



Office of Inspector General

AUDIT OF VA'S PHARMACEUTICAL PRIME VENDOR PROGRAM

*While controls to insure correct
PPV pricing were generally
effective, price monitoring efforts
could be more efficient.*

Report No. 8R4-E01-092
Date: March 31, 1998

Office of Inspector General
Washington DC 20420



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to:

Under Secretary for Health (10)

Deputy Assistant Secretary for Acquisition and Materiel Management (90)

Audit of VA's Pharmaceutical Prime Vendor Program

1. The Office of Inspector General audited the Department of Veterans Affairs (VA) Pharmaceutical Prime Vendor (PPV) Program as part of its continuing coverage of Office of Acquisition and Materiel Management (OA&MM) and National Acquisition Center (NAC) procurement activities. The purpose of the audit was to determine if internal controls were adequate to ensure that VA medical center buying activities paid the correct prices, as contracted by NAC staff, for drug items purchased through prime vendors. We tested prices paid by VA for products bought from the largest of six prime vendors. The audit also evaluated the adequacy of internal controls related to the ordering, receipting, and payment for PPV items.
2. Based on audit test results, we concluded that internal controls governing the solicitation and award of prime vendor contracts were effective. We also concluded that controls to ensure correct PPV pricing were generally effective; our tests of the largest prime vendor identified only a few immaterial exceptions to correct pricing. However, we concluded that price monitoring efforts could be more efficient and that price monitoring responsibilities needed clarification in VA policy.
3. Audit results showed that contract price monitoring by NAC staff is inefficient due to a lack of an automated process. We found that most of the technical resources exist, and are used by Veterans Health Administration Pharmacy Benefits Management Strategic Healthcare Group (PBMSHG) staff, to make establishment of an automated PPV price monitoring system viable. We also noted that policy needed to be developed that would establish the respective responsibilities of NAC, PBMSHG, and medical center purchasing staff for monitoring prime vendor performance.

4. We recommended that NAC and OA&MM officials develop an electronic PPV price monitoring system and that policy be established defining the respective responsibilities of NAC, PBMSHG, and field purchasing staff for monitoring prime vendor contract performance, including adherence to correct product pricing.

5. The Under Secretary for Health and the Deputy Assistant Secretary for Acquisition and Materiel Management concurred with the recommendations and provided appropriate implementation plans. Therefore, all issues in this report are resolved, although we will continue to follow up on planned actions until completion.

For the Assistant Inspector General for Auditing

/s/

WILLIAM V. DEPROSPERO
Director, Chicago Audit Operations Division

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RESULTS AND RECOMMENDATIONS

We audited the Department of Veterans Affairs (VA) Pharmaceutical Prime Vendor (PPV) Program to determine if controls were adequate to ensure that VA medical center buying activities paid the prices for covered products that were established under National Acquisition Center (NAC) contracts. We tested prices paid by VA for products bought from one prime vendor. We concluded that controls to ensure correct PPV pricing were generally effective, but that price monitoring efforts could be more efficient and that price monitoring responsibilities needed clarification in VA policy.

1. Monitoring the Accuracy of Prime Vendor Product Pricing Could Be More Efficient

To determine if VA medical centers pay the correct prices for pharmaceutical products bought through prime vendors, we tested prices paid by VA to the largest of six prime vendors nationwide. In Fiscal Year 1995, this prime vendor accounted for \$715 million (74 percent) of the total \$967 million in PPV sales to VA.

We randomly selected a medical center served by that prime vendor and sampled prices paid by VA staff for pharmaceutical products during a 2-month period. Medical center staff paid prices based on data in the prime vendor's computer system. Because of the way pricing data is stored and distributed within the prime vendor organization and to VA medical centers, the basic prices for products are the same for all VA customers of that prime vendor.

The prices paid were compared against prices established for those products in NAC contracting records. We identified only a few immaterial cases of incorrect pricing, involving both over- and under-pricing. Therefore, we concluded that, essentially, prices paid to the largest prime vendor were accurate. However, despite the lack of material findings of mis-pricing, we observed that NAC staff's monitoring of PPV pricing is inefficient due to the lack of an automated process.

