



Department of Veterans Affairs Office of Inspector General

Audit of Consolidated Mail Outpatient Pharmacy Contract Management

**To Report Suspected Wrongdoing in VA Programs and Operations,
Telephone: 1-800-488-8244 between 8:30 and 4:00 PM Eastern Time
Monday through Friday, excluding Federal Holidays
E-mail: vaoighotline@va.gov**

Contents

	Page
Executive Summary	i-iii
Introduction	1
Results and Conclusions	3
Stronger Contract Development Controls Will Help Ensure Cost-Effective Services	3
Better Oversight of Contract Monitoring Will Help Ensure Contractor Performance	6
Recommendations	8
Appendixes	
A. Objectives, Scope, and Methodology	10
B. Monetary Benefits in Accordance with IG Act Amendments	12
C. Acting Under Secretary for Health Comments	13
D. Executive Director for Acquisition, Logistics, and Construction Comments	15
E. OIG Contact and Staff Acknowledgments	17
F. Report Distribution	18

Executive Summary

Results in Brief

The Office of Inspector General (OIG) performed this audit to determine if Consolidated Mail Outpatient Pharmacy (CMOP) contracting processes comply with Federal acquisition requirements and if CMOPs effectively monitor contracts.

CMOPs, which are organizationally aligned under the Veterans Health Administration's (VHA) Pharmacy Benefits Management (PBM) service, provide pharmaceuticals to Department of Veterans Affairs (VA) patients using automated order processing and delivery systems. VA has seven CMOPs that serve VA patients nationwide. In fiscal year (FY) 2008, CMOPs dispensed 97.4 million (77.4 percent) of the 125.9 million total prescriptions for VA patients. CMOP costs totaled about \$2.6 billion, of which \$2.3 billion was for pharmaceuticals and about \$231 million was for operating services and supplies. Although the amount spent on services and supplies is small relative to overall CMOP costs, we considered the risk of additional fraud or ineffective controls to be high since previous fraud investigations focused on CMOP service and supply procurements.

VA needs to improve CMOP contract management. Although the National CMOP Office generally complied with Federal and VA acquisition requirements when developing, competing, and monitoring contracts, CMOP managers did not always ensure that the contracts were effective, were economical, and adequately protected VA's contractual interests. We identified two issues pertaining to contract development and contract monitoring. For one of six contracts we reviewed for contract development, the National CMOP Office did not comply with Federal acquisition requirements. In addition, for three of 13 contracts we reviewed for contract monitoring, we identified a significant risk that CMOPs could overpay for contract services valued at \$40.7 million due to poor monitoring controls. Without effective controls over contract development and monitoring, VA lacks reasonable assurance that CMOPs are procuring supplies and services cost-effectively and that contracted supplies and services are received in accordance with contract terms.

Stronger Contract Development Controls Will Help Ensure Cost-Effective Services.

One of the six contracts did not meet Federal and VA acquisition requirements. In 2008, officials at the National CMOP Office awarded a 3-year, \$808,837 contract to transport and store computer backup data for all seven CMOPs without fully considering non-contract alternatives, ensuring competition, and adequately determining price reasonableness as required by the Federal Acquisition Regulation (FAR) and VA Acquisition Regulations (VAAR). This occurred because CMOP management did not have policies and procedures in place to review contract requirements and contracting practices. As a result, VA had no assurance that the most cost-effective backup storage

option was selected, that the contract price was fair and reasonable, or that the Government's interests were protected in this procurement. Management reviews of contract requirements and contracting practices could have saved VA at least \$724,426 on this contract.

Better Oversight of Contract Monitoring Will Help Ensure Contractor Performance. For 3 of the 13 contracts, contracting officer technical representatives (COTRs) and other authorized staff who function as COTRs certified invoices for payment without verifying the accuracy of the invoices and ensuring that the required services were provided at the agreed upon contract rates. This occurred because contracting officers did not specify effective monitoring procedures and did not adequately oversee COTR activities. FAR and VAAR require contracting officers to ensure compliance with contract terms and allow them to appoint COTRs to monitor contractor performance and certify contractor invoices for payment. Although we found no evidence of specific contract overpayments, lack of effective monitoring procedures increases the risk that the CMOPs will overpay for services or pay for services not received. Because the high value of these three contracts, about \$40.7 million, inadequate monitoring could have resulted in large overcharges.

