



DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

VETERANS HEALTH ADMINISTRATION

Inadequate Oversight of the
Medical/Surgical Prime
Vendor Program's
Distribution Fee Invoicing

AUDIT

REPORT #19-06147-50

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Executive Summary

Timely, complete, and reliable shipments of medical and surgical supplies are critical for medical facilities serving veterans. The VA Office of Inspector General (OIG) conducted this audit to assess VA's oversight of the Medical/Surgical Prime Vendor-Next Generation (MSPV-NG) Program, under which prime vendors maintain inventories of medical and surgical supplies and restock medical facilities when needed. Specifically, the OIG sought to determine whether (1) medical facility-level staff verified the accuracy of distribution fees invoiced by the prime vendors, and (2) national- and Veterans Integrated Service Network (VISN)-level staff provided proper oversight of this activity. VA incurs distribution fees when a prime vendor facilitates the delivery of medical and surgical supplies to medical facilities.

In February 2016, VA's Strategic Acquisition Center awarded four MSPV-NG contracts with a cumulative value of about \$4.6 billion to prime vendors for medical and surgical supplies. The prime vendors are American Purchasing Services LLC/American Medical Depot (American Medical Depot), Cardinal Health 200 LLC (Cardinal Health), Kreisers Inc. (Kreisers), and Medline Industries Inc. (Medline). VA pays prime vendors for requested products plus a distribution fee to cover the costs associated with managing medical facilities' inventories. Medical facilities paid approximately \$25.4 million in MSPV-NG distribution fees during fiscal year 2018, according to an official from the Veterans Health Administration (VHA) Procurement and Logistics Office. The Procurement and Logistics Office oversees the Medical Supplies Program Office, which in partnership with medical facilities and the Strategic Acquisition Center is responsible for oversight of the MSPV-NG program.

What the Audit Found

The OIG found that (1) VA controls were not sufficient to ensure VA medical facility staff accurately reviewed, verified, or certified distribution fee invoices for the MSPV-NG program and (2) VA did not ensure staff at medical facilities accurately established and applied the on-site representative rates and paid fees based on annual facility purchases.

VA Did Not Ensure Facility Staff Properly Reviewed Prime Vendors' Invoices for MSPV-NG Distribution Fees

VA controls were not sufficient to ensure staff at five of 12 VA medical facilities in the OIG's sample adequately reviewed and certified distribution fee invoices submitted for payment by three prime vendors. The OIG estimated that for 20,600 of 97,600 purchases (21 percent) made from October 1 to October 31, 2018, VA did not ensure staff at the medical facilities paid

distribution fees in accordance with the facilities' election forms.¹ VA medical facility staff use these election forms to select delivery options and the type of distribution fees they will pay. For October 1 through October 31, 2018, VA medical facilities elected to pay fees for one or more of these delivery services: bulk distribution (medical and surgical supplies generally delivered three days per week), low-unit distribution (medical and surgical supply deliveries prorated by the case), and on-site representative (fees for the services and expertise of a prime vendor's on-site liaison). The audit identified the following discrepancies between the applicable rates and the fees billed and paid for these distribution delivery services:

- Three of the 12 facilities (25 percent) had discrepancies between the agreed-upon bulk rate distribution fees and the amounts invoiced by the prime vendor for an estimated 18,200 transactions for medical and surgical supplies totaling about \$24,600.
- Two medical facilities (17 percent) that did not elect low-unit distribution deliveries or agree to a low-unit rate received invoices with low-unit fees from Medline.
- Two medical facilities (17 percent) that were serviced by Medline and elected to use on-site representatives and one Cardinal Health facility had discrepancies valued at about \$32,800 between the on-site representative rate fees elected and the amounts invoiced for an estimated 11,000 transactions.

Additionally, between 2017 and 2019, Cardinal Health and Medline charged VA medical facilities distribution fees in connection with supplying their own (or their affiliates') medical and surgical supplies, a practice prohibited by the MSPV-NG contract.

Insufficient invoice review occurred because the program office staff and VISN chief logistics officers did not provide adequate guidance or information for verifying and certifying distribution fees on invoices to facility-level chief logistics officers and contracting officer's representatives. The program office and VISN officials also did not adequately monitor the facilities' processes for verifying and certifying distribution fee invoices before payment by the Financial Services Center. In addition, VA medical facility contracting officer's representatives and other staff did not consistently adhere to designation letter requirements to verify that invoices accurately reflected the services provided in accordance with the requirements of the contract.² Contracting officer's representatives also did not obtain detailed transaction data on

¹ Because of the consistency of delivery and the number of transactions VA medical facilities have to process during any given period, the audit team limited its review to the most recent one-month period. The MSPV contracts require medical facilities to complete an election form indicating the type of delivery services requested and provide the prime vendors with a completed form for their signature and agreement. Details on scope and methodology appear in appendixes A and B.

² Contracting officer's representatives are designated by and assist the contracting officer in managing the requirements of the MSPV-NG contracts.

medical and surgical deliveries from prime vendors necessary to verify the distribution fee invoices.

The OIG estimated that facility staff certified invoices that resulted in over \$62,300 in improper payments for medical and surgical item deliveries during October 2018. Based on this estimate, the OIG projected that VHA may have made more than \$747,800 in improper payments during fiscal year 2018 and may make approximately \$3.7 million over a five-year period unless VA implements improved control and oversight.³

VA Did Not Ensure Facilities Paid On-Site Representative Fees Based on Annual Facility Purchases under the MSPV-NG Contracts

During fiscal year 2018, five of the 12 sampled facilities used an on-site representative, and none of the five facilities ensured the fees they paid for having the on-site representatives were correct.⁴ On-site representatives act as the prime vendors' on-site liaison and provide VA medical facilities with supply chain knowledge and expertise. The MSPV pricing schedule establishes fee rates for on-site representatives based on annual facility purchase amounts.

Although VHA guidance stated that on-site representative fee rates should be based on annual facility purchase amounts, medical facility staff completing the election forms must estimate the amount. Staff generally base the estimate on previous annual facility purchase amounts and corresponding fee rates in the MSPV pricing schedule. To ensure medical facilities ultimately pay the correct fee amount at the end of the fiscal year, staff should determine the actual annual facility purchase amount and the correct on-site representative fee rate at the end of the fiscal year. Then they should reconcile the correct on-site representative fee rate to the fee rate already paid to the prime vendor and make any necessary adjustments.

Instead of basing the fee rate on *actual* annual purchase amounts, a VA facility chief logistics officer and contracting officer's representatives elected on-site representative fee rates based on *estimated* purchase amounts reflected on election forms. Estimates varied from the prime vendors' actual reported amounts by an average of about \$1.1 million. Disparities between the estimated and actual annual purchase amounts increased the likelihood that VA medical facilities improperly paid their on-site representative fee rates. The amounts paid for on-site representatives were not reconciled to the actual annual facility purchase amount at the end of the year.

For example, the Miami medical facility's two election forms for fiscal year 2018 reflected an estimated annual facility purchase amount that would have resulted in on-site representative fee

³ The OIG estimated improper payments over five years because, without effective action to address the problem, the risk of improper payments would persist. Appendix C enumerates the monetary benefits.

⁴ A sixth facility elected to use a representative at the very end of fiscal year 2018 and did not receive the representative until fiscal year 2019.

rates of 1 and 1.75 percent of the purchase amounts, or about \$84,000 in estimated annual fees.⁵ The vendor was actually paid at 1.95 percent (over \$118,000). In contrast, if the on-site representative fee had been based on the actual year-end facility purchase amount, the fee would have been either 1.50 percent (\$87,400) or 1.40 percent (\$85,200), as the annual facility purchases were between about \$5.8 million and \$6.1 million. This range between \$5.8 million and \$6.1 million illuminates another issue: the differences in the actual purchase amounts reported by the VA medical facility (about \$6 million in this instance), by the prime vendor (about \$6.1 million), and by VA's Financial Management System (about \$5.8 million). These discrepancies demonstrate the need for VA to designate a single data source for the annual facility purchase amount to prevent confusion as to what the rate should be.⁶

In addition to the discrepancies that would have existed between estimated and actual fee payments, the team found that the Miami medical facility's on-site representative fee payments for fiscal year 2018 were incorrect and not based on either the estimated or the actual annual facility purchase amounts. Because on-site representative fees were not properly verified through some form of reconciliation process, the Miami facility paid the American Medical Depot prime vendor 1.95 percent, despite qualifying for a 1.4 percent or a 1.5 percent rate.⁷ This resulted in an overpayment of about \$33,200 assuming the facility should have paid on-site representative fees at 1.4 percent, based on the prime vendor's reported annual facility purchase amount. The facility chief logistics officer and contracting officer's representative did not review the on-site representative fees to determine the actual rate the medical facility paid the prime vendor during fiscal year 2018.

This overpayment occurred because VHA program office managers did not provide proper guidance to facilities on how to determine annual facility purchase amounts or require medical facility staff to reconcile on-site representative fee differences at the end of the fiscal year. VA medical facility chief logistics officers and contracting officer's representatives were also left to figure out the annual facility purchase amounts on their own, determining whether to calculate annual facility purchases based on Financial Management System data, prime vendor reporting, or the facility's reported spending.

VA did not ensure medical facilities reconciled the on-site representative fees paid during the fiscal year. One acquisition utilization specialist told the audit team the medical facility had received guidance from a Strategic Acquisition Center contracting officer that the standard

⁵ The estimated annual fee amount was determined by the audit team based on the number of days that each of the medical facility's election forms was in effect during fiscal year 2018.

⁶ The OIG did not determine why amounts differed between systems because doing so would have been outside the scope of this audit. However, VA OIG's *Audit of VA's Financial Statements for Fiscal Years 2019 and 2018* addresses this concern in reporting that "VA continues to have various financial reporting issues" and recommends that VA "conduct the appropriate analyses and validation of data sources."

⁷ Appendix D provides payment and rate information for all five facilities in the OIG's sample that used an on-site representative.

practice was not to reconcile on-site representative fee disparities. The contracting officer reportedly told the specialist, “It would be an administrative nightmare for both Cardinal [Health] and the facility to go back and change the hundreds of invoices.” He further stated that it would be “one of many things that would change with MSPV 2.0, which will be much easier on the facilities.” The audit team later confirmed with the contracting officer that his guidance was for facilities not to reconcile on-site representative fees. VA establishing a flat fee rate will help mitigate on-site representative fee rate disparities, but in the interim VA still needs to ensure facilities reconcile rate disparities that have occurred and continue to occur.

Based on the prime vendors’ reported information, the audit team compared the sampled medical facilities’ annual facility purchases to the amount they paid for on-site representative fees. The audit team concluded VA medical facilities may have made improper fee payments totaling about \$127,000 in fiscal year 2018 based on the annual facility purchase amounts reported by prime vendors and the corresponding rate in the MSPV pricing schedule.

What the OIG Recommended

The OIG made six recommendations to the under secretary for health.⁸ They were to ensure that (1) chief logistics officers at VISNs monitor facilities’ processes for verification and certification of distribution fee invoices, (2) VISN directors ensure their chief logistics officers develop distribution fee monitoring and review procedures for facility logistics audits and compliance reviews, (3) facility chief logistics officers and contracting officer’s representatives review and update election forms and provide copies to the prime vendors for acknowledgment, (4) facility contracting officer’s representatives verify that distribution fee rates billed by prime vendors match those on the election forms and pricing schedule, (5) Medical Supplies Program Office managers clearly define the source VA medical facilities should use to estimate their annual facility purchase amounts and determine the year-end amounts, and (6) VA medical facilities review their on-site representative fees paid during fiscal year 2018 and future years and reconcile payment discrepancies.

Additionally, the OIG directed four recommendations to the principal executive director of the Office of Acquisition, Logistics, and Construction. They centered on requiring the Strategic Acquisition Center to modify the MSPV-NG contract to require prime vendors to provide reports to VA medical facilities with detailed medical and surgical transaction data, fee amounts, and fee percentage rates applied to each transaction on distribution fee invoices; define annual facility purchases and stipulate paying them based on estimated total spending until the year-end reconciliation; and require prime vendors—rather than facilities—to reconcile estimated to actual

⁸ Recommendations directed to the under secretary for health were submitted to the executive in charge, who had the authority to perform the under secretary’s functions and duties. Effective January 20, 2021, he was appointed to acting under secretary for health with the continued authority to perform the functions and duties of the under secretary.

annual facility purchases at the end of the year. The OIG also urged the principal executive director to see that the Strategic Acquisition Center works with the Medical Supplies Program Office to ensure MSPV contracting officer's representatives are assigned to each VA medical facility.

Management Comments

The executive in charge, Office of the Under Secretary for Health, and the principal executive director, Office of Acquisition, Logistics, and Construction, concurred with all 10 recommendations and provided corrective action plans that are responsive to the recommendations. The OIG will monitor implementation of all the planned actions and will close the recommendations when the OIG receives sufficient evidence demonstrating progress in addressing the identified issues. Appendix E includes the full text of VA's comments.