Although NAC staff have access to an electronic database of PPV product prices in their "Genesis" computer system, our attempt to use that data to test product prices revealed numerous examples of missing, incorrect, and out-dated information. Of 200 items tested, we found that Genesis data:

- Could not identify 17 items that hard copy contract records showed to be valid PPV items.

- Did not contain price information or did not contain correct price information on 20 line items.
- Did not include historical price information on 47 line items which precluded its use for analyzing prices in effect during the period of our survey.
- Could not identify the manufacturer for one line item.

NAC officials were aware of the inadequacies in the Genesis system, and, as of December 1997, a replacement system was being installed. Called the Standard Automated Contracting System (SACONS), this system will consist of a database for all Office of Acquisition and Materiel Management (OA&MM) contracts, not just NAC pharmaceutical contracts. In addition, the system will eventually be accessible by all VA buying activities and will provide up-to-date prices for items to be purchased. Pending completed installation of SACONS, NAC price monitoring efforts relied almost entirely on manual reviews of hard copy records contained in about 300, sometimes massive, contract files. However, only one of the several contracting staff responsible for monitoring prime vendor performance was, at the time of the audit, routinely checking prime vendor prices against NAC contract records. This effort was limited to periodic spot checks of only about 250 particular items.

The prime vendors are automated and periodically submit their sales data, including prices charged, to the Pharmacy Benefits Management Strategic Healthcare Group (PBMSHG) staff in an electronic format. The development of a complete and up-to-date database of contracted PPV prices should be possible since the pricing information is in an automated format. Such a database would facilitate the matching of PPV sales price data against NAC contract price data to better ensure that the price charged by a prime vendor is, in fact, the contracted price in effect at the time of the sale. Periodic comparisons of randomly selected purchase transactions could also be made to ensure that the prime vendor's recorded sales prices match medical center recorded purchase prices. Finally, with an electronic process, staff should be able to periodically identify net over- and under-payments, by prime vendor.

For More Information

- *Detailed results of our tests of PPV product pricing are contained in Appendix III.*
- *Additional information regarding the monitoring of PPV prices by VA elements is contained in the next finding section of this report.*

Recommendation 1

The Deputy Assistant Secretary for Acquisition and Materiel Management should develop an electronic pharmaceutical prime vendor price monitoring system.

Deputy Assistant Secretary for Acquisition and Materiel Management Comments

The Deputy Assistant Secretary concurred with the recommendation, citing implementation of the SACONS system to provide an electronic PPV price monitoring system. (The full text of the Deputy Assistant Secretary's comments is contained in Appendix VII.)

Office of Inspector General Comments

The comments and implementation plan provided by the Deputy Assistant Secretary are satisfactory and this recommendation is resolved. However, we will continue to follow up on planned actions until completion.

2. Policy Should Be Established To Define the Respective Roles of NAC, PBMSHG, and Medical Facility Staff in Monitoring Prime Vendor Performance

Because NAC staff are the contracting agents for both prime vendor contracts and for the underlying original source contracts, they have the responsibility to “administer” those contracts. Part of administering any contract is monitoring of contractor performance, including compliance with pricing provisions. However, we found that administration of the PPV program is actually divided among three VA elements:

- NAC Staff: Award both the underlying original source contracts and PPV contracts; approve and communicate price changes; and validate the accuracy of prime vendor prices. In the latter case, as reported in Finding 1, this function is performed inefficiently and inconsistently due to a lack of automated processes.
- PBMSHG Staff: Provide NAC staff general advice on pharmaceutical and PPV program issues from the point of view of end users; maintain a drug product price database for use by medical centers and vendors; and collect sales data from prime vendors for a variety of analyses.
- Field Medical Center Staff: Ensure that prime vendors comply with various contract requirements including timeliness, fill rates, and pricing; resolve or report non-compliance; and pay prime vendors for purchases they make.

As a result of the division of responsibilities, NAC and PBMSHG staff over time have developed a complicated process for communicating price changes for products covered in the PPV program. The complexity of the process serves to illustrate the potential weaknesses in dividing contract administration responsibilities, particularly when the divided functions do not take into consideration overall needs.