Conclusion

Strong management controls over contract development and monitoring help ensure VA obtains supplies and services cost-effectively and reduce the risk of contract fraud, abuse, and mismanagement. Contract managers need to ensure feasible alternatives are evaluated, contract requirements do not unnecessarily restrict competition, and contract prices are fair and reasonable. In addition, since contracting officers are ultimately responsible for performance of the contracts they manage, they need to specify the procedures the COTRs use to monitor contracts, and then oversee contract monitoring by the COTRs, to ensure that CMOPs receive the services and supplies required at the rates specified in the contracts.

Recommendations

During our audit, the authority over CMOP contracting officers transferred from the National CMOP Office to VA's National Acquisition Center (NAC); therefore, our audit report makes four recommendations addressed to VHA's Acting Under Secretary for Health and VA's Executive Director for Acquisition, Logistics, and Construction.

1. We recommended that the Acting Under Secretary for Health require the National CMOP Office to establish management review processes for determining CMOP contract needs and evaluating the cost-effectiveness of procurement alternatives.

2. We recommended that the Acting Under Secretary for Health require the National CMOP Office to assess the continued need for the current backup data storage contract.
3. We recommended that the Executive Director for VA Acquisition, Logistics, and Construction require the NAC to establish oversight procedures to ensure that CMOP contracting officers comply with FAR and VAAR.
4. We recommended that the Executive Director for VA Acquisition, Logistics, and Construction require CMOP contracting officers to specify monitoring procedures for their assigned contracts when appointing COTRs, to evaluate the effectiveness of contract monitoring at least annually, and to take corrective action when warranted.

Acting Under Secretary for Health Comments

The Acting Under Secretary for Health agreed with the findings, recommendations, and monetary benefits in the report and provided acceptable implementation plans. (See Appendix C for the full text of the comments.) The Acting Under Secretary reported that VHA will develop a process to review CMOP contract needs and evaluate the cost-effectiveness of procurement alternatives. In addition, PBM officials and the CMOP Chief of Information Technology will conduct a risk assessment to determine the continued need for the current backup data storage contract.

Executive Director of VA Acquisition, Logistics, and Construction Comments

The Executive Director, Acquisition, Logistics, and Construction also agreed with the findings, recommendations, and monetary benefits in the report and provided acceptable implementation plans. (See Appendix D for the full text of the comments.) The Executive Director reported that his office has implemented procedures for supervisors to review contract actions to ensure compliance with acquisition and legal/technical review requirements. Furthermore, the CMOP staff has completed general COTR training, and contracting officers will ensure that COTRs are trained on individual contract requirements and establish monitoring procedures when they delegate their authority.

OIG Response

We consider the Acting Under Secretary's and Executive Director's planned actions acceptable, and we will follow up on their implementation.

(original signed by:)
BELINDA J. FINN
Assistant Inspector General
for Auditing

Introduction

Purpose

The OIG performed this audit to determine if CMOP contracting processes comply with Federal acquisition requirements and if CMOPs effectively monitor contracts. The audit included reviews of CMOP contract development, contract monitoring, and purchasing practices.

Background

Description and Workload of CMOPs. CMOPs provide pharmaceuticals to VA patients using automated order processing and delivery systems. The first CMOP began operations in 1994 in Leavenworth, KS. Since then, six additional CMOPs have been added at Murfreesboro, TN; Charleston, SC; Hines, IL; Chelmsford, MA; Dallas, TX; and Tucson, AZ. The seven CMOPs mail pharmaceuticals to VA patients throughout the United States.

In FY 2008, CMOPs dispensed 97.4 million (77.4 percent) of the 125.9 million total prescriptions for VA patients. FY 2008 CMOP costs totaled about \$2.6 billion. Of that amount, \$2.3 billion was for pharmaceuticals for patients. CMOPs also purchased about \$231 million in operating services and supplies. Although this amount is small relative to overall CMOP costs, we considered the risk of additional fraud or ineffective controls to be high since previous fraud investigations focused on CMOP services and supplies.

CMOP Acquisition Management. The seven VA CMOPs operate under the direction of VHA's PBM service. The National CMOP Office in Leavenworth, KS provides financial management and logistics support to the seven CMOPs.

Until FY 2007, each CMOP director was responsible for acquiring the services and supplies the CMOP needed. The CMOP organization was not staffed to manage contracts or oversee CMOP purchasing. CMOPs obtained contracting support primarily from local Veterans Integrated Service Networks (VISNs) or VA medical centers (VAMCs), and no other organization oversaw CMOP purchasing. In 2007, PBM initiated significant changes in CMOP acquisition management. The National CMOP Office added a contracting and logistics management section and began centralizing all CMOP contracting at Leavenworth. It hired contracting officers to manage all CMOP contracts and two senior supply managers to oversee purchasing and supply management at the seven CMOPs. Each CMOP also hired a logistics manager to strengthen purchasing controls and inventory management at the CMOP level.