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Abbreviations

IPPS	Invoice Payment Processing System
MSPV-NG	Medical/Surgical Prime Vendor-Next Generation
OIG	Office of Inspector General
SCCOP	Supply Chain Common Operating Picture
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network



Introduction

The Veterans Health Administration (VHA) established the Medical/Surgical Prime Vendor-Next Generation (MSPV-NG) Program to procure supplies for medical facilities nationwide. The program supports VA's supply chain transformation, which aims to increase efficiency across VA by streamlining purchasing and ordering. The program is intended to provide efficient, cost-effective, and just-in-time supply distribution by four Medical/Surgical Prime Vendors: American Purchasing Services LLC/American Medical Depot (American Medical Depot), Cardinal Health 200 LLC (Cardinal Health), Kreisers Inc. (Kreisers), and Medline Industries Inc. (Medline).

This audit assessed VA's oversight of the MSPV-NG program. Specifically, the VA Office of Inspector General (OIG) sought to determine whether (1) medical facility-level staff verified the accuracy of distribution fees invoiced by the prime vendors, and (2) national- and Veterans Integrated Service Network (VISN)-level staff provided proper oversight of this activity.⁹ VA incurs distribution fees when a prime vendor facilitates the delivery of medical and surgical supplies to medical facilities.

Medical/Surgical Prime Vendor-Next Generation Program

On February 24, 2016, VA's Strategic Acquisition Center awarded the four prime vendors MSPV-NG contracts valued at about \$4.6 billion and lasting from 2016 through 2021.¹⁰ The MSPV-NG contracts require prime vendors to maintain inventories of medical and surgical supplies adequate to restock medical facilities when needed. VA pays prime vendors for requested products plus a distribution fee to cover the costs associated with managing medical facilities' inventories. Each prime vendor provides requested products to the VA medical facilities in its region, as shown in figure 1.

⁹ VHA is organized into 18 regional networks called VISNs. Each VISN is led by a director who is responsible for the coordination and oversight of administrative and clinical activities at medical facilities within the specified geographic network.

¹⁰ These are indefinite-delivery, indefinite-quantity contracts, used when the precise quantity needed is not known but must fall within specified limits stated as number of units or dollar values.

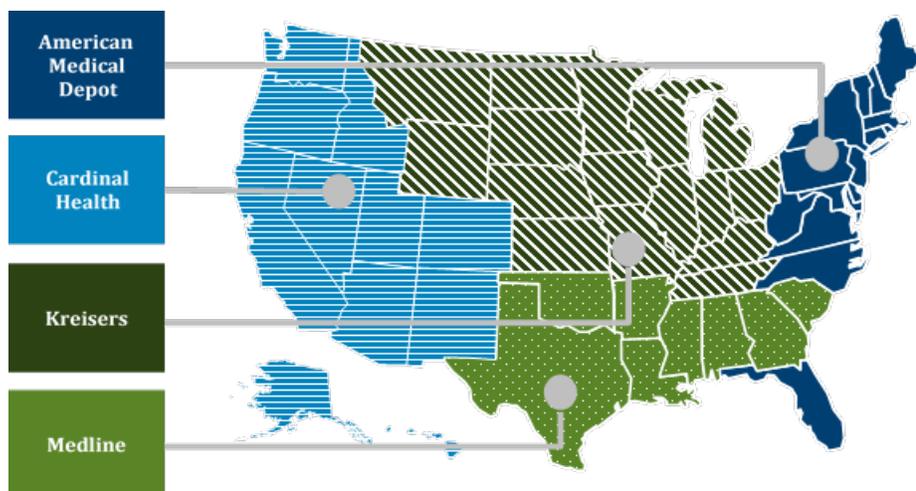


Figure 1. MSPV-NG prime vendors' regions.

Source: VA Office of Procurement, Acquisition, and Logistics.

Distribution Fees

Prime vendors charged distribution fees as a percentage of the total amount medical facilities spent on medical and surgical supplies. These percentages are outlined in the MSPV contract pricing schedules and can be calculated by multiplying the total cost for supplies by the applicable pricing schedule fee rate. One VHA Procurement and Logistics Office official reported that VA medical facilities paid approximately \$25.4 million in MSPV-NG distribution fees during fiscal year 2018. Three distribution fees associated with MSPV-NG delivery services are charged based on the quantity and frequency of supplies needed by the facilities:

- **Conventional bulk delivery (bulk)** delivery fees are calculated for bulk medical and surgical supply deliveries. These fees are based on orders delivered to medical facilities three days per week (excluding weekends).
- **Low unit of measure (low-unit)** fees are calculated for smaller units of medical and surgical supply deliveries prorated by the case. They include any items that are repackaged by the prime vendors. These fees are based on orders delivered daily to medical facilities (excluding weekends).¹¹
- **On-site representative** fees are for the value-added MSPV services (the supply chain knowledge and expertise) of a prime vendor's on-site liaison.¹² The fees are to be calculated based on a percentage of the total amount a facility spends per year on MSPV-NG purchases through its prime vendor. According to the majority of VISN chief

¹¹ The low unit of measure delivery method is also referred to as "unit of use." "Low-unit" in this report refers to both.

¹² "On-site representative" is synonymous with the MSPV "on-site strategic sourcing liaison." The on-site representative assists facilities in identifying opportunities to use the MSPV contracts fully and efficiently.

logistics officers interviewed, VA facilities base on-site representative fee estimates on the past year's spending. The OIG concludes that this approach requires a year-end reconciliation to be in line with the MSPV-NG contract, which requires that fees be paid on purchase amounts.

Delivery Method Election Form

Under the MSPV-NG contracts, the bulk delivery service method is standard, but facilities may elect to receive supplies in smaller amounts by selecting "low-unit" as the delivery method on the form shown in figure 2. In addition, facilities may elect value-added services such as increasing or decreasing delivery days per week and using an on-site representative. The form also reflects the applicable fee rates based on the delivery method and value-added services elected. MSPV-NG contract modifications established between February and March 2017 require medical facilities to provide the prime vendors with a completed election form. The prime vendor is required to acknowledge receipt of the form and return a copy to the facility.

Department of Veterans Affairs – Cardinal Health 200, LLC MSPV-NG Medical/Surgical Prime Vendor Next Generation MSPV-NG - VA119-16-D-0005 Low Unit of Measure Delivery (LUM) Service Level Election Form			
Station Number:		Station Name:	
Facility Phone #		Account Number:	
Facility Address:			
City:		State:	Zip:
Facility POC (COR):		Facility POC Phone #	
MSPV Area Rep:		MSPV Rep Phone #	
LUM Distribution Base Fee:		8.90%	1
OPTION	VALUE-ADDED SERVICES	Adjustment To Conventional/Bulk Base Distribution Fee. (Adjustment is either an increase (+) or decrease (-) to the Conventional/Bulk base distribution fee. "No Change" indicates there is no adjustment to CBD base distribution fee.)	Base Fee of (insert base LUM fee)% plus or minus VAS fees
1	Saturday Deliveries (See note 1)	1.00%	2 1.000%
0	Sunday Deliveries (See note 1)	0.00%	FALSE
0	Deliveries on Federal Government Holidays (See note 1)	0.00%	FALSE
0	Fill/Call	0.00%	FALSE
<p>*Note 1: Any charges for this service shall apply only to the specific day(s) on which the service was provided.</p> <p>Total VAS Fees = 1.00% Base LUM Distribution Fee = 8.90% Total LUM Distribution Fee = 9.90% 3</p> <p>Facility POC (COR): _____ Date: _____ MSPV Representative: _____ Date: _____</p>			

Figure 2. Typical MSPV-NG low-unit election form for Cardinal Health.

Source: VA's MSPV-NG program contract modification to Cardinal Health.

Note: The typical low-unit election form depicts (1) a low-unit base fee and (2) four optional value-added service fees, which combined equal (3) the total low-unit fee.

The distribution fees depicted on this form are outlined in the MSPV-NG contract and are based on the location of each medical facility.

Program Roles and Responsibilities

VA roles and responsibilities for monitoring the MSPV-NG program are defined in VHA's Medical Supplies Program Office guidance. They include monitoring prime vendor performance, mitigating risks, and managing issues.

The program office is under the purview of VHA's Procurement and Logistics Office, and it relies heavily on the VA Office of Procurement, Acquisition, and Logistics (formerly the Office of Acquisition Operations), the Strategic Acquisition Center, and the Office of Acquisition and Logistics for procurement and contracting support. Regular coordination and communication are required to successfully deliver supplies to logistics teams and end users at medical facilities. Figure 3 illustrates the organizational boundaries within which the program office resides.

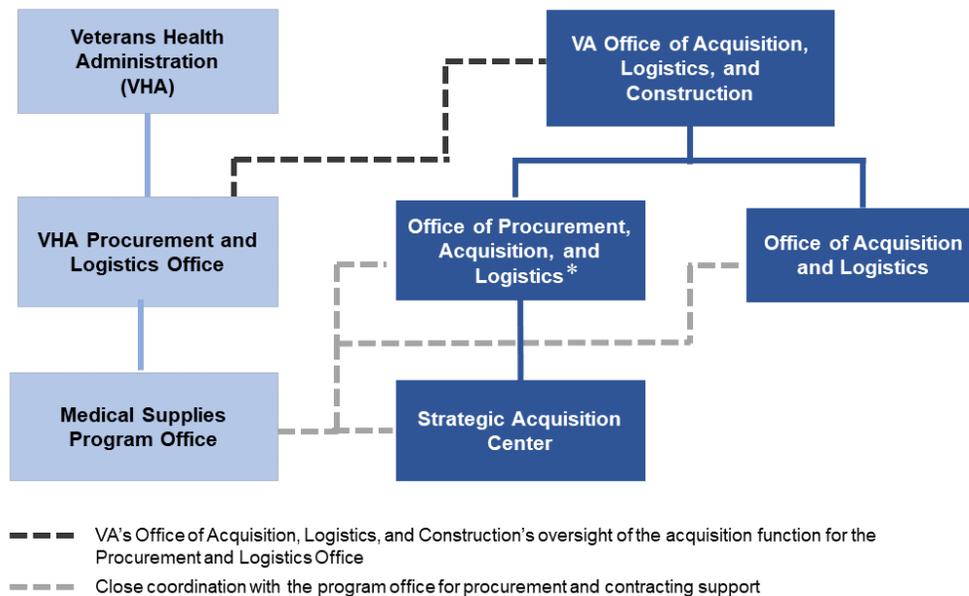


Figure 3. MSPV-NG program office organizational boundaries.

Source: VA OIG adaptation of the MSPV Program Management Office Support, Deliverable 2A: Program Charter, December 29, 2017.

* Previously called the Office of Acquisition Operations.

Responsible Program Office

The VHA program office, in partnership with the Strategic Acquisition Center, is responsible for implementing and sustaining the MSPV program.¹³ The program office is primarily responsible for monitoring prime vendor performance by

- establishing program controls;
- gathering and managing program requirements;
- supporting change management, communication, and training;
- monitoring program and project progress;
- developing and disseminating lessons and critical program information; and
- managing risks and issues.

The acquisition center provides contracting and program support for MSPV-NG through activities such as

- monitoring purchase data from prime vendors,
- designating MSPV-NG contracting officer's representatives,
- authorizing MSPV-NG ordering officers,
- awarding blanket agreements for medical/surgical formulary items, and
- conducting analysis to determine fair and reasonable pricing.¹⁴

VHA's program office guidance states the VISN chief logistics officer is responsible for conducting logistics audits, compliance reviews, and program effectiveness and efficiency reviews of all VISN activities. Reviews help ensure facilities provide satisfactory levels of service and comply with all applicable laws, rules, regulations, directives, and procedures. Facility contracting officer's representatives receive designation letters from and report directly to the MSPV-NG contracting officer at the Strategic Acquisition Center. Contracting officer's representatives are responsible for reviewing MSPV-NG invoices to ensure distribution fees are applied in accordance with the contract.

¹³ This office was known as the Healthcare Commodities Program Office in 2018. The acting director said the office was renamed the Medical Supplies Program Office. The audit team confirmed the new name on VHA's Procurement and Logistics Office website. In this report, the office is referred to as the "program office."

¹⁴ The MSPV formulary (catalog) is a comprehensive list of expendable medical, surgical, dental, and select laboratory and facility supplies that fulfill the commodity requirements of VHA facilities.

Results and Recommendations

Finding 1: VA Did Not Ensure Facility Staff Sufficiently Reviewed Prime Vendors' Invoices for MSPV-NG Distribution Fees

VA program office and VISN controls did not ensure that VA medical facilities' contracting officer's representatives sufficiently reviewed and verified the accuracy of prime vendors' invoices for bulk, low-unit, and on-site representative distribution fees on medical and surgical supplies.¹⁵ The OIG estimated that for 20,600 of 97,600 purchases (21 percent) made from October 1 to October 31, 2018, VA did not ensure the medical facilities paid distribution fees as set forth on the facilities' election forms or in accordance with the MSPV-NG contract pricing schedule.¹⁶ Additionally, VA did not provide adequate oversight to detect that two prime vendors, Cardinal Health and Medline, were violating the terms of the MSPV-NG contract by charging VA medical facilities distribution fees for vendor-branded supplies (those manufactured by the vendor or its affiliates). Cardinal Health charged distribution fees on these supplies from 2017 through 2019 despite being prohibited from doing so by the MSPV-NG contract; Medline invoiced facilities for vendor-branded items in October 2018.

