

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



# Veterans Health Administration

*Audit of the Management  
and Acquisition of  
Prosthetic Limbs*

March 8, 2012  
11-02254-102

## **ACRONYMS AND ABBREVIATIONS**

ABC	American Board for Certification in Orthotics and Prosthetics
BOC	Board for Orthotist/Prosthetist Certification
CO	Contracting Officer
COTR	Contracting Officer's Technical Representative
eCMS	Electronic Contract Management System
NOC	Not Otherwise Classified
NPPD	National Prosthetics Patient Database
OIG	Office of Inspector General
P&LO	Procurement and Logistics Office
PPA	Prosthetic Purchasing Agent
PSAS	Prosthetic and Sensory Aids Service
VAMC	Veterans Affairs Medical Center
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network

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# Report Highlights: Audit of VHA's Management and Acquisition of Prosthetic Limbs

## Why We Did This Audit

At the request of the Chairman of the House Committee on Veterans' Affairs, we evaluated the management and acquisition practices the Veterans Health Administration (VHA) used to procure prosthetic limbs. We examined the suitability of procurement practices and costs paid for prosthetic limbs. In each of the last 5 years, VHA has served nearly 12,000 amputees. VA procures most prosthetic limbs from vendors and fabricates some limbs in VHA's prosthetic labs.

## What We Found

Overpayments for prosthetic limbs were a systemic issue at each of the 21 Veterans Integrated Service Networks (VISNs). Further, VHA's prosthetic acquisition practices are not effective because of internal control weaknesses in prosthetic limb payments. We examined data for just over 3,900 payments and found that 915 (23 percent) included overpayments. Due to these weaknesses, VHA overpaid about \$2.2 million in FY 2010 to procure prosthetic limbs. VHA could continue to overpay for prosthetic limbs by about \$8.6 million over the next 4 years if it does not strengthen controls.

VHA also did not receive the best value for the \$49.3 million spent in FY 2010 to procure prosthetic limbs. Specifically, we found VISN Contracting Officers (COs) were not negotiating for better discount rates with vendors and VHA purchased some items

without specific pricing guidance. Strengthening controls over these actions should not compromise the quality of the prosthetic limbs provided to veterans. VHA management did not know the current capabilities of their labs, nor had VISN prosthetic officials identified the appropriate number of contract vendors. Lastly, COs are not properly documenting prosthetic limb awards. Until VHA strengthens management and acquisition practices to procure and fabricate prosthetic limbs, VA will not have assurances that these practices are as effective and economical as possible.

## What We Recommended

We recommended the Under Secretary for Health improve VHA's management and acquisition practices used to procure prosthetic limbs.

## Agency Comments

The Under Secretary for Health concurred with our findings and recommendations and provided an appropriate action plan. The planned actions are responsive and we will follow up on the implementation of corrective actions.

Handwritten signature of Belinda J. Finn in blue ink.

**BELINDA J. FINN**  
Assistant Inspector General  
for Audits and Evaluations

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## INTRODUCTION

**Objective** The Office of Inspector General (OIG) conducted this audit to evaluate the effectiveness of management and acquisition practices the Veterans Health Administration (VHA) used to procure prosthetic limbs.

**VA Prosthetic Limb Demand** Senior Prosthetic and Sensory Aids Service (PSAS) officials stated that they work closely with Fiscal Service staff and field prosthetics personnel to obtain information and data relative to demand and future needs. This information helps PSAS staff calculate their national budget for a given year. Prosthetics staff identify and track veterans with amputations enrolled in VA to ensure that VA meets the veterans' prosthetic limb needs.

**VA's Prosthetic Limb Workload** In FY 2010, VHA's PSAS staff reported that of the \$1.8 billion VA spent on prosthetic items, nearly \$54 million (3 percent) was spent on prosthetic limbs. During that time, VHA's prosthetic labs fabricated almost 1,500 prosthetic limbs at a total cost of \$4.4 million. VA relied upon contract vendors to provide over 4,000 prosthetic limbs at a total cost of about \$49.3 million. Further, the average item cost for limbs fabricated in VHA's prosthetic labs was about \$2,900, while items purchased from vendors averaged about \$12,000.<sup>1</sup>

**VISN Prosthetic Limb Contracts** VHA does not have a national contract for prosthetic limbs. Each Veterans Integrated Service Network (VISN) procures prosthetic limbs from local vendors. For vendors to receive a contract, they must meet certain criteria. These include a discount to the established Medicare prices, evidence that vendors' sites are certified by the American Board for Certification in Orthotics and Prosthetics (ABC) or the Board for Orthotist/Prosthetist Certification (BOC), and evidence that vendors' employees working with veterans are ABC/BOC certified.

**Prosthetic Limb Contract Pricing** Vendors contract with VISNs to fabricate and repair prosthetic limbs for veterans. VISN prosthetic limb contracts specify the cost of vendor-fabricated prosthetic limbs. According to the prosthetic limb contract guidance, the price that vendors can charge to fabricate and repair prosthetic limbs will not exceed the established L-Code prices applicable to the geographic area where vendors provide these services. Medicare establishes L-Code prices on an annual basis and these prices vary by state.<sup>2</sup>

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<sup>1</sup>PSAS reported the difference in costs associated with VHA prosthetic lab and vendor prosthetic limbs is generally attributed to vendor costs for materials and profit.

<sup>2</sup>For purposes of the report, we refer to L-Code prices as Medicare prices.

## RESULTS AND RECOMMENDATIONS

### **Finding 1 PSAS Needs To Improve Internal Controls Over Payments for Prosthetic Limbs**

PSAS needs to strengthen payment controls for prosthetic limbs to minimize the risk of overpayment. We identified overpayments in 23 percent of all the transactions paid in FY 2010. Specifically, PSAS needs to establish appropriate separation of controls within its prosthetic management practices and ensure staff follow these practices before authorizing payment. Additionally, PSAS needs to strengthen guidance on Certified Prosthetists' reviews of vendor quotes. VHA overpaid about \$2.2 million for prosthetic limbs in FY 2010. VA can recover the overpayments from vendors because the invoices paid exceeded the agreed upon prices per the terms in the contracts.