Of principal interest to us in this audit was PBMSHG’s routine access to, and use of, electronic data which NAC staff could use to facilitate their function as contract administrators. We know from past audit experience that there is considerable communication between PBMSHG staff and NAC staff on a variety of pharmaceutical related issues. However, at the time of the audit, there was no regular flow of information to buying facilities, electronic or otherwise, concerning an after-the-fact determination of accuracy of PPV pricing. This, despite the fact that NAC staff had the responsibility, PBMSHG staff had much of the needed data, and both are located on the same VA campus, at Hines, IL.

We believe that OA&MM and the Veterans Health Administration (VHA) needed to develop policy that defines the roles of the various elements involved in administering PPV contracts (and, by extension, any other prime vendor-type contract for products other

than pharmaceuticals). The purpose of the policy would be to inform, and hold accountable, staff in each involved element for their respective roles in ensuring PPV contractor compliance.

For More Information

- *A discussion of one medical center's actions to improve processing of prime vendor payments is contained in Appendix IV.*
- *A discussion of the information flow in PPV contract administration is contained in Appendix V.*

Recommendation 2

The Under Secretary for Health and the Deputy Assistant Secretary for Acquisition and Materiel Management should jointly develop policy that defines the respective responsibilities among Office of Acquisition and Materiel Management and Veterans Health Administration staff for monitoring and enforcing prime vendor performance.

Under Secretary for Health Comments

The Under Secretary for Health concurred with the recommendation, and stated that the Pharmacy Benefits Management Strategic Healthcare Group will work with the Deputy Assistant Secretary for Acquisition and Materiel Management to develop the recommended policy. (The full text of the Under Secretary's comments is contained in Appendix VI.)

Deputy Assistant Secretary for Acquisition and Materiel Management Comments

The Deputy Assistant Secretary concurred with the recommendation and stated that his staff will work with the Pharmacy Benefits Management Strategic Healthcare Group to develop the recommended policy. (The full text of the Deputy Assistant Secretary's comments is contained in Appendix VII.)

Office of Inspector General Comments

Comments by both the Under Secretary for Health and the Deputy Assistant Secretary for Acquisition and Materiel Management are satisfactory, and the recommendation is resolved. However, we will continue to follow up on planned actions until completion.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

One purpose of the audit was to determine if prices paid for drugs purchased through VA's PPV Program agreed with prices established in applicable NAC contracts. Another purpose of the audit was to determine if contract terms (such as basic prices, provisions for tiered pricing, price reductions, discounts, or other factors affecting a decision to buy) were effectively communicated to VA and other Government buying activities. The last purpose of the audit was to assess the adequacy of medical center procedures and internal controls for the receipt of, and payment for, purchases made through the PPV Program.

Scope and Methodology

The scope of our audit was limited to a review of purchases made from the largest of six prime vendors. The prime vendor reviewed accounted for sales of \$715 million (74 percent) out of a total of \$967 million in PPV sales to VA in Fiscal Year 1995.

We randomly selected a medical center served by that prime vendor and sampled prices paid by VA staff for pharmaceutical products during a 2-month period. Medical center staff paid prices based on data in the prime vendor's computer system. Because of the way pricing data is stored and distributed within the prime vendor's organization and to VA medical centers, the basic prices for products are the same for all VA customers of that prime vendor (although slight differences will occur in different parts of the country due to different service fees).

Prices paid for drugs bought through the PPV Program were then compared to prices established in NAC contracts in effect at the time of the purchases. We also conducted interviews with NAC staff, PBMSHG staff, medical center staff, and prime vendor officials. We did this to determine how pricing information flowed from the NAC contracting activity to prime vendors, buyers, and others with an interest in pricing information, as well as how this process impacted pricing accuracy. The audit also tested the appropriateness, accuracy, and timeliness of ordering, receipting, and payment processes at one medical center.

In comparing prices paid by one VA medical center against prices established in NAC contracts, we attempted to use data contained in NAC's Genesis computer system. When that system proved incomplete and unreliable, we instead used NAC hard copy records contained in the contract files.

The audit was conducted in accordance with generally accepted Government auditing standards and consisted of such tests as were deemed necessary under the circumstances.

BACKGROUND

The PPV Program provides VA and other Federal medical facilities a timely and economical method of acquiring pharmaceutical products through use of contracted distributors, or wholesalers, known as “prime vendors.”