Insufficient invoice review occurred because program office staff and VISN chief logistics officers did not provide medical facilities' chief logistics officers and contracting officer's representatives with adequate guidance or information for verifying and certifying distribution fees on invoices. The program office and VISN officials also did not provide adequate oversight. They did not adequately monitor chief logistics officers' and contracting officer's representatives' processes for verifying and certifying distribution fee invoices before payment by the Financial Services Center. Facility contracting officer's representatives did not consistently adhere to designation letter requirements to verify that invoices accurately reflected services provided in accordance with the requirements of the contract. Contracting officer's representatives and other facility staff who certified distribution fees for payment also did not always obtain detailed line-item (hereafter referred to as transaction) data on medical and surgical deliveries from prime vendors necessary to verify the accuracy of the distribution fee invoices.

¹⁵ According to a Strategic Acquisition Center official, five facilities in the sample did not have contracting officer's representatives during October 2018. Based on interviews with staff at those facilities, the OIG found other facility staff, including chief logistics officers, performed the contracting officer's representatives' certification and verification, although these individuals had not been delegated the authority from the Strategic Acquisition Center contracting officer as required by the Federal Acquisition Regulation.

¹⁶ The universe as described in appendix B included 114,060 transactions. However, the number of transactions was reduced to an estimated 97,565 (97,600) after excluding transactions not included in the prime vendors' October 2018 invoicing.

American Medical Depot, Cardinal Health, and Medline incorrectly charged medical facilities distribution fees, while Kreislers correctly charged medical facilities. The OIG estimated facility chief logistics officers and contracting officer's representatives certified invoices containing incorrect charges that resulted in over \$62,300 in improper payments for medical and surgical item deliveries during October 2018.¹⁷ Based on this estimate, the audit team projected that VHA made approximately \$747,800 in improper payments during fiscal year 2018, which would be approximately \$3.7 million over a five-year period unless VA implements improved controls and oversight.¹⁸

What the OIG Did

The audit team reviewed a statistical sample of 360 medical and surgical transactions (30 at each of the 12 medical facilities in the sample) for orders placed with each of the four prime vendors during October 2018. The team calculated the distribution fee rate by dividing the distribution fees charged by the total cost for the supply items subject to that delivery fee. The team then compared the calculated distribution fees charged by the prime vendor to the fees based on the election rates from the contract pricing schedule. The team also interviewed chief logistics officers or contracting officer's representatives at each of the 12 medical facilities to understand the process each facility used to review and certify invoices and to discuss internal controls related to distribution fee payments.

Facilities Did Not Identify Distribution Fee Discrepancies

American Medical Depot, Cardinal Health, and Medline prime vendors invoiced for different bulk, low-unit, or on-site representative distribution fee amounts than staff at five of the 12 medical facilities had elected. Staff at the five VA medical facilities performing the duties of the contracting officer's representative certified the invoices for payment without conducting an adequate review of the invoices. Although no individual discrepancy represents a large sum, in the aggregate, these discrepancies are significant. For example, the inadequate review resulted in discrepancies in distribution fees associated with an estimated 20,600 transactions and totaling over \$62,300 in improper payments during October 2018.

The MSPV-NG contracts each establish a pricing schedule, which outlines all distribution services and fee rates by region, geographical area, and option period. The facilities are required to use service-level election forms to establish service levels and options with the prime vendors for their medical and surgical supply needs, and fee rates according to the MSPV pricing

¹⁷ The \$62,300 is an annualized estimate, based on October 2018 projections, expressed as the total amount of improper payments made, including both overpayments and underpayments.

¹⁸ The OIG projected improper payments over five years because VA policy and controls over the current and pending MSPV program contracts did not include mechanisms to help ensure staff adequately verify distribution fee invoices before certifying them for payment to help mitigate improper payments.

schedule. The prime vendors are required to acknowledge the facilities' election forms and return a copy to the facilities.

The MSPV-NG contracts state that facilities will be invoiced at the fee rates outlined in the pricing schedule based on the elections made on the forms submitted by the facilities. VA's invoice review and certification guidance requires the certifying official, in this case the contracting officer's representative, to review invoices before payment to determine if the items and amounts claimed are consistent with the contract terms.¹⁹ The lack of review meant facilities did not catch discrepancies in all three types of distribution fees and did not catch unallowable, discrepant fees for vendor-branded items.

Conventional Bulk Distribution Fee Discrepancies

From October 1 through October 31, 2018, three of the 12 facilities (25 percent) had discrepancies between the agreed-upon bulk rates and the amount invoiced by the prime vendor for an estimated 18,200 transactions. For two medical facilities, Medline charged higher bulk fees than elected and required by the contract, resulting in an estimated 9,300 transactions invoiced with fee discrepancies of about \$2,700 during October. For the other medical facility, American Medical Depot charged a lower bulk fee than its elected rate, resulting in fee discrepancies of about \$24,600 associated with an estimated 8,900 transactions. Table 1 provides a detailed summary of identified bulk fee differences.

Table 1. Conventional Bulk Distribution Fee Differences

Prime vendor	Sampled medical facility location	Elected bulk rate	Invoiced bulk rate	Difference
American Purchasing Services LLC / American Medical Depot	Beckley, WV	3.90%	2.60%	(1.30%)
	Charleston, SC	5.25%	5.26%	0.1%
Medline Industries Inc.	Shreveport, LA	5.25%	5.44%	0.19%

Source: VA OIG analysis of statistically sampled purchase order transactions completed during the review period.

Cardinal Health and Kreisers invoiced medical facilities correctly for bulk fee rates according to each facility's election form.

Example 1 highlights an improper payment resulting from an incorrectly billed bulk distribution fee. The audit identified both overpayments and underpayments of bulk distribution fees.

¹⁹ VA Financial Policies and Procedures, vol. VIII, chap. 1A, "Invoice Review and Certification," October 2013.

Example 1

On October 5, 2018, the Medline prime vendor delivered a medical and surgical supply order including eight cases of nitrile gloves totaling \$1,304. The team calculated that the conventional bulk delivery fee Medline charged was 5.44 percent or \$70.94 for this transaction. However, the vendor should have invoiced the facility a delivery fee rate of 5.25 percent or \$68.46 according to the facility's election form and MSPV pricing schedule. As a result, the VA medical facility overpaid the prime vendor about \$2.48 for delivery of the medical and surgical items. The OIG provided the facility chief logistics officer and contracting officer's representative a summary of the sample review, and they agreed with the finding.

Low Unit of Measure Distribution Fee Discrepancies

Eight of 12 medical facilities (67 percent) elected to receive low-unit distribution deliveries of medical and surgical supplies. This means that they elected to have an option to order a smaller unit of medical and surgical supplies. However, at two medical facilities (17 percent) that did not elect low-unit distribution deliveries and did not agree to a low-unit delivery fee rate, the prime vendor (Medline) invoiced low-unit fees. The Medline vice president of corporate accounts told the team that, whether or not facilities elect low-unit distribution deliveries, if the vendor has to break into packaging to alter the quantity in any way, Medline charges facilities a low-unit fee—essentially, the difference between the bulk and low-unit rate on the pricing schedule.

For example, while the Charleston medical facility did not elect low-unit deliveries, the prime vendor invoiced and the facility paid an additional 2.75 percent in delivery fees, which is the difference between the pricing schedule elected bulk rate of 5.25 percent and the low-unit rate of 8 percent. A Strategic Acquisition Center director stated that no provision in the prime vendor's contract allows low-unit fees to be assessed when a facility has not elected low-unit deliveries.

Table 2 summarizes the identified low-unit fees.

Table 2. Low Unit of Measure Distribution Fee Differences

Prime vendor	Sampled medical facility location	Rate facility elected	Rate prime vendor invoiced	Difference
Medline Industries Inc.	Amarillo, TX	Not elected	2.75%	2.75%
	Charleston, SC	Not elected	2.75%	2.75%

Source: VA OIG analysis of statistically sampled purchase order transactions completed during the review period.

Example 2 highlights another overpayment of low-unit distribution fees.

Example 2

On October 29, 2018, Medline delivered a low-unit medical and surgical supply order that included a box of cohesive seals totaling \$52.94. The OIG team calculated that Medline charged the facility 8 percent or \$4.22 in delivery fees. However, the facility did not elect low-unit deliveries, and the prime vendor should have charged the facility for conventional bulk delivery at 5.25 percent or \$2.76. As a result of the error, the facility overpaid the prime vendor about \$1.46. The vendor explained that when facilities order supplies in less than bulk quantities, Medline charges the facilities at the agreed bulk rate, plus an additional 2.75 percent. One Strategic Acquisition Center director said there was nothing in the contract that allowed the vendor to charge low-unit fees.

American Medical Depot, Cardinal Health, and Kreisers generally invoiced medical facilities for low-unit distribution fees according to the rates established on each facility's election form.

On-Site Representative Fee Discrepancies

Six of 12 medical facilities (50 percent) elected to use on-site representatives to assist with the prime vendor's distribution of medical and surgical supplies. The Medline prime vendor invoiced two of the facilities a flat fee of \$10,000 rather than the rate reflected on the election forms, resulting in discrepancies totaling about \$27,100 for an estimated 10,800 transactions in October 2018.²⁰ American Medical Depot and Kreisers accurately invoiced facilities for on-site representative rates. Table 3 summarizes the identified fee differences.

Table 3. On-Site Representative Distribution Fee Differences

Prime vendor	Sampled medical facility location	Rate facility elected	Rate prime vendor invoiced*	Difference
Medline Industries Inc.	Charleston, SC	2.00%	2.63%	0.63%
	Shreveport, LA	5.00%	4.50%	(0.50%)

Source: VA OIG analysis of statistically sampled purchase order transactions completed during the review period.

**The OIG calculated these rates by dividing the total on-site representative fees charged by the overall cost of supplies for the period invoiced by the prime vendor.*

Example 3 highlights an instance in which the on-site representative fee rate billed and paid differed from that reflected on the election form.

²⁰ The two Medline facilities accounted for 17 percent of the 12 sampled VA medical facilities with on-site representative fee discrepancies.

Example 3

In October 2018, Medline delivered an order for shears totaling \$5,789.52. The team applied the vendor's calculated monthly fee rate of 2.63 percent, resulting in an on-site representative fee of \$152.17 for this particular order. However, because the facility elected a 2 percent on-site representative fee rate, it should have paid \$115.79. This resulted in a \$36.38 difference.

Vendor-Branded Supply Item Discrepancies

Cardinal Health improperly invoiced on-site representative fees for Cardinal Health-branded items. The MSPV-NG contract states the vendor shall not charge any fee for vendor-branded medical or surgical items ordered by or provided to participating facilities under the MSPV-NG contracts. After Cardinal Health was informed of the discrepancies identified by the team, Cardinal Health further reported that from 2017 through 2019 it had improperly charged VA medical facilities about \$27,000 in distribution fees for about 5,800 transactions in vendor-branded items.

A Cardinal Health contract manager said the transactions stemmed from an information technology issue the vendor discovered sometime between December 2018 and January 2019. A contracting officer said that the Strategic Acquisition Center was working with Cardinal Health to resolve the issue and that the facilities would be credited these fees. Cardinal Health attributed the issue to a system glitch affecting a new product line, which caused inaccurate fee charges. On December 20, 2019, the contracting manager said all facilities were informed of the credits for the overpayments. Three of the 12 facilities the audit team sampled were among the facilities overcharged, and all confirmed they received the credits.

In addition, the audit team found that in October 2018, the Medline prime vendor invoiced facilities for vendor-branded items.

Lack of Monitoring and Review Processes Led to Distribution Fee Discrepancies

Distribution fee discrepancies resulted in improper payments because the program office acting director and VISN chief logistics officers did not establish an adequate process for reviewing the fee invoices. VHA's MSPV-NG Program Control Plan makes the program director responsible for the overall management and success of the program, including oversight and monitoring of milestones, budgets, performance, quality, and improvements.²¹ The plan also holds VISN chief logistics officers responsible for logistics audits and compliance reviews. Fulfilling these

²¹ While VHA's MSPV-NG Program Management Office guidance uses the terms program manager and PMO program director to define the program's senior manager, this report uses the title program director.

program oversight obligations would have highlighted that facility fee reviews needed to be monitored to ensure they were carried out properly, that the VISN quality control reviews needed to include MSPV-NG distribution fee invoice review, and that facility personnel needed a process for reviewing invoices. In addition, VA medical facility contracting officer's representatives did not consistently adhere to their designation letters' requirements to verify that invoices accurately reflected the services provided in accordance with the contract. Contracting officer's representatives and other facility staff at eight of the 12 facilities also reported that they did not obtain detailed transaction data on medical and surgical supply deliveries from prime vendors, which the OIG believes are necessary to verify distribution fee invoices.

Program Office Guidance Lacked Monitoring Mechanisms

Although the VHA program office's MSPV-NG Program Control Plan includes requirements for VISN chief logistics officers to conduct logistics audits and compliance reviews, the plan did not establish monitoring oversight and review mechanisms to ensure the VISN chief logistics officers conduct audits and reviews of distribution fee payments. The VISN chief logistics officers report directly to the VISN deputy directors. However, the plan did not assign roles or responsibilities to the VISN directors or deputy directors to provide program oversight. Including oversight responsibilities for the VISN directors and deputy directors in the guidance would help ensure VISN chief logistics officers conduct compliance reviews at the VISN level. The program office is ultimately responsible for the MSPV-NG program, which includes oversight of the distribution fee processes. Therefore, program office oversight should entail monitoring to ensure VISN chief logistics officers conduct logistics audits and compliance reviews examining MSPV-NG distribution fees paid by facilities.

