV-NG survey results reported confusion over accurate metrics and recurring fill rate issues with prime vendors.

Core Items Inconsistently Identified

In addition to using an incorrect fill rate methodology, the prime vendor did not consistently identify core items on 22 of the 251 delivery orders (49 line items) in the sample. For seven of eight sampled VAMCs, the prime vendor did not consistently identify core items on order confirmations provided to the facilities. The order confirmation, an electronic document provided by the prime vendor, contains details about each requested product, including whether the item is a formulary item, its availability, and the core status. The MSPV-NG unadjusted fill rate percentage is based on medical or surgical products designated as core in each facility's core listing. Example 4 highlights how the prime vendor inconsistently identified core designations between orders as well as the resulting impact on the unadjusted fill rate calculation.

Example 4

On August 18, 2017, an ordering officer placed a MSPV-NG delivery order that included a request for two cases of blood collection tubes. The prime vendor's order confirmation identified the collection tubes as being on the formulary and noncore, but the facility's August 2017 core listing identified the item as core. The medical facility ordered the blood collection tubes seven times from June 1 through August 31, 2017. The prime vendor identified the item as core each time except on the August 18, 2017, delivery order and a subsequent order placed on August 31, 2017. If the core status for the blood collection tubes had remained consistent with the previous five orders, the unadjusted fill rate for the delivery order would have been 67 percent versus 100 percent.

Fill Rates Not Consistently Reported

The MSPV-NG contract requires the prime vendor to report monthly on the unadjusted fill rate performance metric using the Supply Chain Measures Report and the Performance Dashboard. From June 1 through August 31, 2017, program office and acquisition center staff did not ensure the prime vendor reported unadjusted fill rates consistently between the Supply Chain Measures Report and the Performance Dashboard. The prime vendor reported fill rates to VA that met or exceeded the 95 percent performance requirement for both reporting methods. The prime vendor also provided contractual fill rate percentages to the audit team for sampled VAMCs.[47] However, after comparing the contractual fill rate percentages to VA reported percentages, the team found inconsistencies between the Supply Chain Measures Report and the Performance Dashboard.

[47] The fill rate reporting provided by the prime vendor computed percentages for June 2017, July 2017, and August 2017 collectively by sampled facility. The OIG separated the reporting by month for comparison purposes.

Tables 5 through 7 highlight inconsistent AMD reporting of the fill rate performance metric in the Supply Chain Measures Report, on the Performance Dashboard, and to the OIG.

Table 5. Unadjusted Fill Rate Performance Metric Reporting for June 2017

VA Medical Facility*	Supply Chain Measures Report	Dashboard	Reported to OIG
Buffalo, NY	99	100	95
Miami, FL	97	100	95
Fayetteville, NC	96	100	87
Manhattan, NY	98	100	96
Providence, RI	97	100	95
Washington DC	99	100	73
West Haven, CT	97	100	89

Source: Prime vendor reporting to VA and VA OIG for fill rates
** Fill rate reporting for the Baltimore Healthcare System is at the system level versus the facility level. Fill rate reporting was not available for the Perry Point VA medical facility.*

Table 6. Unadjusted Fill Rate Performance Metric Reporting for July 2017

VA Medical Facility*	Supply Chain Measures Report	Dashboard	Reported to OIG
Buffalo, NY	98	100	95
Miami, FL	97	98	96
Fayetteville, NC	96	98	96
Manhattan, NY	97	100	92
Providence, RI	97	99	92
Washington DC	95	98	85
West Haven, CT	96	99	90

Source: Prime vendor reporting to VA and VA OIG for fill rates
** Fill rate reporting for the Baltimore Healthcare System is at the system level versus the facility level. Fill rate reporting was not available for the Perry Point VA medical facility.*

Table 7. Unadjusted Fill Rate Performance Metric Reporting for August 2017

VA Medical Facility*	Supply Chain Measures report	Dashboard	Reported to OIG
Buffalo, NY	97	99	94
Miami, FL	95	99	94
Fayetteville, NC	95	99	98
Manhattan, NY	97	100	92
Providence, RI	97	99	93
Washington DC	95	99	78
West Haven, CT	95	99	91

Source: Prime vendor reporting to VA and VA OIG for fill rates
** Fill rate reporting for the Baltimore Healthcare System is at the system level versus the facility level. Fill rate reporting was not available for the Perry Point VA medical facility.*

In addition, AMD did not consistently use the same number of core lines when reporting fill rates for seven of eight sampled VAMCs. The total number of core lines used when reporting fill rate percentages differed between the Supply Chain Measures Report and Performance Dashboard in the same month.[48] Differences ranged from one core line to as many as 754 lines. The differences coupled with methodology concerns raise questions as to the accuracy of AMD's reporting and the adequacy of MSPV-NG performance metric oversight provided by the program office and acquisition center.

