# Department of Veterans Affairs

# Office of Inspector General

# Review of Selected Financial and Administrative Operations at VISN 1 Medical Facilities

# Contents

# Executive Summary

## Introduction

The Office of Inspector General (OIG) conducted a review of the Veterans Integrated Service Network (VISN) 1, in collaboration with VISN 1 management, to identify VISN-wide opportunities to promote cost-effectiveness and efficiency, increase revenues, and ensure compliance with Federal regulations and VA policies. This review, which focused on financial and administrative activities, was initiated with the intent of engaging VISN management in resolving deficiencies found on past Combined Assessment Program (CAP) reviews throughout the Department and identifying issues that needed to be addressed on a VISN-wide basis.

In order to obtain a VISN-wide perspective, CAP reviews were performed at all eight VISN facilities during fiscal year (FY) 2005, beginning on December 6, 2004, and ending on September 30, 2005. Conducting reviews at all VISN facilities within such a short time period was a new approach, different from the typical coverage cycle of 3 to 4 years. The more comprehensive reviews were broader and deeper than routine CAP reviews.

## Results

The review focused on seven financial and administrative activities which included Medical Care Collections Fund (MCCF) operations, radiology services productivity and costs, equipment accountability, service contracts, procurement of prosthetic supplies, information technology (IT) security, and pharmaceutical accountability. To improve operations, we made the following recommendations:

- Enhance revenues and prevent inaccurate billings by strengthening controls and increasing oversight of facility MCCF operations.

- Improve the cost-efficiency of radiology services by utilizing relative value units (RVUs) as a tool for monitoring and measuring productivity, maximizing radiologist productivity, and minimizing the need for contract services. Implement teleradiology to optimally distribute the VISN's radiology workload and further enhance staff productivity.

- Improve equipment accountability by strengthening controls, clarifying procedures, enhancing oversight, and improving training.

- Improve oversight of the contracting program by establishing a formal organizational structure, developing and implementing management performance tools and operating policies, and improving communication among contracting personnel.

- Provide better oversight to ensure that Government purchase cardholders buy prosthetic supplies in accordance with VA's procurement policies and the Federal Acquisition Regulation (FAR).

- Strengthen IT security by correcting access and physical security deficiencies and requesting appropriate background investigations for employees with access to sensitive data and information.

- Improve accountability for pharmaceuticals and compliance with VHA policies by strengthening controls and providing closer management oversight of the controlled substances inspection program and pharmaceutical activities.

## Comments

The VISN 1 Director agreed with the findings and recommendations and provided acceptable implementation plans. (See Appendix H, pages 36–52, for the complete text of the VISN Director's comments.) We will follow up on the planned actions until they are completed.


*(original signed by:)*

JON A. WOODITCH
Deputy Inspector General

# Introduction

## Purpose

The purpose of the VISN 1 review was to conduct broader and more in-depth reviews of CAP issues to identify VISN-wide opportunities to promote cost effectiveness and efficiency, increase revenues, and ensure compliance with Federal regulations and VA policies. This type of CAP review had not been conducted before and was initiated with the intent of engaging VISN management in resolving deficiencies found on past CAP reviews throughout VA and identifying issues that needed to be addressed VISN-wide.

## Background

VISN 1 consists of 8 facilities—6 medical centers and 2 health care systems (HCS)—and 38 community-based outpatient clinics (CBOCs) located throughout the 6 New England states.[1] VISN 1 serves more than 233,000 veterans, has a budget of about $1.5 billion, and 9,023 employees. Annually, the VISN has 26,000 admissions and over 2.3 million outpatient visits.

In September 2005, VISN 1 was awarded the VHA Kizer Quality Achievement Recognition Grant. This prestigious award, which recognizes performance excellence, is VHA's highest award for quality of patient care services. During FYs 2004 and 2005, VISN 1 consistently ranked as one of the top five VISNs in delivering quality patient care services. To further confirm the VISN's noteworthy quality improvement program, OIG healthcare inspectors concluded during their CAP reviews at all VISN 1 facilities that each facility's quality management program was operating effectively.

## Scope and Methodology

The review evaluated seven administrative and financial activities which included MCCF operations, radiology services productivity and costs, equipment accountability, service contracts, procurement of prosthetic supplies, IT security, and pharmaceutical accountability. The review covered activities occurring during FYs 2004 and 2005. In conducting the review, we visited all eight VISN facilities in FY 2005 rather than over a 3-year period. (See Appendix A, page 29, for site visit dates and CAP review report numbers.) At each facility, we reviewed medical records and health insurance billing information; analyzed data on radiologist productivity and the cost of radiology services; conducted equipment inventories; reviewed contracts and assessed the risk of conflicts of interest; analyzed purchase card transactions; assessed IT security; and reviewed controlled substances inspections and pharmaceutical activities. We also interviewed managers and employees. The review was conducted in accordance with OIG standard operating procedures for CAP reviews.

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[1] The six New England states are Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut.

# Results and Conclusions

## Issue 1: Medical Care Collections Fund — Stronger Controls Would Enhance Revenues and Prevent Underbilling and Overbilling

### Findings

Our review of outpatient and fee basis episodes of care identified billing, coding, and collection issues that needed VISN management attention. These issues included underbilling and overbilling for outpatient care and not consistently billing for fee basis care. Underbilling occurred because provider documentation was missing, incomplete, or untimely and because some procedures were not coded and billed. Overbilling generally involved billing for care provided by medical students who were not licensed and therefore not billable providers. We also identified instances of billing for service-connected care. The VISN facilities did not consistently bill insurers for fee basis care because documentation of the care was not readily available and because the facilities found the process to be too time consuming for the presumed inadequate revenue. (See Appendix B, page 30, for VISN 1 individual facility projections of underbilling, overbilling, and additional collections over the variable 12-month periods of the CAP reviews.)

To enhance revenues and prevent underbilling and overbilling, VISN management needed to strengthen management controls and provide greater oversight of facility MCCF programs. As reported in the individual facility CAP review reports, we estimated that during the period covered by our reviews, an additional $7.5 million (7 percent) of the FY 2004 and FY 2005 average total annual outpatient billing ($107 million) could have been billed, which would have resulted in increased MCCF collections of about $2.4 million (6 percent of the average annual outpatient collections of $40 million). We estimated that $774,000 (0.72 percent) was overbilled, resulting in about $217,000 (0.54 percent) in excess collections. We also estimated that the VISN facilities missed opportunities to bill $1.7 million for patient care encounters previously deemed not billable and $4.5 million for care given by non-VA providers, which would have resulted in increased MCCF collections of about $472,000 and $1.5 million, respectively. In total, VISN facilities could have billed an additional $13.7 million and collected about $4.3 million during the period covered by our reviews.

**Background.** VA can bill insurance carriers for medical care provided to patients treated for nonservice-connected conditions at VA expense. In FY 2004, the eight VISN facilities collected $81.8 million, missing the VISN collections goal of $86.4 million by $4.6 million. In FY 2005, they collected $95.8 million, exceeding the $91.5 million goal by about $4.3 million.

**Scope and Methodology.** Our reviews covered medical care encounters that occurred between October 1, 2003, and June 30, 2005. To determine whether facilities were billing for all billable episodes of care, we analyzed medical care coding and bills from samples of outpatient encounters, encounters listed in three segments of the "Reasons Not Billable Report" ("RNB Report"), and samples of bills for fee basis care provided to insured patients. The VISN Health Information Management Service (HIMS) Coordinator, Compliance Officer, and Patient Accounts Manager took an active role in the process. They helped facility coding and billing staff plan for our reviews and participated in the discussions of the coding and billing review findings that we conducted with staff at each facility.

**Review Results**

Outpatient Billing Reviews. We identified instances of underbilling at six of the eight facilities. At five facilities, most pathology examinations were overlooked and not coded and billed, a common cause of underbilling. Underbilling also occurred because providers did not promptly document patient care. Coders should be trained to identify pathology examinations when coding surgical procedures and should ensure that these examinations are coded. VISN management should develop a documentation timeliness standard for providers and monitor the facilities to ensure providers meet the standard.

There were instances of overbilling at five of the eight facilities. The most common type of overbilling was billing for services provided by medical students. Because medical students are not licensed, care provided by them is not billable. To prevent overbilling, VISN management needed to provide additional training to ensure that attending physicians who supervise medical students meet the requirement that the physician must examine the patient and document the examination in order for VA to bill for this care. Coders and billers should be trained to recognize progress notes written by medical students and to ensure these notes are not coded or used for billing purposes. In some cases, the facilities also issued bills for service-connected care. Providers needed additional training on documenting service-connected care and coders and billers needed training to ensure that care provided for service-connected treatment is not billed.

As reported in the facility CAP review reports, we estimated that about $7.5 million was underbilled and that an additional $2.4 million could have been collected. We also estimated that $774,000 of outpatient care should not have been billed and that an excess of about $217,000 may have been collected.

"Reasons Not Billable Report." At each facility, we reviewed documentation of patient care encounters listed on three segments of the "RNB Report"—Nonbillable Provider (Resident), Insufficient Documentation, and No Documentation—to determine whether the report was accurate and to determine if encounters would have been billable if they had been fully documented by the providers. The "RNB Reports" were not accurate because for some encounters on the reports there was sufficient documentation for billing purposes. Most encounters listed on the three segments would have been billable if

providers had completed their documentation or if the reports were used for follow-up to obtain the documentation needed to bill.

These three segments of the "RNB Report" represent missed billing opportunities primarily caused by medical care provider documentation issues. As previously reported in projections of our sample results at the VISN facilities, we estimated that the VISN could have billed an additional $1.7 million and collected an additional $472,000. This loss of revenue could have been prevented if the "RNB Reports" had been used to properly monitor and follow up on the documentation needed for billing purposes.

Fee Basis Care. To determine if fee basis care was accurately billed to insurance carriers, we reviewed samples of outpatient, inpatient, and ancillary claims at each of the eight facilities. Most of these claims were not billable to health insurance carriers because the treatments were for service-connected disabilities or the services provided were not covered by insurance. Facility fee basis staff did not always submit billable claims to MCCF for coding and billing and often the fee basis providers did not submit documentation of the care. The consensus among management at the facilities was that they lacked sufficient staff, that billing for fee basis care was too time consuming, and that anticipated revenues did not make billing worthwhile. VISN management should establish a cost-effective billing system for fee basis services to increase fee basis revenues and ensure that all eligible claims are billed to insurance carriers.

As reported in the facility CAP review reports, we estimated that an additional $4.5 million could have been billed for fee basis care and that an additional $1.5 million could have been collected.

## Conclusion

VISN management could increase MCCF billings and collections by increasing oversight of VISN facilities. This would include expanding internal controls and establishing a timeliness standard for medical care documentation. To prevent overbilling, providers, particularly those who supervise medical students, should receive additional training on documentation requirements, and coders and billers should receive additional training to ensure they do not code medical student documentation or use it for billing purposes. Providers also needed to determine and document whether the care provided was service-connected. Management needed to ensure that documentation and billing errors are detected, corrected, and minimized. The "RNB Reports" should be used for follow-up to identify and correct documentation deficiencies and to take actions on billable encounters. Management should establish a cost-effective billing system for fee basis services to increase revenues and ensure that eligible claims are billed.

**Recommended Improvement Action 1.** We recommended that the VISN 1 Director improve oversight of MCCF activities and that actions be taken to:

a. Establish internal controls and expand compliance reviews to help facilities identify missed billing opportunities and prevent underbilling and overbilling.

b.  Develop a VISN-wide medical care documentation timeliness standard.

c.  Ensure that health care providers receive additional training to improve compliance with documentation requirements.

d.  Provide additional training to coders and billers on issues such as medical student documentation, pathological examinations, and service-connected care.

e.  Establish a monitoring system to review the "RNB Reports" to ensure the reports are used as a management tool to follow up and obtain the documentation needed to accurately bill insurance carriers.

f.  Establish a cost-effective billing system for fee basis services.

The VISN 1 Director agreed with the findings and recommendations and provided a plan for facility Compliance Officers to conduct monthly audits and refer problems to HIMS and MCCF program managers for corrections.  The plan also stated that by September 1, 2006, medical documentation timeliness standards would be established VISN-wide.  In addition, guidance would be provided on the issue of medical student documentation and a standardized training program would be developed VISN-wide for training providers and residents on documentation requirements.  Training would also be provided to coders and billers on issues such as medical student documentation, pathological examinations, and service-connected care.  As of April 2005, a system for monitoring the "RNB Reports" focusing on documentation issues had been implemented. To improve the fee basis billing process, VISN 1 Memorandum No. 10N1-102 "Administration of Fee Basis Program," dated January 2006, identified roles and responsibilities for fee basis co-payments for the MCCF program.  Lists of veterans with no identified insurance are being provided to the VISN insurance identification/verification contractor.  When insurance plans are identified, coverage is cross-matched to the time of service provided, and bills for care that meet the filing period requirements are submitted to the carriers.  The improvement plans are acceptable, and we will follow up on the implementation of improvement actions until they are completed.