Although the program's acting director initially attributed the oversight responsibility for distribution fees to the Strategic Acquisition Center, he ultimately acknowledged that program office oversight of the verification and certification of MSPV-NG distribution fees was inadequate. He added that "VHA intends to build a larger contracting officer's representative cell at VHA headquarters" other than just himself. The Strategic Acquisition Center contracting officers told the OIG team they were not involved in the facilities' distribution fee invoice processes.

VISNs Did Not Comply with VA and Program Office Policy

VISN chief logistics officers did not adequately adhere to the program office's MSPV-NG Program Control Plan, which requires them to conduct logistics audits, compliance reviews, and program effectiveness and efficiency reviews of all VISN activities. The plan also requires VISN chief logistics officers to ensure VA medical facilities comply with all applicable laws, rules, regulations, directives, and procedures.

Furthermore, the chief logistics officers did not comply with VA's invoice review and certification guidance, which states that VA will conduct periodic invoice quality assurance reviews as determined appropriate based on the procedure or system used for review and subsequent payment.

Based on these policies, the program office director should determine the extent of VISN chief logistics officer compliance through periodic monitoring of VISN logistics audits and compliance reviews. These audits and reviews should include a review of MSPV-NG distribution fee invoices. Noncompliance should be reported to the VISN director or chief of staff for help with ensuring VISN chief logistics officers conduct adequate reviews. The VISN reviews would provide assurance that invoices approved for payment by VA medical facility staff included adequate rationale and documentation to support the payments. Major objectives of this periodic invoice review process should include determining whether

- prime vendors received correct payments;
- supplies or products delivered, or services performed, met contract requirements;
- billed costs were authorized under the contract;
- the Financial Services Center paid prices that were legal, proper, and correct;
- invoice data complied with the terms of the contract; and
- billed costs or invoices were duplicated.

Periodic invoice review by VISN personnel would have revealed that two facilities failed to ensure Medline billed on-site representative fees in compliance with the contract. A contracting officer's representatives and a designee at the two facilities approved invoices in which Medline billed a flat on-site representative monthly fee of \$10,000, instead of at the rate reflected on the election form and the MSPV pricing schedule. According to the Medline vice president of corporate accounts, the on-site representative fee rate cap stems from a business decision Medline recommended to the Strategic Acquisition Center in December 2017. The vendor proposed the monthly \$10,000 on-site representative cap to normalize fee amounts for months when facilities had unusually high purchases.

One Strategic Acquisition Center official confirmed the capped rate was part of the vendor's bid proposal; however, the contracting officer also acknowledged no provision in the contract allowed this vendor to cap on-site representative rates. The other three prime vendors did not have on-site representative fee caps.

VISN chief logistics officers explained that they did not have monitoring mechanisms, such as processes for reviewing invoices, to ensure facilities were paying MSPV-NG distribution fees correctly. One VISN chief logistics officer said staff were writing a local VISN standard operating plan, which would include a review of 5 to 10 percent of the fee charges.

Contracting Officer's Representatives Lacked Information and a Process for Reviewing Distribution Fee Invoices as Required

Although they did perform broad reviews of distribution fee invoices, medical facility contracting officer's representatives did not consistently adhere to their designation letter requirements. The letters require them to review MSPV program invoices to ensure they accurately reflect the services provided in accordance with the contract before certifying acceptance. Facilities should perform detailed invoice reviews to ensure the accuracy of medical and surgical item payments as well as distribution fees. In addition, some facility staff were approving distribution fee invoices without proper Strategic Acquisition Center contracting officer authorization. According to the Strategic Acquisition Center contracting officer, during October 2018 five of the 12 sampled facilities did not have an assigned contracting officer's representative. The OIG concludes that absent an authorized contracting officer's representative, unauthorized personnel certified distribution fees.

Chief logistics officers and contracting officer's representatives at 10 of 12 VA medical facilities did not have information or an adequate process for verifying distribution fee invoices before approving them for payment. One contracting officer's representative indicated she requests a detailed billing report, along with invoices, to verify distribution fee charges.²² She identifies and researches all incorrectly invoiced delivery items and informs the vendor of the discrepancies. Once the vendor sends the corrected billing report, the contracting officer's representative reviews and verifies it for accuracy and submits it for payment certification.

The program office did not establish guidance for contracting officer's representatives on verifying MSPV-NG distribution fees or require vendors to provide the necessary detailed transaction information. Four of the 12 facility contracting officer's representatives did obtain detailed information, but the remaining eight did not obtain it or ask for it. Only one of the four reported a process to verify that distribution fees were accurate for the items received.

Detailed Transaction Information Required

To effectively review and certify distribution fees, contracting officer's representatives must have detailed information for all medical and surgical items delivered and invoiced by the prime vendors and the distribution fees invoiced. The following list shows the detailed information VA medical facilities would require from the prime vendors to effectively and timely verify distribution fees:

²² The contracting officer's representative verified the charges using VHA's Integrated Funds Distribution, Control Point Monitoring, Accounting and Procurement System.

- Customer name
- Customer purchase order number
- Customer item number
- Prime vendor item number
- Product description
- Contract number
- Shipped quantity
- Invoice number
- Item unit price
- Type of shipment (bulk/low-unit)
- Fee rate (bulk/low-unit/on-site representative)
- Station ID number
- Order date
- Item master file number
- Supplier part number
- Unit of measure
- Ordered quantity
- Shipment date
- Invoice date
- Total price of items
- Fee amount (bulk/low-unit/on-site representative)

The OIG concluded that detailed vendor information is important to identify potential fee overcharges. For example, the VA medical facility contracting officer's representative who requested detailed prime vendor data identified discrepancies in low-unit fees, which had come to her attention earlier. Using the detailed data, she identified about \$1,900 in improper low-unit charges during August 2019. The contracting officer's representative appropriately rejected the erroneous charges and sent the invoice back to the vendor for correction. However, she said that she did not also review bulk and on-site representative fees.

Process Required

Before comparing rates, VA medical facilities must be sure their election forms are the most recent versions signed and submitted to the prime vendor. Further, facilities must keep their forms updated according to the MSPV pricing schedule. The audit team identified a modification in VA's contract with Cardinal Health requiring medical facilities to provide the election forms to Cardinal Health monthly. However, American Medical Depot, Kreisers, and Medline facilities did not have any requirement regarding submission frequency.

To effectively review distribution fees for accuracy, contracting officer's representatives at VA medical facilities could total the prices of items ordered as well as the fee amounts and compare these results to the prime vendors' summary bulk and low-unit purchase order invoices and the summary distribution fee invoice for accuracy.

To verify the accuracy of each fee type invoiced, facilities would calculate fees as follows:

- $\text{Total bulk fees} / \text{total price of bulk items} = \text{aggregate bulk rate}$

- Total low-unit fees / total price of low-unit items = aggregate low-unit rate
- Total on-site representative fees / total price of all items = aggregate on-site representative rate²³

If the aggregate distribution fee rates match the election form rates, facilities can verify randomly sampled transactions as necessary and certify distribution fees for payment. However, if the aggregate rates do not match election form rates, the facilities would need to review invoice transactions to find discrepancies before verifying the fees and certifying invoices for payment.

The MSPV-NG contracts state that prime vendors should only bill fees for the supply items delivered during the invoiced period, and facilities should only pay for items received. While the American Medical Depot and Kreislers prime vendors provided VA medical facilities with detailed transaction fee data along with a monthly invoice containing summary distribution fee amounts, the audit team found that the summary information provided by the Medline and Cardinal Health prime vendors was generally insufficient. It did not contain the necessary detailed information for contracting officer's representatives to accurately compare and verify invoiced items to the fees to ensure facilities were only charged for items delivered.

According to a Strategic Acquisition Center contracting officer, unlike the other three prime vendors, Cardinal Health made fee invoices available separately but in conjunction with the medical and surgical supply purchase order invoices. However, absent detailed order information, it would be time-consuming for facilities to effectively verify the invoiced fees were accurate for the items delivered. As an example, for October 2018, sampled facilities were required to review summary order information comprising 16 to 183 individual purchase orders that included 259 and 1,209 medical and surgical transactions each.

One contracting officer's representative served by Cardinal Health told us she does not have time to conduct her contracting duties because she spends 95 percent of her time doing her main job as an inventory manager supervisor. Another contracting officer's representative also served by Cardinal Health reported simply reviewing fee totals, assuming the totals are correct, and certifying invoices for payment. However, this individual said that if the prime vendor provided the facility with the detailed transaction information mentioned above, the review process would be much easier, as demonstrated by the OIG team's review.

A chief logistics officer stated that the review and verification process would be labor-intensive and time-consuming using the current aggregate information provided by prime vendors. However, another chief logistics officer told the team that receiving detailed transaction

²³ For two of 12 sampled facilities, one prime vendor charged a flat \$10,000 on-site representative fee instead of using the rate reflected on the election form.

information similar to the data collected by the audit team would allow more expedient and accurate review and verification of fee invoices.

Effect of Distribution Fee Discrepancies

American Medical Depot, Cardinal Health, and Medline incorrectly invoiced medical facilities for distribution fees. The audit team estimated that chief logistics officers and contracting officer's representatives certified invoices associated with over \$62,300 in improper payments for medical and surgical supply deliveries during October 2018. Using this estimate, the audit team projected that VHA made approximately \$747,800 in improper payments during fiscal year 2018. If VHA does not implement adequate controls, improper payments could total about \$3.7 million over a five-year period. VA facilities should review and update election forms to ensure facilities and prime vendors both understand delivery requirements. VA is at risk of overpayment or underpayment of distribution fees when the facilities fail to consistently review and update their election forms.

Finding 1 Conclusion

Timely, complete, and reliable shipments of medical and surgical supplies are critical for medical facilities serving veterans. The audit team found that VA did not ensure the medical facilities paid distribution fees as designated on the election forms. To ensure effective stewardship of taxpayer funds, VA needs to strengthen oversight of the MSPV-NG program by requiring the program office to monitor VISNs to ensure VA medical facility chief logistics officers and contracting officer's representatives accurately review, validate, and certify distribution fee invoices. In addition, VA needs to ensure prime vendors provide medical facilities with the detailed medical and surgical supply transaction information necessary to adequately review and certify distribution fees for payment.

Recommendations 1–6

The OIG directed the following recommendations to the under secretary for health:²⁴

1. Direct the Medical Supplies Program Office to implement procedures requiring chief logistics officers at Veterans Integrated Service Networks to monitor facility processes for verification and certification of distribution fee invoices to ensure invoice accuracy prior to payment by the Financial Services Center.

²⁴ Recommendations directed to the under secretary for health were submitted to the executive in charge, who had the authority to perform the under secretary's functions and duties. Effective January 20, 2021, he was appointed to acting under secretary for health with the continued authority to perform the functions and duties of the under secretary.

2. Require Veterans Integrated Service Network directors to ensure their chief logistics officers develop distribution fee monitoring and review procedures for facility logistics audits and compliance reviews to ensure invoices are adequately reviewed, verified, and certified.
3. Require Veterans Integrated Service Network directors to ensure facility chief logistics officers and contracting officer's representatives review and update the election forms according to contract requirements and provide copies to the Medical/Surgical Prime Vendors for acknowledgment.
4. Require Veterans Integrated Service Network directors to ensure facility contracting officer's representatives verify that distribution fee rates match with those on the election forms and pricing schedule by comparing transaction data from the vendors to VHA-maintained transaction data, and reconcile payments as appropriate.

The OIG directed the following recommendations to the principal executive director, Office of Acquisition, Logistics, and Construction:

5. Require the Strategic Acquisition Center to develop and add modifications to the Medical/ Surgical Prime Vendor-Next Generation contract requiring prime vendors to provide reports to VA medical facilities with detailed medical and surgical transaction data, fee amounts, and fee percentage rates applied to each transaction on distribution fee invoices.
6. Require the Strategic Acquisition Center contracting officer to work with the Medical Supplies Program Office to ensure that Medical/Surgical Prime Vendor contracting officer's representatives are assigned to each VA medical facility.

Management Comments

The executive in charge, Office of the Under Secretary for Health, concurred with recommendations 1 through 4, and the principal executive director, Office of Acquisition, Logistics, and Construction, concurred with recommendations 5 and 6.

To address recommendation 1, the executive in charge reported that the Procurement and Logistics Office will collaborate with VISNs, VA medical centers, and prime vendors in developing and implementing standard operating procedures for monitoring and tracking the accuracy of distribution fees. These fees will be calculated as a percentage of the supply price according to the service-level election form. For recommendation 2, the executive in charge reported that VHA will also implement review procedures for facility audits and compliance reviews to help ensure invoices are properly reviewed, verified, and certified. To address recommendation 3, the executive in charge reported that the Procurement and Logistics Office will collaborate with VISNs, VA medical centers, and prime vendors to track and monitor submission of the election forms. For recommendation 4, the executive in charge reported that

VHA will also develop and implement standard operating procedures to monitor and track proper verification of the election forms to help ensure invoices are properly reviewed, verified, and certified.