Lack of Formal Process to Validate Prime Vendor Reporting of Unadjusted Fill Rates

As presented in Finding 1, the program office and acquisition center did not develop a formal process to validate prime vendor performance reporting from June 1 through August 31, 2017. This lack of a formal process kept them from detecting that AMD was using an incorrect methodology for the unadjusted fill rate performance metric. Moreover, the program office and acquisition center staff disagreed on who was responsible for monitoring prime vendor performance.

From June 1 through August 31, 2017, the program office's only involvement with MSPV-NG contractual performance metrics was obtaining Supply Chain Measures Reports from the

[48] The prime vendor submits the Supply Chain Measures report to the acquisition center, while the Performance Dashboard is a website available for use by VHA logistics staff.

acquisition center and posting them to a SharePoint site for facility access. This involvement did not meet the specifications of the program office's program control plan, which made the program office's Program Controls Division responsible for defining and monitoring performance standards for the MSPV-NG contract.[49] The plan proposed monitoring the unadjusted fill rate during the first phase of developing a robust system of program metrics and identified the unadjusted fill rate as one of the primary metrics that drive compliance and operational excellence in the MSPV-NG. Although the original program control plan was revised in May 2018 to include identifying prime vendor data validation as a top programmatic risk, the plan was not executed during the OIG's review period.

A former program manager who approved the program office's original program control plan and the MSPV-NG contracting officer said that monitoring was a partnership among the program office, the acquisition center, and CORs. However, the MSPV-NG administrative contracting officer stated that the acquisition center was responsible for ensuring prime vendors submit performance data to VA, but the program office was responsible for reviewing the data. Moreover, the program executive officer for the review period stated the acquisition center, not the program office, monitors the contract.

From speaking with logistics staff at the sampled VAMCs, the OIG observed that the importance of monitoring varied among the medical facilities. One facility chief logistics officer planned to hire someone to assist with monitoring the MSPV-NG contract. Another VA medical facility chief logistics officer stated she did not want to spend time monitoring what is already working. The VISN chief logistics officers also had different perspectives regarding monitoring MSPV-NG performance. One VISN deputy chief logistics officer stated he did not think the medical facility was the appropriate level to assess the accuracy of performance metrics because it would be a time-consuming, manual process that would not be advantageous to the facility.

Conclusion

VA did not adequately monitor unadjusted fill rate reporting to ensure the prime vendor used the correct methodology. Even though the MSPV-NG contracting officer reported tracking AMD's fill rates in June 2017, neither the acquisition center nor the program office could provide the OIG with any data to support that the tracking occurred. The unavailable tracking information coupled with the reporting concerns addressed in this finding indicate that VA relied on self-reported performance data when evaluating AMD's performance and risks using erroneous data when exercising MSPV-NG contract options and future awards. The program office recently piloted a web-based MSPV Prime Vendor Issue Management Tool, which allows supply chain personnel and CORs to report prime vendor performance issues, such as incorrect performance data. Although the web-based tool launched in January 2019, VA cannot effectively

[49] HCPO's Program Control Plan establishes the governance, quality, and measurement standards for the MSPV-NG Program.

address complaints related to unadjusted fill rate reporting until a process is established to ensure all prime vendors calculate fill rates in accordance to the MSPV-NG contract and report consistently between reporting methods.

Recommendations 7–11

The OIG made the following recommendations:

7. The executive in charge, office of under secretary for health, and the principal executive director, Office of Acquisition, Logistics, and Construction, require the Healthcare Commodities Program Office and Strategic Acquisition Center to monitor the Integrated Product Team's development and implementation of a process to validate performance metric reporting such as on unadjusted fill rates.
8. The executive in charge, office of under secretary for health, requires the Procurement and Logistics Office to strengthen controls, monitor the Healthcare Commodities Program Office monthly, and ensure adherence to the established Medical/Surgical Prime Vendor-Next Generation program control plan.
9. The executive in charge, office of under secretary for health, and the principal executive director, Office of Acquisition, Logistics, and Construction, require the Healthcare Commodities Program Office and Strategic Acquisition Center to identify and resolve discrepancies between unadjusted fill rate reporting methods used by the Medical/Surgical Prime Vendor-Next Generation prime vendor for select eastern area VA medical centers.
10. The executive in charge, office of under secretary for health, and the principal executive director, office of acquisition, logistics, and construction, direct the Healthcare Commodities Program Office and Strategic Acquisition Center to see that all prime vendors use the unadjusted fill rate calculation methodology in accordance with the Medical/Surgical Prime Vendor-Next Generation contract.
11. The executive in charge, office of under secretary for health, and the principal executive director, office of acquisition, logistics, and construction, instruct the Healthcare Commodities Program Office and Strategic Acquisition Center to require the Medical/Surgical Prime Vendor-Next Generation prime vendor for select eastern area VA medical centers to provide corrected unadjusted fill rates for the fiscal year 2018 and current reporting periods.