#### ***VHA Overpaid for Prosthetic Limbs***

VHA overpaid vendors about \$2.2 million (4 percent) of the \$49.3 million spent on prosthetic limbs in FY 2010.<sup>3</sup> Of the 3,933 payments, 915 (23 percent) included overpayments.<sup>4</sup> On average, VHA overpaid about \$2,352 for each of these prosthetic limb payments. Overpayments generally occurred because VHA paid vendor invoices that included charges in excess of prices agreed to in the vendors' contracts with VA. Overpayments for prosthetic limbs were a systemic issue that occurred at each of the 21 VISNs. Total VISNs' overpayments ranged from \$180 to about \$466,000. Overpayments were also identified with 314 of 690 vendors (46 percent) that provided prosthetic limbs in FY 2010. One national vendor received nearly \$730,000 of the approximate \$2.2 million in overpayments. If it does not strengthen its controls, VHA could continue to overpay for prosthetic limbs. We projected overpayments could be about \$8.6 million, over the next 4 years.

#### ***Acquisition Practices Need Improvement***

The acquisition practices reviewed at the four VISNs we visited did not stress Contracting Officer's Technical Representative (COTR) responsibilities, which resulted in internal control weaknesses. According to VISN prosthetics officials, Prosthetic Purchasing Agents (PPAs) are responsible for key aspects of the acquisition of prosthetic limbs. However, the responsibility for ensuring compliance with contract terms and processing payments must be separate to ensure compliance with requirements and proper segregation of duties between ordering, reviewing

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<sup>3</sup>Our results are based on an analysis of data contained in the National Prosthetics Patient Database.

<sup>4</sup>PSAS reported that veterans were provided with a total of 4,076 prosthetic limbs in FY 2010.

invoices, and making payments. Appendix D shows a flow chart of the prosthetic limb acquisition process.

*COTR Invoice  
Reviews Are  
Not Being  
Completed*

COTRs did not follow guidance outlined in the *VA COTR Handbook* that requires them to ensure invoices received from vendors accurately reflect the work completed, are in accordance with the requirements of the contract, and certify acceptance. This guidance was further clarified by the Prosthetics and Logistics Office (P&LO) in a 2011 Standard Operating Procedure. COTRs at two of the four VISNs we visited reported they conducted limited reviews of invoices, while the COTRs at the other two VISNs reported they did not conduct such reviews. VISN prosthetics officials reported PPAs, as purchase card holders, have the responsibility to ensure the accuracy of payments to vendors.

*Separation of  
Duties Does  
Not Exist*

Currently, PPAs are responsible for reviewing quotes and invoices, creating purchase orders, and making final payments, which is inconsistent with provisions in the U.S. Government Accountability Office's *Standards for Internal Control in Federal Government* that requires key duties and responsibilities be divided to reduce the risk of error. As purchase card holders, PPAs are required to ensure items appear to be reasonably priced and include appropriate vendor discounts, as outlined in VHA Handbook 1730.01, *Use and Management of the Government Purchase Card Program*. Since the COTRs reported they conducted limited or no reviews of invoices, key duties and responsibilities were not properly separated among local VISN officials. PPAs at the four sites visited reported conducting reviews to ensure invoice prices matched Medicare pricing and appropriate vendor discount rates. However, the results of this audit show the reviews performed were not sufficient to prevent overpayments or to ensure compliance with the terms in prosthetic limb contracts.

*Certified  
Prosthetists'  
Reviews Are  
Not Sufficient*

In April 2009, PSAS staff in VA's Central Office requested that VISNs begin reviewing quotes provided by prosthetic limb vendors. PSAS officials reported they requested these reviews because they had found vendors were taking advantage of VA by adding inappropriate Medicare codes to the limb quotes and overcharging for prosthetic limb items. According to these PSAS officials, this occurred because PPAs were not knowledgeable on the proper use of Medicare codes. PSAS reportedly issued guidance, via email, which requires Certified Prosthetists review all vendor quotes to ensure compliance with prescriptions and proper use of Medicare codes. Since PSAS implemented this process, one VISN reported to PSAS that it had identified nearly \$400,000 in cost avoidances. However, the guidance did not address what actions local staff should take related to vendors overcharging for prosthetic limb items. Based on the results of this audit, we confirmed this continues to be a problem.

**Conclusion**

The frequency of overpayments needs immediate attention. Further, VA needs to recover the overpayments identified by establishing collection actions. By strengthening internal controls over payments for prosthetic limbs and properly separating the duties of PPAs, PSAS staff have the opportunity to improve their acquisition practices. Most importantly, they will be able to minimize the future risk of overpaying for prosthetic limbs. Utilizing COTRs and Certified Prosthetists for their knowledge of prosthetic limb contracts and the proper use of the Medicare coding system will also minimize the risk of overpaying for prosthetic limbs. These controls are critical to ensuring VA does not continue to overpay for prosthetic limbs in the future.

**Recommendations**

1. We recommended the Under Secretary for Health strengthen controls over the process for reviewing vendor quotes, purchase orders, and verification of invoices and costs charged by prosthetic limb vendors.
2. We recommended the Under Secretary for Health improve the guidance issued to Certified Prosthetists for their review of vendor quotes.
3. We recommended the Under Secretary for Health establish collection actions to recover funds overpaid to vendors.

**Management Comments**

The Under Secretary for Health agreed with our findings and recommendations and plans to address our recommendations by September 30, 2012. VHA reported that, as part of the reorganization of P&LO, contracting officers (COs) or delegated ordering officers will place prosthetic orders above the micro-purchase threshold. According to VHA, this change will properly separate acquisition duties for reviewing vendor quotes, purchase orders, and invoices received from prosthetic limb vendors. All existing VHA prosthetic limb contracts will be reviewed to ensure compliance with key acquisition requirements. Further, PSAS will develop guidance for processing both Medicare and Not Otherwise Classified (NOC) codes that are applicable to the prescription of prosthetic limbs. In addition, PSAS will analyze the OIG's overpayment data to determine the validity of the overpayments and VHA Finance will take appropriate collection actions.