To address recommendation 5, the principal executive director of the Office of Acquisition, Logistics, and Construction responded that the MSPV-NG contracts have expired, and under MSPV 2.0, facilities will have access to new Electronic Data Interchange transaction sets via a web-based dashboard, which is updated to provide near real-time data. For recommendation 6, the office reported that VA has already begun working to ensure contracting officer's representatives are appointed for every facility that routinely orders from MSPV, and that before the new contract begins, contracting officer's representatives will be appointed for each facility that routinely places orders under MSPV.

OIG Response

The corrective action plans provided by the executive in charge, Office of the Under Secretary for Health, and the principal executive director, Office of Acquisition, Logistics, and Construction, are responsive to the recommendations. The OIG will monitor implementation of the planned actions and will close the recommendations when the OIG receives sufficient evidence demonstrating progress in addressing the intent of the recommendations and the issues identified.

Finding 2. VA Did Not Ensure Facilities Paid MSPV-NG On-Site Representative Fees Based on Annual Facility Purchases

Five of the 12 sampled facilities used an on-site representative in fiscal year 2018, and none ensured the fees they paid for having representatives were correct.²⁵ The MSPV pricing schedule, which is an attachment in the contracts, establishes on-site representative fee rates based on annual facility purchase amounts. The chief logistics officer and contracting officer's representative at one facility and contracting officer's representatives at the other four facilities elected an on-site representative fee rate based on an estimate of annual facility purchases for the previous year.²⁶ However, the OIG concluded the MSPV-NG contract requires that the fees be based on the actual annual facility purchases. Because the facilities' estimates varied from the prime vendors' actual reported annual facility purchase amounts by an average of about \$1.1 million, VA medical facility staff likely did not select and pay at the correct on-site representative fee rates. Initially basing the fee rate on an estimate is a practical approach, as facility staff cannot know the actual facility purchases until the end of the year. However, they should reconcile the estimate to the actual amount at the end of the year to ensure fees paid are consistent with the pricing schedule.

The disparities were not resolved because VHA did not ensure staff determined the actual annual facility purchase amounts and used them to reconcile on-site representative fee differences at the end of the fiscal year. The audit team compared the fees the sampled medical facilities should have paid based on their annual facility purchases as reported by the prime vendors to the fees the facilities actually paid for on-site representatives. Based on this analysis, the audit team concluded VA medical facilities may have made improper fee payments totaling about \$127,000 during fiscal year 2018.²⁷

What the OIG Did

To determine whether medical facilities paid the proper amount of on-site representative fees pursuant to the contract, the audit team compared the facilities' estimated annual facility purchase amounts for fiscal year 2018 to the actual amounts paid to identify differences.²⁸ The audit team obtained the annual facility purchase amounts from three sources—the VA medical

²⁵ A sixth facility elected an on-site representative at the very end of fiscal year 2018 but did not receive one until fiscal year 2019.

²⁶ VHA guidance and the MSPV-NG contract do not specify who is responsible for estimating the annual facility purchase amount, but the audit team found that chief logistics officers and contracting officer's representatives estimated the amounts for the sampled medical facilities.

²⁷ The audit team used prime vendor fiscal year information because the prime vendors also reported actual annual fee payment information.

²⁸ In finding 1, the team analyzed data from October 2018. In finding 2, the team considered on-site representative fees for the five sampled facilities using one in fiscal year 2018 (payments for which appear in appendix D).

facility, the prime vendor, and VA's Financial Management System. Although the audit team received annual facility purchase amounts from other sources, the team used prime vendor fiscal year information because the prime vendors also reported actual annual fee payment information, which allowed the team to compare the amounts against the appropriate rates outlined in the MSPV pricing schedule to corroborate the information. The team also obtained the actual on-site representative fee amounts paid to the prime vendors during fiscal year 2018.

The team then compared the estimated on-site representative fee rates on the election forms to the on-site representative fee rates in the MSPV-NG contract for the actual reported fiscal year-end amounts to identify differences. Next, the team compared the applicable fiscal year-end rates to the rates actually charged by the prime vendor. Lastly, the team determined the fee amounts based on the annual facility purchase amounts and on-site representative rates and compared them to the amounts charged by the prime vendors. Since the data review scope was October 2018 and annual facility purchase amounts are based on a one-year period, the team reviewed the most recent available annual period—October 1, 2017, through September 30, 2018. The team also interviewed chief logistics officers and contracting officer's representatives at each of the five medical facilities that used on-site representatives in fiscal year 2018 to learn about the adequacy of the process each facility used.

On-Site Representative Fees

VA medical facilities may elect to use on-site representatives on their election forms. Under the MSPV-NG contract, fees for on-site representatives (called on-site strategic sourcing liaisons) are charged as a percentage that varies based on "AFP." While the MSPV-NG contracts do not define AFP, VHA guidance provided by the Medical Supplies Program Office defines AFP as "annual facility purchases." This guidance explains that a "percentage of the total MSPV [spending] for the year" will be added as a fee for the resource of the on-site representative.²⁹

Table 4 shows an example of a pricing schedule for on-site representative fee rates.

Table 4. MSPV Pricing Schedule for On-Site Representative Distribution Fee, Miami Medical Facility

Contract line item	Annual facility purchase range	Rate
1007AS	\$250,000 to \$1 million (\$1M)	15.00%
1007AT	\$1M to \$2M	5.00%
1007AU	\$2M to \$3M	3.00%

²⁹ Guidance distributed by the Medical Supplies Program Office, entitled "Additional Information on Service Level Election Forms."

Contract line item	Annual facility purchase range	Rate
1007AV	\$3M to \$4M	2.25%
1007AW	\$4M to \$5M	1.75%
1007AX	\$5M to \$6M	1.50%
1007AY	\$6M to \$7M	1.40%
1007AZ	\$7M to \$8M	1.30%
1007BA	Over \$8M	1.00%

Source: MSPV pricing schedule for option period 1 in region 2, geographical area 7, from the American Medical Depot MSPV-NG contract, modification 1, attachment 1.

Facilities Did Not Pay On-Site Representative Fees Based on Annual Purchases

Five of 12 sampled VA medical facilities used an on-site representative in fiscal year 2018. None of the five medical facilities ensured fees were paid based on the annual facility purchase amounts. Since staff cannot know their total annual spending at the beginning of the year, they indicate on the election forms an on-site representative fee rate from the MSPV pricing schedule that corresponds to an estimate of their annual facility purchases.

To establish those estimates, medical facility staff reported manually tallying data in spreadsheets and using sources such as the fiscal data from the Financial Services Center, Supply Chain Common Operating Picture, Veterans Health Information Systems and Technology Architecture, and prime vendor data to determine past annual purchase amounts.³⁰

For example, staff at the Miami medical facility reported using spreadsheets and the Supply Chain Common Operating Picture to estimate their annual facility purchase amount on the two election forms they used in fiscal year 2018. The first form estimated an annual facility purchase amount of about \$9 million, which corresponded to an on-site representative fee rate of 1.00 percent. The second form revised the estimate to between \$4 million and \$5 million, which indicated that the fee rate should have been 1.75 percent of purchases.³¹

However, VA medical facilities did not always apply the rate shown on their election form to pay fees for on-site representatives accurately. Table 5 shows that the Miami medical facility staff did not. In particular, although the fee rates based on estimated purchase amounts were 1.00 and 1.75 percent, the vendor was actually paid at 1.95 percent, for a fee difference of \$34,433.

³⁰ As discussed below, annual facility purchase amounts vary across these systems.

³¹ The audit team did not ask about the revised rate because VA has no policy that prevents facilities from changing the rate as necessary. The facility also did not volunteer an explanation.

The facility assistant chief logistics officer and contracting officer's representative did not review the on-site representative fees to determine the actual rate the medical facility paid the prime vendor during fiscal year 2018.

Table 5. Miami Medical Facility On-Site Representative Fee Based on Beginning of Year Estimates versus Actual Fee for Fiscal Year 2018

Source	Estimated amount	Days rate was effective	Corresponding MSPV pricing schedule rate	Estimated annual fee*	Actual fee paid	Estimated difference
First election form	\$9 million	171	1.00%			
Second election form	\$4 million to \$5 million [†]	194	1.75%	\$84,021	\$118,454	\$34,433

Source: VA OIG's summary of estimated and actual annual facility purchase amounts during fiscal year 2018.

*The estimated annual fee amount was determined based on the number of days that each of the medical facility's election forms was in effect during fiscal year 2018.

[†]The audit team used \$4.5 million in its calculations as an average for this range.

In addition, the facilities did not pay on-site representative fees based on their actual facility purchases for the year as required by the contract.³² If the on-site representative fee for the Miami medical facility had been based on the actual year-end facility purchase amount, the fee rate would have been either 1.50 percent or 1.40 percent (about \$87,400 or \$85,200) as the annual facility purchases were between about \$5.8 million and \$6.1 million depending on the data source used. Table 6 shows the details of the Miami medical facility annual on-site representative fee rates and amounts based on the reporting of year-end actual annual facility purchase amounts from the three different data sources used by the team.

Table 6. Miami Medical Facility On-Site Representative Fee Based on Reported Year-End Purchase Amount versus Actual Fee Paid for Fiscal Year 2018

Source	Reported year-end purchase amount	Corresponding MSPV pricing schedule rate	Applicable annual fee	Actual fee paid	Difference
Financial Management System	\$5,829,881	1.50%	\$87,448	\$118,454	\$31,006
Prime vendor	\$6,088,450	1.40%	\$85,238	\$118,454	\$33,216

³² The contract does not explicitly state that on-site representative fee rates should be based on the actual annual facility purchase amount. However, the audit team concluded the fee rates should be based on "[actual] annual facility purchase" or "the total MSPV [spending] for the year" as explained in supplemental documentation received from the program office.

Source	Reported year-end purchase amount	Corresponding MSPV pricing schedule rate	Applicable annual fee	Actual fee paid	Difference
Medical facility staff	\$6,022,834	1.40%	\$84,320	\$118,454	\$34,134

Source: VA OIG's summary of annual facility purchase amounts from fiscal year 2018.

The Miami example shows that the annual facility purchase amounts vary depending on the data source.³³ For example, whereas VA's Financial Management System reported an annual facility purchase amount of about \$5.8 million, the prime vendor reported an amount of about \$6.1 million. This difference in amounts affects the on-site representative rate a medical facility pays for MSPV-NG purchases. Based on the MSPV pricing schedule, the Financial Management System's annual facility purchase amount qualified the facility for a rate of 1.50 percent, but the prime vendor's amount qualified for a rate of 1.40 percent. The difference in rates ultimately affects the amount a medical facility pays. To ensure accuracy and prevent confusion on which amount to use to calculate on-site representative fees, VA must designate a single data source for the annual facility purchase amount.

In addition, when fees are not properly verified through some form of reconciliation process, facilities are at risk of paying on-site representative fees at a rate other than that on the election form (estimated) and other than the rate prescribed under the MSPV-NG contract based on the actual annual facility purchase amounts, as the Miami medical facility did.³⁴ Despite qualifying for either a 1.40 or 1.50 percent rate, the Miami medical facility paid the American Medical Depot prime vendor 1.95 percent, which was inconsistent with the pricing schedule (table 4).

VHA Did Not Provide Facilities Proper Guidance to Determine Annual Facility Purchase Amounts or Require Reconciliation

The VHA program office management did not provide proper guidance to facilities on how to determine annual facility purchase amounts. Specifically, VHA guidance did not specify a data source to determine the amount. The MSPV-NG contracts also did not define the annual facility purchase or explain how facilities should calculate the amount. In addition, VHA did not require staff to reconcile on-site representative fee differences at the end of the fiscal year. As stated in finding 1, the acting program director acknowledged that controls over distribution fees were lacking at the program office level and that VHA was improving oversight. VA medical facility chief logistics officers and contracting officer's representatives were left to figure out the annual

³³ The OIG did not determine why amounts differed between systems because doing so would have been outside the scope of this audit. However, VA OIG's *Audit of VA's Financial Statements for Fiscal Years 2019 and 2018* addresses this concern in reporting that "VA continues to have various financial reporting issues" and recommends that VA "Conduct the appropriate analyses and validation of data sources."

³⁴ Appendix D provides payment information for all five facilities in the sample that used an on-site representative.

facility purchase amounts on their own, determining whether to calculate annual facility purchases based on fiscal data, prime vendor data, or other methods.

Further, the contracts and VHA guidance do not indicate whether the annual facility purchase amount is calculated on fiscal, calendar, or other sequential 12-month period. For example, one facility chief supply chain officer told the audit team that his medical facility sought clarification on whether to use the past year's data to project its annual facility purchase amount for the upcoming fiscal year. The officer never received a definitive answer from either the VISN or the Strategic Acquisition Center.³⁵ While facility staff generally estimated annual facility purchases, in some instances the prime vendor supplied that information. In one such case, a prime vendor representative told the team the vendor based the annual facility purchase amount on the 12 months before the on-site representative started work. The team also learned that the VISN agreed to allow this prime vendor to establish the rate. The lack of standards for determining annual facility purchases can result in facilities paying incorrect on-site representative fees.

Since the actual annual facility purchases for a year cannot be known until the end of the year, medical facility staff generally estimate the on-site representative fee rates based on the past year's facility purchase amounts and corresponding fee rates in the MSPV pricing schedule. To ensure medical facilities ultimately pay the correct amount at the end of the fiscal year, staff should determine the actual annual facility purchase amount and the correct on-site representative fee rate. Then they should reconcile the correct on-site representative fee rate with the fee rate already paid to the prime vendor and make any necessary adjustments.