## Issue 2: Radiology Services Productivity and Costs — Radiologist Productivity Could Be Improved and Contract Costs Reduced

### Findings

By monitoring radiologist productivity and costs on both a VISN-wide and facility basis, VISN management could enhance productivity and reduce the costs of radiologist services.  Contracts for radiologist services could be better negotiated and managed by using productivity and cost efficiency performance measures.   Productivity and costs were not always optimally monitored because VISN and facility management did not have a measurement tool for workload analysis and resource allocation decisions, and because VHA had not established productivity standards for radiologists.  The VISN did

not have the technology to perform VISN-wide teleradiology, which would leverage VISN resources by enabling radiologists to read films remotely. Implementing teleradiology would integrate radiology services throughout the VISN and allow workload to be distributed more efficiently. Increasing staff radiologist productivity would decrease costs by reducing the need to contract for radiologist services. Our review identified opportunities to improve radiologist productivity and reduce contract costs by about $2.66 million. (See Appendix C, Table 3, page 31, for calculation of the reduced costs.)

**Background.** In January 2002, Public Law 107-135 mandated that VA establish appropriate staffing standards for operations of medical facilities. At the time of our review, VHA had not yet established such standards for radiologists. RVUs which we used for this review, are used as a productivity measurement tool in private industry and within VA. VISN 1's Chief Medical Officer supports the use of RVUs as a productivity measurement tool. The Director of VHA's Radiology Program has previously indicated to the OIG that 5,000 RVUs per year would be a reasonable norm for full-time radiologists who have other nonclinical duties. In the written summary of the January 14, 2005, National Monthly Radiology Conference Call, the Director of VHA's Radiology Program stated that the pay and RVU structure in the academic and private sector was as follows:

- academic sector salary: $271,000/5,500 RVUs = $49.00 per RVU

- private sector salary: $345,000/7,100 RVUs = $49.00 per RVU

**Scope and Methodology.** During CAP reviews conducted at VISN 1 facilities, we reviewed radiologist productivity and the costs associated with providing diagnostic radiologist services. At seven of the eight facilities[2] radiologist services were provided by VA staff and/or contract physicians. For the purpose of the VISN review, we used FY 2004 productivity and cost data for each individual facility. (The productivity and cost data for each facility and the combined totals are shown in Appendix C, page 31.) We collected productivity data using a Veterans Health Information Systems and Technology Architecture (VistA) software program that calculates radiology RVUs by applying Medicare weighting factors to completed workload.

We used 5,000 RVUs per clinical full-time equivalent employee (FTE) and $49 per RVU as benchmarks to assess radiologist productivity and costs. The VA Decision Support System (DSS) Labor Mapping tool was used to adjust VA staff radiologist productivity levels according to time spent on clinical services. This method is utilized by the VHA Advisory Group on Physician Productivity, as well as by various private sector productivity survey groups. For radiologists, nonclinical time consists of administrative, research, and training duties—or time spent on duties for which radiologists cannot

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[2] The Edith Nourse Rogers Memorial Veterans Hospital (MVH) at Bedford, MA, did not provide radiology services. The VA Boston HCS provided radiology services coverage for the Edith Nourse Rogers MVH.

accumulate RVU credits. Time spent supervising residents is considered clinical time because radiologists can still accumulate RVU credits. In FY 2004, there were 27 FTE staff radiologists in VISN 1 facilities. (See Appendix C, Table 1, page 31, for VA staff, productivity, and costs at individual facilities). We used current DSS Labor Mapping data to determine that VISN facilities have 2.84 FTE radiologists allocated to nonclinical duties. We also adjusted staff radiologist costs by deducting the costs associated with the 2.84 nonclinical FTE.

In addition to evaluating productivity, we evaluated cost efficiency by calculating the "cost per RVU" for radiologist services. We compared the costs per RVU at VISN 1 facilities with the academic and private sector benchmarks shown on the previous page to evaluate how efficiently radiologist costs were being managed. We presented detailed results of our RVU productivity and associated costs analyses in the individual facility CAP review reports.

**Review Results**

In FY 2004, staff and contract radiologists at VISN 1 facilities completed 151,884 RVUs. VISN facilities spent $5,702,978 for 24.16 clinical FTE staff radiologists and $5,366,547 for 11.23 FTE[3] contract radiologists—a total cost of $11,069,525 for 35.39 FTE.

The total production for the staff radiologists was 90,182 RVUs, which equated to an average productivity of 3,733 RVUs per FTE (90,182 RVUs/24.16 FTE). The average productivity among VISN facilities ranged from 3,059 RVUs per clinical FTE at VA Boston HCS to 5,439 at VA Medical Center (VAMC) Manchester—a 2,380 RVU difference. The average cost per RVU for staff radiologists was $63.24 and ranged from $79.38 (VA Boston HCS) to $37.67 per RVU (VAMC Manchester)—a difference of $41.71. The VISN's average cost per RVU was also $14.24 higher than the academic and private sector benchmark of $49 per RVU. (See Appendix C, Table 1, page 31.)

The total production for the 11.23 contract radiologists was 61,702 RVUs. The average productivity was 5,494 RVUs per FTE, which is 1,761 RVUs higher than the staff radiologist average of 3,733 RVUs per FTE. The average VISN cost per RVU for contract radiologists was $87, which is almost $24 higher than the VA staff radiologists' cost and $38 higher than the academic and private sector cost. (See Appendix C, Table 2, page 31.)

Increasing Staff Productivity. As illustrated in Appendix C, Table 3, page 31, at a productivity level of 5,000 RVUs per clinical FTE, the 24.16 clinical FTE staff radiologists could produce 120,800 RVUs. This increase in productivity would increase their total production by 30,618 RVUs. Increasing VA staff radiologist productivity would reduce the remaining work that needed to be contracted out from 61,702 to 31,084

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[3] Number of hours of service by contract providers/2000 (approximate hours per work year) = Number of contract FTE.

RVUs (151,884 total RVUs – 120,800 VA staff RVUs).  Increasing productivity to 5,000 RVUs per FTE would subsequently reduce the staff radiologist cost per RVU from $63 to $47 ($5,702,978/120,800 RVUs), $2 below the academic and private sector benchmarks.

By reducing contract radiologist services needed from 61,702 to 31,084 RVUs, the VISN could reduce contract costs by as much as $2.66 million.  Eliminating 30,618 RVUs that need to be outsourced would reduce contract costs from $5.36 million to $2.70 million. (See Appendix C, Table 3, page 31.)

Effectively Managing Contract Costs.  The VISN needed to manage RVU costs for contract services to be more in line with the academic and private sector costs.  In FY 2004, the VISN facilities paid an average of $87 per outsourced RVU, $38 more than the academic and private sector costs.  As shown in Appendix C, Table 3, page 31, costs per RVU can be lower as a result of higher productivity.  For example, VAMC White River Junction paid approximately $46 per RVU for outsourced services because the contract radiologists produced at a high level of 8,905 RVUs per FTE.  The VISN's average contract cost per RVU could be reduced by increasing the average productivity of contract radiologists (5,494 RVUs per FTE) and/or by reducing the average cost paid for radiologist services ($477,876 per FTE).  Although the average productivity for contract radiologists was higher than for staff radiologists and comparable with the academic sector's productivity (5,500 RVUs per FTE), it was still 1,606 RVUs per FTE below the private sector's productivity of 7,100 RVUs per FTE.  The average VISN cost for contract radiologists was $206,876 per FTE more than the academic sector's cost per FTE and was $132,876 more than the private sector's cost.

Integrating Radiology Services.  The VISN did not have a standardized Picture Archive Communication System (PACS) to allow for teleradiology among facilities.  The acquisition of a centralized PACS would provide VISN facilities with the capability to capture, store, view, and share radiology images VISN-wide.  The VISN is in the process of pursuing a centralized VISN PACS and hopes to implement PACS during FY 2007. The implementation of PACS will help integrate the VISN's radiology services and allow for radiology examinations to be digitally available for reading by any radiologist in the VISN, regardless of their location.  PACS will also allow facilities to share workload when shortages or surpluses of radiologists exist at facilities.  PACS will allow workload to be optimally distributed and further help radiologists perform at or above productivity levels of 5,000 RVUs per clinical FTE.

## Conclusion

VISN management should work with Radiology Service managers to utilize RVUs as a tool to monitor and measure productivity, maximize staff radiologist productivity, and make sure that contract services are needed.  The VISN can use this tool to effectively manage radiologist resources and make sure services are being provided cost efficiently. Outsourcing costs can be reduced by identifying opportunities where staff radiologists can improve productivity to bring the workload in-house.  Contract services can be more

effectively established and managed by using RVUs and cost per RVU as measures for productivity and cost efficiency. Implementing PACS to integrate radiology services can also further help increase staff productivity by using teleradiology to optimally distribute the VISN's workload.

**Recommended Improvement Action 2.** We recommended that the VISN 1 Director take action to establish procedures and assign responsibilities to:

a. Require diagnostic service line managers to create quarterly reports of the department's total workload and the productivity of VA staff and contract radiologists.
b. Include productivity and/or cost efficiency measures in the negotiation and establishment of radiologist service contracts.
c. Conduct VISN-wide reviews of radiologist costs and productivity to identify opportunities to leverage radiologist resources.
d. Implement an information technology solution (PACS) that allows for the transmission of diagnostic radiology images between VISN 1 facilities.

The VISN 1 Director agreed with the findings and recommendations and reported that quarterly reports of workload and productivity were to be generated by each facility beginning March 1, 2006. By September 30, 2006, the VISN will require facilities to use productivity and/or cost efficiency measures in contract negotiations or provide written justification to the VISN Chief Medical Officer and Chief Logistical Officer (CLO) and receive written approval prior to awarding the contract. As of June 30, 2006, biannual reviews of radiologist productivity were to be conducted and reported to VISN leadership staff. The VISN PACS is expected to be phased in by the end of calendar year 2007 with the exception of the VA Connecticut HCS which uses a commercial PACS that has recently been upgraded. The VA Connecticut HCS system will be compatible with the VISN PACS in the interim and will be fully integrated approximately 3–4 years after the deployment of the VISN PACS. The improvement plans are acceptable, and we will follow up on the implementation of improvement actions until they are completed.

## Issue 3: Equipment Accountability — Oversight, Guidance, and Training Will Improve Equipment Accountability

### Findings

Controls over nonexpendable property at the eight VISN medical facilities were not sufficient to ensure that VA property, including sensitive IT equipment, was fully accounted for and safeguarded. Information in property databases was not accurate or complete. Equipment accountability policies and procedures were not always followed or understood by personnel responsible for accounting for VA property. VISN management could strengthen equipment accountability and enhance the VISN's property management program by providing guidance, oversight, and training to ensure compliance with VA policy. Strengthening accountability would provide management

greater assurance that the VISN's reported 141,231 items of equipment are properly managed and safeguarded.

**Background.** To safeguard VA property, VA policy requires that nonexpendable property valued over $5,000 and all sensitive equipment regardless of cost must be inventoried and accounted for. Periodic inventories are required to ensure that equipment is properly accounted for and recorded in accountability records called equipment inventory lists (EILs). Acquisition & Materiel Management Service (A&MMS) staff are responsible for coordinating the EIL inventories, which includes notifying all services when inventories are due and following up on incomplete or delinquent inventories. The Automated Engineering Management System/Medical Equipment Reporting System (AEMS/MERS) is a software package that is used to record capitalized nonexpendable equipment. A&MMS staff is responsible for maintaining the accuracy and integrity of AEMS/MERS.

The VISN CLO is responsible for providing guidance, advice, and leadership to the facility logistics managers. The VISN filled this position for the first time in November 2004. The CLO is the accountable official for all of the VISN's logistics activities and must ensure compliance with policies and regulations.

**Scope and Methodology.** Our objective was to assess accountability controls over nonexpendable property. To determine if equipment inventory controls were effective, we conducted tests of each facility's nonexpendable property records to assess their accuracy. We tested samples to verify the existence and accuracy of equipment items (with acquisition values over $5,000) listed in each facility's property database. We analyzed property data and records covering FYs 2004 and 2005, with the exception of VAMC Manchester at which we also included FY 2003 records.

**Review Results**

AEMS/MERS Property Database. The facility nonexpendable property databases in AEMS/MERS were unreliable because key inventory data was incomplete and because audit tests determined data was inaccurate. We asked that all facilities provide current copies of their property databases, which included serial numbers, property descriptions, manufacturers' names, acquisition dates and costs, replacement dates, and property locations. As illustrated in Table 1 on the following page, 12.4 percent of inventory information was missing from the facility databases.

## Table 1 – Incomplete Property Data

**Incomplete Data in VISN 1 Facilities AEMS/MERS Property Databases**
Universe = 141,231 Items with a Total Reported
Acquisition Value of $1,137,255,143

- 2,257 (1.6 percent) missing item descriptions
- 14,936 (10.6 percent) missing manufacturers' names
- 17,848 (12.6 percent) missing serial numbers
- 7,376 (5.2 percent) missing acquisition values
- 12,204 (8.6 percent) missing acquisition dates
- 18,722 (13.3 percent) missing replacement dates
- 49,094 (34.8 percent) missing locations

**Total Blank Data Fields for the Above Categories = 122,437 (12.4 percent)**
(141,231 items x 7 fields = 988,617) (122,437/988,617 = 12.4 percent)

When inventories of EILs and sensitive equipment are conducted, the responsible officials designated to perform the inventories, along with A&MMS staff, need to correct and update inaccurate or missing data. Responsible officials need to complete required inventories thoroughly and accurately and take appropriate actions to correct incomplete or inaccurate data in AEMS/MERS.