**OIG Response**

VHA's planned actions are responsive and we will monitor its progress on implementation until all proposed actions are completed. Management provided general comments to an early draft of this report. Upon consideration of these comments, we clarified and made changes to this report, as deemed appropriate. Appendix C provides the full text of the Under Secretary for Health's comments.



## **Finding 2 P&LO and PSAS Need To Ensure That VISNs Are Receiving the Best Value When Procuring Prosthetic Limbs**

VHA needs to take action to minimize the risk of paying excessive prices for prosthetic limbs. Specifically, we found VISN COs were not negotiating to obtain better discount rates with vendors and some items were purchased without specific pricing guidance from P&LO and PSAS. Because VHA has neither negotiated for better discounts nor developed appropriate guidance, it is at risk of overpaying for prosthetic limbs.

### ***Discount Rates Are Not Being Negotiated***

P&LO COs at three of the four VISNs we visited did not negotiate with vendors to receive more favorable prices for prosthetic limb items, as required by the Federal Acquisition Regulation. The prosthetic limb contract guidance requires that all vendors provide prosthetic limb items at a discount—the best percent discount they can offer—to prices set by Medicare, which is established upon award of the contract. At VISN 15, the CO would have negotiated a discount rate with vendors of 10 percent, if they submitted a discount rate less than 10 percent. Regardless, the VISN received discounts from their 15 vendors averaging about 12 percent.

In comparison, VISN 1 did not negotiate discount rates with all 36 of its vendors and received an average discount rate of about 8 percent. VISN 1 could have saved an estimated \$58,000 in FY 2010 by establishing a minimum discount of 10 percent. By negotiating discount rates with vendors, VHA likely would have ensured it received a better value for the \$49.3 million spent in FY 2010, though it is our opinion that receiving a better value should not come at the expense of receiving lesser quality prosthetic limbs.

### ***Pricing Guidance Not Available***

VA paid nearly \$785,000 to procure 399 prosthetic limb items using NOC codes in FY 2010. NOC codes are used by VA to classify items that have not been classified by Medicare. In order to provide veterans with the latest prosthetic limb technology, the use of NOC codes is necessary as it may take years for Medicare to code and price new items. The prosthetic limb contract guidance stipulates how to properly price items that have established Medicare prices. However, it does not state how to price items that have not been priced by Medicare and until recently, guidance in this area had not been provided. PSAS issued guidance to facilitate the pricing of two types of microprocessor knees in late FY 2011, but has not provided guidance for other items.

To illustrate this issue, in FY 2010, VA purchased three Helix Hip Joints at an average price of about \$13,700. During FY 2010, Medicare had not yet priced this item and VHA used NOC codes to purchase these items. In

FY 2011, Medicare coded and priced the hip joints. This action resulted in establishing a price for the item at about \$4,300. This example illustrates that VHA is at risk of paying excessive prices because VISN prosthetics staff have limited guidance to price prosthetic limb items that Medicare has yet to classify.

**Conclusion**

In the absence of negotiations and pricing guidance, VISNs appear to have not paid reasonable prices for prosthetic limb items. By ensuring VISN COs are negotiating with vendors to receive more favorable prices for prosthetic limb items, P&LO has the opportunity to ensure vendors are providing VA with a better value. Developing comprehensive guidance will help local VISN staff determine a reasonable price for items that Medicare has yet to price. This guidance would help P&LO and PSAS improve accountability of funds used to procure prosthetic limbs. These controls are critical for VA to receive the best value for prosthetic limbs.

**Recommendations**

4. We recommended the Under Secretary for Health establish a mechanism to ensure Procurement and Logistics Office Contracting Officers conduct price negotiations with prosthetic limb vendors in order to obtain the best value for prosthetic limb items.
5. We recommended the Under Secretary for Health establish reasonable pricing standards for prosthetic limb items that Medicare has yet to classify.

**Management Comments**

The Under Secretary for Health agreed with our findings and recommendations. VHA plans to address our recommendations by September 30, 2012. VHA indicated that the Service Area Organization office will be required to review every new prosthetic limb contract to ensure price negotiations have occurred. The Service Area Organization office will also review a random sample of new prosthetic delivery orders starting in May 2012, and continue every month until September 2012, to ensure the orders include the correct pricing according to the contract. In addition, P&LO and PSAS staff will collaborate and conduct a VHA-wide analysis of the base pricing of prosthetic limb items that have not been classified by Medicare. The team will determine if a pricing standard can be established for the field.

**OIG Response**

Management's planned actions are responsive and we will monitor VHA's progress and follow up on its implementation until all proposed actions are completed. Appendix C provides the full text of the Under Secretary for Health's comments.

## **Finding 3& PSAS Needs To Improve Prosthetic Limb Fabrication and Acquisition Practices**

PSAS needs to evaluate the fabrication and acquisition practices used to provide prosthetic limbs to ensure services are cost-effective and efficient. PSAS management did not know the current capabilities of their labs, nor had VISN prosthetic officials identified the appropriate number of contract vendors needed to provide services to veterans. Additionally, VISN contracting staff did not adequately document prosthetic limb contracts in VA's mandatory Electronic Contract Management System (eCMS). Without this information, PSAS cannot ensure the combination of in-house fabrication and vendor procurements are meeting veterans' needs.

### **Assessment Needed of VA Prosthetic Limb Fabrication Practices**

VHA Handbook 1173.2, *Furnishing Prosthetic Appliances and Services*, states that the Chief Consultant of PSAS will periodically conduct an evaluation to ensure that labs are operating as effectively and economically as possible. A PSAS senior official said these evaluations were included in PSAS program reviews that began in 2009. However, PSAS suspended these reviews in January 2011 after reviewing 9 of the 21 VISNs. Because PSAS has not conducted reviews of all VISNs, it is unaware of its in-house fabrication capabilities and management does not know if labs are working as effectively and economically as possible.