In 1993, after completion of a pilot program, OA&MM and VHA began formal implementation of the PPV program with the award of 14 contracts to 5 prime vendors to provide sales and delivery of drugs to most VA medical centers and to several other Government buying activities. In 1994, another prime vendor was added to serve the remaining VA medical facilities and Government buying activities. Currently, there are 6 prime vendors with 17 contracts serving VA, the Department of Defense, and the Indian Health Service.

Past audit experience has identified a number of advantages to the PPV Program over VA’s former depot system. These include:

- A generally reduced acquisition cost for similar products and similar services (e.g., 24-hour delivery) formerly provided by VA’s depots.
- Reduced inventory costs for medical centers resulting from a 24-hour delivery standard.
- Reduced acquisition overhead costs for medical centers through computerized ordering processes and reduced involvement of local Acquisition and Materiel Management Service staff.
- Decreased risk of stock outages due to a guaranteed 95 percent “fill rate.”

Each PPV contract requires the prime vendor to provide all Federal Supply Schedule (FSS) and other NAC-contracted drug products to each participating medical facility at the established contract price plus a fee. The 6 present prime vendors charge fees that range from a high of 1.4 percent of dollar sales to a low of minus .95 percent. (The negative fees represent amounts rebated to VA.) The prime vendors generally make the bulk of their profits from a slight discount the FSS vendors offer them compared to the FSS price they charge VA.

In its first year after the pilot test, 1993, PPV sales to VA and other Government facilities amounted to \$130 million. By the end of 1994, PPV sales exceeded \$683 million, and in 1995 reached a reported \$967.6 million. In 1996, PPV Program sales totaled about \$1.3 billion.¹

¹ *Approximately 25 percent of prime vendor purchases are made by consolidated mail out pharmacies (CMOPs), rather than by medical centers.*

DETAILS OF AUDIT**Products Bought From One Prime Vendor Were Mis-Priced**

We audited the NAC's ability to monitor and, by extension, enforce prime vendor prices for drug products sold to VA and other Government agency medical facilities based on underlying NAC contracts. The audit compared prices charged by the largest prime vendor to one VA medical center against price information contained in official NAC contract records. The audit identified minor pricing discrepancies.

Initially, we randomly selected 30 invoices, out of a total of 299, paid during the second quarter of Fiscal Year 1996 for purchases made by the medical center through the prime vendor. These 30 invoices represented payments totaling \$192,047 out of a total of \$2,208,904 for all 299 invoices.

Because of an unusual situation involving the medical center's PPV invoice payment procedures that existed through January 1996,² we tested only those 18 of the 30 invoices that were paid between February 1 and March 31. Those 18 invoices represented 200 line items having a purchase cost of \$102,919. We compared the prices paid for the 200 line items against prices that were effective on the date of purchase, according to NAC contract records. The audit identified pricing discrepancies for 15 of the 200 line items:

- Four items were over-priced by the prime vendor, causing medical center staff to over-pay about \$286. The over-pricing ranged from \$.06 to \$8.56 per line item.
- Eleven items were under-priced by the prime vendor, causing medical center staff to under-pay about \$157. The under-pricing ranged from \$.14 to \$4.66 per line item.
- The net over-payment by VA was \$128, or 0.12 percent of the total of \$102,919 in sales tested.

² Until February 1996, many medical center PPV payments took an inordinately long time to process. Consequently, among our 30 selected invoices, many of those that were paid in January 1996 represented purchases made well prior to our period of review. To avoid the problem, we made an audit decision to limit our review to invoices paid in February and March, a period of time not affected by the previously observed delays.

The 15 mis-priced line items are shown in the following table.