EIL Equipment Inventories. There were 12,732 items, with acquisition values over $5,000, listed on 801 EILs of VISN 1 facilities. We selected 716 of these items with a total acquisition value of $15.5 million to determine whether the equipment could be located. As summarized in Table 2 below, we could not locate 93 (13 percent) of the 716 items. The acquisition value of these 93 items was $1.8 million (11.6 percent of the total value of all sample items).

## Table 2 – Analysis of Equipment Accountability Test Findings

| Facility Name | # of Items in Sample | Acquisition Value | # of Items Not Located | % Not Located | Acquisition Value of Items Not Located |
|---|---|---|---|---|---|
| VAMC Manchester | 30 | $803,198 | 1 | 3% | $18,893 |
| VA Boston HCS | 98 | $1,917,720 | 45 | 46% | $951,149 |
| VA Connecticut HCS | 98 | $1,719,513 | 27 | 28% | $589,396 |
| VAMC Providence | 98 | $3,501,139 | 5 | 5% | $37,011 |
| VAMC Togus | 98 | $1,540,729 | 2 | 2% | $25,000 |
| Edith Nourse Rogers MVH | 98 | $2,264,913 | 7 | 7% | $117,855 |
| VAMC White River Junction | 98 | $1,800,000 | 1 | 1% | $7,612 |
| VAMC Northampton | 98 | $2,019,435 | 5 | 5% | $24,760 |
| **TOTALS** | **716** | **$15,533,900** | **93** | **13%** | **$1,771,676** |

According to A&MMS staff, some of the items had been turned in (disposed of), but there was no documentation supporting the disposal transactions. Additional accountability discrepancies pertaining to the 716 items included 122 with no locations listed, 99 with missing or incorrect serial numbers, and 52 with incorrect locations listed. Facility A&MMS staff have overall responsibility for ensuring that inventory procedures are effectively followed. The results of our inventory tests indicated that the physical inventories were not conducted accurately and that equipment assets were not adequately controlled.

Sensitive IT Equipment. VA policy requires that certain sensitive equipment items be accounted for regardless of cost, life expectancy, or maintenance requirements. Sensitive items are those, such as computer equipment, that are subject to theft, loss, or conversion to personal use. To evaluate accountability controls over sensitive equipment, we selected 237 items of IT equipment to determine if we could locate the items and to assess whether they were accurately recorded in the property databases. We could not locate 18 (7.6 percent), with a total acquisition value of $55,495, of the sensitive IT equipment items listed on the current inventories. Our IT accountability tests identified 49 other discrepancies, including 16 items with missing or incorrect serial numbers, 11 items missing property bar code labels and not recorded in the databases, 14 items with incorrect locations, 1 item loaned to a VA employee having incomplete documentation, and 7 items with incomplete documentation for disposal.

Not all the facility Information Resource Management (IRM) Services had participated in the mandatory inventories coordinated by the A&MMS staffs. Although AEMS/MERS is the official property database in which all sensitive IT equipment should be recorded, IRM Services maintained their own separate inventory databases. As a result, there was an overall lack of coordination of efforts to account for sensitive IT items. For example, VISN IRM officials had not conducted physical inventories of IT equipment in prior years as required. As a result, a "Report of Survey" was prepared in March 2005 that listed 115 IT equipment items as missing, with acquisition values totaling $309,929.

We estimated that about 33 percent of the equipment listed as "out-of-service" (described in the paragraph below) was computer equipment, most of which had not been accounted for. We concluded that VISN 1's sensitive IT equipment was vulnerable to theft or misuse because overall accountability controls needed to be strengthened. The VISN CLO and the VISN Chief Information Officer (CIO) needed to work together to establish procedures and issue guidance to strengthen accountability controls over sensitive IT equipment and to improve coordination of accountability efforts between A&MMS and IRM staff throughout the VISN.

"Out-of-Service" Equipment. We determined that 9,632 equipment items, with a total estimated acquisition value of $29.2 million, were listed on the current property inventories for the VISN's facilities, as "out-of-service," and were generally not physically inventoried during the inventory process. This inventory category is primarily

designated for use by Engineering Service staff to identify equipment that may be temporarily "out-of-service," out for repairs, or in storage. Property officials used this category inappropriately, resulting in equipment being excluded from the inventory process. Table 3 shows the number of items that were listed as "out-of-service" at each facility.

**Table 3 – "Out-of-Service" Equipment**

| Facility Name | "Out-of-Service" Equipment | Acquisition Value of "Out-of-Service" Equipment |
|---|---|---|
| VAMC Manchester | 64 | $ 233,050 |
| VA Boston HCS | 4,883 | $ 15,630,835 |
| VA Connecticut HCS | 540 | $ 3,470,285 |
| VAMC Providence | 117 | $ 1,726,437 |
| Edith Nourse Rogers MVH | 1,997 | $ 3,541,095 |
| VAMC Togus | 1,410 | $ 3,110,145 |
| VAMC White River Junction | 299 | $ 558,744 |
| VAMC Northampton | 322 | $ 971,746 |
| **VISN 1 Totals** | **9,632** | **$ 29,242,337** |

This problem occurred primarily because A&MMS staff and responsible property officials did not validate whether equipment in the "out-of-service" category was properly categorized when conducting periodic inventories. Based on discussions with A&MMS staff, a significant amount of equipment listed as "out-of-service" will likely be unaccounted for and will need to be "written off" via "Reports of Survey." The VISN CLO needed to establish controls over the use of the "out-of-service" category and ensure that supporting transactions and documents (including "Reports of Survey") are accurate and complete.

Equipment Inventory Timeliness and Accuracy. VA policy requires that property inventories be conducted and completed between 10 to 20 days from the time A&MMS provides the equipment listings to responsible officials. To determine if the inventories were conducted within the 10 to 20 day periods, we requested that each facility provide us with records indicating when responsible officials were notified to conduct their most recent property inventories and when they completed them. VAMCs Northampton and Providence completed their inventories on time, but as Table 4 on the following page shows, the other six facilities did not. The number of untimely inventories ranged from 21 (28 percent) at the Edith Nourse Rogers MVH to 154 (74 percent) at the VA Boston HCS.

**Table 4 – Timeliness of Equipment Inventories**

| Facility Name | # of EILs | # Untimely Inventories | % Untimely |
|---|---|---|---|
| VAMC Manchester | 38 | 33 | 87% |
| VA Boston HCS | 209 | 154 | 74% |
| VA Connecticut HCS | 213 | 130 | 61% |
| Edith Nourse Rogers MVH | 75 | 21 | 28% |
| VAMC Togus | 89 | 73 | 82% |
| VAMC White River Junction | 49 | 26 | 53% |
| **Totals** | **673** | **437** | **65%** |

Additions to, or deletions from, the EILs must be supported by relevant signed documentation. A&MMS staff is responsible for entering the information into AEMS/MERS. We saw evidence that changes annotated on completed inventories were not fully updated; supporting documentation was not provided for items annotated as "turned-in," missing, or transferred; and inventories with missing items were signed by responsible officials certifying that assigned equipment was accounted for. We concluded that not all individuals responsible for conducting the inventories were performing their tasks in a thorough manner. A&MMS staff was not ensuring that the inventories were conducted in a complete and accurate manner. As a consequence, the overall accuracy and accountability of facility equipment inventories was compromised resulting in an unreliable database.

Disposed Equipment Procedures. VA policy requires that excess equipment be advertised to other facilities for 10 days. If no VA facility is interested in acquiring the equipment, the Code of Federal Regulations requires VA to submit the information to the General Services Administration (GSA) for mandatory utilization and donation screening. If GSA is unsuccessful in locating any interested parties, GSA may authorize VA to dispose of the property. VA Form 90-2237, "Request, Turn-In, and Receipt for Property or Services" is used to document property disposal transactions.

To assess the adequacy of controls over property disposals, at each facility we selected 10 to 21 items listed in the equipment databases as "turned-in" and requested documentation to ensure compliance with property disposal procedures. For the 91 items in our total sample (total acquisition value of $754,945), documentation for 35 items (39 percent) was either unavailable or insufficient to explain the disposals. Also, 2 of the 91 items were in use at the facilities but were inaccurately listed as "turned-in."

At all eight facilities, accountable equipment was at risk for loss, damage, misappropriation, or theft because equipment was being disposed of without the paperwork required for adjusting the inventory records. Too many individuals had the capability to enter transactions in the property database, with no controls in place to detect or question the accuracy of items placed in the "disposed" category.

IRM Service officials could not readily identify which employees entered transactions placing equipment in "disposed" status in AEMS/MERS. For example, there was no way to identify who placed a laptop, which had been acquired less than 2 years ago, into the "disposed" status. There was no audit trail for an accountability transaction and various employees had the capability to enter an item as "disposed" into the database, when they had no need to have such access to the system.

Staff involved with nonexpendable property disposals needed training on required disposal procedures. VISN management needed to develop VISN-wide guidance that would standardize and clearly delineate proper procedures for excess property transactions.

Access to Property Menu Options. VHA policy requires facilities to establish personnel security policies that ensure access privileges to VA automated information systems (AIS) are based on a legitimate and demonstrated need related to job assignments. This policy further requires that "…all user access and privilege must be reviewed at least every 90 days for appropriate level of access or continued need."

To determine if the capability of entering property transactions into AEMS/MERS was restricted to employees who had need for such access, we asked each facility to identify all employees who had the capability to add, edit, or delete (that is, place equipment into the "disposed" category) nonexpendable property data in the database. We also asked them to specify which options (add, edit, or delete) were given to each employee. With the exception of VAMC Togus, all facilities had difficulty responding to this request. None of the eight facilities readily knew who had access to input transactions into the property database. User access and privileges had not been reviewed in compliance with the VHA policy. The number of employees at each facility with access to the property transaction option ranged from 5 to 240.

None of the facilities had evaluated or questioned who had access to perform transactions affecting the property data. The entire database was at risk for manipulation, and assets were at risk for loss or theft, because IT security controls were not established to ensure that access for changing property data was restricted to employees with justified need.

## Conclusion

By strengthening controls, clarifying procedures, enhancing oversight, and improving training, VISN management can improve equipment accountability. Management needed to ensure that responsible officials completed required inventories thoroughly, accurately, and on time and took action to correct AEMS/MERS data that was incomplete or inaccurate. Management needed to ensure A&MMS and IRM Service staff coordinated efforts to strengthen accountability over sensitive IT equipment. Management needed to develop policies and procedures to better account for "out-of-service" equipment and for the disposal of excess or obsolete equipment. In addition, management needed to limit

the number of employees who could add, change, or edit property records in the AEMS/MERS database.

**Recommended Improvement Action 3.**  We recommended that the VISN 1 Director improve equipment accountability by taking action to:

a.  Correct and update inaccurate and incomplete equipment data in AEMS/MERS.
b.  Strengthen controls to ensure that equipment inventories are conducted accurately, completely, and on time and that equipment transaction changes are supported by documentation.
c.  Improve procedures to ensure that A&MMS staff coordinate IT equipment additions, transfers, removals, and turn-ins with IRM Service.
d.  Develop policy and procedures for accounting for "out-of-service" equipment and establish an oversight mechanism to ensure that reconciliations of "out-of-service" equipment are accurate and complete.
e.  Require A&MMS staff to comply with property disposal procedures and ensure that turn-in documentation for excess or obsolete equipment is properly completed.
f.  Restrict and monitor the number of employees who can access and change data in AEMS/MERS.
g.  Provide training for staff responsible for managing and accounting for nonexpendable property.

The VISN 1 Director agreed with the findings and recommendations and reported that equipment data in AEMS/MERS was to be corrected and updated by June 30, 2006.  A mechanism was established in December 2005 to track the accurate and timely completion of the equipment inventories, notify the VISN CLO when scheduled inventories and required spot checks have been conducted, and ensure that all changes on EILs are properly documented.  IRM Service and A&MMS management were to develop and implement a procedure to improve IT equipment issues by June 30, 2006.  As of December 31, 2005, "out-of-service" items are reviewed quarterly and status is reported along with the quarterly EIL reports.  Actions taken to remove any equipment listed in the "out-of-service" category must have supporting documentation on file such as "Reports of Survey" or property disposal documents.  Turned-in equipment will be tracked separately to ensure proper documentation and appropriate removal from active inventory status.  All user access and privileges will be reviewed at least every 90 days and changes will be made as necessary for appropriate levels of access or continued need for the AEMS/MERS property menu as of April 30, 2006.  A training program developed by the VHA Prosthetics and Clinical Logistics Office will be available by the third quarter of FY 2006.  All staff in the VISN with responsibility for nonexpendable property will complete this training by December 31, 2006, and documentation of the training will be maintained.  The improvement plans are acceptable, and we will follow up on the implementation of improvement actions until they are completed.

# Issue 4: Service Contracts — Strengthening VISN Management Controls and Oversight Will Improve Compliance and Performance of Contracting Activities

## Findings

By more closely monitoring contracting activities and strengthening controls to ensure compliance with acquisition regulations and policies, VISN management can improve medical care facility contract management and administration. VISN-wide management controls were needed to detect and prevent common recurring contract administrative deficiencies and provide greater assurance that prices paid for contract services are fair and reasonable, and that services received meet contract requirements.

During the period of our review, October 2004 through September 2005, VISN management had not established a formal organizational structure, performance measurement tools, or operating policies to manage the VISN contracting program. Our review of 92 service contracts, sharing agreements, and leases valued at $102 million awarded and administered by the 8 VISN facilities identified opportunities to prevent contract management and administration deficiencies, reduce the costs and improve the quality of contract services, and ensure that services received met contract requirements.