### **Appropriate Number of Vendors Not Identified**

At three of the four VISNs we visited, local prosthetic management did not identify an appropriate number of contract vendors needed to provide prosthetic limb services to veterans who have the option to choose where they receive these services. VHA Handbook 1173.3, *Amputee Clinic Teams and Artificial Limbs*, recommends that three to five vendors receive contract awards depending upon the geographic area of coverage and volume of workload. Three of the four VISN prosthetic managers interviewed were under the assumption that they are to award contracts to all vendors that respond to their solicitation, provided vendors meet VA's criteria to qualify as a contract vendor. Prosthetic limb contract guidance conflicts with VHA Handbook 1173.3 as it states that maximum flexibility be given to individual medical centers to determine the number of artificial limb contracts required to meet their needs.

Table 1 shows the number of prosthetic limb contract vendors, contract vendor lab locations, and VHA prosthetic labs for the four VISNs we visited.

**Table 1**

<b>Acquisition and Fabrication Practices for the VISNs Visited</b>					
<b>Acquisition and Fabrication Practices</b>	<b>VISN</b>				<b>Totals</b>
	<b>1</b>	<b>8</b>	<b>12</b>	<b>15</b>	
Contract Vendors	36	58	26	15	135
Contract Vendor Lab Locations	111	116	62	64	353
VHA Labs	1	7	2	2*	12

Source: OIG

\* Note: PSAS reported VISN 15 had two labs. However, during our site visit, we determined that this VISN had only one lab.

The following examples illustrate how two of the VISNs we visited interpreted contract guidance differently, resulting in significantly different procurement practices.

**Example #1**

The solicitation for the VISN 8 blanket purchase agreement for prosthetic limb services did not specify an appropriate number of vendors that should receive awards, as described in VHA Handbook 1173.3. This VISN made awards to 58 vendors with a total of 116 labs located within the area of responsibility. Of the four VISNs we visited, VISN 8 had the most vendors despite also having seven VA Medical Centers (VAMCs) with prosthetic labs, the second most of any VISN in the country.

The map of vendors with awards located in VISN 8 shows high concentrations of vendor labs, mostly in areas where VA labs are also located or in close proximity. However, in other areas no VA labs are available. The VISN also lacks an availability of vendor lab services in those areas. Approximately 40 of the 116 vendor locations with awards are either located in the same city as a VA lab or an adjacent city. In fact, many vendors are located in the same general areas and in some instances, multiple vendors are located in the same cities. We found that some of these vendors are located on the same streets and two vendors were located in the same building. (Appendix E shows a map of VISN 8 VAMCs, VHA labs, and contract vendor lab locations.)

Yet, VISN 8 has several areas where they do not have coverage by either a VA lab or a vendor with an award.<sup>5</sup> For example, we noted the VISN does not have a single vendor with an award in the area between Fort Myers and Miami—a distance that spans 156 miles. This geographic area is one in which veterans potentially have to travel a significant distance in order to obtain their prosthetic limbs from a vendor with an award. We identified six potential vendors between these two cities. A VISN 8 CO noted that they do not solicit vendors in specific areas even though VHA Handbook 1173.3 recommends the selection of vendors based upon the VISN's geographic area of coverage and volume of workload.

*Example #2*

The VISN 15 contract solicitation for prosthetic limb services specified an appropriate number of vendors that should receive awards, as described in VHA Handbook 1173.3. VISN 15 contracted with 15 vendors with a total of 64 labs located throughout the VISN. The VISN 15 contract solicitation noted VA would award no more than 20 contracts. A senior VISN prosthetic official stated they would have accepted a total of 20 offers, per the Handbook, for the prosthetic limb contract as long as the vendor offered at least a 10 percent discount. Appendix F shows a map of VISN 15 VAMCs, VHA labs, and contract vendor lab locations.

Due to the inconsistencies in the available guidance, differing procurement practices exist among the four VISNs we visited. Three of the four VISNs did not identify the appropriate number of contract vendors and VISN COs made awards to nearly all vendors that submitted proposals, many of which were located in the same general areas. As a result, overlaps and gaps in services exist and VISN contracting staff may be performing unnecessary contract workload. It is important that VHA monitors contract workload and ensures the contracts it awards and administers are necessary to support veterans' requirements, given the limitations on VHA's acquisition resources.

**Acquisition  
Documentation  
Missing From  
eCMS**

VA Information Letter 049-07-06, *Implementation and Mandated Use of VA's Electronic Contract Management System*, states "all new procurement actions valued at \$25,000 or more must be accomplished within eCMS." It also recommends the official contract file be maintained solely in eCMS. However, P&LO COs in VISNs did not consistently use eCMS to document awards to prosthetic limb vendors. We reviewed acquisition documentation for the four VISNs we visited. Nearly all of the individual eCMS contract files for awards made to vendors for the four VISNs reviewed were missing

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<sup>5</sup>Though no vendors with awards were in these areas, veterans could still receive prosthetic limb services from vendors as long as they are properly accredited and are willing to accept the discount rate established for that geographic area.

key acquisition documentation in eCMS.<sup>6</sup> VISN COs at three of the VISNs we visited believed they did not have enough time to administer their prosthetic limb awards.

Table 2 shows the number of prosthetic limb awards for the four VISNs reviewed that did not include key acquisition documentation in eCMS. For purposes of this table, the information for liability certificates, site, and personnel accreditation is presented as a subset of the total number of vendor lab locations for each VISN visited.

**Table 2**

<b>Number of Awards Reviewed With Documentation Missing in eCMS</b>					
<b>Documentation Missing in eCMS</b>	<b>VISN</b>				<b>Total Documentation Missing in eCMS</b>
	<b>1</b>	<b>8</b>	<b>12</b>	<b>15</b>	
Signed Contract/Agreement	0/36	58/58 (100%)	26/26 (100%)	2/15 (13%)	86/135 (64%)
Evidence of Required Oversight Reviews	5/36 (14%)	58/58 (100%)	26/26 (100%)	0/15	89/135 (66%)
Evidence of Excluded Parties List System Search Prior to Award	17/36 (47%)	54/58 (93%)	1/26 (4%)	1/15 (7%)	73/135 (54%)
Liability Certificates	53/111 (48%)	116/116 (100%)	6/62 (10%)	21/64 (33%)	196/353 (56%)
ABC/BOC or VA Site Accreditation	74/111 (67%)	61/116 (53%)	21/62 (34%)	55/64 (86%)	211/353 (60%)
ABC/BOC Personnel Accreditation	80/111 (72%)	59/116 (51%)	9/62 (15%)	56/64 (88%)	204/353 (58%)
Invoices	Not in eCMS	Not in eCMS	Not in eCMS	Not in eCMS	Not in eCMS