Management Comments

The executive in charge, office of the under secretary for health, in collaboration with the OALC, concurred with Recommendations 7–11.

For Recommendation 7, the Healthcare Commodities Program Office and the Supply Chain Data and Informatics Office will analyze how to validate prime vendor self-reports, including examining if Electronic Data Interchange data could be used to validate unadjusted fill rates.

For Recommendation 8, the Healthcare Commodities Program Office and the Strategic Acquisition Center will provide monthly updates to the Procurement and Logistics Office about adherence to an established plan for monitoring Prime Vendor performance reporting. The Procurement and Logistics Office will review and assess this adherence.

For Recommendation 9, the Procurement and Logistics Office will work with select eastern-area VAMCs to identify and resolve discrepancies, verify a consistent algorithm for reporting of unadjusted fill rates to be used uniformly for both facilities and prime vendor self-reporting, notify prime vendors of the correct algorithm, and ensure prime vendors use it.

For Recommendation 10, the Healthcare Commodities Program Office will verify a consistent algorithm for reporting unadjusted fill rates to be used uniformly for both VAMCs and prime vendor self-reporting and ensure that prime vendors use the correct algorithm.

For Recommendation 11, the Healthcare Commodities Program Office will request corrected unadjusted fill rates from the American Medical Depot outlining the reason for the discrepancy and identifying the correct algorithm/methodology.

OIG Response

The executive in charge and the OALC's comments and actions are responsive to the recommendations. The OIG will monitor the implementation of the planned actions for Recommendation 7–11 and will close the recommendations when it receives sufficient evidence demonstrating progress in addressing the identified issues.

Appendix A: Scope and Methodology

Scope

The audit team conducted its work from October 2017 through August 2019. The universe included 50 VAMCs serviced by AMD in the eastern area. The audit team excluded one eastern area site because it was placed under another prime vendor effective April 20, 2017. From the remaining 49 facilities, the team selected eight VAMCs and a total of 263 MSPV-NG delivery orders (2,607 line items) placed from June 1 through August 31, 2017.[50] Appendix B provides additional details on the statistical sampling methodology. Table A.1 displays the eight VAMCs selected.

Table A.1. Sampled VAMCs

Region	Medical Center	Location
1	Buffalo VAMC	Buffalo, NY
1	Fayetteville VAMC	Fayetteville, NC
1	Manhattan VAMC	Manhattan, NY
1	Perry Point VAMC	Perry Point, MD
1	Providence VAMC	Providence, RI
1	Washington DC VAMC	Washington, DC
1	West Haven VAMC	West Haven, CT
2	Miami VAMC	Miami, FL

Source: VA OIG statistician

The audit scope was limited to order fulfillment processes at select Region 1 and 2 VAMCs serviced by AMD in the eastern area. As a result, the audit results should not be extrapolated nationally to VAMCs serviced by other prime vendors. In addition, the audit focused on VA's oversight of the MSPV-NG. This focus required the audit team to gain an understanding of order fulfillment processes used by AMD, which was accomplished through interviews, observations, and a review of related policies and procedures. However, the audit team is unable to provide an assessment of these processes because the prime vendor and related operations were not audited.

Methodology

To determine whether VA adequately monitored prime vendor reporting and order fulfillment to ensure the timely and complete shipment of MSPV-NG supplies, the audit team assessed three of

[50] The audit team only reviewed 251 orders (2,521 line items) because 12 of the 263 orders were canceled by the sampled VAMCs.

22 MSPV-NG contractual performance metrics: Correct Order Fulfillment, Unadjusted Fill Rate, and the Supply Chain Measures Report. The team did the following:

- Conducted on-site, announced visits to the program office, acquisition center, the eight sampled VAMCs, and AMD's headquarters
- Interviewed current and former officials at the program office, acquisition center, and VAMCs to understand ordering, receiving, and monitoring controls for the MSPV-NG
- Interviewed key officials at AMD and on-site at VAMCs regarding controls used to ensure accurate reporting and order fulfillment under the MSPV-NG
- Observed the receiving process for MSPV-NG deliveries at seven of eight sampled VAMCs
- Observed MSPV-NG order processing at the prime vendor's primary warehouse
- Reviewed applicable laws, regulations, policies, procedures, and guidance related to VA's oversight of the MSPV-NG
- Reviewed AMD's policies and procedures regarding MSPV-NG order processing
- Reviewed performance metric reporting submitted by AMD from June 1 through August 31, 2017
- Tested whether at least 95 percent of each sampled MSPV-NG delivery order met correct order fulfillment criteria for correct product and quantity, correct location, correct time, and correct invoicing.[51] Supporting documentation used for this testing included delivery orders, receiving reports, invoices, order confirmations, shipping notices, packing slips, facility core listings, and MSPV-NG formularies. The performance standard for correct order fulfillment is 95 percent based on each component (that is, correct product, correct quantity, correct location, correct invoice, etc.), which equals total correct orders divided by total orders multiplied by 100. The audit team deemed an order correct if at least 95 percent of the line items met the criteria for each component of correct order fulfillment. For example, if an order had 25 line items and two lines did not meet correct invoice, then the order was deemed incorrect because less than 95 percent of the order's line items met correct invoice criteria (23/25 = 92 percent). If, in the same order, one line did not meet correct location criteria, the entire component was still correct because at least 95 percent of the component's total line items were correct (24/25 = 96 percent). The MSPV-NG contract did not explain how to assess the categories of correct order fulfillment. Therefore, the OIG used criteria from the MSPV-NG contract and

[51] The correct audit trail category of correct order fulfillment was not accessed, as it fell outside the audit's scope.

discussed contractual terms and definitions with the MSPV-NG contracting officer. The MSPV-NG contract also did not define what makes an order correct. As a result, the audit team was conservative in its approach and used a 5 percent error margin—the same error margin for correct order fulfillment—before designating an order component as incorrect

- Assessed whether VA adequately monitored unadjusted fill rate reporting. The OIG gained an understanding of VA monitoring requirements and procedures used by the program office and the acquisition center, determined AMD's method for calculating the unadjusted fill rate, gained an understanding of the Legacy MSPV and MSPV-NG fill rate methodologies, reviewed 41 (100 percent) delivery orders at one VAMC to calculate the actual unadjusted fill rate based on the MSPV-NG contract methodology, and compared results to prime vendor reporting during the review period
- Calculated correct order fulfillment and unadjusted fill rate percentages for the Washington DC VAMC and compared the OIG-calculated percentages to prime vendor self-reporting

Fraud Assessment

The audit team assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur during this audit. The audit team exercised due diligence in staying alert to any fraud indicators by taking actions such as

- Asking VA officials, management, and staff if they were aware of fraud under the MSPV-NG;
- Asking prime vendor officials, management, and staff if they were aware of fraud under the MSPV-NG;
- Reviewing documentation for evidence of short shipments, substitutions of lower quality goods, inflated invoices, and invoicing for goods not received;
- Gaining an understanding of how/if shipping documentation could be modified after printing; and
- Referring potential instances of fraud identified during audit work to the OIG's Office of Investigations.

Data Reliability

The audit team used computer-processed data from VHA's Corporate Data Warehouse to review a total of 251 delivery orders from eight VAMCs. In addition to completeness tests performed by the OIG Data Analysis Division, the audit team compared ordering data to documentation

printed from VA's Integrated Funds Distribution, Control Point Activity, Accounting and Procurement, and Generic Inventory Package systems. The team also used MSPV-NG formulary spreadsheets to determine whether requested products were eligible under the MSPV-NG. Product information provided by MSPV-NG suppliers is manually entered into a Microsoft SQL database that supports the formulary spreadsheet. The audit team assessed the reliability of this information by comparing hard-copy supplier information to data in the formulary spreadsheets.

The audit team also used computer-processed data from AMD's order-processing system to determine whether sampled orders met correct order fulfillment criteria. The computer-processed data included facilities' core item listings; printed documents such as order confirmations, shipping notices, and packing slips; and performance metric reporting on the Supply Chain Measures Reports and Performance Dashboards. The audit team gained a general understanding of system controls for MSPV-NG reporting and for determining whether requested products were on the MSPV-NG formulary and being provided in correct units and at the correct cost. The audit team also inquired about processing errors that occurred during the audit scope that would affect the accuracy of reporting. The team accessed the reliability of prime vendor data using the following methods:

- **Facilities' Core Listings:** Each sampled VAMC provided its list of core medical or surgical supplies for June, July, and August 2017. All listings were maintained by the prime vendor and as a result, no VA data were available to match against the listings. Although core status designations were included on order confirmations from the prime vendor, the audit team did not rely on these data and instead made its own determinations regarding core status using the core listings provided.
- **Printed Documents:** The audit team compared data on printed documents such as requested quantity and product stock numbers to data on sampled delivery orders and receiving reports in VA's Generic Inventory Package system.
- **Supply Chain Measures Reports:** The Supply Chain Measures report is based on a reporting template included as an attachment to the MSPV-NG contract. The audit team accessed reliability of Supply Chain Measures Reports submitted during the period from June 1 through August 31, 2017, by comparing self-reported correct order fulfillment and unadjusted fill rate percentages to OIG-calculated percentages for the sampled delivery orders.
- **Performance Dashboard Reporting:** The Performance Dashboard, located on AMD's website, contained only the unadjusted fill rate percentages for the review period. Therefore, the audit team assessed reliability of the Performance Dashboard reporting by comparing the self-reported unadjusted fill rate percentages to OIG-calculated percentages for the sampled delivery orders.