However, VA did not ensure medical facilities reconciled the on-site representative fees paid during the fiscal year. Moreover, one acquisition utilization specialist told the audit team the medical facility had received guidance from a Strategic Acquisition Center contracting officer that the standard practice was not to reconcile on-site representative fee disparities. The contracting officer told the specialist, "It would be an administrative nightmare for both Cardinal [Health] and the facility to go back and change the hundreds of invoices." He further stated that it would be "one of many things that would change with MSPV 2.0, which will be much easier on the facilities." The audit team later confirmed with the contracting officer that his guidance was for facilities not to reconcile fees. However, this guidance does not accord with the contract and associated guidance provided by the program office, which direct that the fees be based on the actual amount the facility spent as opposed to the estimated amount. VA's establishing a flat fee rate will help mitigate on-site representative fee rate disparities, but in the interim VA needs to ensure facilities reconcile rate disparities that have occurred and continue to occur.

The audit team's analysis of the rates, based on end-of-year annual facility purchase amount data reported by the prime vendor, shows that reconciliation is a one-time action that would be

³⁵ The facility chief supply chain officer performs the same duties and functions as the facility chief logistics officer. The titles are synonymous, and their usage varies between medical facilities.

required at the end of each year. Once the correct fee rate is determined, it can simply be applied to the total spending for the year to calculate the total correct fee for the year. The difference between that and the amount paid would be the amount owed to prime vendors or credited to the facility.

Effect of Not Paying MSPV-NG On-Site Representative Fees Based on Annual Facility Purchases

If the annual facility purchase amounts had been defined and the on-site representative fees reconciled, medical facilities would have paid the correct on-site representative fees based on the actual annual facility purchases amount during fiscal year 2018. Additionally, medical facilities would have identified variances between the year-end on-site representative fees total and the on-site representative fees that were actually paid. In calculating these differences, the OIG team relied on the prime vendor's reported annual facility purchase amount because the medical facilities were invoiced for this amount and paid fees based on it. Additionally, the team maintained consistency in its analysis by using data reported from one source—the prime vendors—as opposed to using multiple sources that may have used different methods to calculate their annual facility purchases.

Based on the prime vendors' reported annual facility purchase amounts and the on-site representative fees actually paid, the five sampled VA medical facilities that paid on-site representative fees may have made improper payments totaling nearly \$127,000 as a result of not defining their total annual purchases and not reconciling on-site representative fees. Table 7 shows a comparison of the on-site representative fees that were due, termed “applicable fees,” with on-site representative fees actually paid by the facilities in fiscal year 2018 according to vendors' records.

Table 7. Applicable and Actual On-Site Representative Fees for Fiscal Year 2018 according to Prime Vendors' Records

Sampled facility location	Applicable fee	Actual fee	Difference
Miami, FL	\$85,238	\$118,454	\$33,216
Seattle, WA	\$98,857	\$52,127	(\$46,730)
Tucson, AZ	\$100,438	\$103,807	\$3,369
Charleston, SC	\$87,485	\$111,881	\$24,396
Shreveport, LA	\$132,460	\$113,243	(\$19,217)
		Total	\$126,928

Source: VA OIG's summary of applicable and actual on-site representative fees during fiscal year 2018.

Further, VA facilities may have missed opportunities to use funds more effectively. When total annual purchase amounts are close to threshold rate changes in the MSPV pricing schedule, a facility can purchase a higher volume of medical and surgical items but pay less overall because of a decrease in the on-site representative fee. Table 8 depicts how a medical facility could spend less money overall yet purchase higher quantities of essential medical and surgical supplies under the MSPV-NG program.

Table 8. Better Use of Funds Analysis of MSPV-NG Contract On-Site Representative Rates for Region 4, Geographical Area 14

Annual facility purchase amount	\$2M to \$3M		\$3M to \$4M		Total expenditure
	Rate	Fee	Rate	Fee	
\$2,980,000	5.00%	\$149,000			\$3,129,000
\$2,990,000	5.00%	\$149,500			\$3,139,500
\$3,000,000			3.00%	\$90,000	\$3,090,000
\$3,010,000			3.00%	\$90,300	\$3,100,300
\$3,020,000			3.00%	\$90,600	\$3,110,600
\$3,030,000			3.00%	\$90,900	\$3,120,900
\$3,040,000			3.00%	\$91,200	\$3,131,200
\$3,050,000			3.00%	\$91,500	\$3,141,500
\$3,060,000			3.00%	\$91,800	\$3,151,800

Source: VA OIG review of the MSPV pricing schedule.

Specifically, if a facility spent \$2,990,000 on medical and surgical items, it would owe a 5 percent on-site representative fee (\$149,500), which would make its total expenditure \$3,139,500. However, if that facility spent \$3,040,000 on medical and surgical items, it would only owe a 3 percent on-site representative fee (\$91,200), which would make its total expenditure \$3,131,200. In other words, if the facility spent \$50,000 more on supplies it would save \$8,300. In these situations, having a better understanding of the MSPV pricing schedule rate thresholds would have allowed the medical facility to consider whether it had a bona fide need for additional medical/surgical supplies. If so, the facility could have saved money while obtaining more medical/surgical items by paying a lower on-site representative fee rate.

Finding 2 Conclusion

VA did not ensure medical facilities accurately established and applied the on-site representative rates and paid fees based on annual facility purchases. To ensure adequate stewardship of taxpayer funds, VA needs to strengthen oversight of the MSPV-NG program by establishing a policy that defines the source and method of calculating the annual facility purchases and ensures

facilities reconcile on-site representative fees to confirm they are based on annual facility purchase amounts.

Recommendations 7–10

The OIG directs the following recommendations to the principal executive director, Office of Acquisition, Logistics, and Construction:

7. Require the Strategic Acquisition Center to appropriately modify the Medical/Surgical Prime Vendor contract to define annual facility purchase as well as adding a provision for paying the annual facility purchase amount based on the *estimated* total spend until year-end reconciliation.
8. Require the Strategic Acquisition Center to also appropriately modify the Medical/Surgical Prime Vendor contract to require the prime vendors—rather than the facility—to reconcile to annual facility purchases at the end of the year.

The OIG directs the following recommendations to the under secretary for health:³⁶

9. Require the Medical Supplies Program Office to establish policy that clearly defines the source VA medical facilities should use to estimate their annual facility purchase amounts and determine the year-end amounts.
10. Require VA medical facilities to review their on-site representative fees paid during fiscal year 2018 and future years to ensure they were paid based on the *actual* annual facility purchase amounts, consistent with the Medical/Surgical Prime Vendor-Next Generation contract, and reconcile payment discrepancies as appropriate.

Management Comments

The principal executive director, Office of Acquisition, Logistics, and Construction, concurred with recommendations 7 and 8, and the executive in charge, Office of the Under Secretary for Health, concurred with recommendations 9 and 10.

To address recommendations 7 and 8, the principal executive director restated that the MSPV-NG contracts have expired; therefore, no modifications are required. She reported that under the new contract, MSPV 2.0, prime vendors' on-site customer service representatives will have monthly flat rate fees, which is different from the MSPV-NG contract.³⁷

³⁶ Recommendations directed to the under secretary for health were submitted to the executive in charge, who had the authority to perform the under secretary's functions and duties. Effective January 20, 2021, he was appointed to acting under secretary for health with the continued authority to perform the functions and duties of the under secretary.

³⁷ The OIG understands that a flat fee in the forthcoming contract would eliminate the need to establish annual facility purchases for determining on-site representative rates and year-end reconciliation.

To address recommendation 9, the executive in charge reported the Office of the Assistant Under Secretary for Health for Support will determine the best method by which to establish policy that clearly defines the source VA medical facilities should use to estimate their annual facility purchase amounts and determine the year-end amounts. Finally, for recommendation 10, the executive in charge reported that the Procurement and Logistics Office will conduct a representative sample review of invoices from a subset of facilities for on-site representative fees paid during fiscal years 2018, 2019, and 2020 to determine if further action to address discrepancies is fiscally responsible. Further, under the MSPV 2.0 contract, medical facilities will have the option to select a full-time or part-time on-site customer service representative for a monthly flat fee, eliminating the issue that prompted this recommendation.

OIG Response

The corrective action plans provided by the executive in charge, Office of the Under Secretary for Health, and the principal executive director, Office of Acquisition, Logistics, and Construction, are responsive to the recommendations. The OIG will monitor implementation of the planned actions and will close the recommendations when the OIG receives sufficient evidence demonstrating progress in addressing the intent of the recommendations and the issues identified.

Appendix A: Scope and Methodology

Scope

The audit team conducted its work from February 2019 through November 2020. The audit included reviewing data from 12 statistically selected VA medical facilities, three from each of the four prime vendors. The team reviewed a statistical sample of 360 medical and surgical transactions from a universe of approximately 114,060 transactions valued at about \$40,956,745 fulfilled by the four prime vendors for 127 VA facilities during October 2018. The statistical sample comprised six line items from five purchase orders per facility for a total of 30 line items per facility and 90 per prime vendor.³⁸ Appendix B provides additional details on the statistical sampling methodology. Table A.1 displays the 12 medical facilities selected.

Table A.1. Sampled VA Medical Facilities

Prime vendor	Station ID	VA medical facilities and location	Line items
American Purchasing Services LLC/ American Medical Depot	517	Beckley VA Medical Center – Beckley, WV	90
	546	Miami VA Healthcare System – Miami, FL	
	658	Salem VA Medical Center – Salem, VA	
Cardinal Health 200 LLC	554	VA Eastern Colorado Health Care System – Aurora, CO	90
	663	VA Puget Sound Health Care System – Seattle, WA	
	678	Southern Arizona VA Health Care System – Tucson, AZ	
Kreisers Inc.	550	VA Illiana Health Care System – Danville, IL	90
	607	William S. Middleton Memorial Veterans Hospital – Madison, WI	
	656	St. Cloud VA Health Care System – St. Cloud, MN	
Medline Industries Inc.	504	Amarillo VA Health Care System – Amarillo, TX	90
	534	Ralph H. Johnson VA Medical Center - Charleston, SC	
	667	Overton Brooks VA Medical Center – Shreveport, LA	
Total		12	360

Source: VA OIG statistician.

³⁸ Based on the large number of transactions ordered by the VA medical facilities during a given period, the audit team limited its review to the most recent one-month period of available order data.

The audit focused on VA's oversight of MSPV-NG distribution fee payments. This focus required the audit team to gain an understanding of medical facilities' invoice verification and certification processes, which was accomplished through interviews, reviews of related VA policies and procedures and prime vendor October 2018 documents provided by the Strategic Acquisition Center, and analysis of data obtained from VA systems.

Methodology

To determine the accuracy of MSPV-NG program distribution fee payments, the audit team evaluated VA's distribution fee invoice verification and certification processes, including the frequency and consistency with which the 12 sampled facilities reviewed the facility election forms, and the process the facilities used to establish the on-site representative fees.

Specifically, the audit team did the following:

- Collaborated with the OIG's Data Services Division and an OIG statistician to select and develop a statistical sample of bulk and low-unit MSPV-NG orders completed during the scope of the audit
- Interviewed officials at the Strategic Acquisition Center; Office of Procurement, Acquisition, and Logistics; VISNs; and VA medical facilities to gain an understanding of the MSPV-NG distribution fees verification process and monitoring controls
- Reviewed applicable laws, regulations, policies, procedures, and guidance related to VA's oversight of the MSPV-NG program
- Reviewed the MSPV-NG contracts and modifications for established performance measures
- Reviewed the election forms used by the 12 sampled medical facilities to establish prime vendor services and associated distribution fees in effect for October 2018
- Analyzed purchase orders generated by the medical facilities during October 2018 and the corresponding prime vendor invoices, and determined the types of distribution fees, such as bulk and low unit, and fee amounts charged by the prime vendors
- Assessed whether VA ensured its medical facilities paid the correct distribution fee amounts by calculating and comparing the following:
 - Distribution fees for each sampled line item paid by the 12 selected facilities during the audit period by applying the elected fee rates from the election forms to each sampled line item's total cost

- Prime vendors' fee rates and total cost per sampled line item using the delivery items and distribution fee invoices from VA's Invoice Payment Processing System
- Assessed whether VA ensured prime vendors invoiced for the correct number of medical and surgical items by doing the following:
 - Obtaining transaction data from VHA's Supply Chain Common Operating Picture (SCCOP) to track prime vendor performance
 - Comparing data from the SCCOP to prime vendor reports provided by the Strategic Acquisition Center for the MSPV-NG expenditures in October 2018
- Assessed whether VHA paid correct distribution fees for an on-site representative by analyzing annual facility purchases, or total annual expenditures for medical and surgical supplies

Fraud Assessment

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

- discussing any discrepancies found with appropriate personnel, and
- having ongoing discussions with the OIG's Office of Investigations regarding possible fraud in the MSPV-NG program.

The OIG identified potentially fraudulent activity by a prime vendor and referred the information to the OIG Office of Investigations, which decided not to open a case based on the low loss amount and the case being handled administratively.