*Source: VA OIG*

VA's eCMS lacked evidence that a CO at the four VISNs had made a determination of responsibility of prospective contractors by checking the Excluded Parties List System prior to award, as required, for 54 percent of

<sup>6</sup>For purposes of our report, we are considering key acquisition documentation for prosthetic limb awards to be: (1) signed contract/agreement, (2) required oversight reviews, (3) a search of the Excluded Parties List System conducted prior to award, (4) vendor liability certificates, (5) vendor site accreditation, (6) vendor personnel accreditation, and (7) invoices.

the awards reviewed. Without searching the Excluded Parties List System, COs cannot be assured that they are awarding contracts to responsible contractors; however, we identified no instances where a debarred contractor received an award. The *VA COTR Handbook* states the COTR is responsible for determining whether goods and services delivered by the contractor conform to the technical requirements of the contract.

The COTR is also responsible for reviewing the contractor's invoices, prior to certification, to ensure they accurately reflect that VA received goods or the contractor completed services in accordance with the requirements of the contract. None of the four VISNs included vendors' invoices in eCMS. As a result, we could not readily verify whether a COTR had reviewed vendors' invoices, prior to certification, to ensure they accurately reflected that goods received were in accordance with the requirements of the contract. The lack of official contract documentation in eCMS adversely affects VISN management's ability to assess the quality and administration of prosthetic limb procurements.

**Conclusion**

VHA lacks information to know if current prosthetic limb fabrication and acquisition practices are working as effectively and economically as possible. By evaluating fabrication and acquisition practices, PSAS management will know the current capabilities of their labs, as well as the appropriate number of contract vendors needed to provide prosthetic limb services to veterans in each VISN. Furthermore, VISN COs are not documenting prosthetic limb awards in eCMS. This information is critical for management to ensure that PSAS is fully meeting veterans' needs through the proper combination of in-house fabrication and vendor procurement.

**Recommendations**

6. We recommended the Under Secretary for Health identify and assess the adequacy of VA's in-house fabrication capabilities for prosthetic limbs.
7. We recommended the Under Secretary for Health implement procedures to ensure Veterans Integrated Service Networks comply with the Veterans Health Administration Handbook 1173.3 and identify an appropriate number of contract vendors needed to provide veterans with prosthetic limbs.
8. We recommended the Under Secretary for Health ensure Procurement and Logistics Office Contracting Officers consistently document their electronic contract files in the Electronic Contract Management System for Veterans Integrated Service Network prosthetic limb contracts.

**Management Comments**

The Under Secretary for Health agreed with our findings and recommendations and plans to address our recommendations by September 30, 2014. VHA reported that PSAS will develop a plan for a



comprehensive external review of the capabilities of VHA's Orthotic & Prosthetic Services. PSAS plans to award a contract for the external review by July 30, 2013. Based upon the results of the external review, P&LO and PSAS will outline a process that local personnel and COs can use to ensure the requirements of VHA Handbook 1173.3 are met. In addition, P&LO staff will conduct contract audits to ensure COs consistently document all existing prosthetic limb contracts in eCMS.

**OIG Response**

VHS's planned actions are responsive and we will monitor its progress and follow up on its implementation until all proposed actions are completed. Appendix C provides the full text of the Under Secretary for Health's comments.



## Appendix A Background

### ***PSAS Responsibilities***

PSAS officials are responsible for the overall administration of VA's provision of prosthetic items to veterans who have experienced the loss or permanent impairment of a body part or function. PSAS officials in VA Central Office primarily establish national policies and procedures on VA's provision of prosthetic items, write regulations, and draft legislative proposals. In addition, PSAS developed guidance for prosthetic limb contract solicitations in 1996. The guidance—last updated in 2004—provided requirements for use by different VAMCs to meet their individual needs for prosthetic limbs in a uniform fashion.

### ***VA In-house Fabrication***

According to PSAS, VHA has 65 accredited prosthetics labs throughout the country. The number of prosthetic labs varies from VISN to VISN. For example, VISNs 1, 4, and 6 have only one prosthetic limb lab, whereas VISNs 8 and 16 have seven and eight labs, respectively. According to PSAS, the services these labs provide also vary.

### ***P&LO Responsibilities***

P&LO management is responsible for the operational execution, oversight, compliance, direction, and support of all contracting organizations within VHA. In general, management is responsible for ensuring conformance with laws, regulations, terms and conditions of contracts, and performance sufficient to meet VHA's expectations.

### ***Contracting Officer Responsibilities***

Federal Acquisition Regulation requires that COs comply with the terms and conditions of the contract and safeguard the interests of the Government in its contractual relationships. VA Acquisition Regulation allows COs to delegate another Government employee as a COTR who can perform functions such as inspecting and certifying compliance with the requirements of the contract. At each of the four VISNs we visited, COs delegated COTRs for the prosthetic limb contracts, therefore assigning them the responsibility for ensuring compliance with the contracts.

### ***eCMS***

VA's eCMS provides a centralized database for procurement actions and replaced a primarily manual and paper-based contract management operation. The system provides a fully integrated electronic acquisition platform that includes the seamless flow of information and data from all stakeholders and systems from initial requisitioning through closeout. VA Information Letter 049-07-06 requires new procurement actions valued at \$25,000 or more be completed in eCMS.

## Appendix B Scope and Methodology

To accomplish our objective, we reviewed relevant regulations, policies, procedures, and handbooks to determine whether PSAS managed the acquisition of prosthetic limbs as effectively and economically as possible.

We conducted audit work from May through December 2011. We interviewed PSAS staff located in Washington, DC, and interviewed officials from VHA's P&LO to obtain information about the prosthetic limb program. We conducted site visits to VAMCs and VISN offices in Jamaica Plain, MA; Milwaukee, WI; Kansas City, MO; and St. Petersburg, FL. While onsite, we interviewed VISN Prosthetic Representatives, COTRs, Prosthetic Lab Chiefs, facility Prosthetic Representatives, PPAs, VISN acquisition officials, and Patient Advocates. We interviewed these individuals to collect information about the acquisition practices, internal controls, and challenges they experience relative to providing prosthetic limbs to veterans.