In December 2008, under the terms of a memorandum of understanding between PBM and VA Office of Acquisition and Logistics' NAC, the National CMOP Office transferred

the responsibility for all CMOP contracting and its contracting staff to the NAC. VA's Executive Director for Acquisition, Logistics, and Construction has overall authority for the NAC. The NAC had previously provided contracting support and technical guidance to CMOP contracting officers when requested, but had no oversight responsibility.

Methodology

To review contract development and performance monitoring, we selected 13 CMOP service and supply contracts in effect on September 30, 2008. Our review of contract development focused on the six sample contracts that had been awarded by CMOP contracting officers and did not include contracts administered by CMOP contracting officers after being previously awarded by other offices. Our review of contract monitoring included all 13 sample contracts. We also reviewed current CMOP purchasing requirements, practices, and controls established by the National CMOP Office, assessed their effectiveness by reviewing purchasing practices at two randomly selected CMOPs.

Results and Conclusions

VA needs to improve CMOP contract management. Although the National CMOP Office generally complied with Federal and VA acquisition requirements when developing, competing, and monitoring contracts, CMOP managers did not always ensure that contracts for services were effective, were economical, and adequately protected VA's contractual interests.

Specifically, we identified two issues—one pertaining to contract development and one to contract monitoring. For one of six contracts we reviewed for contract development, the National CMOP Office lacked adequate procedures for reviewing contract requirements and ensuring adequate competition and fair and reasonable prices. In addition, for three of 13 contracts we reviewed for contract monitoring, we identified a significant risk that CMOPs could process contractor payments in excess of the contract terms. Without effective controls over contract development and monitoring, VA lacks reasonable assurance that CMOPs are procuring supplies and services cost-effectively and that contracted supplies and services are received in accordance with contract terms.

Stronger Contract Development Controls Will Help Ensure Cost-Effective Services

One of the six contracts we reviewed did not meet Federal and VA acquisition requirements. In 2008, the National CMOP Office awarded a 3-year, \$808,837 contract to transport and store computer backup data for all seven CMOPs without fully considering non-contract alternatives, ensuring competition, and adequately determining price reasonableness as required by the FAR and VAAR. This occurred because CMOP management did not have procedures in place to review contract requirements and contracting practices. As a result, VA had no assurance that the most cost-effective backup storage option was selected, that the contract price was fair and reasonable, or that the Government's interests were protected in this contract. Management reviews of contract requirements and contracting practices could have saved VA at least \$724,476 over the 3-year period of this contract.

The National CMOP Office's Chief of Information Technology developed the contract requirements that called for transportation and storage of backup computer data for all seven CMOPs and for all storage locations to be at least 50 miles away from the CMOPs. Although the contract solicitation required full and open competition, only one qualified offeror responded, and the contracting officer negotiated the contract prices with the offeror. The resulting 3-year contract had a total cost of \$808,837 (\$269,612.18 per year for 3 years).

Cost-Effective Alternatives Were Not Considered. As part of acquisition planning, FAR 7.105 requires agencies to consider acquisition alternatives. CMOP information

technology (IT) officials requested the data backup contract and developed the contract requirements. Both the CMOP contracting officers and their supervisors relied on the IT officials to consider non-contract alternatives. However, we found no evidence that CMOP IT officials considered storing their backup data at other VA facilities, even though CMOPs are subject to the same security backup requirements as VAMCs. A CMOP IT manager told us that he did not consider the feasibility of storing backup data at other VA facilities because he was skeptical that other facilities were meeting VA security requirements, and he believed that a single contractor could best meet CMOP data storage requirements.

We interviewed the information security officers (ISOs) at seven VAMCs located near each of the seven CMOP locations to determine if existing VAMC backup services were available for CMOP use. ISOs at five of the VAMCs told us that they could provide backup services to the nearby CMOPs at no cost. The other two ISOs stated that their VAMCs used local contract services and obtained the services at much lower costs than the CMOP contract (approximately \$13,400 per year for the two VAMCs). By using existing VA resources to transport and store their backup data when feasible, CMOPs could have obtained the required services at little or no cost. CMOP IT managers acknowledged that they should have considered using existing VA resources before requesting a contract for backup storage services, and national CMOP managers agreed that their reviews of contract requests needed to include IT requirements.