Price Comparison Exceptions

Invoice No.	Item Description	Underlying NAC Contract No. (V797P)	PPV Unit Price Charged	NAC Contract Unit Price*	Diff.	Qty. Bought	Cost Impact of Mis-Pricing
1647922	Imdur Ext rel 60mg	5787	\$38.37	\$34.10	-\$4.27	30	-\$128.10
1647922	Loxitane 10mg	5787	\$152.91	\$152.85	-\$0.06	1	-\$0.06
1667470	Ativan 2mg/ml tuber	9461	\$38.01	\$33.04	-\$4.97	30	-\$149.10
1669755	HC Holl 3706 Barrer	3546	\$24.06	\$15.50	-\$8.56	1	-\$8.56
Total - 4 Over-Payments							- \$285.82
1627922	Baclofen 10mg	5252	\$5.79	\$5.97	\$0.18	36	\$6.48
1647922	Benztropine Mesyl .5mg	5659	\$2.10	\$2.99	\$0.89	3	\$2.67
1647922	Micronase 2.5mg	5734	\$3.98	\$4.12	\$0.14	60	\$8.40
1647922	Micronase 5mg (500)	5734	\$39.71	\$41.17	\$1.46	12	\$17.52
1647922	Nortriptyline 50mg	5548	\$8.39	\$13.05	\$4.66	5	\$23.30
1628227	Ortho Novum 7/7/7	5653	\$74.21	\$75.64	\$1.43	1	\$1.43
1632829	Intron A syringe 3ml IU	5787	\$17.80	\$18.08	\$0.28	24	\$6.72
1662089	Micronase 5mg (1000)	5734	\$79.42	\$82.33	\$2.91	18	\$52.38
1663080	Nitro Dur .6mg/HR	5787	\$7.20	\$7.82	\$0.62	10	\$6.20
1667470	Proventil Inhaler	5787	\$2.95	\$3.37	\$0.42	72	\$30.24
1669755	Theo Dur 100mg	5787	\$6.37	\$7.41	\$1.04	2	\$2.08
Total - 11 Under-Payments							\$157.42
Net Over-Payment							- \$128.40

* Prices shown in the “NAC Contract Unit Price” column have been adjusted, from the official contract prices, to factor in the prime vendor’s fee, in this case negative 1 percent.

An analysis of these cases revealed no pattern of cause. There was no apparent relationship to recent price changes or other events that might have, through poor or untimely communications, caused the prime vendor to mis-price these items in its computerized pricing system.

The net impact of the mis-priced items in our sample was negligible, and we did not ask medical center staff to pursue repayment from the prime vendor. However, we believe it does illustrate that NAC staff’s ability to monitor correct pricing by prime vendors is hampered by not having an efficient means of comparing PPV charges against underlying contract prices. If NAC staff had a more efficient price monitoring method, we believe such pricing errors could have been caught early and corrected.

DETAILS OF AUDIT

**One Medical Center Took Action
To Improve the Processing of Prime Vendor Payments**

We tested the appropriateness, accuracy, and timeliness of ordering, receipting, and payment processes at one VA medical center.

From payments processed during the second quarter of Fiscal Year 1996, we randomly selected 30 invoices, representing \$192,047, for purchases made from the medical center's pharmaceutical prime vendor. These were the same 30 invoices initially selected for our pricing test. We tested the invoices for a variety of conditions related to ordering, receipting, and accuracy and timeliness of payments. In general, the tests revealed that controls over ordering and receiving were adequate. However, the tests also revealed that payment timeliness needed improvement:

- Receiving staff certified the invoices for payment an average of 14 days from the date the goods were received. These times ranged from 0 to 57 days.
- Fiscal staff paid the invoices an average of 26 days from the date the goods were received. These times ranged from 10 to 66 days.

An analysis of these invoices found that the ones that took an inordinate amount of time to certify and pay occurred during January 1996. Significant improvements were apparent beginning in February:

- Receiving staff certified February and March invoices from 0 to 5 days from the date on which the goods were received.
- Fiscal staff paid the February and March invoices from 10 to 13 days from the date on which the goods were received.

We attributed this to two events which occurred at about the same time. Local Acquisition and Materiel Management Service staff conducted an internal audit of Pharmacy Service acquisition procedures which reported, in early February, the timeliness condition. Secondly, there was a change in the Pharmacy Service assistant chief position. We believe both events contributed to a significant improvement in payment timeliness.

Because the condition had been corrected prior to our audit, we made no recommendations to medical center management regarding the issue.