To test the effectiveness of acquisition practices, auditors conducted an analysis of each of the 3,933 payments that supplied veterans with a total of 4,076 prosthetic limbs in FY 2010. OIG Data Analysis Section staff provided payment data from the National Prosthetics Patient Database (NPPD). We evaluated payment data at the line item or Medicare code level and compared it with the established 2010 Medicare prices. Since Medicare prices vary from state to state and the NPPD data did not allow us to identify the state where the payment occurred, Medicare-established ceiling prices, which are the highest prices allowed by Medicare in the continental United States, were used to analyze the NPPD data. The line item payment data and the ceiling prices were then used to identify instances where VA overpaid for prosthetic limb items.<sup>7</sup> We classified overpayments as any line item payment from NPPD that exceeded the Medicare-established ceiling price for the applicable Medicare code. This analysis of NPPD data identified total overpayments of about \$2.2 million for FY 2010.

We contacted prosthetic and acquisition officials at the VISNs we visited and requested that they provide us with a list of their prosthetic limb contract awards and agreements. To ensure that these lists were complete, auditors verified this information. The auditors then reviewed the official files in eCMS for these awards and agreements. We requested that VISN COs include all relevant documentation related to these awards and agreements in eCMS.

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<sup>7</sup>Overpayments do not include the discount rates that vendors are required to provide VHA. These rates vary from vendor to vendor, so we did not include them in our calculation. Therefore, we consider the value of the overpayments identified to represent a conservative estimate.

To test the effectiveness of contracting activities, auditors focused on the development, award, administration, and oversight process over prosthetic limb contracts and agreements awarded from FY 2009 through FY 2011 at the four VISNs we visited. We identified three VISNs with contracts, with an estimated value of about \$32 million, from information contained in eCMS.<sup>8</sup> We reviewed electronic contract files to determine if the files contained key documentation required by acquisition regulations and VA policy to support the prosthetic limb awards and contract administration.

***Reliability of  
Computer-  
Processed Data***

We used computer-processed data from NPPD for our analysis of FY 2010 prosthetic limb purchases. To test the reliability of these data, we compared data from NPPD, such as Medicare codes, line item prices, and total costs from source documentation for statistically selected sample payments that were representative of all locations. Based on this test, we determined that the data were sufficiently reliable for the purposes of our audit objective.

***Compliance With  
Government Audit  
Standards***

Our assessment of internal controls focused on those controls relating to our audit objective. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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<sup>8</sup>Contracting staff at VISN 8 were unable to provide the total estimated value of the blanket purchase agreement used to procure limbs in that VISN.

## Appendix C Under Secretary for Health Comments

### Department of Veterans Affairs

### Memorandum

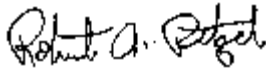
**Date:** February 14, 2012

**From:** Under Secretary for Health (10)

**Subj:** Office of Inspector General, Office of Audits and Evaluations Draft Report, Audit of the Management and Acquisition of Prosthetic Limbs (VAIQ 7192982)

**To:** Assistant Inspector General for Healthcare Inspections (52)

1. I have reviewed the draft report and concur with all eight of the report's recommendations. Attached is the Veterans Health Administration's (VHA) corrective action plan for the report's recommendations.
2. VHA agrees that it overpaid prosthetic vendors about \$2.2 million to procure prosthetic limbs and will initiate collection activity for the overpayments. In addition, VHA also agrees with OIG's projection of \$8.6 million as potentially being overpaid for prosthetic limbs over the next 4 years if controls over prosthetic limbs procurement are not strengthened. As the action plan will show, VHA is taking steps to strengthen its controls over the process.
3. Thank you for the opportunity to review the draft report. If you have any questions, please contact Linda H. Lutes, Director, Management Review Service (10A4A4) at (202) 461-7014.



Robert A. Petzel, M.D.

Attachment

**VETERANS HEALTH ADMINISTRATION (VHA)  
Action Plan**

**OIG Draft Report, Audit of the Management of Acquisition of Prosthetic Limbs  
(VAIQ 7192982)**

**Date of Draft Report: January 12, 2012**

<b>Recommendations/ Actions</b>	<b>Status</b>	<b>Completion Date</b>
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**Recommendation 1:** We recommend the Under Secretary for Health strengthen controls over the process for reviewing vendor quotes, purchase orders, and verification of invoices and costs charged by prosthetic limb vendors.

VHA Comments

Concur

As part of the reorganization of Veterans Health Administration (VHA) Office of Procurement and Logistics (P&LO), prosthetic orders above the micro-purchase threshold will be placed by VHA P&LO contracting officers or delegated ordering officers to properly separate acquisition duties. The following steps will be taken by VHA P&LO staff to ensure VHA has proper controls in place for reviewing vendor quotes, purchase orders and verification of invoices and costs charged by prosthetic limb vendors in excess of the micro-purchase threshold:

1. Develop a comprehensive database of all current VHA prosthetic limb contracts to establish a list of all existing contracts that are to be reviewed.
2. Review all existing VHA prosthetic limb contracts to ensure the following are in place:
  - Contracting Officer Representative (COR) has been appropriately delegated.
  - A memorandum to Veterans Integrated Service Networks (VISN) has been issued mandating that all prosthetic limb invoices must be certified only by the COR and/or Contracting Officer (CO).
  - CO and COR are conducting quarterly meetings as required by VHA Contracting Officer's Technical Representative (COTR) Standard Operating Procedure (SOP).
  - Deputy Chief Procurement Office Operations staff have provided additional training to CORs regarding COR duties; reviewed invoice procedures; reviewed COR online training modules.
  - Contractor performance evaluations are being completed as required by Federal Acquisition Regulations and Veterans Affairs Acquisition Regulations.
  - Network/Program Contract Managers have developed corrective action plans for non-compliant prosthetic limb contracts if required.

- Contract audits have been conducted per VHA internal compliance contract audit standards to ensure Electronic Contract Management System (eCMS) documentation is complete.