Data Reliability

The team used computer-processed data provided by the OIG Data Analysis Division, VHA, and the MSPV-NG prime vendors via the Strategic Acquisition Center. The computer-processed data included the data sample, SCCOP reports, and prime vendors' billing reports. The team also obtained and used documents such as receiving reports and invoices from the Invoice Payment Processing System (IPPS) to conduct reliability testing. The team assessed and found the computer-processed data sufficiently reliable based on the following methods:

- Data sample: The audit team used invoice and delivery/receiving reports pulled directly from VA's IPPS or provided by the 12 sampled facilities to verify the reliability of the 60 sampled transactions.

- VHA's Supply Chain Common Operating Picture: The audit team extracted SCCOP supply transaction data and compared them to billing reports obtained from the prime vendor or receiving reports directly retrieved from VA's IPPS.
- Prime vendor billing reports: The team tested the reports by comparing them against receiving reports provided by the sampled facilities or obtained from VA's IPPS.

Government Standards

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

Appendix B: Statistical Sampling Methodology

To accomplish the audit objective, the audit team reviewed a statistical sample of MSPV-NG purchase orders and distribution fees. The audit team used statistical sampling methodology to quantify incorrectly paid distribution fees for MSPV-NG orders.

Population

The population consisted of 114,961 transactions valued at \$46,174,103. After 901 unique transaction exclusions for facilities located outside the continental United States, and nonsupply items based on a description, the universe was reduced to 114,060 transactions valued at \$40,956,745 (table B.1) and fulfilled by the four prime vendors for 127 unique VA medical facilities. These transactions occurred during October 2018 and represent obligations under budget object code 2632.

Table B.1. Adjusted Population

Prime vendor	Purchase orders	Transactions	Total cost
American Purchasing Services LLC/ American Medical Depot	3,420	33,635	\$13,492,741
Cardinal Health 200 LLC	2,190	25,991	\$8,596,217
Kreislers Inc.	2,912	34,723	\$9,845,750
Medline Industries Inc.	1,690	19,711	\$9,022,036
Total	10,212	114,060	\$40,956,745

Source: OIG statistical analysis performed in consultation with the Office of Audits and Evaluations' statistician.

** The prime vendors' combined total cost does not sum due to rounding.*

Sampling Design

The overall sampling approach included a multistage sampling method that involves different sampling units to capture the statistical selection.

In stage 1, the sampling unit is based on 127 stations in the sampling frame, which represent the total number of VA medical facilities minus those outside the continental United States. The OIG selected 12 VA medical facilities, three from each of the four prime vendors' service regions.

In stage 2, the sampling unit is based on five purchase orders per VA medical facility, which represents the unique number of purchase orders associated with each VA medical facility.

In stage 3, the sampling unit is based on a random selection of six transactions per purchase order, or a total of 30 transactions per VA medical facility (table B.2).³⁹

Table B.2. Sample Size

Prime vendor	Facilities per prime vendor	VA medical facilities and location	Transactions per station
American Purchasing Services LLC/American Medical Depot	3	Beckley VA Medical Center - Beckley, WV	30
		Miami VA Healthcare System - Miami, FL	30
		Salem VA Medical Center – Salem, VA	30
Cardinal Health 200 LLC	3	VA Eastern Colorado Health Care System - Aurora, CO	30
		VA Puget Sound Health Care System – Seattle, WA	30
		Southern Arizona VA Health Care System - Tucson, AZ	30
Kreisers Inc.	3	VA Illiana Health Care System – Danville, IL	30
		William S. Middleton Memorial Veterans Hospital – Madison, WI	30
		St. Cloud Health Care System – St. Cloud, MN	30
Medline Industries Inc.	3	Amarillo VA Health Care System – Amarillo, TX	30
		Ralph H. Johnson VA Medical System – Charleston, SC	30
		Overton Brooks VA Medical Center – Shreveport, LA	30
Total	12		360

Source: OIG statistical analysis performed in consultation with the Office of Audits and Evaluations' statistician.

Sample Method: A probability proportional to size sampling method was applied to select all three stages of samples based on the total cost.

Sample Size: In stage 1, the OIG statistically selected three facilities from each of the four prime vendors for a total of 12 facilities. In stage 2, the OIG statistically selected five purchase orders

³⁹ During the sample review, the OIG found 71 transactions from 28 purchase orders that were not included in the prime vendors' October 2018 invoice data. As a result, the statistician expanded the threshold from five purchase orders with six transactions, to 12 purchase orders with six transactions. The audit team substituted the missing transactions with the next sequenced purchase order or transaction.

from each of the 12 facilities for a total of 60 purchase orders. In stage 3, six transactions per purchase order and per station were selected, for a total of 360 transactions. This sample size is large enough to assure that a sufficient number of purchase orders/transactions exists in the sample and to analyze the reasons for error rates for MSPV-NG distribution fees. Tables B.1 and B.2 provide additional information.

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. For example, the OIG team calculated the error rate point estimates by summing the sampling weights for all sample records that contained the error, then dividing that value by the sum of the weights for all sample records.

Projections and Margins of Error

During the sample review the audit team identified 71 transactions in the samples that were not included in the prime vendors' reported listing of medical and surgical transactions invoiced during October 2018. These samples were replaced with the spare sampled transactions. Based on the transactions replaced, the population estimate of 114,060 (rounded 114,000) was reduced to 97,565 (rounded to 97,600) with a value of \$34,854 (rounded to \$34,900). For the estimated population, 20,581 (rounded to 20,600, with a margin of error of 2,900) of those transactions or 21 percent (with a margin of error of 3 percent) were found to be in error.

The OIG estimated that VA made total improper payments in the amount of \$62,317 (rounded to \$62,300 as shown in table B.3 on the following page). The OIG projects Medline was paid \$32,020 (rounded to \$32,000), Cardinal Health received \$5,663 (rounded to \$5,700), and American Medical Depot was paid \$24,634 (rounded to \$24,600).

Table B.3. Summary of Improper Payment Estimates

Prime vendor	Estimate	Margin of error	90 percent confidence interval lower limit	90 percent confidence interval upper limit	Samples in error
American Purchasing Services LLC / American Medical Depot	\$24,600	\$8,500	\$16,100	\$33,200	27
Cardinal Health 200 LLC	\$5,700	\$9,300	\$27	\$15,000	1
Kreisers Inc.	0	0	0	0	0
Medline Industries Inc.	\$32,000	\$12,600	\$19,400	\$44,600	64
Total improper payments	\$62,300	\$17,800*	\$44,500*	\$80,200*	92

Source: OIG statistical analysis performed by Office of Audits and Evaluations' statistician.

Note: The numbers in the table are rounded to the nearest hundredth dollar.

* The totals depicted here do not equal the sum of the values above due to rounding.

The point estimate (e.g., 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. Figure B.1 shows the effect of progressively larger sample sizes on the margin of error.

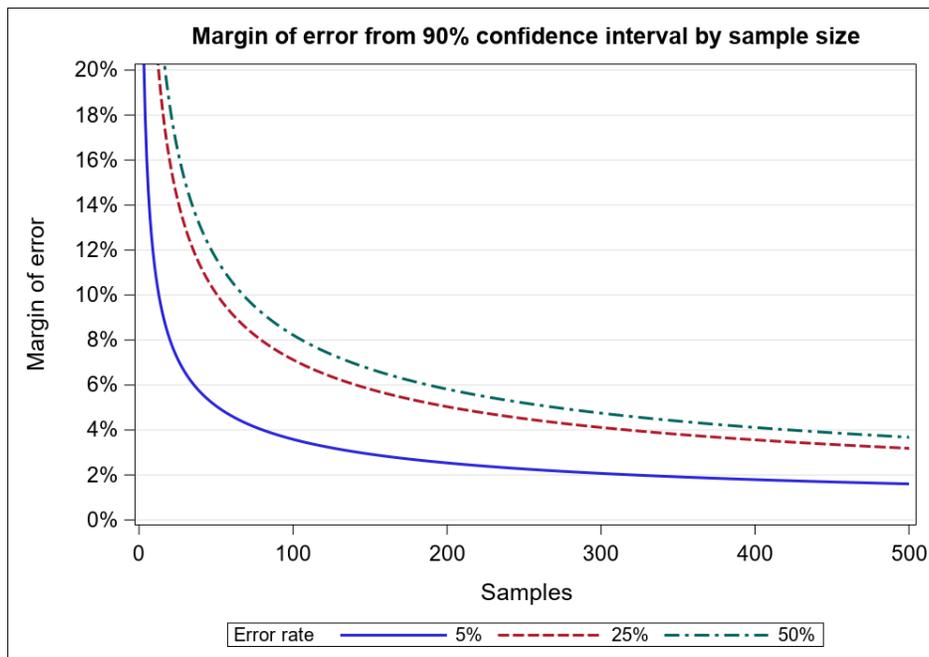


Figure B.1. Effect of Sample Size on Margin of Error.

Source: OIG statistical analysis performed in consultation with the Office of Audits and Evaluations' statistician.

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

Recommendations	Explanation of Benefits	Better Use of Funds	Questioned Costs
1-6	<p>Potential improper payments over a five-year period if VA does not ensure that the program office implements monitoring and review procedures, VISN chief logistics officers develop distribution fee monitoring and review procedures, VA medical facilities request detailed prime vendor MSPV-NG data, and contracting officer's representatives verify prime vendor data. The OIG estimated facility chief logistics officers and contracting officer's representatives certified invoices containing incorrect charges that resulted in over \$62,300 in improper payments for medical and surgical item deliveries during October 2018. Based on this estimate, the audit team projected that VHA made approximately \$747,800 in improper payments during fiscal year 2018, which would be approximately \$3.7 million over a five-year period unless VA implements improved controls and oversight.</p>	Not applicable	\$3.7 million
	Total	Not applicable	\$3.7 million

Appendix D: Fiscal Year 2018 Payment Information for Sampled Facilities that Used an On-Site Representative

None of the five medical facilities in the sample that used an on-site representative ensured the fees were paid based on the actual annual facility purchase amounts. Instead, medical facility chief logistics officers and contracting officer's representatives elected fee rate payments based on the estimated annual facility purchases. The medical facilities established estimated annual facility purchase amounts on their election forms that varied from the prime vendors' actual reported amounts by an average of about \$1.1 million. The following tables show analyses of the annual purchase amounts and on-site representative rates for all five facilities.

Table D.1 outlines the fiscal year 2018 facility estimated and prime vendor reported annual facility purchase amounts and differences for each of the five medical facilities.

Table D.1. VA Medical Facilities' Estimated and the Prime Vendors' Reported Facility Purchase Amounts for Fiscal Year 2018

VA medical facility and location	Estimated annual purchase amount		Prime vendor's reported annual facility purchase amount	Difference
	Election form amount*	Cumulative weighted election form amount†		
Miami VA Health Care System – Miami, FL	\$9,000,000	\$6,608,219	\$6,088,450	(\$519,769)
	\$4M to \$5M‡			
VA Puget Sound Health Care System – Seattle, WA	\$8,774,467	\$8,360,885	\$6,377,894	(\$1,982,991)
	\$6,258,508			
Southern Arizona VA Health Care System – Tucson, AZ§	\$6,686,490	\$6,163,501	\$7,725,980	\$1,562,479
	\$4,877,100			
	\$5,070,935			
Ralph H. Johnson VA Medical Center – Charleston, SC	\$5,527,558	\$5,527,558	\$4,374,228	(\$1,153,330)
Overton Brooks VA Medical Center – Shreveport, LA	\$3,000,000	\$3,000,000	\$2,649,199	(\$350,801)
			Average difference	\$1,113,874

Source: VA OIG's summary of annual facility purchase amounts used during fiscal year 2018.

*Three of the five sampled medical facilities (Miami, Puget Sound, Tucson) used more than one election form during fiscal year 2018.

†The effective election amounts were determined based on the number of days that each of the medical facility's election forms were in effect during fiscal year 2018.

‡ The audit team used \$4.5 million in their calculations as an average of the "\$4M to 5M" annual facility purchase amount written on Miami VA medical facility's election form.

§An agreement existed between the prime vendor and this medical facility's VISN to aggregate and average the estimated annual facility purchase amounts for all medical facilities in the VISN that elected an on-site representative.

Table D.2 shows a comparison of the prime vendors' applicable on-site representative rates with the rates the prime vendors charged the medical facilities during fiscal year 2018.

Table D.2. Prime Vendors' Applicable and Actual On-Site Representative Fee Rates for Fiscal Year 2018

VA medical facility and location	Prime vendor's on-site representative fee rates		Difference
	Applicable rate*	Actual rate charged†	
Miami Health Care System – Miami, FL	1.40%	1.95%	0.55%
VA Puget Sound Health Care System- Seattle, WA	1.55%	.82%	(0.73%)
Southern Arizona VA Health Care System – Tucson, AZ §	1.30%	1.34%	0.04%
Ralph H. Johnson VA Medical Center – Charleston, SC	2.00%	2.56%	0.56%
Overton Brooks VA Medical Center – Shreveport LA	5.00%	4.27%	(0.73%)

Source: VA OIG's summary of applicable and actual on-site representative fee rates during fiscal year 2018.

*The prime vendors' applicable on-site representative rates were determined by the OIG based on the prime vendors' reported annual facility purchase amounts and the MSPV pricing schedule.

†The prime vendors' actual on-site representative rates were determined by the OIG based on the prime vendors' reported annual facility purchases and the actual on-site representative fees paid by the medical facilities.