The audit team found no significant discrepancies and concluded the computer-processed data were sufficiently reliable to support our audit objective, conclusion, and recommendations.

Government Standards

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

Appendix B: Statistical Sampling Methodology

To accomplish the audit objective, the audit team reviewed a statistical sample of MSPV-NG purchase orders extracted from VA's Integrated Funds Distribution, Control Point Activity, Accounting and Procurement system.[52] The audit team used statistical sampling to quantify the extent of orders that were not delivered complete and in a timely manner under MSPV-NG.

Population

The population includes 9,062 MSPV-NG purchase orders (76,616 line items) submitted by AMD's Region 1 and 2 facilities in the eastern area. The obligations ($32,838,250.29) fell within the June 1, 2017, through August 31, 2017, period and represent obligations under budget object code 2632. One Region 2 site, Puerto Rico, was excluded from the population. This U.S. territory originally fell under AMD's purview, but VA placed the site under a new prime vendor—Cardinal Health P.R. 120, Inc., effective April 20, 2017—due to AMD's poor performance.

Sampling Design

For the first stage, seven of 48 select medical facilities in Regions 1 and 2 were selected with probability proportional to the size of the facility. The eighth facility represented a certainty facility and was excluded from the random selection process. For the second stage, the team randomly selected a total of 30 purchase orders that fell within the June 1 through August 31, 2017, period for seven of the eight facilities selected during the first stage. The audit team performed a 100 percent review of all 41 purchase orders at the certainty facility.

Weights

The OIG calculated estimates in this report using weighted sample data. Samples were weighted to represent the population from which they were drawn. The OIG team uses the weights to compute estimates.

[52] The phrase "purchase order" as used in the sampling methodology pertains to the name of a column in the Integrated Funds Distribution, Control Point Activity, Accounting and Procurement data that contains the purchase order number versus the type of order. For example, the MSPV-NG contract states that individual delivery orders shall be issued by participating facilities against the MSPV contract for medical/surgical supplies. The purchase orders identified in the Integrated Funds Distribution, Control Point Activity, Accounting and Procurement data for this audit were not limited to MSPV-NG delivery orders and were identified by Budget Object Code and Vendor Name; however, the audit team—in concert with OIG statisticians—identified non-delivery orders (that is, out-of-scope orders) in the sample, replaced them with delivery orders, and accounted for the non-delivery orders in the MSPV-NG estimates.

Projections and Margins of Error

The OIG estimated that VAMCs in the eastern area received correct orders only 40 percent of the time. Tables B.1 and B.2 summarize the projections.

Table B.1. Summary of Projections (Correct Order Fulfillment)

Category	Estimate (percent)	Margin of error (percent)	90 Percent confidence interval lower limit	90 Percent confidence interval upper limit	Sampled cases with attribute	Total sample size
Correct product and quantity received	3,348 (40)	488 (6)	2,861	3,836	86	251
Products delivered to approved locations						
Products delivered timely						
Products delivered with accurate invoices						
Total correct delivery orders	**3,348 (40)**	**488 (6)**	**2,861**	**3,836**	**86**	**251**

Source: VA OIG statistician

Note: Numbers in the report are rounded.

Table B.2. Summary of Projections (Correct Order Fulfillment Not Met)

Category	Estimate (percent)	Margin of error (percent)	90 Percent confidence interval lower limit	90 Percent confidence interval upper limit	Sampled cases with attribute	Total sample size
Correct product and quantity not received	858 (17)	271 (6)	587	1,130	40	165
Products delivered to unapproved locations	1,785 (36)	145 (4)	1,641	1,930	42	165
Products not delivered timely	2,116 (43)	433 (7)	1,683	2,549	91	165
Products delivered with inaccurate invoices	2,874 (58)	512 (7)	2,362	3,386	97	165
Total incorrect delivery orders	4,944 (60)	493 (6)	4,452	5,437	165	251

Source: VA OIG statistician

Note: Numbers in the report are rounded.

Table B.3 summarizes the improper payments.