Overly Restrictive Requirements Limited Competition. Subpart 6.1 of the FAR requires contracting officers to promote and provide for full and open competition. One way they may do this is through the use of competitive proposals from different vendors. For this contract, the contracting officer solicited competitive bids based on contract requirements developed by CMOP IT officials. The requirements called for a single vendor to bid on transportation and storage of computer backup data for all seven CMOPs because both the requesting official and the contracting officer believed it was easier to administer a single vendor contract than contracts for multiple vendors serving individual CMOPs. Furthermore, the requirements stipulated that data storage sites must be at least 50 miles from the CMOPs. The National CMOP Office did not have a management review process to evaluate the contract requirements to determine if they were valid, accurate, and consistent with usual VA business practices.

In response to the contract solicitation, the CMOP received only one qualified offer with proposed prices that were much higher than expected. The contracting officer attempted to obtain additional bids by re-announcing the solicitation through another source but did not evaluate the contract requirements or did not work with CMOP IT officials to determine if the requirements were too restrictive. After re-announcing the solicitation and still receiving only one qualified offer, the contracting officer awarded the contract to the vendor. The resulting contract price far exceeded the initial contract estimate of

\$60,000 per year, as well as the prices this same vendor offered through a Federal Supply Schedule (FSS) contract with less rigorous storage location distance requirements.

The contract requirement specifying that all data storage locations must be located at least 50 miles from the CMOPs was based on a CMOP IT manager's interpretation of VA's off-site data storage policy contained in VA Handbook 6500, "Information Security Program." This policy does not require that data be stored at least 50 miles away; instead, it requires that facilities conduct a local risk assessment to determine a sufficient distance. The CMOP IT managers were aware that the policy did not explicitly require a 50-mile distance. They adopted a 50-mile requirement to ensure that their facilities would pass IT data storage security inspections. However, according to the Director of Strategic Operations for the Office of Information Technology Oversight and Compliance, application of a 50-mile rule would be arbitrary and distance requirements should be based on local risk assessments.

We compared the rates charged under the current CMOP contract with rates that would have been charged under the FSS data storage contract discussed above. For the current contract, the estimated cost for storage and transportation services for all seven CMOPs for 1 year was \$269,612. However, charges for all seven CMOPs for the same services and period under the FSS contract would have cost about \$28,120, a difference of \$241,492. Over the 3-year term of the contract, the savings in contract costs to VA would be \$724,476 (\$241,492 annual savings for 3 years).

Price Reasonableness Was Not Determined. According to FAR 15.4, it is the contracting officer's responsibility to determine that services acquired by the Government are obtained from responsible sources at fair and reasonable prices. To determine fair and reasonable prices, the contracting officer may use various price analysis or cost analysis techniques, including price competition or comparing prices to independent government estimates. If the contracting officer cannot obtain adequate information from sources other than the offeror, the contracting officer must require submission of information other than cost or pricing data from the offeror to determine fair and reasonable prices.

Because only one vendor submitted a bid for this contract, the contracting officer could not use price competition to determine fair and reasonable prices. Therefore, the contracting officer should have performed other analyses using additional information obtained from independent sources and/or the vendor. The contracting officer obtained a detailed breakdown of storage costs, which represented about 2 percent of the total contract value, but did not obtain detailed transportation cost or pricing information from the offeror and transportation pricing information from other vendors to compare with the offeror's prices. Without price competition, comparisons with government estimates, or other price or cost analyses, the contracting officer had no way to determine that the contract prices were fair and reasonable.

CMOPs Need Strong Oversight of Contract Development. These contract development problems occurred because the National CMOP Office had not developed procedures for reviewing contract requirements or ensuring contracting officers complied with FAR and VAAR. CMOP officials did not ensure that IT contract requirements were not unnecessarily restrictive or that IT officials had considered other cost-effective alternatives. In addition, CMOP managers did not ensure contracts complied with FAR and VAAR because they did not participate in contracting actions unless a contracting officer sought assistance from them.

During our audit, the National CMOP Office transferred its contracting activities to the NAC under a memorandum of understanding between PBM and the NAC. We consider this to be a positive move towards strengthening oversight of CMOP contracting officers and ensuring that CMOP contracts meet Federal and VA contracting requirements. However, this action does not replace the need for strong oversight of contract requests by CMOP officials.