Ongoing

May 1, 2012

**Recommendation 2:** We recommend the Under Secretary for Health improve the guidance issued to Certified Prosthetists for their review of vendor quotes.

VHA Comments

Concur

VHA's Deputy Under Secretary for Health for Policy and Service, Prosthetic and Sensory Aids Service (PSAS), will

1. Develop guidance for processing "Not Otherwise Classified (NOC)" Healthcare Common Procedure Coding (HCPC) codes.
2. Develop guidance for use of Medicare codes that are applicable to the development of a prescription for prosthetic limbs.

Ongoing

June 30, 2012

VHA's Deputy Under Secretary for Health for Operations and Management will disseminate guidance to VA Medical Centers.

Ongoing

July 30, 2012

Also, VHA's P&LO will modify existing Network/Program Contracting Office contracts and issue notices to vendors if necessary in regards to revised coding processing guidance.

Ongoing

July 30, 2012

VHA's P&LO and PSAS in coordination with Department of Veterans Affairs Office of General Counsel will develop a new contract template to standardize the contracting process which will help address the processing of NOC HCPC codes.

Ongoing

September 30, 2012

**Recommendation 3:** We recommend the Under Secretary for Health establish collection actions to recover funds overpaid to vendors.

VHA Comments

Concur

The following actions will be taken to ensure funds are recovered to overpaid vendors:

1. VHA's PSAS will analyze the overpayments data the Office of Inspector General has provided to determine validity of overpayments.
2. VHA's P&LO will then use the data and work with VHA Finance to take appropriate collection activity.

Ongoing

September 30, 2012

**Recommendation 4:** We recommend the Under Secretary for Health establish a mechanism to ensure Procurement and Logistics Office Contracting Officers conduct price negotiations with prosthetic limb vendors in order to obtain the best value for prosthetic limb items.

VHA Comments

Concur

VHA's P&LO will establish the following procedures for new prosthetic limb contracts:

1. The Service Area Organization (SAO) office will be required to review the award of every new prosthetic limb base contract to ensure price negotiations have occurred.
2. The SAO office will conduct a random sample review of new prosthetic delivery orders starting in May 2012, and continuing every month until September 2012, to ensure the orders off the base contracts include the correct pricing or reduced pricing per base contract agreement.

Ongoing

September 30, 2012

**Recommendation 5:** We recommend the Under Secretary for Health establish reasonable pricing standards for prosthetic limb items that Medicare has yet to classify.

VHA Comments

Concur

VHA's P&LO will establish a team with VHA PSAS to conduct an analysis VHA-wide on the base pricing of non-Medicare classified limb items to determine if a pricing standard can be established for the field.

Ongoing

September 30, 2012

**Recommendation 6:** We recommend the Under Secretary for Health identify and assess the adequacy of VA's in-house fabrication capabilities for prosthetic limbs.

VHA Comments

Concur

VHA's PSAS will:

1. Develop a plan for a comprehensive review of the capabilities of VHA's Orthotic & Prosthetic Services to include satisfaction, capabilities, staffing models, and Veterans' needs.

Ongoing September 30, 2012

2. Develop and award contract for external review.

Ongoing July 30, 2013

3. Assess findings from external review.

Ongoing June 1, 2014

**NOTE:** Because an external contract will be used to address this recommendation, it will take VHA over a year to properly address the recommendation.

**Recommendation 7:** We recommend the Under Secretary for Health implement procedures to ensure VISNs comply with VHA Handbook 1173.3 and identify an appropriate number of contract vendors needed to provide veterans with prosthetic limbs.

VHA Comments

Concur

Based on the results of the process involved with Recommendation 6, VHA's P&LO and PSAS will outline a process that local prosthetics personnel and COs can use to ensure the requirements of VHA Handbook 1173.3 are met.

Ongoing September 30, 2014

**NOTE:** Because activities involved with Recommendation 6 need to be completed before addressing this recommendation, it will take VHA over a year to properly address the recommendation.



**Recommendation 8:** We recommend the Under Secretary for Health ensure Procurement and Logistics Office Contracting Officers consistently document their electronic contract files in eCMS for VISN prosthetic limb contracts.