DETAILS OF AUDIT

Pricing Information Flow Could Be Simplified

We analyzed the pricing errors that are discussed in Appendix III to determine if pricing information (including basic prices, provisions for tiered pricing, price reductions, discounts or other factors affecting a decision to buy) was effectively communicated to PBMSHG staff, VA and other Government buying activities, and prime vendors. We also interviewed NAC, PBMSHG, and prime vendor staff to gain an understanding of the communication process.

Through these interviews and our observations, we concluded that the communication process from a manufacturer's initial product pricing application (contract offer or price change request), through NAC approval, and dissemination to buyers, prime vendors, and others was a complex process which might be prone to error or to error-causing delays. However, as mentioned in Appendix III, our analyses of 15 mis-priced items bought at one medical center revealed no pattern of causes that could be attributed to poor or untimely communications.

Nevertheless, through our analyses of the communication process and its presentation to NAC officials, these officials identified one step in the process that they believed could be eliminated. During the audit, NAC officials took action to eliminate one layer of review of corrected contract file documents. Elimination of that step, NAC officials believed, would speed the process for those cases where typing errors had been caught and corrected.

We made no recommendations on this issue because we were not able to establish that the condition contributed to pricing errors, nor could we or NAC officials quantify the positive impact of the change. However, we believe that simplification of the process will lessen, to some degree, the risk of untimely pricing communications.

FULL TEXT OF
UNDER SECRETARY FOR HEALTH COMMENTS

**Department of
Veterans Affairs**

Memorandum

Date: MAR 13, 1998

From: Under Secretary for Health (10/105E)

Subj: OIG Draft Report, *Audit of VA's Pharmaceutical Prime Vendor Program*,
Project No. 6R4-211

To: Assistant Inspector General for Auditing (52)

1. The appropriate program offices in the Veterans Health Administration (VHA) have reviewed the subject report and we concur with report recommendation 2, which directs VHA and the Deputy Assistant Secretary for Acquisition and Materiel Management's Office to develop policy establishing responsibilities between the Pharmacy Benefits Management (PBM) Strategic Healthcare Group (SHG), the National Acquisition Center and medical center staff for monitoring prime vendor performance. We are very pleased that your report shows the Pharmaceutical Prime Vendor (PPV) Program to be effectively run. We agree, however, that an automated PPV price monitoring system would increase the efficiency of the program.

2. We understand that the Deputy Assistant Secretary's staff is developing an automated price monitoring system, which is scheduled to be released for VA use by January 1, 1999. The PBMSHG will work with the Deputy Assistant Secretary's Office to develop the recommended policy within the same timeframe to ensure that responsibilities are outlined and the databases maintained by the PBM staff at Hines, IL (identified incorrectly in your report as the Drug and Pharmaceutical Products Management staff) are properly considered in the Deputy Assistant Secretary's development of the automated pricing system.

3. This coordination is essential since the PBM staff will continue to maintain and improve these existing databases to support VHA's need to 1) have accurate data on utilization and pricing; 2) calculate various pricing and rebates required by Public Law 102-585; 3) monitor the prime vendor program to protect VHA assets; and, 4) provide accurate data to VA healthcare facilities for use in the National Drug File. These databases are central to PBM activities including national contracting, the national formulary, treatment guideline development and standardization of drug information within the VA healthcare system.

4. An action plan addressing the recommendation is attached. Thank you for the opportunity to review the draft report. If you have any questions, please contact

UNDER SECRETARY FOR HEALTH COMMENTS
(continued)

2. Assistant Inspector General for Auditing (52)

OIG Draft Report, *Audit of VA's Pharmaceutical Prime Vendor Program*,
Project No. 6R4-211

Paul C. Gibert, Jr., Director, Management Review and Administration Service (105E),
Office of Policy and Planning, at 273.8355.

Original signed by
Thomas L. Garthwaite, MD, for
Kenneth W. Kizer, M.D., M.P.H.

Attachment

FULL TEXT OF
UNDER SECRETARY FOR HEALTH COMMENTS
(continued)

Action Plan in Response to OIG/GAO/MI Audits/Program Evaluations/Reviews

Name of Report: *Audit of VA's Pharmaceutical Prime Vendor Program*

Project No.: 6R4-211

Date of Report: Undated draft report

Recommendations/ Actions	Status	Completion Date
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Recommendation 1: The Deputy Assistant Secretary for Acquisition and Materiel Management should develop an electronic PPV price monitoring system.