Better Oversight of Contract Monitoring Will Help Ensure Contractor Performance

For three of the 13 contracts, COTRs and other authorized staff who function as COTRs certified invoices for payment without verifying the accuracy of the invoices and ensuring that the required services were provided at the agreed upon contract rates. This occurred because contracting officers did not ensure that COTRs established effective monitoring procedures and did not adequately oversee COTR activities. Although we found no evidence of contract overpayments through our review of contract charges where documentation was available, the lack of effective monitoring procedures increases the risk that the CMOPs will overpay for services or pay for services not received. FAR 1.602 requires contracting officers to ensure compliance with contract terms and VAAR 801.603-70 allows them to appoint COTRs to monitor contractor performance and certify contractor invoices for payment.

Mail Distribution Contracts. Monitoring of two mail distribution contracts (total value=\$39.2 million) at five CMOPs was not effective, which could have resulted in overcharges. CMOPs use mail distribution contracts to obtain postal pricing discounts by pre-sorting mail by geographic destination. Mail distribution companies bill the CMOPs based on the postage applicable to the weight of each package shipped.

The COTRs at the five CMOPs using these contracts routinely authorized payment of contractor invoices without first verifying the accuracy of the contractors' charges. Contracting officers did not specify monitoring procedures for verifying the accuracy of contract charges in either the contracts or their COTR delegation letters, and COTRs did not identify the need to verify contractor charges. Monitoring procedures should have included a method of comparing the number of packages billed to the number shipped by

the CMOPs and a method of testing package weights to ensure that the rates applied to individual packages were accurate.

After we brought these monitoring problems to the attention of CMOP managers, we worked with CMOP staff to design tests to verify and validate current mail distribution contractor billings for December 2008 and January 2009. Our tests indicated that the contractors were not currently overcharging the CMOPs. However, we were unable to verify the accuracy of FY 2008 charges because neither the CMOPs nor the contractors maintain data longer than about 45 days because of their limited ability to store the high volume of data they process.

Janitorial Service Contract. In addition, for a \$1.5 million 5-year contract for janitorial services, the COTR did not review contractor invoices or verify the accuracy of overtime hours and rates charged. Instead, another CMOP program specialist inappropriately certified all janitorial contract invoices for payment without knowing whether the contractor had satisfactorily performed the required services or charged the correct prices. The program specialist was unfamiliar with the contract terms, and the COTR did not discuss contractor performance with the program specialist. The contracting officer had provided general monitoring instructions for the COTR but did not oversee contract monitoring to ensure that the COTR's monitoring practices were effective. Although we confirmed the contractor had charged the correct rates in FY 2008, reviews of contractor invoices by the COTR are needed to prevent possible future contractor overcharges.

CMOPs Need Clear Monitoring Procedures and Oversight. These contract-monitoring weaknesses occurred because contracting officers did not ensure that COTRs established effective monitoring procedures and did not adequately oversee COTR activities. According to FAR, contracting officers are ultimately responsible for ensuring compliance with contract terms.

Monitoring Procedures. COTRs did not develop effective procedures for verifying contractor charges because they needed more specific guidance, particularly when monitoring complex mail distribution contracts. When contracting officers designate COTRs, they provide them general instructions on contract monitoring, and COTRs receive general contract monitoring training. However, neither the contracting officers nor CMOP managers developed specific monitoring procedures for ensuring contractor charges were accurate.

Oversight of COTR Activities. Contracting officers did not oversee monitoring for any of the three contracts or ensure that the required services were provided at the agreed upon contract rates. The contracting officers assigned to manage CMOP contracts we reviewed stated they expected the COTRs to contact them in the event of a significant problem in contractor performance and that it was not their responsibility to ensure that contracts are effectively monitored.

Although we did not identify actual overcharges for the contracts we reviewed, ineffective contract monitoring significantly increases the potential for contractor overcharges. Because the value of these three contracts was high, about \$40.7 million, inadequate monitoring could have resulted in large overcharges.

Conclusion

Strong management controls over contract development and monitoring help ensure VA obtains supplies and services cost-effectively and reduce the risk of contract fraud, abuse, and mismanagement. Contract managers need to ensure feasible alternatives are evaluated, contract requirements do not unnecessarily restrict competition, and contract prices are fair and reasonable. In addition, since contracting officers are ultimately responsible for performance of the contracts they manage, they need to specify the procedures the COTRs use to monitor contracts, and then oversee contract monitoring by the COTRs, to ensure that CMOPs receive the services and supplies required at the rates specified in the contracts.