**Background.** The VISN CLO is the official accountable for VISN contracting activities and for ensuring compliance with acquisition regulations and policies. The CLO provides guidance, advice, and leadership to all VISN facility managers, including standardization of business processes, practices, and reporting in the VISN. The CLO's primary responsibility is to supervise the Network Contracting Manager (NCM) and to coordinate the VISN's contracting activities. The NCM position was filled in November 2005. The NCM assumes the leadership role in contracting activities, and advises the CLO about contracting performance, particularly performance related to cost saving initiatives. The NCM is responsible for managing the contracting activities of each VISN facility and for ensuring that acquisition planning complies with competition and other requirements set by Federal regulations and VA policies. Additionally, the NCM is responsible for coordinating training for all acquisition staff, overseeing the Contracting Officer's Technical Representative (COTR) program, and ensuring communication among medical facilities, the VISN, and VA Central Office.

**Scope and Methodology.** To evaluate the effectiveness of the 8 contracting activities in VISN 1, we reviewed 92 service contracts, sharing agreements, and leases valued at $102 million from a universe of 491 valued at $249 million. Our evaluation was based on a review of contracts, sharing agreements, and leases each valued at $50,000 or more. (See Appendix D, page 32, for the number of contracts and values by facility.) We interviewed contracting officials and reviewed billings and payments, patient medical records, and clinical reports. We conducted a survey of facility contracting managers (CMs) to determine applicable staffing, workload, and reporting requirements.

**Review Results**

VISN Management Oversight.  At the time of our review, VISN management had not established a formal organizational structure delineating lines of authority and responsibility, performance measurement tools, or operating policies to manage the VISN contracting program.  CMs for seven (88 percent) of the eight facilities reported that VISN management had not required formal communication or reporting on the performance of contracting activities.  One manager was able to provide an example of formal communication, which was limited to submitting quarterly reports showing the number of contracts the facility was administering.  Each facility CM reported using limited and varied measures to monitor contract operations, staff performance, and productivity.  Better communication and closer management, including VISN-wide measures to monitor contract operations, staff performance, and productivity can prevent the recurring contract management and administration deficiencies discussed below.

Contract Management Deficiencies.  Facility CMs are responsible for implementing effective and efficient contracting programs and for establishing controls to ensure compliance with acquisition regulations and policies.  CMs generally could not readily provide accurate and complete lists of contracts, sharing agreements, and leases and had not fully implemented required controls such as conducting contract reviews.  (Appendixes E and F, pages 33–34, show the contract management issues by facility.)

- Contract Accountability.  We requested that each facility provide us a list of current contracts, sharing agreements, and leases, including the vendor names, contract numbers, types of contracts and services, dates of awards, periods of performance, estimated values, and names and telephone numbers of the contracting officers (COs) and COTRs for all contracts.  Facility CMs for six (75 percent) of the eight contracting activities could not readily provide complete and accurate lists of the information requested.  The VISN needed to establish a centralized database containing required contract data.  Without this data, VISN management cannot effectively oversee VISN activity and manage the contracting program.

- Contract Reviews.  CMs had not reviewed 56 (61 percent) of the 92 contracts to ensure compliance with acquisition regulations and policies.  Contract reviews help ensure the completeness and accuracy of solicitations, contract documentation packages, and adherence to the FAR and VA policies.  By conducting these reviews, facility CMs would identify contract administration deficiencies and help reduce the frequency of preaward and postaward administrative deficiencies.

Preaward Administrative Deficiencies.  COs generally could not provide evidence of their performance of preaward actions required by the FAR and VA policies, including workload analyses, market research, price analyses, preaward audits, and legal/technical reviews.  For example, for approximately 33 percent of the contracts, COs did not have records showing that workload analyses, market research, and price analyses had been

performed, all of which effect the prices facilities pay for services. Workload analyses establish the need and the basis for the acquisitions. To ensure full and open competition, the FAR and VA policy require that market research be conducted to identify potential suppliers, and preaward audits and price analyses should be conducted to determine whether prices are fair and reasonable. For legal/technical reviews, VA A&MMS staff provide both the legal expertise to ensure that the contract contains appropriate wording and clauses and the technical expertise to evaluate the technical aspects of the particular subject matter. (Appendix E, page 33, shows preaward deficiencies by facility.)

By increasing management oversight and preventing and correcting preaward contracting deficiencies, tangible benefits are achievable. As previously reported in our facility CAP review reports, we estimated that VISN facilities could have saved $814,599 by forwarding four sole-source contracts with affiliated medical schools (for perfusion, radiology, nephrology, and radiation therapy services) to the VA OIG Contract Review and Evaluation Division for preaward audits as required by VA policy. Because COs did not conduct market research to ensure full and open competition, use Medicare rates as a basis for negotiating procedure-based contracts, or perform price analyses such as examining physician compensation surveys to determine if proposed prices were fair and reasonable, we questioned the appropriateness of about $267,000 in costs associated with two contracts for attending physician and radiology services. (See Appendix D, page 32, for estimated contract savings and questioned costs by facility.)

Postaward Administrative Deficiencies. COs generally did not conduct postaward actions required by the FAR, including preparing price negotiation memorandums to document the negotiation process and initiating background investigations of contract personnel with access to VA computer systems and sensitive information. To illustrate, background investigations were required by the FAR for contractor personnel involved in 48 contracts that were reviewed. For 33 (69 percent) of the 48 contracts, COs did not initiate the required background investigations prior to award as required. (See Appendix F, page 34, for postaward deficiencies by facility.)

Contract Administration Deficiencies. For 42 (46 percent) of the 92 contracts, COs did not ensure that COTRs received training on their duties and responsibilities before assuming responsibility for monitoring contractor performance. For 28 (31 percent) of the 92 contracts, monitoring deficiencies occurred because COTRs were not familiar with contract terms or the methodology to be used for validating services and certifying payments.

Strengthening controls to prevent contract monitoring deficiencies could result in monetary benefits. Because COTRs at one facility did not ensure that contractors complied with contract requirements, we questioned $253,827 in costs associated with two contracts for perfusion and anesthesia services. Another facility overpaid an oncology services contractor $47,164 because a COTR did not adjust payments to reflect

actual performance. (See Appendix D, page 32, for questioned costs and overpayments by facility.)

We found opportunities to improve the quality of contract patient care services and to provide greater assurance that services received met contract requirements. The following examples illustrate the need to improve contract administration.

- A facility should have taken action to ensure that only qualified contract employees provided perfusion services for VA patients undergoing high-risk operations such as open-heart surgery. Perfusionists operate special equipment that temporarily takes over a patient's respiratory and/or circulatory functions during surgery, and they provide auto-transfusion, which is a method of collecting, filtering, concentrating, washing, and returning to the patient blood that is lost during or after surgery. At this facility, three contract employees, whose qualifications did not meet contract requirements, performed perfusion and auto-transfusion procedures. The facility paid $194,837 for services provided by these individuals.

- Another facility should have ensured that a VISN home oxygen contractor provided the results of follow-up visits and overnight oximetry studies[4] to ensure ordered services were provided in accordance with the contract. As of August 2005, the facility had not received 104 (80 percent) of 130 reports showing that licensed respiratory therapists had seen patients within 96 hours of initial visits. The purposes of the follow-up visits and reports were to determine if oxygen set-ups, done by lay caregivers, were correct and to ensure that patients understood their prescriptions, safety considerations, and medical care plans. The facility also had not received approximately 1,800 90-day follow-up reports that were supposed to be used to determine whether patients were complying with therapy and to obtain vital signs and oximetry data from patients. The contractor had not provided 40 overnight oximetry studies that were supposed to be used to determine whether patients still qualified for oxygen treatment or whether current oxygen levels administered to patients were sufficient.

- One facility did not ensure that a contractor that transported patients and provided inter-facility transport for facility employees, medical supplies, and laboratory specimens complied with contract terms. We found that the contractor did not maintain adequate liability insurance, and drivers did not possess required public passenger endorsements and commercial driver licenses as required by the contract.

## Conclusion

In November 2005, VISN 1 management appointed an NCM. This appointment should help facility managers implement an effective and efficient contracting program, establish a formal organizational structure, develop management performance tools and

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[4] Oximetry is the measurement of the degree of oxygen saturation of circulating blood.

operating policies, and improve inter-facility communications, including regular meetings and dissemination of information and contracting policy. To improve contracting accountability, VISN management needed to establish a centralized database containing essential contract data for effectively managing the contracting program. Internal control procedures such as periodic contract reviews should be conducted at contracting milestones to ensure compliance with the FAR and VA policies. Facility CMs needed to ensure that COTRs understand their duties, responsibilities, and contract requirements. Periodic meetings between COs and COTRs should be conducted to ensure that contract requirements are being met. By more closely monitoring contracting activities and by strengthening controls, VISN management could improve compliance with regulations and policies, reduce costs and improve the quality of contract services, and ensure that services received meet contract requirements.

**Recommended Improvement Action 4.** We recommended that the VISN 1 Director develop a plan of action to:

a. Formalize an organizational structure for contracting activities delineating lines of authority, responsibility, and communication with facility management and staff.
b. Develop and implement performance tools to provide closer management oversight of facility CMs, COs, and COTRs to ensure compliance with regulations and policies.
c. Establish and deploy a centralized database containing essential contract data needed to improve contract accountability and to effectively manage the contracting program.
d. Ensure that contract reviews are conducted at contracting milestones to ensure compliance with regulations and policies.
e. Develop and implement a training program to ensure COTRs understand their duties, responsibilities, and the methodology used to validate services and certify payments.
f. Ensure COs and COTRs conduct periodic meetings to ensure contractors are adhering to contract requirements.

The VISN Director agreed with the findings and recommendations and reported that a contracting activities plan is being drafted to establish the relationship between VISN leadership and the field activities which will open lines of communication. The expected date of completion is September 30, 2006. Several management tools to provide closer oversight of facility personnel are under development at the national level. The Electronic Contract Management System was implemented in the VISN on March 27, 2006. This centralized database will contain essential contract data and help to manage workload. The NCM is working on several standard operating procedures to ensure VISN-wide compliance with applicable acquisition regulations and will also audit each facility for compliance annually. The NCM also established a VISN 1 acquisition folder on the VISN shared drive which provides a central repository for essential contracting information that will improve contract accountability. The VISN 22 COTR Training Program was implemented VA-wide in February 2006. VISN 1 COTRs will attend the training. A master list of certified COTRs will be developed and all COs will be required to consult the list before assigning a COTR. Periodic meetings between COs and COTRs will be held and these meetings will be documented in the contract files. All

actions will be completed by September 30, 2006. The improvement plans are acceptable, and we will follow up on the implementation of improvement actions until they are completed.

# Issue 5: Procurement of Prosthetic Supplies — Closer Management Oversight Is Needed

## Findings

Our review of 445 open market purchases of prosthetic supplies valued at $2.7 million identified opportunities to prevent common procurement deficiencies, improve compliance with VA's purchasing hierarchy and the FAR, and reduce the costs of prosthetic supplies.

**Background.** VA policy requires medical facilities to purchase supplies according to VA's purchasing hierarchy, which organizes vendors from most to least preferred sources as follows: national contracts, Blanket Purchase Agreements (BPAs), local BPAs, Federal Supply Schedule (FSS) contracts, local non-FSS contracts, and open market purchases. The FAR requires procurement personnel to use competition to obtain supplies at the best prices. Government purchase cardholders must consider three sources for competition or document the justification for using a sole source. VA policy also allows clinicians to request a waiver from the facility Chief of Staff to allow them to prescribe a prosthetic device not on a national contract if the similar device on the contract does not meet the particular needs of a patient. On June 7, 2004, a national contract was awarded to two vendors for the purchase of hip and knee prosthetic components in order to provide VA better pricing.

**Scope and Methodology.** We reviewed purchases that occurred between October 1, 2003, and July 31, 2005. The universe of purchase card transactions for the 8 VISN 1 facilities totaled approximately 236,000 transactions valued at $99.8 million during this period. We analyzed 445 open market prosthetic supply purchases (greater than $2,500) valued at $2.7 million to determine whether purchases over $2,500 were made from preferred purchasing sources and in accordance with the FAR. The 445 purchases consisted of 281 open market purchases of hip and knee prosthetics components, 77 of which were purchased after the national contract was awarded and 204 of which were purchased prior to the national contract award, and 164 open market purchases of other prosthetic items.

**Review Results**

Preferred Purchasing Source. We identified 77 purchases valued at $405,166, for hip and knee components that were purchased from open market sources after June 7, 2004, when the national contract was awarded. Twenty-seven (35 percent) of these purchases valued at $178,384 did not have the required clinical waiver documentation. Fifty (65 percent) purchases valued at $226,782 had required clinical waivers. Although the clinical waiver

documentation had improved since the national contract was established, VISN management needed to continue monitoring the purchases of hip and knee components to ensure clinicians request a waiver from the facility Chief of Staff when prescribing a prosthetic device not on a national contract.