Action is directed to the Deputy Assistant Secretary, however, VHA notes that actions taken in recommendation 2 may affect system development and should be coordinated.

Recommendation 2: The Under Secretary for Health and the Deputy Assistant Secretary for Acquisition and Materiel Management should jointly develop policy that defines the respective responsibilities among OA&MM and VHA staff for monitoring and enforcing prime vendor performance.

Concur.

The Pharmacy Benefits Management Strategic Healthcare Group will work with the Deputy Assistant Secretary's Office to develop this policy.

In process

12/31/98

**FULL TEXT OF DEPUTY ASSISTANT SECRETARY FOR
ACQUISITION AND MATERIEL MANAGEMENT COMMENTS**

**Department of
Veterans Affairs**

Memorandum

Date: FEB 17, 1998

From: Deputy Assistant Secretary for Acquisitions and Materiel Management (91A)

Subj: Draft Report, Audit of VA's Pharmaceutical Prime Vendor Program,
Project No. 6R4-211

To: Assistant Inspector General for Auditing (52)

1. We appreciate the opportunity to review the subject draft Report, Audit of VA's Pharmaceutical Prime Vendor Program (PPV), Project No. 6R4-211, and we offer the following comments:

a. **Recommendation 1:** The Deputy Assistant Secretary for Acquisition and Materiel Management should develop an electronic PPV price monitoring system.

Comment: We concur. Product/pricing information is currently communicated to the Prime Vendors on paper via means of Federal Express. To effectively and efficiently enhance this mechanism, the National Acquisition Center (NAC) is aggressively engaged in the process of implementing the SACONS initiative. Consequently, within the next 60 days, we are expecting to begin physically populating this database with all pertinent contract information. In addition to the establishment of an electronic interface, SACONS will provide the NAC with a real-time vehicle to precisely monitor the Prime Vendors pricing performance. Furthermore, the beneficial aspects of this application will not be limited to the Pharmaceutical Products Division; it will encompass the monitoring/reporting requirements of the Medical Care Products Division and the Medical Equipment Division as well. Through SACONS, provisions for computerized administration transmission of all contract modifications, e.g., price decreases, price increases, changes in ordering addresses, product additions and deletions, will become automated. Beyond its internal usefulness, SACONS will furnish accessibility to an on-line catalog comprised of all product offerings under contract and displayed on the World Wide Web. Some of the fields targeted for inclusion are: contractor/vendor, product name, product description, and price. The flexibility of SACONS capabilities will afford the NAC a mechanism for maintaining a competitive edge, along with a formidable strategic tool adaptable to the fast paced affects occurring in the healthcare industry.

Implementation Plan:

--Begin populating SACONS program with data
Target Date: May 1, 1998

**FULL TEXT OF DEPUTY ASSISTANT SECRETARY FOR
ACQUISITION AND MATERIEL MANAGEMENT COMMENTS**
(continued)

2.

--Completion of pharmaceutical data input and verification process

Target Completion Date: September 1, 1998

--Release of SACONS program in-house

Target Completion Date: January 1, 1999

b. **Recommendation 2:** The Under Secretary for Health and the Deputy Assistant Secretary for Acquisition and Materiel Management should jointly develop a policy that defines the respective responsibilities among OA&MM and VHA staff for monitoring and enforcing prime vendor performance.

Comment: We concur. We will work with the Pharmacy Benefit Management group (previously called DPPM) and VHA representatives to develop and write a policy which clearly defines the respective roles and responsibilities among OA&MM and VHA staff as it pertains to the monitoring and enforcing of prime vendor performance.

Implementation Plan:

--Coordinate and develop written policy

Target Completion Date: May 1998

--Submit for approval and signatures to (90) and VHA

Target Completion Date: June 1998

--Issue to field

Target Completion Date: June 1998

2. Should you have questions pertaining to the above information, please contact George Patterson, Director, Pharmacy Service, National Acquisition Center, at (708) 786-4920. Again, we thank you for the opportunity to review the referenced document and provide our comments.

*Original signed by
Charles E. Roberson for
Gary J. Krump*

FINAL REPORT DISTRIBUTION

VA DISTRIBUTION

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