Recommendations

1. We recommended that the Acting Under Secretary for Health require the National CMOP Office to establish management review processes for determining CMOP contract needs and evaluating the cost-effectiveness of procurement alternatives.
2. We recommended that the Acting Under Secretary for Health require the National CMOP Office to assess the continued need for the current backup data storage contract.
3. We recommended that the Executive Director for Acquisition, Logistics, and Construction require the NAC to establish oversight procedures to ensure that CMOP contracting officers comply with FAR and VAAR.
4. We recommended that the Executive Director for Acquisition, Logistics, and Construction require CMOP contracting officers to specify monitoring procedures for their assigned contracts when appointing COTRs, to evaluate the effectiveness of contract monitoring at least annually, and to take corrective action when warranted.

Acting Under Secretary for Health Comments

The Acting Under Secretary for Health agreed with the findings, recommendations, and monetary benefits in the report and provided acceptable implementation plans. (See Appendix C for the full text of the Acting Under Secretary's comments.) In response to the recommendations, the Acting Under Secretary reported that VHA will develop a process to review CMOP contract needs and evaluate the cost-effectiveness of procurement alternatives. In addition, PBM officials and the CMOP Chief of Information

Technology will conduct a risk assessment to determine the continued need for the current backup data storage contract. We will follow up on the implementation of the planned improvement actions.

Executive Director for VA Acquisition, Logistics, and Construction Comments

The Executive Director, Acquisition, Logistics, and Construction also agreed with the findings, recommendations, and monetary benefits in the report and provided acceptable implementation plans. (See Appendix D for the full text of the Executive Director's comments.) The Executive Director reported that his office has implemented procedures for supervisors to review contract actions to ensure compliance with acquisition and legal/technical review requirements. He also reported that the CMOP staff has completed general COTR training. Furthermore, contracting officers will ensure that COTRs are trained on individual contract requirements and establish monitoring procedures when they delegate their authority. We will follow up on the implementation of the planned improvement actions.

OIG Response

We consider the Acting Under Secretary's and Executive Director's planned actions acceptable, and we will follow up on their implementation. We will close the recommendations when all proposed actions have been completed.

Objectives, Scope, and Methodology

Objectives. The audit objectives were to determine if CMOP contracting processes comply with Federal acquisition requirements and if CMOPs effectively monitor contracts.

Scope. The FAR defines contracting as a means of purchasing, renting, leasing, or otherwise obtaining supplies or services from nonfederal sources. Contracting includes the description of supplies and services required, the selection and solicitation of sources, the preparation and award of contracts, and all the phases of contract administration. Our review focused on two major areas of CMOP contracting: contract development and contract monitoring. Contract development includes contract planning, solicitation, evaluation and selection of sources, and award of contracts. Contract monitoring is the process of ensuring compliance with the terms of contracts. Our audit evaluated CMOP contracting practices and controls in effect during FY 2008. We also evaluated significant changes in CMOP contracting management that occurred from October 2008 through December 2008.

Methodology. To meet our audit objectives, we reviewed applicable laws, regulations, policies, and program guidance; interviewed program officials, CMOP managers, contracting officers, and purchasing agents; and analyzed contracts, purchase orders, contractor invoices, and supporting documents.

To review contract development and performance monitoring, we first compiled a list of CMOP service and supply contracts and blanket purchase agreements (all referred to as contracts) in effect on September 30, 2008. We did not include building lease or utility contracts or prime vendor agreements for pharmaceuticals. We verified the accuracy of this information by comparing it with CMOP contract files and discussing it with CMOP logistics managers. The 42 contracts in the population had a value of about \$217 million. Of the 42 contracts, CMOP contracting officers had developed 21, the NAC had developed six, and VISN contracting officers had developed the remaining 15 contracts before the contracts were transferred to the National CMOP Office to manage and oversee.

We categorized the 42 contracts by type of service and assessed the risk of significant internal control weaknesses for each category. Based on this risk analysis, we randomly selected 13 contracts for review. We focused our review of CMOP contract development on the six sample contracts that had been awarded by CMOP contracting officers and did not include the contracts currently administered by CMOP contracting officers after being previously awarded by a VISN or NAC contracting officer. For our review of contract monitoring, we reviewed all 13 sample contracts. A list of the contracts we reviewed is shown in Table 1.

