

Date: March 6, 2002

From: Principal Deputy Assistant Secretary for Management (004)

Subj: FY 2002 Medical Equipment Application Process

To: Acting Under Secretary for Health (10)

1. Questions posed by the Deputy Secretary's office prompted a review of the medical equipment application process. As a result of this review, it was determined that the most cost-effective method for acquiring medical equipment is to consolidate these requests by equipment type. In order to accomplish this, VHA will need to identify anticipated medical equipment needs several months to a year in advance. Once VHA identifies these needs, the National Acquisition Center (NAC) will solicit bids and provide VHA with bid prices for each piece of equipment for inclusion in the medical equipment applications. These applications will then be forwarded to the Office of Asset Enterprise Management (OAEM) for validity scoring and cost-effectiveness analysis. All proposals passing the validity evaluation are submitted through the Capital Investment Panel (CIP) to the Deputy Secretary as the Chairperson of the Strategic Management Council (SMC) for approval.
2. Prior to October 1, 2002, an official call for medical equipment acquisitions for FY 2003 will be distributed that will request VHA to identify anticipated medical equipment needs for the entire year. Naturally out of cycle proposals will be accepted however the better VHA is at identifying medical equipment needs in advance, the greater the likelihood of consolidating these acquisitions to obtain maximum purchasing power and increased cost effectiveness.
3. In order to reap the benefits of consolidated procurements for the remainder of FY 2002 OAEM is requesting the following actions be taken by VHA:
  - (a) The NAC is currently consolidating requests and soliciting bids for cardiac catheterization laboratories at New Orleans and Shreveport, LA, Houston, TX and Oklahoma City, OK. The NAC will provide VHA with completed pricing, which VHA should then incorporate into their proposals for OAEM's review and recommendation to the CIP and SMC.
  - (b) OAEM has also received applications for Magnetic Resonance Imaging (MRI) machines for Oklahoma City, OK; Jackson, MS; and Chicago, IL. In a similar vein, VHA should submit these requests to the NAC for solicitation of bids as a consolidated procurement. Once prices are obtained and included in the applications, the proposals can be reviewed by OAEM and the CIP and submitted to the SMC for final approval.

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- (c) VHA should immediately assess any additional medical equipment needs for the remainder of FY2002 in order to assist the NAC in identifying further opportunities for consolidating in order to obtain the best possible bids for acquiring these assets.
- 4. In order to take full advantage of consolidated procurements, these changes in the medical equipment application process are effective immediately.
- 5. Please have a member of your staff contact Jim Sullivan at 273-5254 or Rita Mercier at 273-5269 if you have any questions or need further assistance.

/s/  
D. Mark Catlett

Attachment

## **Medical Equipment Application Process**

### **Background**

Currently, the above threshold medical equipment application is initiated by the field facilities or at the VISN level. A need is perceived and a package is developed, which addresses criteria included in the application. One of those criteria is a cost-effectiveness analysis (CEA). The cost-effectiveness of various options such as Leasing, Contracting Out, and Purchasing are compared against the baseline (Status Quo). Historically, the data used in the CEA has been obtained by the field facility and consists of list prices from various vendors. Once the VISN approves the application, it is forwarded to VHA Headquarters (HQ). VHA HQ reviews the application for content prior to submitting it to the Office of Asset Enterprise Management (OAEM). The OAEM validates the proposal based upon criteria determined by the Capital Investment Panel (CIP). Once a proposal passes the validity evaluation and is approved by the CIP, a budget approval request is sent to the Deputy Secretary as the Chairperson of the Strategic Management Council (SMC). VHA is notified of the SMC's approval of the acquisition and the NAC begins bid solicitation.

### **Issue**

The problem with this process stems from the discrepancy between price quotes obtained from the field and bids received by the NAC. NAC bids can be significantly lower than price quotes obtained by the field. The applications, as currently forwarded to OAEM, do not accurately reflect the budgetary needs for procurement of equipment. OAEM cannot accurately assess the chosen option's feasibility since the data in the application is not based on actual costs to VHA.

### **Resolution**

A task force was formed to review current procurement processes. Consistent with the Procurement Task Force findings, it has been determined that applications for medical equipment will include price quotes from the NAC prior to submission to OAEM for the remainder of the Fiscal Year.

The process for medical equipment application for the remainder of FY2002 is:

1. VHA will identify its medical equipment needs for the remainder of FY 2002.
2. Equipment needs will be consolidated (by equipment type) and forwarded to the NAC for pricing.
3. VHA will input NAC price information in the CEA templates/medical equipment applications as support data for the chosen option.
4. VHA will forward completed applications to OAEM for validation and CIP review.
5. The CIP will forward validated medical equipment applications to the deputy Secretary/SMC for approval.
6. VHA will be notified upon SMC approval.
7. The NAC purchases the equipment.

The process for medical equipment application for FY 2003, as referenced in #2 in the attached memo, will involve a call for medical equipment. Details of this call will be supplied at a future date.