Competitive Procurements.  We reviewed 204 open market purchases of hip and knee prosthetic components valued at $1.3 million and found procurement personnel at 4 of the 8 VISN facilities did not follow VA's required purchasing hierarchy in purchasing prosthetic supplies.  Cardholders at these facilities purchased prosthetic supplies on the open market, the least preferred source, without documentation supporting competition or showing the sole source justification required by the FAR.  Data obtained from the VA National Acquisition Center showed that an FSS vendor offered comparable items at lower prices.

The remaining 164 open market purchases were made by 6 VISN facilities and consisted of other prosthetic items valued at $967,914.  We found that 67 purchases valued at $310,215 did not have documentation to support that competition was sought or to justify the use of sole source vendors.  These purchases were for prosthetic items such as scooter and wheelchair lifts, porch ramps, and stair-glides.  The FAR requires purchase cardholders to use competition to obtain supplies and services at the best prices.  Because cardholders did not comply with the FAR, VISN management did not have reasonable assurance that the best prices were obtained or that procurements were made in VA's best interest.

## Conclusion

VISN management needed to provide closer oversight to ensure that cardholders purchase prosthetic supplies in accordance with VA's purchasing hierarchy or document a clinical waiver justifying the medical necessity for the VA patient.  Management also needed to improve oversight to ensure that cardholders document three sources of competition or the justifications for using sole source vendors.  By providing closer oversight of local procurement activities, management could improve compliance with acquisition regulations and policies and reduce the cost of prosthetic supplies.

**Recommended Improvement Action 5.**  We recommended that the VISN 1 Director develop and implement a plan of action to ensure: (a) cardholders purchase prosthetic supplies in accordance with VA's purchasing hierarchy or obtain clinical waiver documentation from clinicians and (b) cardholders consider three sources of competition for purchases over $2,500 or document the justifications for using sole source vendors.

The VISN Director agreed with the findings and recommendations.  Facility managers will monitor prosthetic staff on a quarterly or more frequent basis as needed to ensure that prosthetic purchases are made in accordance with VA's purchasing hierarchy and that competitive bidding documentation is available for prosthetic purchases over $2,500. VISN management, along with the VISN Health System Specialist, will review a random

sample of orders on a quarterly basis and monitor for compliance. The improvement plans are acceptable, and we will follow up on the completion of the planned actions.

## Issue 6: Information Technology Security — VISN Management Needs To Strengthen Security

### Findings

We evaluated IT security to determine whether controls and procedures were adequate to protect AIS resources from unauthorized access, disclosure, modification, destruction, and misuse. Management needed to limit access to AIS resources, strengthen physical security over AIS equipment, and ensure that required background investigations were conducted on IRM Service personnel. (See Appendix G, page 35, for the listing of specific sites where issues were identified.)

**Background.** VHA policies define responsibilities for the establishment, implementation, maintenance, and oversight of the AIS security program within VHA. VA policy details the designation of appropriate risk levels and the scope of background investigations required for all VA positions.

At VHA facilities, facility ISOs are the principal officers responsible for managing and coordinating information security programs. The VISN CIO is responsible for providing ISOs guidance on implementing and monitoring safeguards to maintain AIS security.

**Scope and Methodology.** We conducted reviews at all eight VISN facilities. We assessed IT security and physical controls in place at the time of our onsite reviews.

**Review Results**

Access to AIS Resources. VA policy requires that access to AIS resources be limited to personnel who have a legitimate need for access. At four of the eight VISN facilities, individuals without a need for access to computer rooms and/or communication closets had access. For example, at 1 facility 29 people (including 3 former employees) without a need for access to the facility computer room had key cards that allowed them access. At this and one other facility, management took corrective actions during our reviews. VISN management needed to ensure that corrective actions were completed at the other two facilities and that facility ISOs periodically review and monitor access to AIS resources to ensure access is limited to those with a legitimate need.

Physical Security. VA policy requires that proper safeguards be in place to protect each facility's AIS resources, including physical security of the computer room and all communication closets. Five of the eight VISN facilities had physical security weaknesses. For example, at one facility both the door leading into the computer room area from outside the building and the interior door leading into the computer room had glass windows, which allowed the room contents to be viewed. The computer room,

which is on the ground level, contained several windows that potentially could be accessed by an intruder. The facility's CIO stated that a work order had been initiated to correct these security vulnerabilities. VISN management needed to ensure that all the identified physical security vulnerabilities were corrected and that facility ISOs periodically conducted physical security reviews or assessments to detect and prevent security vulnerabilities.

Background Investigations. VA policy requires background investigations for all personnel who have access to sensitive data and information. At three of the eight VISN facilities, minimum background investigations rather than full background investigations were requested for employees, who because of their duties and access to sensitive data, held positions requiring full background investigations (CIO, ISO, and IRM Service staff). VISN management needed to ensure that responsible facility officials request appropriate level background investigations.

## Conclusion

VISN management needed to strengthen IT security by ensuring that the VISN CIO and facility ISOs take action to correct the access and physical security issues we identified and to institute appropriate controls to lessen the risk of these conditions recurring. IT security could also be strengthened by identifying employees with access to sensitive data and ensuring that appropriate level background investigations are requested for them.

**Recommended Improvement Action 6.** We recommended that the VISN 1 Director implement controls to: (a) prevent recurrence of access and physical security deficiencies and (b) ensure employees with access to sensitive resources and data receive appropriate level background investigations.

The VISN Director agreed with the findings and recommendations. All access and physical security issues will be corrected, and facility ISOs will continually monitor access, controls, and physical security issues. Facility ISOs will be responsible for verifying that appropriate background investigations are requested. VISN ISO staff will verify that all necessary investigations have been submitted and that full background investigations will be requested when appropriate. The improvement plans are acceptable, and we will follow up on the completion of the planned actions.

## Issue 7: Pharmaceutical Accountability — Strengthening VISN Management Oversight Will Improve Compliance with VHA Policy

### Findings

By more closely monitoring the controlled substances inspection program and strengthening pharmacy controls to ensure compliance with VHA policy, VISN management can improve pharmaceutical accountability. VISN-wide management

controls were needed to detect and prevent recurring deficiencies and improve compliance with VHA policy. At five of the eight facilities, our reviews of pharmaceutical accountability identified opportunities to strengthen controlled substances inspection programs; maintain minimum inventory stock levels; improve controls over ordering, receiving, and posting of controlled substances; use the required inventory management system; and update local pharmacy policies.

**Background.** VHA provides three key policies related to pharmacy accountability, including one that outlines requirements for managing pharmacy stocks of controlled substances, another that requires facilities to implement and maintain a Controlled Substances Inspection Program, and a third that requires pharmacies to employ formal methods for controlling pharmaceutical inventories.

**Scope and Methodology.** We analyzed controlled substances inspections and drug procurements that occurred between October 2004 and September 2005. We compared local policies to VHA policies, interviewed inspectors and procurement technicians, analyzed procurement patterns, and observed unannounced inspections of selected areas where controlled substances were stored and dispensed.

**Review Results**

Controlled Substances Inspections. VHA policy requires medical facilities to conduct monthly unannounced inspections of all controlled substances storage and dispensing locations. We identified controlled substances inspection deficiencies at five of the eight facilities. Inspectors at four facilities did not inspect drugs held for destruction by either verifying that the drugs were turned over quarterly to a destruction company or by reviewing them monthly as required. Inspectors at three facilities were not performing the required number of sample counts of all controlled substances. Inspectors at two facilities did not verify that there were hard copy signed prescriptions for 10 percent (or a maximum of 50) of the Schedule II prescriptions dispensed by the outpatient pharmacy. At one facility, inspectors did not inventory Schedule III-V drugs or count all drugs in the Pyxis dispensing machine.

Inspector Training. VHA policy requires the Controlled Substances Coordinator to conduct the training program for controlled substances inspectors. At two facilities, the coordinators did not conduct inspector training but instead Pharmacy Service staff conducted the training. At one facility refresher training was not conducted for 12 (43 percent) of the 28 inspectors. At another facility, documentation of inspector training was not maintained for 13 (33 percent) of the 39 inspectors.

Inventory Stock Levels. VHA policy requires the use of the Prime Vendor Inventory Management (PVIM) system to assist medical facilities in minimizing the inventory replenishment costs by calculating reorder points and minimum stock levels. To determine compliance with this policy, we tested a sample of 20 drugs, including both controlled and noncontrolled substances at 4 of the 8 VISN facilities. Pharmacy Service

staff was not effectively using the PVIM system at three facilities. Using a PVIM inventory analysis method and each facility's records, we calculated the average amount of a drug used based on a 3-month period and then compared the ending balance on-hand to the average use. Our review found that stock levels for 17 (85 percent) of the 20 sampled drugs exceeded PVIM minimum levels. The total value of the excess stock of the 17 items was $26,411.

Segregation of Duties. Pharmacy Service staff at three facilities had not implemented adequate procedures to ensure that responsibilities for ordering and receiving controlled substances were properly segregated in accordance with recognized internal controls procedures. At one CBOC, a pharmacy supervisor was the only employee ordering and receiving controlled substances. At two facilities, pharmacy technicians were both ordering and receiving noncontrolled substances.

Receipt of Controlled Substances. At two facilities, a Pharmacy Service employee and an Accountable Officer were not witnessing and signing for the receipt and posting of controlled substances into inventory records, as required by VHA policy. The Accountable Officer at one facility did not annotate on the invoices that controlled substances had been posted to the electronic inventory and did not reconcile Schedule II drugs against the Drug Enforcement Administration (DEA) Form 222 entitled "US Official Order Forms– Schedule I and II."

Pharmacy Electronic Records. Pharmacy Service staff at two facilities did not use the required PVIM system or did not use the system timely for recording receipt of drugs. VA software, which includes the Controlled Substances Package and Drug Accountability Package, was not always used to maintain electronic inventories. At one facility, staff maintained manual records for receipts and inventories as well as for controlled substances held for destruction. Pharmacy Service staff at another facility recorded 12 (86 percent) of 14 controlled substances 1 to 46 days (average of 19 days) after receipt.

Pharmacy Policies. At four facilities, local policies did not comply with VHA policy. At three of these facilities, local policies did not specify which employees had been assigned the authority to order, receive, post, and verify controlled substances orders. Local policy at the fourth facility did not include the requirement to notify the OIG Office of Investigations of any suspected theft, diversion, or suspicious loss of drugs, although it included the requirement to notify DEA.

## Conclusion

By strengthening controls and providing closer management oversight of the controlled substances inspection program and pharmaceutical activities, VISN management could improve pharmaceutical accountability and compliance with VHA policies. Accountability for controlled and noncontrolled substances receipts and inventories could be improved by ensuring use of the PVIM system and by ensuring that responsibilities for

ordering and receiving are segregated. The controlled substances inspection program could be improved by more closely monitoring facility performance and establishing standard VISN-wide policies and procedures to ensure compliance with VHA policies.

**Recommended Improvement Action 7.** We recommended that the VISN 1 Director develop and implement a plan of action to provide closer oversight of facility pharmacy activities in order to enhance accountability of pharmaceuticals, improve the controlled substances inspection program, and ensure compliance with VHA policies.

The VISN Director agreed with the findings and recommendation and reported that a VISN memorandum describing policies and procedures for oversight of pharmacy activities would be published. The policies and procedures will include a requirement for facility Directors to report to VISN management that Controlled Substances Coordinators have complied with VHA policies on inspections and inspector training. VISN management will provide pharmacy managers with VISN-wide standard operating procedures and monitor local sites for compliance. The VISN Pharmacy Benefits Manager will conduct semiannual site visits to facilities to validate compliance with these procedures. At all facilities, Pharmacy Service management will be directed to maintain inventory stocks at minimum levels. The improvement plans are acceptable, and we will follow up on the completion of the planned actions.

# CAP Review Locations, Dates, and Report Numbers

| Facility Name | Dates of Site Visit | Report Number |
| --- | --- | --- |
| VAMC Manchester | December 6–10, 2004 | 05-00313-176 |
| VA Boston HCS | February 7–11, 2005 | 05-00734-67 |
| VA Connecticut HCS | March 21–25, 2005 | 05-00859-216 |
| VAMC Providence | May 2–6, 2005 | 05-01607-68 |
| Edith Nourse Rogers MVH | June 13–17, 2005 | 05-01508-114 |
| VAMC Togus | July 18–22, 2005 | 05-01608-85 |
| VAMC White River Junction | August 22–26, 2005 | 05-01514-96 |
| VAMC Northampton | September 26–30, 2005 | 05-01606-134 |

# Facility MCCF Projections Over a 12-Month Period[5]

| Facility Name | Projected Additional Billable Amounts* | Projected Additional Collectible Amounts** | Projected Overbillings* | Projected Resulting Overcollections** |
|---|---|---|---|---|
| Edith Nourse Rogers MVH | $ 0 | $ 0 | $113,494 | $ 30,473 |
| VA Boston HCS | 2,965,599 | 996,441 | 39,541 | 65 |
| VA Connecticut HCS | 1,692,537 | 409,953 | 201 | 0 |
| VAMC Manchester | 0 | 0 | 0 | 0 |
| VAMC Northampton | 20,522 | 6,577 | 6,630 | 2,125 |
| VAMC Providence | 619,853 | 185,894 | 613,823 | 184,086 |
| VAMC Togus | 1,852,589 | 666,191 | 0 | 0 |
| VAMC White River Junction | 389,596 | 105,892 | 0 | 0 |
| **Total Outpatient** | **$7,540,696** | **$2,370,948** | **$773,689** | **$216,749** |
| | | | | |
| **"Reasons Not Billable Report"*** | | | | |
| Edith Nourse Rogers MVH | $ 25,293 | $ 6,818 | | |
| VA Boston HCS | 374,146 | 125,714 | | |
| VA Connecticut HCS | 767,044 | 185,625 | | |
| VAMC Manchester | 0 | 0 | | |
| VAMC Northampton | 24,198 | 7,755 | | |
| VAMC Providence | 294,130 | 88,210 | | |
| VAMC Togus | 54,009 | 19,422 | | |
| VAMC White River Junction | 140,958 | 38,312 | | |
| **Total "Reasons Not Billable Report"** | **$1,679,778** | **$471,856** | | |
| | | | | |
| **Fee Basis** | | | | |
| Edith Nourse Rogers MVH | $ 53,802 | $ 14,446 | | |
| VA Boston HCS | 800,170 | 268,857 | | |
| VA Connecticut HCS | 458,735 | 111,014 | | |
| VAMC Manchester | 1,227,011 | 406,877 | | |
| VAMC Northampton | 318,173 | 101,974 | | |
| VAMC Providence | 250,553 | 75,141 | | |
| VAMC Togus | 1,344,579 | 483,511 | | |
| VAMC White River Junction | 50,856 | 13,823 | | |
| **Total Fee Basis** | **$4,503,879** | **$1,475,643** | | |
| | | | | |
| **Totals** | **$13,724,353** | **$4,318,447** | **$773,689** | **$216,749** |

*Projected billable amounts and overbillings were determined during the facility CAP reviews.