Table B.3. Summary of Improper Payment Projections

Category	Estimate (percent)	Margin of error (percent)	90 Percent confidence interval lower limit	90 Percent confidence interval upper limit	Sampled cases with attribute	Total sample size
Number of improper payments	2,830 (34)	509 (6)	2,321	3,339	97	251
Total amount of improper payments	$4,189,860	$2,400,982	$1,788,878	$6,590,842	97	251

Source: VA OIG statistician
Note: The audit review's three-month estimated $4.2 million would equate to $16.8 million over a 12-month period.

The point estimate (for example, estimated error) is an estimate of the population parameter obtained by sampling. The margin of error and confidence interval associated with each point estimate is a measure of the precision of the point estimate that accounts for the sampling methodology used. If the OIG 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.

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

Recommendation	Explanation of benefits	Better use of funds	Questioned costs
4, 5, & 6	Strengthen processes and procedures to ensure medical facilities acquisition staff rely on the Medical/Surgical Prime Vendor-Next Generation formulary to make unit of issuance and product pricing information changes to the item master files; and ensure American Medical Depot only obtains products from approved sources of supply; and American Medical Depot only accepts orders from authorized ordering officers, prime vendor use formulary sources when fulfilling requests for medical/surgical products under the Medical/Surgical Prime Vendor-Next Generation. In addition, strengthen controls to ensure the Healthcare Commodities Program Office and Strategic Acquisition Center collaborate to modify the MSPV-NG contract to require prime vendors to accept orders only from authorized ordering officers and develop a formal plan to comply with ordering officer monitoring requirements	$84 million[53]	
	Total	**$84 million**	

[53] For the three-month review period, the audit team estimated about $4.2 million in improper payments were made under the MSPV-NG due to VA's lack of oversight over correct order fulfillment reporting. When this one-quarter estimated amount is multiplied by four-quarters, total improper payments estimated for the period are approximately $16.8 million, or about $84 million over a five-year period. The audit team multiplied the three-month estimate of ($4.2 million) by four quarters ($4.2 x 4 = $16.8 million) to get a one-year estimate. The audit team further estimated the amount over a five-year period equating to about $84 million ($16.8 million x 5).

Appendix D: Management Comments

Department of Veterans Affairs

Date: [October 25, 2019]

From: Executive In Charge, Office of the Under Secretary for Health (10)

Subj: OIG Draft Report, Inadequate Oversight of the Medical/Surgical Prime Vendor Program's Order Fulfillment and Performance Reporting for Eastern Area Medical Centers (Project # 2017-03718-R3-0136) (VIEWS 1459741)

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

1. Thank you for the opportunity to review and comment on the Office Inspector General (OIG) draft report, Inadequate Oversight of the Medical Surgical Prime Vendor Program's Order Fulfillment and Performance Reporting for Eastern Area Medical Centers. I have reviewed the draft report and concur with the recommendations made to the Veterans Health Administration (VHA).

2. I concur with with the draft report and OIG's recommendations 1 through 11 in collaboration with the Office of Acquisition, Logistics, and Con[s]truction and provide the attached action plan. VHA considers recommendations 2, 5, 6 and 8 fully implemented and requests closure.

3. If you have any questions, please email Karen Rasmussen, M.D., Director, GAO OIG Accountability Liaison Office at VHA10EGGOALAction@va.gov.

Richard A. Stone, M.D.

Attachments

VETERANS HEALTH ADMINISTRATION (VHA)

Action Plan

OIG Draft Report, *Inadequate Oversight of the Medical/Surgical Prime Vendor Program's Order Fulfillment and Performance Reporting for Eastern Area Medical Centers (Project # 2017-03718-R3-0136)*

Date of Draft Report: September 5, 2019

Recommendations/ Status Target Completion

Actions Date

Recommendation 1. The Executive in Charge, Office of Under Secretary for Health, and the Principal Executive Director, Office of Acquisition, Logistics, and Construction, require the Healthcare Commodities Program Office and Strategic Acquisition Center to develop a formal process to validate correct order fulfillment reporting by the prime vendors, ensure the correct algorithms are used, and help prevent missed opportunities to identify and mitigate issues.

VHA/OALC Comments: Concur: Under the Medical/Surgical Prime Vendor Next Generation- Next Generation (MSPV-NG) program, Prime Vendors self-report their metrics (including Correct Order Fulfillment Rate, Unadjusted Fill Rate, and other metrics) to the Strategic Acquisition Center (SAC) using a template that VA provides. The Veterans Health Administration (VHA) Procurement and Logistics Office (P&LO) encourages VA medical facilities to use the Issue Management Tool to report any Prime Vendor performance issues, including incorrect performance data and incorrect or missing reports. For issues that cannot be resolved at the VA medical facility Contracting Officer's Representative (COR) level, the Issue Management Tool has the capability to escalate issues to the Healthcare Commodities Program Office and SAC.