Table 1. Sample Contracts Reviewed

Contract Number	Originating Office	Service/Supply Description	Contract Value
V769P-0011	CMOP	Cleaning Supplies	\$30,000
VA769P-0003	CMOP	Software Upgrade	\$96,000
V769P-0021	CMOP	Employee Assistance	\$92,425
V769P-0014	CMOP	Dispensing Machine Repair	\$165,769
V769P-0008	CMOP	Off-Site Data Storage	\$808,837
V764P-1013	CMOP	Mail Management	\$4,000,000
VA797BP-0069	NAC	Mail Management	\$21,773,750
V797P-8100	NAC	Drug Repackaging	\$28,859,127
V797P-8097	NAC	Staffing	\$4,634,274
V255P-1185	VISN 15	Staffing	\$2,990,468
V247P-0047	VISN 7	Janitorial Services	\$1,527,434
763-C80003	VISN 17	Storage Trailer Lease	\$33,176
76607BPA-01	VISN 7	Mail Management	\$17,398,281
Total Value			\$82,409,541

We also reviewed purchases initiated by local CMOPs to determine whether purchasing agents selected suppliers in accordance with Federal acquisition requirements and whether they ensured that the CMOPs were receiving services and supplies purchased at the specified prices. We identified current CMOP purchasing requirements, practices, and controls established by the National CMOP Office. To assess the effectiveness of national CMOP controls at the CMOPs, we reviewed purchasing practices at two randomly selected CMOPs.

We conducted our audit work from September 2008 through January 2009. Our assessment of internal controls focused on those controls relating to our audit objectives. We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Monetary Benefits in Accordance with IG Act Amendments

<u>Recommendations</u>	<u>Explanation of Benefits</u>	<u>Better Use of Funds</u>
1-2	Strengthen controls over contract development and evaluate the current need for the backup storage contract.	\$724,476
	Total:	<hr/> \$724,476

Acting Under Secretary for Health Comments

Department of Veterans Affairs

Memorandum

Date: May 27, 2009

From: Acting Under Secretary for Health

Subj: OIG Draft Report, Audit of Consolidated Mail Outpatient Pharmacy Contract Management

To: Assistant Inspector General for Auditing (52)

1. I have reviewed the draft report, and I concur with the report, recommendations, and the monetary benefit. I agree that strong management controls over contract development and monitoring will help to ensure that supplies and services are obtained cost-effectively, and help to reduce the risk of contract fraud, abuse, and mismanagement.

2. As you know, the National Consolidated Mail Outpatient Pharmacy (CMOP) contracting activities were transferred to the National Acquisition Center (NAC) during your audit. Nonetheless, oversight of contract requests by CMOP officials is still needed. In an effort to better determine CMOP contract needs and to evaluate the cost-effectiveness of procurement alternatives, the Deputy Chief Consultant Pharmacy Benefits Management (PBM)/CMOP will develop a process to review CMOP contract needs and evaluate the cost effectiveness of procurement alternatives. The National CMOP Chief Logistics Officer will be a key team member in this effort, and officials at the NAC who supervise CMOP contracting officers will also be consulted. The Deputy Chief Consultant PBM/CMOP will also work with the CMOP Chief of Information Technology to assess the backup data storage needs of each CMOP. Based on the results of this assessment, new contract requirements will be developed and a new contract awarded. The new contract will undergo the new contract review process to be established for evaluating the cost-effectiveness of procurement alternatives.

3. Thank you for the opportunity to review the draft report. A detailed action plan to implement all report recommendations is attached. If you have any questions, please contact Margaret M. Seleski, Director, Management Review Service (10B5) at (202) 461-8470.

Original signed by:
Gerald M. Cross, MD, FAAFP

Attachment

**Acting Under Secretary for Health Comments
to Office of Inspector General Report**

Recommendations/ Actions	Status	Completion Date
-----------------------------	--------	--------------------

Recommendation 1. We recommend that the Under Secretary for Health require the National CMOP Office to establish management review processes for determining CMOP contract needs and evaluating the cost-effectiveness of procurement alternatives.

Concur

The Deputy Chief Consultant PBM/CMOP will develop a process to review CMOP contract needs and evaluate the cost-effectiveness of procurement alternatives. The Associate Deputy Chief Consultant PBM/CMOP will lead the effort in this area. The National CMOP Chief Logistics Officer will also be a key team member. The review processes currently in place in Networks will be reviewed for applicability to the CMOP. Officials at the National Acquisition Center (NAC) who supervise the CMOP contracting officers will also be consulted. A National CMOP policy will be developed and implemented to address the issue.