**Projected collectible amounts and overcollections are based on collection rates provided by the facilities.

***Includes three segments of the "RNB Report." Insufficient Documentation, No Documentation, and Nonbillable Provider (Resident).

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[5] The 12–month period of review varied at each site, depending on the dates we were onsite. Generally, we subtracted 15 months from the date of our on-site review and reviewed data related to care provided over the subsequent 12-month period.

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# Radiologist Staffing, Productivity, and Costs

**TABLE 1**          **VA Radiologists**

| Facility Name | FTE | Clinical FTE | RVU Output | RVUs per Clinical FTE | Clinical Costs | Clinical Cost per RVU |
|---|---|---|---|---|---|---|
| VA Boston HCS | 6 | 5.32 | 16,272 | 3,059 | $1,291,689 | $79.38 |
| VA Connecticut HCS | 9.35 | 8.82 | 30,263 | 3,431 | 1,969,661 | 65.08 |
| VAMC Providence | 3.9 | 3.52 | 14,640 | 4,159 | 825,695 | 56.40 |
| Edith Nourse Rogers MVH | 0 | 0 | 0 | 0 | 0 | 0.00 |
| VAMC White River Junction | 2.75 | 2.05 | 9,483 | 4,626 | 535,306 | 56.45 |
| VAMC Togus | 3 | 2.45 | 8,646 | 3,529 | 681,757 | 78.85 |
| VAMC Manchester | 2 | 2 | 10,878 | 5,439 | 398,869 | 36.67 |
| VAMC Northampton | 0 | 0 | 0 | 0 | 0 | 0.00 |
| **Totals** | **27** | **24.16** | **90,182** | **3,733** | **$5,702,977** | **$63.24** |

**TABLE 2**          **Contract Radiologists**

| Facility Name | FTE | RVU Output | RVU per FTE | Costs | Cost per FTE | Cost per RVU |
|---|---|---|---|---|---|---|
| VA Boston HCS[6] | 6.91 | 38,189 | 5,527 | $3,586,331 | $519,006 | $93.91 |
| VA Connecticut HCS | 1.31 | 7,247 | 5,532 | 653,219 | 498,640 | 90.14 |
| VAMC Providence | 0.53 | 1,982 | 3,740 | 164,353 | 310,100 | 82.92 |
| Edith Nourse Rogers MVH | 0 | 0 | 0 | 0 | 0 | 0.00 |
| VAMC White River Junction | 0.73 | 6,501 | 8,905 | 300,236 | 411,282 | 46.18 |
| VAMC Togus | 1.2 | 4,701 | 3,918 | 452,439 | 377,033 | 96.24 |
| VAMC Manchester | 0 | 0 | 0 | 0 | 0 | 0.00 |
| VAMC Northampton | 0.55 | 3,082 | 5,604 | 209,969 | 381,762 | 68.13 |
| **Totals** | **11.23** | **61,702** | **5,494** | **$5,366,547** | **$477,876** | **$86.98** |

## Opportunities to Reduce Contract Services and Costs by Increasing
**TABLE 3**          **VA Productivity**

| | RVU Output | FTE | RVUs per FTE | Cost per RVU | Total Cost |
|---|---|---|---|---|---|
| FY 2004 Staff | 90,182 | 24.16 | 3,733 | $63.24 | $5,702,978 |
| Projected Staff | 120,800 | 24.16 | 5,000 | 47.21 | 5,702,978 |
| **Projected Staff Changes** | **30,618** | **0** | **1,267** | **($16.03)** | **$0** |
| | | | | | |
| FY 2004 Contract | 61,702 | 11.23 | 5,494 | $86.98 | $5,366,547 |
| Projected Contract | 31,084 | 5.66 | 5,492 | 86.98 | 2,703,686 |
| **Projected Contract Changes** | **(30,618)** | **(5.57)** | **0** | **$0** | **($2,662,861)** |

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[6] Five VA Boson HCS radiologists' employment was terminated during June and July 2003. This resulted in the need for expensive radiologists service contracts.

# Universe of Contracts, Sampled Contracts, Estimated Savings, Questioned Costs, and Overpayments

| Facility Name | Universe of Contracts, Sharing Agreements, Leases | | Sampled Contracts, Sharing Agreements, Leases | | Estimated Savings, Questioned Costs, and Overpayments | | | |
|---|---|---|---|---|---|---|---|---|
| | Number | Value (millions) | Number | Value (millions) | Estimated Savings (Preaward Audits) | Questioned Costs (Medicare Rates) | Questioned Costs (Contract Monitoring) | Overpayments (Contract Monitoring) |
| VAMC Manchester | 24 | $16.0 | 15 | $14.8 | | $115,957 | | |
| VA Boston HCS | 69 | $68.9 | 12 | 36.8 | | | $194,837 | |
| VA Connecticut HCS | 158 | $66.3 | 15 | 14.8 | $332,531 | | 58,990 | |
| VAMC Providence | 59 | $15.7 | 14 | 6.2 | 482,068 | 151,286 | | |
| Edith Nourse Rogers MVH | 38 | $10.1 | 6 | 4.4 | | | | |
| VAMC Togus | 69 | $29.0 | 12 | 19.0 | | | | $47,164 |
| VAMC White River Junction | 57 | $28.0 | 10 | 3.4 | | | | |
| VAMC Northampton | 17 | $15.2 | 8 | 2.4 | | | | |
| **Totals** | **491** | **$249.2** | **92** | **$101.8** | **$814,599** | **$267,243** | **$253,827** | **$47,164** |

# Preaward Contracting Deficiencies

| Facility Name | Preaward Requirement | | | | | |
|---|---|---|---|---|---|---|
| | Facility CM Contract Reviews | | Workload Analyses | | Price Analyses | |
| | Number Applicable | Number Deficient | Number Applicable | Number Deficient | Number Applicable | Number Deficient |
| VAMC Manchester | 15 | 15 | 9 | 3 | 15 | 13 |
| VA Boston HCS | 12 | 12 | 11 | 1 | 9 | 2 |
| VA Connecticut HCS | 15 | 3 | 12 | 7 | 12 | 1 |
| VAMC Providence | 14 | 7 | 13 | 6 | 13 | 2 |
| Edith Nourse Rogers MVH | 6 | 1 | 6 | 3 | 5 | 4 |
| VAMC Togus | 12 | 6 | 11 | 3 | 3 | 1 |
| VAMC White River Junction | 10 | 4 | 4 | 0 | 7 | 0 |
| VAMC Northampton | 8 | 8 | 4 | 0 | 4 | 0 |
| **Totals** | **92** | **56** | **70** | **23** | **68** | **23** |
| **VISN Non-Compliance Rate** | **61%** | | **33%** | | **34%** | |

| Facility Name | Preaward Requirement | | | |
|---|---|---|---|---|
| | Market Research | | Legal/ Technical Reviews | |
| | Number Applicable | Number Deficient | Number Applicable | Number Deficient |
| VAMC Manchester | 13 | 6 | 3 | 2 |
| VA Boston HCS | 11 | 1 | 7 | 1 |
| VA Connecticut HCS | 12 | 2 | 7 | 3 |
| VAMC Providence | 10 | 2 | 2 | 2 |
| Edith Nourse Rogers MVH | 6 | 5 | 2 | 1 |
| VAMC Togus | 6 | 2 | 3 | 0 |
| VAMC White River Junction | 0 | 0 | 2 | 1 |
| VAMC Northampton | 5 | 0 | 1 | 0 |
| **Totals** | **63** | **18** | **27** | **10** |
| **VISN Non-Compliance Rate** | **29%** | | **37%** | |

# Postaward Contracting Deficiencies

| Facility Name | Postaward Requirement | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Price Negotiation Memoranda | | Background Investigations | | COTR Training | | COTR Monitoring | |
| | Number Applicable | Number Deficient | Number Applicable | Number Deficient | Number Applicable | Number Deficient | Number Applicable | Number Deficient |
| VAMC Manchester | 15 | 4 | 11 | 10 | 15 | 3 | 15 | 3 |
| VA Boston HCS | 8 | 3 | 7 | 7 | 12 | 5 | 12 | 4 |
| VA Connecticut HCS | 12 | 2 | 8 | 7 | 15 | 15 | 15 | 2 |
| VAMC Providence | 12 | 3 | 7 | 5 | 14 | 5 | 14 | 3 |
| Edith Nourse Rogers MVH | 6 | 0 | 0 | 0 | 6 | 5 | 6 | 3 |
| VAMC Togus | 1 | 1 | 7 | 3 | 12 | 9 | 12 | 6 |
| VAMC White River Junction | 7 | 0 | 4 | 0 | 10 | 2 | 10 | 4 |
| VAMC Northampton | 8 | 0 | 4 | 1 | 8 | 0 | 8 | 5 |
| **Totals** | **69** | **13** | **48** | **33** | **92** | **44** | **92** | **30** |
| **VISN Non-Compliance Rate** | **19%** | | **69%** | | **48%** | | **33%** | |

# Information Technology Security Deficiencies

| Facility Name | Access to AIS Resources | Physical Security | Background Investigations |
|---|---|---|---|
| VA Boston HCS | X | X | X |
| VA Connecticut HCS | X | X | X |
| VAMC Manchester | | | |
| Edith Nourse Rogers MVH | | | |
| VAMC Northampton | X | X | |
| VAMC Providence | | X | X |
| VAMC White River Junction | | X | |
| VAMC Togus | X | | |

# VISN Director Comments

**Department of
Veterans Affairs**                                    **Memorandum**


**Date:**    June 15, 2006

**From:**   Director VISN 1 (10N1)

**Subject:** Review of Selected Financial and Administrative
Operations at VISN 1 Medical Facilities

**To:**      Assistant Inspector General for Auditing (52)

Please find comments for VISN 1 IG/CAP review on the
following pages. VISN 1 appreciates the professional and
constructive approach exhibited by the team and the
opportunity to work with the Office of Inspector General to
continuously improve the quality of patient care for United
States Veterans.

You will find we have concurred with all of the
recommendations and findings, and have provided specific
corrective actions that have been implemented and/or will be
implemented within a specified time frame.

Should you have any questions or concerns, please contact
Allan Shirks, MD, VISN 1 Quality Management Officer, at
781 687 3450.

*(original signed by)*

Jeannette A. Chirico-Post, MD

Network Director

<div style="text-align: center; color: blue;">

**VISN Director Comments
to Office of Inspector General Report**

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The following VISN Director's comments are submitted in response to the recommendations in the Office of Inspector General's Report:

<u>**OIG Recommendations**</u>

**Recommended Improvement Action** 1. We recommend that the VISN Director improve MCCF activities and that action be taken to:

a. Establish internal controls and expand compliance reviews to help facilities identify missed billing opportunities and prevent underbilling and overbilling.

b. Develop a VISN-wide medical care documentation timeliness standard.

c. Ensure that healthcare providers receive additional training to improve compliance with documentation requirements.

d. Provide additional training to coders and billers on issues such as medical student documentation, pathological examinations, and service-connected care.

e. Establish a monitoring system to review the "RNB Reports" to ensure the reports are used as a management tool to follow-up and obtain the documentation needed to accurately bill insurance carriers.

f. Establish a cost effective billing system for fee basis services.

Concur                                                    **Target Completion Date:** Various

**a. Establish internal controls and expand compliance reviews to help facilities identify missed billing opportunities and prevent underbilling and overbilling.**

Concur                                                    **Target Completion Date**: June 1, 2006

Each month a sample of 15 veterans will be selected from the Compliance/Business Integrity (CBI) outpatient "Professional Fee Report" to ensure that all billable episodes of care for the veterans' visits have been coded and billed. Compliance Officers will perform these monthly audits in conjunction with the CBI data integrity review. The local CBI Committee will review the audit findings on a monthly basis. When gaps within the process for coding and billing have been identified, HIMS and MCCF program managers will be notified of the problem and corrective action will be taken. Action Plans will be sent to the CBI committee for review and discussion. The monthly audit reports will be sent to the VISN CBIO in their quarterly CBI program report to the Network Office. This process will be in place until a threshold of 95 percent is met.