P&LO, HCPO, and the Supply Chain Data and Informatics Office will analyze how to validate Prime Vendor self-reports, including examining if data from the Electronic Data Interchange (EDI) could be used to validate unadjusted fill rates. The EDI is designed to improve enterprise-wide insight into medical/surgical supply spend and usage and MSPV performance metrics.

In MSPV 2.0, which will be implemented in 2021, metrics will be calculated using EDI data. The Prime Vendor Statement of Work for MSPV 2.0 defines the required metrics and their calculation methods. VA medical facilities will still be encouraged to use the Issue Management Tool to report issues with their Prime Vendors, such as incorrect performance data.

Status : In progress Target Completion Date : September 2021

Recommendation 2. The Executive in Charge, Office of Under Secretary for Health, require the Healthcare Commodities Program Office to ensure Medical Surgical Prime Vendor-Next Generation contracting officer's representatives get timely access to the performance metric reporting, such as reporting on correct order fulfillment.

VHA/OALC Comments: Concur: VHA has ensured that Medical Surgical Prime Vendor-Next Generation contracting officer's representatives get timely access to the performance metric reporting. Monthly, the Prime Vendors provide a metrics report to the Strategic Acquisition Center (SAC), which SAC then emails to Healthcare Commodities Program Office and to all Contracting Officer Representatives. The Contracting Officer Representatives receive an initial request and a follow-up request instructing them to verify that the information provided in the report is accurate. The Healthcare Commodities Program Office

uploads the reports to a VA-hosted SharePoint repository. VHA has completed actions on this recommendation and requests OIG consider closure.

Status : Complete

Recommendation 3. The Executive in Charge, Office of Under Secretary for Health, and the Principal Executive Director, Office of Acquisition, Logistics, and Construction, require the Healthcare Commodities Program Office and Strategic Acquisition Center to monitor contracting officer's representatives to ensure performance metric reporting is revised for accuracy.

VHA/OALC Comments: Concur: The Strategic Acquisition Center (SAC) will verify and update the Contracting Officer Representative's (COR) email list every two months using the electronic COR list (eCOR) file. When necessary, the SAC contacts Healthcare Commodities Program Office (HCPO) for additional support. Metric report accuracy will be confirmed by HCPO with information provided by the Chief Supply Chain Officer (CSCO) and the Prime Vendor On-Site Representative and shared with the CORs. The eCOR review also includes noting the unfilled COR positions to proactively identify and fill vacant positions. Additional training for VA medical facility CORs will begin in Fall 2019 to ensure that HCPO, CSCOs, and CORs understand the requirements and responsibilities of a COR. All CORs are required to hold current certifications from the Federal Acquisition Certification-Contracting Officer's Representatives Level II training and to have a designation letter signed by themselves, their VA medical facility CSCO and the contracting officer indicating their understanding of COR responsibilities.

Status : In progress Target Completion Date : November 2019

Recommendation 4. The Executive in Charge, Office of Under Secretary for Health, and the Principal Executive Director, Office of Acquisition, Logistics, and Construction, require the Healthcare Commodities Program Office and Strategic Acquisition Center to strengthen processes and procedures so that staff use the Medical/Surgical Prime Vendor-Next Generation formulary to change unit of issuance and product pricing information in the item master files.

VHA/OALC Comments: Concur: Currently, staff manually update Item Master Files, but VHA is developing a Supply Chain Master Catalog solution to be implemented in March 2020, which will automatically supply the necessary data to VA medical facility Item Master Files to ensure consistency.

Status : In progress Target Completion Date : March 2020

Recommendation 5. The Executive in Charge, Office of Under Secretary for Health, and the Principal Executive Director, Office of Acquisition, Logistics, and Construction, require the Healthcare Commodities Program Office and Strategic Acquisition Center to confirm that prime vendor American Medical Depot uses formulary sources when fulfilling requests for medical or surgical products under the Medical Surgical Prime Vendor-Next Generation.

VHA/OALC Comments: Concur: The Medical/Surgical Prime Vendor Next Generation contract prohibits Prime Vendors from automatically substituting sources without first obtaining approval from the VA medical facility on an order-by-order basis. For items from VA medical facilities' recurring product usage lists, the Prime Vendor must notify the customer with the reason for unavailability and suggest possible substitutes from the catalog. VA medical facilities have the right to accept suggested substitutes or to cancel the item from the order. Prime Vendors are disincentivized to use substitutes because even if VA medical facilities approve substitutes, substitutions count against the Prime Vendors fill rate. VHA has completed actions on this recommendation and requests OIG consider closure.

Status : Complete

Recommendation 6. The Executive in Charge, Office of Under Secretary for Health, require the Director, VHA Procurement and Logistics Office, to see that all those who order supplies under the Medical/Surgical Prime Vendor – Next Generation contract have proper delegated authority.