Table D.2. shows that despite what the applicable on-site representative rates were, the prime vendors charged the medical facilities at different rates. As shown in table 7, this resulted in two facilities incorrectly underpaying and three facilities overpaying the prime vendor in on-site representative fees. The difference in on-site representative rates between the estimated, applicable, and actually charged on-site representative rates demonstrates a need for facilities to reconcile rate differences to ensure on-site representative fees are paid based on actual annual facility purchase amounts.

Appendix E: Management Comments

Department of Veterans Affairs Memorandum

Date: February 8, 2021

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

Subj: OIG Draft Report, VETERANS HEALTH ADMINISTRATION: Inadequate Oversight of the Medical/Surgical Prime Vendor Program's Distribution Fee Invoicing (2019-06147-R3-0002)(VIEWS 03990374)

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

1. Thank you for the opportunity to review and comment on the draft report. The Veterans Health Administration (VHA) concurs with the six recommendations to the Under Secretary for Health and provides the attached action plans.

The OIG removed point of contact information prior to publication.

(Original signed by)

Richard A. Stone, M.D.

Attachment

VETERANS HEALTH ADMINISTRATION (VHA)

Draft Report Action Plan

VETERANS HEALTH ADMINISTRATION: Inadequate Oversight of the Medical/Surgical Prime Vendor Program's Distribution Fee Invoicing (OIG 2019-06147-R3-0002)

The OIG directs recommendations 1, 2, 3, 4, 9 and 10 to the Under Secretary for Health:

Recommendation 1. Direct the Medical Supplies Program Office to implement procedures requiring chief logistics officers at veterans integrated service networks to monitor facility processes for verification and certification of distribution fee invoices to ensure invoice accuracy prior to payment by the Financial Services Center.

VHA Comments: Concur

The Procurement and Logistics Office will collaborate with the Veterans Integrated Service Networks, VA Medical Centers, and Prime Vendors, in developing and implementing standard operating procedures for monitoring and tracking the accuracy of distribution fees which will be calculated as a percentage of the supply price per the service level election form. Completion of this action is dependent on a contract decision from Government Accountability Office.

Status: In progress

Target Completion Date: June 2021

Recommendation 2. Require veterans integrated service network directors to ensure their chief logistics officers develop distribution fee monitoring and review procedures for facility logistics audits and compliance reviews to ensure invoices are adequately reviewed, verified, and certified.

VHA Comments: Concur

The Procurement and Logistics Office (P&LO) will collaborate with the Veterans Integrated Service Networks, VA Medical Centers, and Prime Vendors (PV), in developing and implementing standard operating procedures for monitoring and tracking the accuracy of distribution fees and implement review procedures for facility audits and compliance reviews to help ensure invoices are properly reviewed, verified, and certified.

The web-based dashboard to provide Electronic Dashboard Interchange (EDI) data across nine transaction sets is under development and is anticipated to be fully deployed under Medical/Surgical Prime Vendor (MSPV) 2.0.

The EDI Dashboard relies on specific EDI transaction sets that are mandatory for the MSPV 2.0 contract. These same EDI Transaction sets are not currently mandatory under the MSPV Bridge contract, which means that upon its initial release the EDI Dashboard will have limited capability until full implementation of MSPV 2.0.

Up to three EDI transaction sets are currently in use under the MSPV Bridge. The EDI Dashboard will provide data to capture transaction activities from placement of the order through payment of the invoice. Enhanced capture of EDI data will strengthen visibility and monitoring capabilities of the P&LO to facilitate data-driven verification of PV performance metrics. Therefore, VHA will no longer rely on PV self-reported performance data. The data and reports available from the EDI Dashboard will also provide Field Supply Chain staff with timely reports that will assist them in managing their orders and inventories. Use of the

expanded EDI data transaction sets will begin with award of MSPV 2.0. Implementation of MSPV 2.0 is scheduled to occur in 2021.

The PV Statement of Work for MSPV 2.0 more clearly defines the required metrics and their calculation methods. VA medical facilities will still be encouraged to use the Issue Management (IM) Tool to report issues with their PVs, such as incorrect performance data. The facility Contracting Officer's Representatives (COR) are responsible for shepherding the issue through the IM Tool, continued use of the tool will help to ensure facility CORs are engaged in reconciliation of PV performance issues. Completion of this action is dependent on a contract decision from Government Accountability Office.

Status: In progress

Target Completion Date: June 2021

Recommendation 3. Require veterans integrated service network directors to ensure facility chief logistics officers and contracting officer's representatives review and update the election forms according to contract requirements and provide copies to the medical surgical prime vendors for acknowledgment.

VHA Comments: Concur

The Procurement and Logistics Office will collaborate with the Veterans Integrated Service Networks, VA Medical Centers, and Prime Vendors, to track and monitor submission of the election forms. The submission of this document is part of the MSPV 2.0 Statement of Work requirements. Completion of this action is dependent on a contract decision from Government Accountability Office.

Status: In progress

Target Completion Date: June 2021

Recommendation 4. Require veterans integrated service network directors to ensure facility contracting officer's representatives verify that distribution fee rates match with those on the election forms and pricing schedule by comparing transaction data from the vendors to VHA-maintained transaction data and reconcile payments as appropriate.

VHA Comments: Concur

The Procurement and Logistics Office (P&LO), in collaboration with the Veterans Integrated Service Networks, VA Medical Centers, and Prime Vendors (PV), will develop and implement standard operating procedures to monitor and track the accuracy of distribution fees and implement review procedures for facility audits and compliance reviews, and proper verification of the election forms to help ensure invoices are properly reviewed, verified, and certified.

The web-based dashboard to provide Electronic Dashboard Interchange (EDI) data across nine transaction sets is under development and is anticipated to be fully deployed under Medical/Surgical Prime Vendor (MSPV) 2.0.

The EDI Dashboard relies on specific EDI transaction sets that are mandatory for the MSPV 2.0 contract. These same EDI Transaction sets are not currently mandatory under the MSPV Bridge contract, which means that upon its initial release, the EDI Dashboard will have limited capability until full implementation of MSPV 2.0.

Up to three EDI transaction sets are currently in use under the MSPV Bridge. The EDI Dashboard will provide data to capture transaction activities from placement of the order through payment of the invoice. Enhanced capture of EDI data will strengthen visibility and monitoring capabilities of the P&LO to facilitate data-driven verification of prime vendor performance metrics. Therefore, VHA will no longer rely on prime vendor self-reported performance data. The data and reports available from the EDI Dashboard will also provide Field Supply Chain staff with timely reports that will assist them in managing their orders and inventories. Use of the expanded EDI data transaction sets will begin with award of MSPV 2.0. Implementation of MSPV 2.0 is scheduled to occur in 2021.

The PV Statement of Work for MSPV 2.0 more clearly 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. The facility Contracting Officer's Representatives (COR) are responsible for shepherding the issue through the Issue Management Tool, continued use of the tool will help to ensure facility CORs are engaged in reconciliation of prime vendor performance issues.

Status: In progress

Target Completion Date: June 2021

Recommendation 9. Require the Medical Supply Program Office to establish policy that clearly defines the source VA medical facilities should use to estimate their annual facility purchase amounts and determine the year-end amounts.

VHA Comments: Concur

The Office of the Assistant Under Secretary for Health for Support will determine the best method by which to establish policy that clearly defines the source VA medical facilities should use to estimate their annual facility purchase amounts and determine the year-end amounts.

Status: In progress

Target Completion Date: June 2021

Recommendation 10. Require VA medical facilities to review their on-site representative fees paid during fiscal year 2018 and future years to ensure they were paid based on the actual annual facility purchase amounts, consistent with the Medical/Surgical Prime Vendor-Next Generation contract and reconcile payment discrepancies as appropriate.

VHA Comments: Concur

The Procurement and Logistics Office (P&LO) will conduct a review of on-site representative fees paid during fiscal years 2018, 2019 and 2020. To effectively manage the administrative burden, and to avoid redirecting resources from the pandemic response, P&LO will review a representative sample of invoices from a subset of facilities for select months across the three-year period. P&LO will use the results of the review to determine if further action to address discrepancies is fiscally responsible.

The Procurement and Logistics Office has also taken action to mitigate and eliminate payment discrepancies going forward. P&LO established a contract administration team responsible for providing MSPV-NG Bridge contract oversight, monitoring and guidance to VA medical facilities to ensure invoices are adequately reviewed and certified prior to payment by the Financial Services Center. Under the MSPV 2.0 contract, medical facilities have the option to select a full-time or part-time On-Site Customer

Service Representative for a monthly flat fee, thereby eliminating the issue identified in the recommendation.

Status: In progress

Target Completion Date: December 2021

Department of Veterans Affairs Memorandum

Date: December 22, 2020

From: Principal Executive Director, Office of Acquisition, Logistics, and Construction, Chief Acquisition Officer, and Performing the Delegable Duties of the Assistant Secretary for Enterprise Integration (003)

Subj: Office of Inspector General - Audit of Veterans Health Administration's Medical Surgical Prime Vendor-Next Generation Program Distribution Fees (VIEWS 03995467)

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

1. The Office of Acquisition, Logistics, and Construction (OALC) completed its review of the Office of Inspector General's (OIG) subject draft report and concurs with the findings and the associated recommendations.

Recommendation 5: Require the Strategic Acquisition Center to develop and add modifications to the Medical/ Surgical Prime Vendor-Next Generation contract requiring prime vendors to provide reports to VA medical facilities with detailed medical and surgical transaction data, fee amounts, and fee percentage rates applied to each transaction on distribution fee invoices.

OALC Response: Concur. Please note that the Medical Surgical Prime Vendor-Next Generation (MSPV-NG) contracts have expired; therefore, no modifications are required. Under MSPV 2.0, prime vendors will be required to provide transactional line item data quarterly via the Authorized Supplier Utilization Report.

It is the ordering facilities responsibility to receipt for and validate all orders delivered by the MSPVs, to include processing distribution fee invoices. Under MSPV 2.0, facilities will have access to new Electronic Data Interchange (EDI) transaction sets via a web-based dashboard, which is updated once every thirty minutes, providing near real-time data. This dashboard will provide EDI Data across nine transaction sets is under development and is anticipated to be fully deployed under Medical/Surgical Prime Vendor (MSPV) 2.0. The EDI Dashboard will provide data to capture transaction activities from placement of the order through payment of the invoice. Enhanced capture of EDI data will strengthen visibility and monitoring capabilities of the Procurement and Logistics Office to facilitate data driven verification of key performance Prime Vendor (PV) metrics, to include Government invoice validation. Additionally, the MSPV 2.0 contracts require the PVs to provide monthly Customer Spend Analysis Reports (SOW Section II.C.3) detailing customer ordering history for both core and non-core list supplies. Also, the MSPV 2.0 contracts require the PVs to provide monthly Consumption Reports (SOW Section IV.Q.1) which include sales data, usage, and orders placed but not filled by the PV. The new EDI dashboard coupled with three PV reporting requirements (Authorized Supplier Utilization Report, Consumption Report and the Customer Spend Analysis Report) will enable facilities to more accurately analyze and validate PV distribution fee billings.⁴⁰

Pending MSPV 2.0 implementation.

Target Completion Date: June 2021

⁴⁰ The Office of Acquisition, Logistics, and Construction provided the OIG this additional information to its response to recommendation 5 on January 25, 2021.

Recommendation 6: Require the Strategic Acquisition Center contracting officer to work with the Medical Supplies Program Office to ensure that a Medical Surgical Prime Vendor contracting officer's representatives are currently assigned to each VA medical facility.

OALC Response: Concur. MSPV 2.0 contracts have been awarded as of October 22, 2020. However, they are currently under Government Accountability Office protests with decisions due on February 5, 2021 and February 8, 2021. VA has already begun working to ensure Contracting Officer's Representatives (CORs) are appointed for every facility that routinely orders from MSPV. Prior to contract execution beginning, CORs will be appointed for each facility that routinely places orders under MSPV.

Pending MSPV 2.0 implementation.

Target Completion Date: June 2021

Recommendation 7: Require the Strategic Acquisition Center to appropriately modify the Medical/Surgical Prime Vendor contract to define annual facility purchase as well as adding a provision for paying the annual facility purchase amount based on the estimated total spend until year-end reconciliation.

OALC Response: Concur. MSPV-NG contracts have expired; therefore, no modifications are required. Under MSPV 2.0, Prime Vendors' On-Site Customer Service Representatives (OSRs) are monthly flat rate fees that are completely different from that in MSPV-NG, which is the subject of this recommendation.

Pending MSPV 2.0 implementation.

Target Completion Date: June 2021

Recommendation 8. Require the Strategic Acquisition Center to also appropriately modify the Medical/Surgical Prime Vendor contract to require the prime vendors—rather than the facility—to reconcile to annual facility purchases at the end of the year.

OALC Response: Concur. MSPV-NG contracts have expired; therefore, no modifications are required. Under MSPV 2.0, Prime Vendors' OSRs are monthly flat rate fees that are completely different from that in MSPV-NG, which is the subject of this recommendation.

Pending MSPV 2.0 implementation.

Target Completion Date: June 2021

The OIG removed point of contact information prior to publication.

(Original signed by)

Karen L. Brazell

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

OIG Contact and Staff Acknowledgments

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