**b. Develop a VISN-wide medical care documentation timeliness standard.**

Concur                                             **Target Completion Date:** September 1, 2006

The Business Office in conjunction with the Clinical Leadership Council will establish timeliness standards for medical staff documentation. Effective September 1, 2006.

The Business Office will work with the Chief Logistics Officer to include language in the contracts for locum tenens and scarce medical providers that will require timeliness of medical documentation. In addition, remote access will be provided by IT, as appropriate, for contract providers to sign notes once dictated. Effective September 1, 2006

**c. Ensure that healthcare providers receive additional training to improve compliance with documentation requirements.**

Concur                                             **Target Completion Date:** Various

A standardized training program will be developed for deployment across the VISN for the training of providers and residents regarding documentation requirements, including timeliness, to meet both VERA and MCCF requirements. This will be a collaborative effort between Service Line Staff, Education, the Compliance Office, and the Business Office. Effective July 1, 2006

The VISN 1 Chief Medical Officer and the Business Office will provide guidance to all VISN 1 medical centers on documentation rules and responsibilities for providers who supervise medical students. Effective September 1, 2006

**d. Provide additional training to coders and billers on issues such as medical student documentation, pathological examinations, and service-connected care.**

Concur                                          **Target Completion Date:** April 1, 2005

Training will be provided to coders and billers regarding medical student documentation, pathological examinations, and service-connected care. Effective April 1, 2005

**e. Establish a monitoring system to review the "RNB Reports" to ensure the reports are used as a management tool to follow-up and obtain the documentation needed to accurately bill insurance carriers.**

Concur                                          **Target Completion Date:** April 1, 2005

The VISN 1 Compliance Officer has implemented a monitoring system using the "RNB Reports" focusing on the three segments—insufficient documentation, no documentation and nonbillable provider (Resident). Those cases which require additional follow-up are given to HIMS management who then contact the providers and request additional documentation. If documentation is not completed within seven days of notification, HIMS management will refer those cases to the Service Chief/ Service Line Manager for appropriate action. Completed April 1, 2005

**f. Establish a cost effective billing system for fee basis services.**

Concur                                          **Target Completion Date:** Various

VISN 1 Memorandum No. 10N1-102 "Administration of Fee Basis Program" dated January 2006, identified roles and responsibilities for fee basis co-payment for the MCCF program. Completed January 2006

Each month the local Patient Services Manager provides the local Patient Accounts Manager a list of names of those veterans with no identified insurance who have received fee basis care. The Billing Office then provides this list to the VISN 1 insurance identification/verification contractor. If insurance plans are identified, coverage is cross-matched to the time of service provided, and bills are submitted to the carriers as appropriate. Completed October 2005

MCCF billing rate types (a field in the billing program) will be standardized at all medical centers to include the rate types "fee care" and "prosthetics". This will provide consistency in reporting the number of bills that are produced for fee basis services and prosthetics. If these rate types are not separately identified, bills for fee basis and prosthetics are included in the rate type "reimbursable insurance" and therefore cannot be extracted to demonstrate that we are billing and collecting for these services. Effective February 28, 2005

**Recommended Improvement Action** 2. We recommend that the VISN 1 Director take action to establish procedures and assign responsibilities to:
a. Require diagnostic service line managers to create quarterly reports of the department's total workload and the productivity of VA staff and contract radiologists.
b. Include productivity and/or cost efficiency measures in the negotiation and establishment of radiologist service contracts.
c. Conduct reviews of radiologist costs and productivity to identify opportunities to leverage radiologist resources.
d. Implement an information technology solution (PACS) that allows for the transmission of diagnostic radiology images between VISN 1 facilitates.


Concur                                          **Target Completion Date:** Various

**a. Require diagnostic service line managers to create quarterly reports of the department's total workload and the productivity of VA staff and contract radiologists.**

Concur                                          **Target Completion Date:** March 1, 2006

Quarterly reports will be generated by each facility beginning March 1, 2006. The reports include RVUs generated by the Radiology Service for the reporting period and the projected RVUs for the fiscal year. The report is collated by the Specialty & Acute Care (SAC) Service Line staff (COO and/or HSS), reviewed by the Network Service Line Director, forwarded to the VISN Chief Medical Officer and presented to the VISN Clinical Leadership Council. The SAC Network Service Line Director may initiate action based on the results of the quarterly reports which may include review of departmental procedures or consideration of re-allocation of work within the VISN.

**b. Include productivity and/or cost efficiency measures in the negotiation and establishment of radiologists' service contracts.**

Concur                                          **Target Completion Date**: September 30, 2006

The VISN will require facilities to use measures (RVUs per FTE and/or cost per RVU) in the negotiation and establishment of contract radiologists' services. Statements of Work will include estimated quantities of interpretations, procedures and/or services as required in billable unit pricing to monitor performance and productivity. When measures cannot be included or used as a basis in a radiologist service contract, facilities must provide written justification to the VISN Chief Medical Officer and Chief Logistics Officer and receive a written approval prior to awarding the contract.

As another alternative for negotiating radiologist service contracts VISN 1 will consider using Medicare rates for negotiating prices. The OIG had noted that this practice had been implemented in another VISN and it had successfully reduced RVU costs.

**c. Conduct reviews of radiologist costs and productivity to identify opportunities to leverage radiologist resources.**

Concur                                          **Target Completion Date**: June 30, 2006

VISN 1 facilities have already reduced contract radiologist services and will continue to look for opportunities where VA staff radiologist productivity can be improved and/or resources can be better leveraged to eliminate contract costs.

The SAC Network Service Line Director has met with the VISN 1 Chiefs of Radiology and reviewed RVU data and national physician productivity data. Opportunities for reducing contract staff and increasing the productivity of VA salaried staff were discussed, and this issue will to be on pertinent meeting agendas on a continual basis.

The VISN Health System Specialist will lead a team that will conduct bi-annual reviews which will analyze radiologist productivity and evaluate costs, including related contracts, to identify opportunities for improvement. A written report will be provided to the SAC Network Service Line Director and other VISN leadership staff.

**d. Implement an information technology solution (PACS) that allows for the transmission of diagnostic radiology images between VISN 1 facilitates.**

Concur                                      **Target Completion Date**: September 30, 2007

VISN 1 is committed to increasing the productivity of its radiologists and will install PACS throughout the network. This will involve several millions of dollars to purchase and maintain the necessary teleradiology and facilities' equipment.

VISN 1 began the planning process for a standardized VISN PACS several months ago. A planning group was formed to research the various options available and identify the specific needs of the VISN. This planning group is a subgroup of the VISN Chiefs of Radiology Services workgroup and consists of representatives from the SAC Service Line, VISN and Facility Information Technology staff, Clinical Engineering, Contracting, radiology administrative staff, and facility radiologists. This group has met weekly via conference call, visited other VISNs who have implemented PACS, and conducted significant research concerning the technical requirements of PACS.

The objective of this group is to develop a Request for Proposal (RFP) for a VISN 1 standardized PACS that will allow for remote readings of images from any facility in VISN 1. However, of the eight VISN 1 facilities, two facilities, Boston and Connecticut, currently use commercial PACS.

The Boston Healthcare System is expected to integrate to this VISN PACS in lieu of their current commercial PACS concurrently with other facilities. The Connecticut Healthcare System, however, recently updated their commercial PACS and will therefore be integrated into the VISN PACS in subsequent years when an upgrade to their system is needed. This decision recognizes that there would be a negative financial impact on the Connecticut HCS and the VISN to replace a newly implemented commercial PACS.

 To ensure VISN compatibility during the time between the VISN PACS deployment and the opportunity to integrate Connecticut, the PACS RFP specifies that the vendor must have a solution that allows access/transfer of images from the Connecticut facility via their commercial PACS. This will serve as an interim solution. We anticipate the VISN PACS to be phased in completely by the end of calendar year 2007, and Connecticut integration to occur approximately 3-4 years after the deployment of the VISN PACS. The integration of the Connecticut system will be the final step in achieving a fully standardized PACS in VISN 1.

**Recommended Improvement Action** 3. We recommend that the VISN 1 Director improve equipment accountability by taking action to:

a. Correct and update inaccurate and incomplete equipment data in AEMS/MERS.
b. Strengthen controls to ensure that equipment inventories are conducted accurately, completely, and on time and that equipment transaction changes are supported by documentation.
c. Improve procedures to ensure that A&MMS staff coordinate IT equipment additions, transfers, removals, and turn-ins with IRM Service.

d. Develop policy and procedures for accounting for "out-of-service" equipment, and establish an oversight mechanism to ensure that reconciliations of "out-of-service" equipment are accurate and complete.

e. Require A&MMS staff to comply with property disposal procedures and ensure that turn-in documentation for excess or obsolete equipment is properly completed.

f. Restrict and monitor the number of employees who can access and change data in AEMS/MERS.

g. Provide training for staff responsible for managing and accounting for nonexpendable property.

Concur                                                                    **Target Completion Date:** various

**a. Correct and update inaccurate and incomplete equipment data in AEMS/MERS.**

Concur                                                             **Target Completion Date**: June 30, 2006

The A&MMS Chiefs have been submitting quarterly status reports to the CLO on their facilities' progress in correcting their equipment databases since March 2005.

All facilities are required to verify, with the Accountable Officer and facility Director signatures, that the information generated on EILs, including sensitive items, is accurate and as complete as possible. Although purchasing data on older items may no longer be available for input, complete descriptions, serial numbers and locations can be edited and will be included on EILs, including sensitive items. This will not occur on the non-EIL items included in the AEMS/MERS system since they are not inventoried after deployment. Corrections and updates will be made on an exceptional basis if unique inventories are necessary. Correcting and updating inaccurate and incomplete equipment data in AEMS/MERS has become a standing agenda item of the VISN CIO Council since November 2004. Using a database tool (developed near the end of 2004) that extracts information from all EILs owned by the Information Management Resources (IRM) Service, information on missing and inaccurate AEMS/MERS entries can be tracked for all items and the information used for updating in the system. Information is presented to each facility Director at quarterly meetings and distributed to the facility Chiefs of Logistics afterwards. Since November 2004, the number of problem inventory issues has been reduced.

**b. Strengthen controls to ensure that equipment inventories are conducted accurately, completely, and on time and that equipment transaction changes are supported by documentation.**

Concur                                                             **Target Completion Date**: December 31, 2005

A mechanism has been established to track the accurate and timely completion of the physical property inventories. The A&MMS Chiefs are required to notify the VISN CLO quarterly, via e-mail, that scheduled inventories and required spot checks were conducted and the dates on which they were conducted. The report includes the number of discrepancies, the dollar value of discrepancies, and the number of Reports of Survey. All the facilities have been submitting the updated listing following the quarter and these are consolidated for forwarding to Headquarters.

The property clerks at each facility will work with the responsible official on each EIL to ensure their inventories are conducted accurately and timely. All changes will be properly documented and filed with the Service's EIL. The submitted quarterly reports have been indicating completion dates and any discrepancies and/or Reports of Survey as appropriate.

Since November 2004, all transfers of equipment in EILs owned by IRM have been documented by memo submitted to A&MMS at the parent facility. Equipment issued for personal use has been issued with a property letter signed by the facility CIO in every case. Chiefs of A&MMS and facility CIOs have been submitting the date of EIL receipt and EIL completion semiannually and will continue until VA standards are met.

**c. Improve procedures to ensure that A&MMS staff coordinate IT equipment additions, transfers, removals, and turn-ins with IRM Service.**

Concur                                                    **Target Completion Date**: June 30, 2006

IRM and A&MMS management will jointly develop and implement a procedure to improve IT equipment issues, including equipment additions, transfers, removals, and turn-ins. The procedure will be subject to review and approval by the VISN CLO and CIO prior to implementation.

**d. Develop policy and procedures for accounting for "out-of-service" equipment and establish an oversight mechanism to ensure that reconciliations of "out-of-service" equipment are accurate and complete.**

Concur                                                **Target Completion Date**: December 31, 2005

All "out-of-service" items will be reviewed by A&MMS Property Clerks quarterly with Clinical Engineering and IT personnel to update status to ensure current information. "Out-of-service" equipment will be analyzed separately and targeted for turn-in or Reports of Survey as appropriate. A target reduction of 25 percent per quarter of inaccuracies in this equipment status will be set.

"Out-of-service" items are being reviewed quarterly and status will be reported along with the quarterly EIL report. Actions taken to remove any equipment listed in the "out-of-service" category must have supporting documentation on file such as Reports of Survey, transfer paperwork, memorandums to the file, or property disposal documents. This is in compliance with VA handbook 7127 that requires spot checks quarterly with no minimum requirement or reporting. Enforcing this requirement with an appropriate statement along with the quarterly EIL report will ensure compliance with the Handbook requirements.

The quarterly reviews of the "Out-of-Service" items since December 31, 2005 has shown that all items in this category are valid, appropriate and current.

**e. Require A&MMS staff to comply with property disposal procedures and ensure that turn-in documentation for excess or obsolete equipment is properly completed.**

Concur                                     **Target Completion Date**: December 31, 2005

Turned in equipment is being tracked separately by the A&MMS NX (nonexpendable) Technician to assure proper documentation and appropriate removal from active inventory status. Appropriate disposal procedures are followed in compliance with GSA regulations. All turn in documents are kept on file by the Asset Manager and for IT equipment by the facility CIO and forwarded for archiving to the VISN CIO shared drive.