VHA/OALC Comments: Concur: VHA has ensured that all those who order supplies under the Medical/Surgical Prime Vendor-Next Generation contract have proper delegated authority. The Ordering Officer program provides that each VA medical facility must have an active Ordering Officer. Ordering Officers are unwarranted Government personnel authorized to act as agents of the Strategic Acquisition Center (SAC) Contracting Officer or designated Administrative Contracting Officers for Prime Vendor contracts. This individual must be nominated by their Facility Chief Supply Chain Officer and take MSPV Ordering Officer mandatory training pertaining to their responsibilities. SAC audits the program on a weekly basis to ensure that each VA medical facility has an Ordering Officer and that they have completed the required training. VHA has completed actions on this recommendation and requests OIG consider closure.

Status : Complete

Recommendation 7. The Executive in Charge, Office of Under Secretary for Health, Office of Acquisition, Logistics, and Construction, require the Healthcare Commodities Program Office and Strategic Acquisition Center to monitor the Integrated Product Team's development and implementation of a process to validate performance metric reporting such as unadjusted fill rates.

VHA/OALC Comments: Concur: The Healthcare Commodities Program Office and the Supply Chain Data and Informatics Office will analyze how to validate Prime Vendor self-reports, including examining if Electronic Data Interchange data could be used to validate unadjusted fill rates. The Procurement and Logistics Office also encourages VA medical facilities to use the Issue Management Tool to report any Prime Vendor performance issues, including incorrect performance data and incorrect or missing reports. The Issue Management Tool has the capability to escalate issues to the Healthcare Commodities Program Office and Strategic Acquisition Center.

Status : In progress Target Completion Date : November 2019

Recommendation 8. The Executive in Charge, Office of Under Secretary for Health, require the Procurement and Logistics Office to strengthen controls, monitor the Healthcare Commodities Program Office monthly and ensure adherence to the established Medical Surgical Prime Vendor-Next Generation Program Control Plan.

VHA/OALC Comments: Concur: The Healthcare Commodities Program Office and the Strategic Acquisition Center will provide monthly updates to VHA's Procurement and Logistics Office (P&LO) about adherence to an established plan for monitoring Prime Vendor performance reporting. VHA's Procurement and Logistics Office will review and assess this adherence.

Status : In progress Target Completion Date : November 2019

Recommendation 9. The Executive in Charge, Office of Under Secretary for Health, Office of Acquisition, Logistics, and Construction, require the Healthcare Commodities Program Office and Strategic Acquisition Center to identify and resolve discrepancies between unadjusted fill rate reporting methods used by the Medical Surgical Prime Vendor-Next Generation prime vendor for select eastern area VA medical facilities.

VHA/OALC Comments: Concur: VHA Procurement and Logistics Office will work with select Eastern area VA medical facilities to identify and resolve discrepancies, verify a consistent algorithm for reporting of unadjusted fill rates to be used uniformly for both facilities and Prime Vendor self-reporting, notify Prime

Vendors of the correct algorithm, and ensure that Prime Vendors use it. Regular meetings are now held with the American Medical Depot, their supported Veterans Integrated Services Networks, the Healthcare Commodities Program Office, and the Strategic Acquisition Center so that the American Medical Depot adheres to a consistent computation.

Status : In Progress Target Completion Date: November 30, 2019

Recommendation 10. The Executive in Charge, Office of Under Secretary for Health, Office of Acquisition, Logistics, and Construction, direct the Healthcare Commodities Program Office and Strategic Acquisition Center to see that all prime vendors use the unadjusted fill rate calculation methodology in accordance with the Medical Surgical Prime Vendor-Next Generation contract.

VHA/OALC Comments: Concur: The Healthcare Commodities Program Office will verify a consistent algorithm for reporting of unadjusted fill rates to be used uniformly for both VA medical facilities and Prime Vendor self-reporting and ensure that Prime Vendors use the correct algorithm. This is also closely monitored by the Veterans Integrated Service Networks, with inconsistencies reported to Healthcare Commodities Program Office.

Status : In progess Target Completion Date : November 2019

Recommendation 11. The Executive in Charge, Office of Under Secretary for Health, Office of Acquisition, Logistics, and Construction, instruct the Healthcare Commodities Program Office and Strategic Acquisition Center to require Medical Surgical Prime Vendor-Next Generation for select eastern area VA medical facilities to provide corrected unadjusted fill rates for the fiscal year 2018 and current reporting periods.

VHA/OALC Comments: Concur: The Healthcare Commodities Program Office of Acquisition, Logistics and Construction will request corrected unadjusted fill rates from the American Medical Depot, outlining the reason for the discrepancy and identifying the correct algorithm/methodology.

Status : In progress Target Completion Date : November 2019.

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

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