In process

July 2009

Recommendation 2. We recommend that the Under Secretary for Health require the National CMOP Office to assess the continued need for the current backup data storage contract.

Concur

The Deputy Chief Consultant PBM/CMOP and the CMOP Chief of Information Technology will conduct a risk assessment of the backup data storage needs of each CMOP. Based on the results of these risk assessments, new contract requirements will be developed and a new contract awarded. The new contract will undergo the improved contract review process implemented in recommendation 1 above.

In process

October 2009

Executive Director for Acquisition, Logistics, and Construction Comments

Department of
Veterans Affairs

Memorandum

Date: JUN 03 2009

From: Executive Director, Acquisition, Logistics, and Construction (001ALC)

Subj: Audit of Consolidated Mail Outpatient Pharmacy Contract Management (WebCIMS 431417)

To: Director, Seattle Audit Operations Division (52SE)

1. The Office of Acquisition, Logistics and Construction (OALC) has reviewed the Office of Inspector General (OIG) Draft Report entitled, "Audit of Consolidated Mail Outpatient Pharmacy Contract Management (Project No. 2009-00260-R8-0003)," and submits the following comments in response to the recommendations in the OIG report:

a. **Recommendation 3:** We recommend that the Deputy Assistant Secretary for Acquisition and Logistics require the National Acquisition Center (NAC) to establish oversight procedures to ensure that Consolidated Mail Outpatient Pharmacy (CMOP) contracting officers comply with Federal Acquisition Regulations (FAR) and VA Acquisition Regulations (VAAR).

Response: Concur. Since acquiring the centralized contracting office of the CMOP in December 2008, the NAC has established procedures to assure compliance with FAR and VAAR. Contract actions are reviewed by a supervisor and legal/technical review requirements (i.e., all Blanket Purchase Agreements; negotiated construction valued at \$500,000 or more; multiyear contracts valued at \$500,000 or more; service contracts valued at \$500,000 or more; and supply contracts valued at \$500,000 or more) are consistently accomplished.

b. **Recommendation 4:** We recommend that the Deputy Assistant Secretary for Acquisition and Logistics require CMOP contracting officers to specify monitoring procedures for their assigned contracts when appointing contracting officer technical representatives (COTRs), to evaluate the effectiveness of contract monitoring at least annually, and to take corrective action when warranted.

Response: Concur. The CMOP has completed general COTR training of its staff. Contracting officers will assure that COTRs are trained on individual contract requirements and establish monitoring procedures as they delegate responsibility. COTRs will not be allowed to further re-delegate their responsibility to others. Implementation plan: Ongoing, COTRs will be trained as new contracts are awarded and on option years of existing contracts.

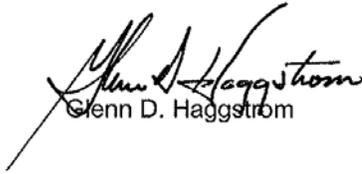
2. The IG auditor's comments that they "found no evidence of contract overpayments through their review of contract charges where documentation was available" are appreciated. However, OALC acknowledges that better oversight of contracting

Page 2.

Subject: Audit of Consolidated Mail Outpatient Pharmacy Contract Management

monitoring is needed. We are working to ensure that the appropriate policies are in place.

3. Thank you for the opportunity to review the draft report. Should you have any questions regarding this submission, please contact Mr. Craig Robinson, Executive Director, National Acquisition Center, at (708) 786-5157.


Glenn D. Haggstrom

OIG Contact and Staff Acknowledgments

OIG Contact	Claire McDonald
Acknowledgments	Ron Stucky Kevin Day Randall Alley Maria Foisey Thomas Phillips Theresa Zoun

Report Distribution

VA Distribution

Office of the Secretary
Veterans Health Administration
Veterans Benefits Administration
National Cemetery Administration
Assistant Secretaries
Office of General Counsel

Non-VA Distribution

House Committee on Veterans' Affairs
House Appropriations Subcommittee on Military Construction, Veterans Affairs,
and Related Agencies
House Committee on Oversight and Government Reform
Senate Committee on Veterans' Affairs
Senate Appropriations Subcommittee on Military Construction, Veterans Affairs,
and Related Agencies
Senate Committee on Homeland Security and Governmental Affairs
National Veterans Service Organizations
Government Accountability Office
Office of Management and Budget

This report will be on the VA OIG web site and remain on the OIG web site for at least two fiscal years after it is issued: <http://www.va.gov/oig/publications/reports-list.asp>.