The formal training and program oversight by the CLO and facility Chiefs will monitor compliance during the quarterly reporting. These spot checks will be conducted at the same time the mandatory quarterly spot check reviews are done to verify the accuracy of EIL inventory records.

Although the formal training of all personnel will not be completed until October 31, 2006 (see 3g below), the current monitoring by management indicates that the proper procedures are being followed.

**f. Restrict and monitor the number of employees who can access and change data in AEMS/MERS.**

Concur                                     **Target Completion Date:** May 31, 2006

The current list of personnel having access to the AEMS/MERS system was reviewed to ensure that only the appropriate personnel have editing capability. Reviews indicate that the majority have a read-only capability and the number with editing ability will vary by facility depending on location. Per VHA Directive 6210, all user access and privilege will be reviewed at least every 90 days and changes will be made as necessary for appropriate level of access or continued need for the AEMS/MERS property menu.

IRM service will provide a report to the A&MMS Chief on a quarterly basis listing all individuals who have the options assigned to them that enable them to add/edit/turn-in property in AEMS/MERS.

**g. Provide training for staff responsible for managing and accounting for nonexpendable property**

Concur                                    **Target Completion Date**: October 31, 2006

The VHA Prosthetics and Clinical Logistics Office (10FL) has developed a training program for Asset Management that will be available for formal training by the 4th quarter of FY 2006. This training will provide reminders on the importance of managing and accounting for nonexpendable property and ensure standardization of VA policies. All A&MMS staff within VISN 1 with responsibility for nonexpendable property will take this training. This training program will be provided annually and the appropriate staff will be assigned for first time and refresher training as needed. Ongoing compliance with the Equipment Program will be monitored by the facilities, reported quarterly, and the CLO will provide oversight.

The training will cover all the appropriate requirements to maintain a proper equipment inventory. The training, along with CLO and local Chiefs oversight, will ensure ongoing compliance to the established program. Documentation of this training will be maintained.

**Recommended Improvement Action** 4. We recommend that the VISN 1 Director develop a plan of action to:

a. Formalize an organizational structure for contracting activities delineating lines of authority, responsibility, and communication with facility management and staff.
b. Develop and implement performance tools to provide closer management oversight of facility CMs, COs, and COTRs to ensure compliance with regulations and policy.
c. Establish and deploy a centralized database containing essential contract data needed to improve contract accountability and to effectively manage the contracting program.

d. Ensure that contract reviews are conducted at contracting milestones to ensure compliance with regulations and policies.

e. Develop and implement a training program to ensure COTRs understand their duties, responsibilities, and the methodology used to validate services and certify payments.

f. Ensure COs and COTRs conduct periodic meetings to ensure contractors are adhering to contract requirements.

g. Ensure and document that VA employees who participate in contract solicitations, negotiations, awards, and administration are free of conflicts of interest.

Concur                                    **Target Completion Date:** Various

**(a)    Formalize an organizational structure for contracting activities delineating lines of authority, responsibility, and communication with facility management and staff.**

Concur                                    **Target Completion Date:** July 31, 2006

The VISN 1 CFO Reorganization Plan has been submitted for and is pending final approval and implementation. In accordance with this overall plan for VISN 1, the NCM has begun drafting a supplemental "VISN 1 Contracting Activities Realignment Plan" which will describe how the VISN 1 CLO and NCM will be integrated into each of the New England facility contracting units.

The primary goal of the contracting activities plan is to establish in writing the relationship between VISN leadership and the field activities. Clear lines of authority will be established, individual responsibilities for all personnel will be defined and both formal and informal lines of communication will be opened.

**(b)    Develop and implement performance tools to provide closer management oversight of facility CMs, COs, and COTRs to ensure compliance with regulations and policy.**

Concur                                    **Target Completion Date:** September 30, 2006

Several new management tools to provide closer management oversight of facility personnel are already under development at the National level. VA-wide solicitation and contract logs are being created to help management better assign, distribute, and monitor workload. The Electronic Contract Management System (eCMS) was implemented in VISN 1 on March 27, 2006. This system will provide for preaward, award, and postaward functionality and will provide management with another tool to manage workload.

The NCM is also working on several SOPs to standardize policy and procedures across the VISN and ensure compliance with all applicable acquisition regulations. SOP titles will include: "Requirements Documents Package", Solicitation/Contract Reviews", "Solicitation/Contract Checklists", "Written Acquisition Plan", "Proposal Evaluation Guide", "Submission of the VA Form 2268", "Bond Checklist", "Requesting Warrants, and "Distribution of VISN-Wide Contracts".

In the future, as relevant data is collected through eCMS and the solicitation and contract logs, performance metrics can be developed to better monitor and enforce compliance. The NCM will also audit each facility for compliance annually.

**(c)    Establish and deploy a centralized database containing essential contract data needed to improve contract accountability and to effectively manage the contracting program.**

Concur                                                      **Target Completion Date:** May 31, 2006

As stated above, VA Headquarters has established a central database, eCMS, that will contain essential contract data. The solicitation and contract logs will also provide similar data. IN VISN 1, these logs will enable the CLO and NCM to better assign and monitor workload while looking for opportunities to consolidate requirements and more equitably distribute contracts.

Within the VISN, the NCM has established a "VISN 1 Acquisition Folder" on the VISN 1 shared drive. This folder, which includes the SOP, Training, Templates, and Contract subfolders, provides a central repository for essential contracting information that will improve contract accountability. The NCM will periodically review the Contract subfolder for completeness and accuracy.

**(d)    Ensure that contract reviews are conducted at contracting milestones to ensure compliance with regulations and policies.**

Concur                                                      **Target Completion Date:** June 30, 2006

A formal process to enforce and document contract reviews will be developed as an SOP. The SOP for solicitation and contract reviews will provide templates to document that all required reviews have taken place.

**(e)    Develop and implement a training program to ensure COTRs understand their duties, responsibilities, and the methodology used to validate services and certify payments.**

Concur                                                      **Target Completion Date:**  September 30, 2006

VISN 22's COTR Training program was implemented VA-Wide in February 2006. In addition to the program itself, VISN 1 will develop a master list of certified COTRs. The list will be kept in the VISN 1 Acquisition folder on the shared drive and all COs will be required to consult the list before assigning a COTR. If the proposed COTRs are not on the list, they cannot be designated until training requirements have been fulfilled.

**(f)     Ensure COs and COTRs conduct periodic meetings to ensure contractors are adhering to contract requirements.**

Concur                                              **Target Completion Date:** June 30, 2006

Periodic meetings between COs and COTRs will be held and documented in the contract file to ensure contractor compliance. Discrepancies, when noted, will be addressed as appropriate with all correspondence contained in the contract file.

**(g)     Ensure and document that VA employees who participate in contract solicitations, negotiations, awards, and administration are free of conflicts of interest.**

Concur                                              **Target Completion Date:** June 30, 2006

All individuals who participate in the solicitation, negotiation, award, and administration of a contract will sign both a Certificate of Procurement Integrity and a Conflict of Interest form to ensure these individuals are free of conflicts of interest. In those cases where it is difficult to utilize personnel in the contract process because of local affiliations, the NCM will attempt to utilize personnel from other facilities. In those cases where it is not clear if a conflict of interest is present, the NCM will refer the matter to VA Regional Counsel for consideration.

**Recommended Improvement Action** 5. We recommend that the VISN 1 Director develop and implement a plan of action to ensure: (a) cardholders purchase prosthetic supplies in accordance with VA's purchasing hierarchy or obtain clinical waiver documentation from clinicians and (b) cardholders consider three sources of competition for purchases over $2,500 or document the justifications for using sole source vendors.

Concur                                              **Target Completion Date:** March 1, 2006

**a. Ensure cardholders purchase prosthetic supplies in accordance with VA's purchasing hierarchy or obtain clinical waiver documentation from clinicians.**

The VISN 1 local facility prosthetic managers will monitor their prosthetic purchasing staff on a quarterly or more frequent basis to ensure these cardholders purchase prosthetic supplies in accordance with VA's purchasing hierarchy. The VISN 1 Prosthetic Manager and the VISN 1 Prosthetic Health System Specialist will review a random sample of these orders to monitor compliance quarterly.

Prosthetics holds a monthly conference call with the VISN 1 Prosthetics Manager and Health Systems Specialist and all of the local facility managers. We have discussed these issues and emphasized their importance on the conference calls over the last several months. We will be reviewing the documentation at our face-to-face meeting on June 27-28, 2006, at the VAMC White River Junction, VT.

**b. Ensure cardholders consider three sources of competition for purchases over $2,500 or document the justifications for using sole source vendors.**

The VISN 1 local facility prosthetic managers will oversee this process and ensure that documentation is kept readily available for review. The VISN 1 Prosthetic Manager and the VISN 1 Health System Specialist will review a random sample of these orders to check on compliance quarterly.

We are requesting our local facility managers bring their documentation showing their compliance with the requirements at our face-to-face meeting on June 27-28, 2006, at the VAMC White River Junction, VT.

**Recommended Improvement Action** 6. We recommend that the VISN Director implement controls to: (a) prevent recurrence of access and physical security deficiencies and (b) ensure that employees with access to sensitive resources and data receive the appropriate level background investigations.

Concur                                              **Target Completion Date:** Ongoing

**a. Prevent recurrence of access and physical security deficiencies.**

Concur                                       **Target Completion Date:** September 30, 2006

Each of the four VISN 1 facilities identified deficient in access control to AIS resources have taken corrective actions. VISN and facility ISOs will monitor this on a quarterly basis and take action, as necessary. The need to review the access to AIS resources is being included in the VA Office of Cyber and Information Security (OCIS) Program Guide on a quarterly basis.

**b.     Ensure employees with access to sensitive resources and data are subject to the appropriate level of background investigation.**

Concur                                                    **Target Completion Date:** July 9, 2006

Facility ISOs are responsible for verifying that appropriate background checks are requested. It is understood that the backlog of requested security checks in OCIS headquarters is significant.  The VISN 1 ISO will verify (and take action, as necessary) quarterly that all necessary checks are submitted and that full (versus moderate) background investigations are requested when appropriate.

**Recommended Improvement Action** 7.  We recommend that the VISN 1 Director develop and implement a plan of action to provide closer oversight of the facility pharmacy activities in order to enhance accountability of pharmaceuticals, improve the controlled substances inspection program, and ensure compliance with VHA policies.

Concur                                                    **Target Completion Date:** July 1, 2006

The VISN Pharmacy Benefits Manager (PBM) will write a Network Policy that will include the following procedures:

The VISN Medical Center Directors will quarterly (December 31, March 31, June 30 and September 30) notify the VISN PBM in writing that Controlled Substances Coordinators have randomly spot-checked monthly local facility inspections for compliance with VHA policy and those inspections have been conducted timely.

The VISN Medical Center Directors will annually notify the VISN PBM in writing that Controlled Substances Coordinators have conducted, at minimum, one annual local training (September 30) for controlled substances inspectors and that all training documentation has been maintained.

All VISN local facility Pharmacy Service Managers will be directed by the VISN PBM to comply with tools provided in the VHA Handbook 1761.2, VHA Inventory Management, to maintain minimum drug inventory stock levels.  The VISN PBM will conduct random verification testing of inventory stock levels at each pharmacy site annually and records of those will be kept at the VISN.  The PBM Manager during site visits will assess for compliance and report in writing to the Medical Center director any deficiencies and request, support, and consult on actions, as needed.

All VISN local facility Pharmacy Service Managers will confirm in writing to the PBM by June 30, 2006 that adequate procedures have been implemented to ensure that responsibilities for the ordering and receiving of drugs are properly segregated as evidenced in their local MCM or SOP. The VISN PBM will conduct site visits on a semiannual basis to validate compliance with these procedures.

All VISN local facility Pharmacy Service Managers will confirm in writing to the PBM by June 30, 2006 that the local MCM or SOP indicates that a pharmacy employee and an Accountable Officer (AO) witness and sign for the receipt of controlled substances. Notification will include a statement that the AO will annotate that he or she witnessed the posting of controlled substances into inventory records and reconciled the receipt of Schedule II drugs to DEA Form 222. The VISN PBM will conduct site visits on a semiannual basis to validate compliance with these procedures.

All VISN local facility Pharmacy Service Managers will confirm in writing to the PBM by June 30, 2006 that the recording of the receipt of controlled substances from the vendors are entered electronically as referenced in the local MCM or SOP. Furthermore, ordering of the controlled substances from the clinical areas and the distribution from the Pharmacy are performed utilizing the electronic controlled substances package. The VISN PBM will conduct site visits on a semiannual basis to validate compliance with these procedures.

All VISN local facility Pharmacy Service Managers will notify the PBM of the existence of a local MCM or SOP by June 30, 2006 that identifies job titles of employees who have the authority to order, receive, post and verify controlled substances orders. The procedure must include a list of all parties that need to be notified in the event of any suspected theft, diversion or suspicious loss of drugs. The VISN PBM will conduct site visits on a semiannual basis to validate compliance with these procedures.

This policy will be in effect after concurrence from the Clinical Leadership Committee and approval from the Executive Leadership Board.

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| | |
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