VHA Comments

Concur

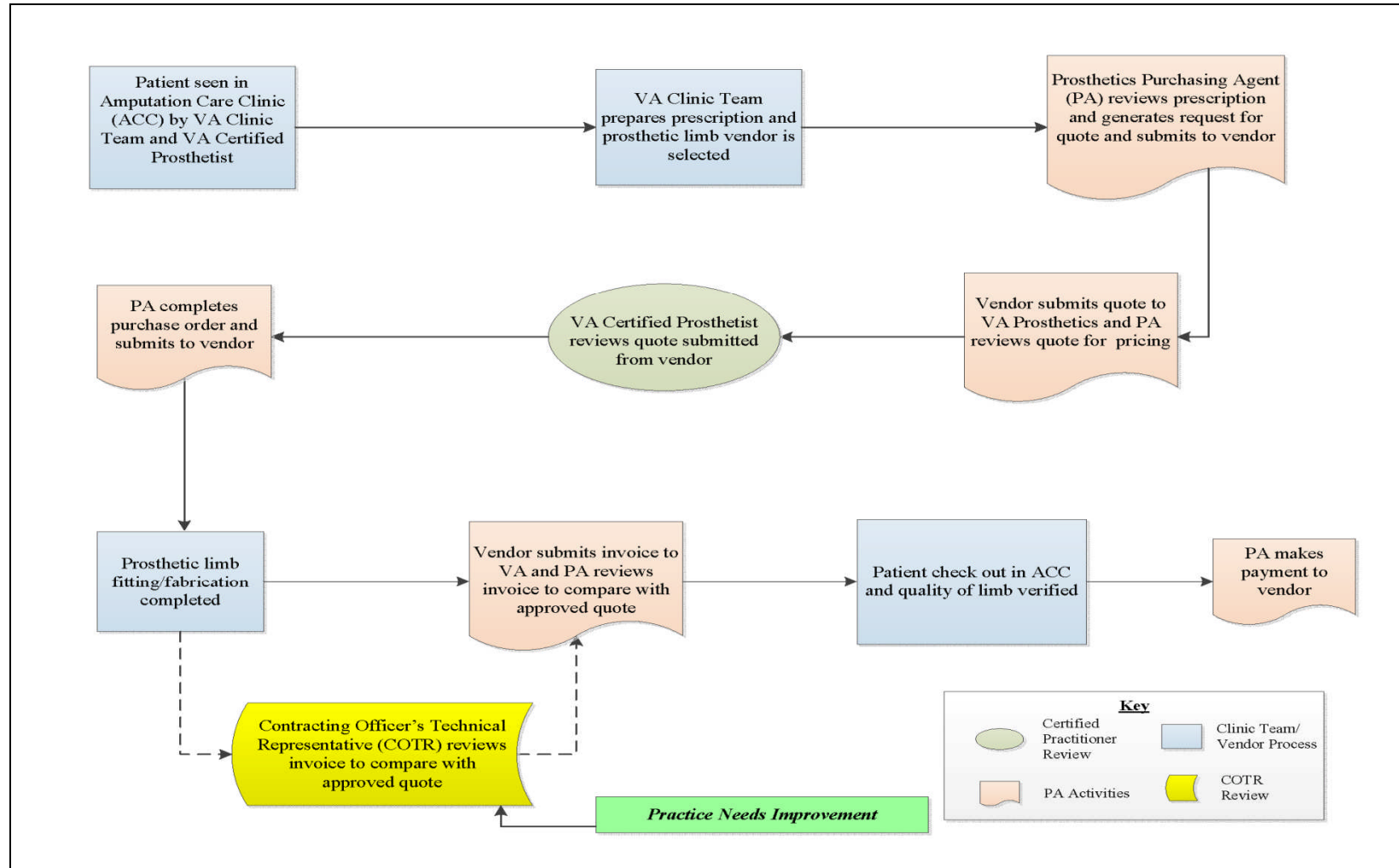
While conducting the reviews in Recommendation 1, a contract audit per VHA internal compliance contract audit standards will be completed to ensure COs consistently document their electronic files on all existing prosthetic limb contracts.

Ongoing

July 1, 2012

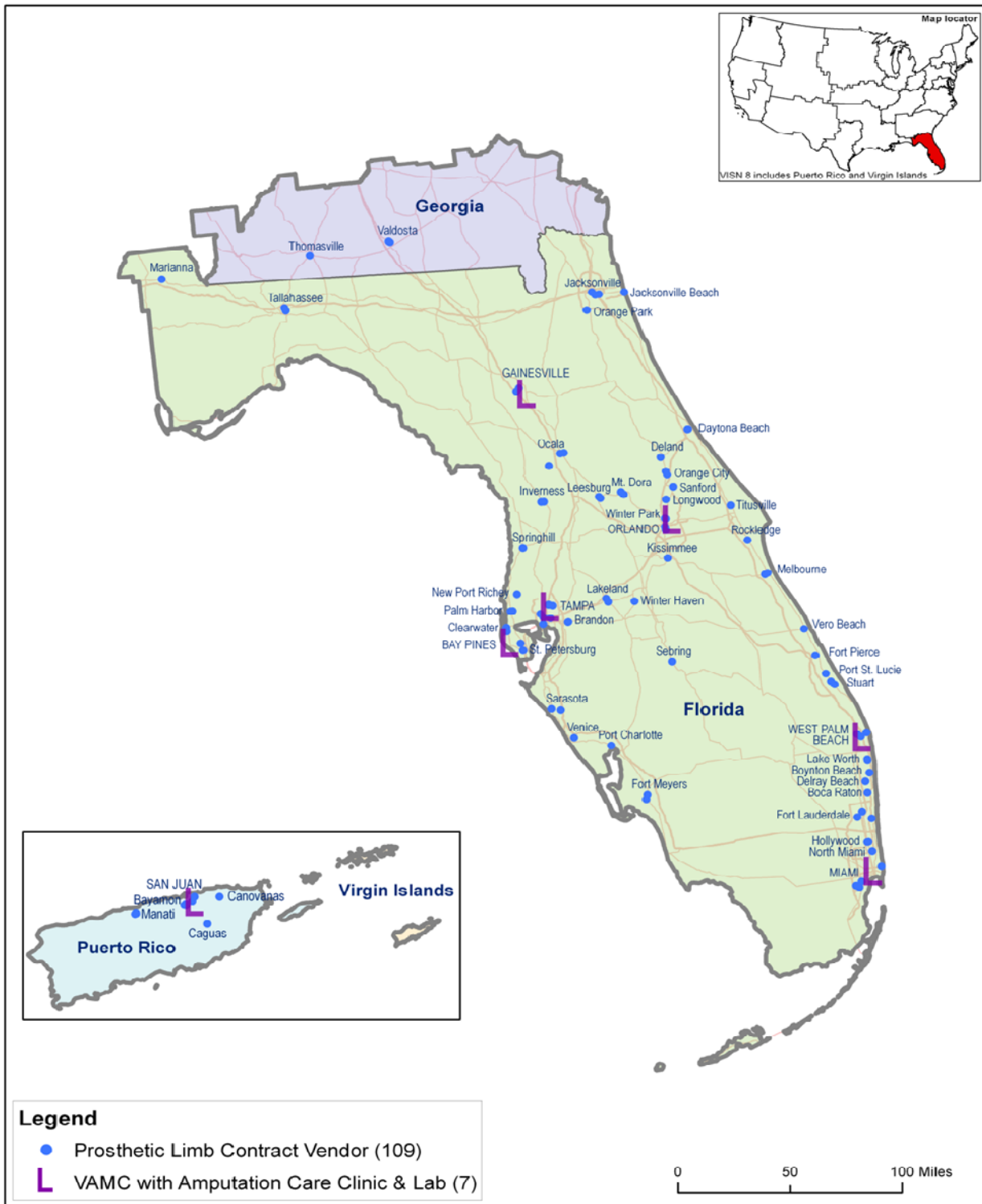
Veterans Health Administration  
February 2012

**Appendix D Flow Chart of Acquisition Practices**



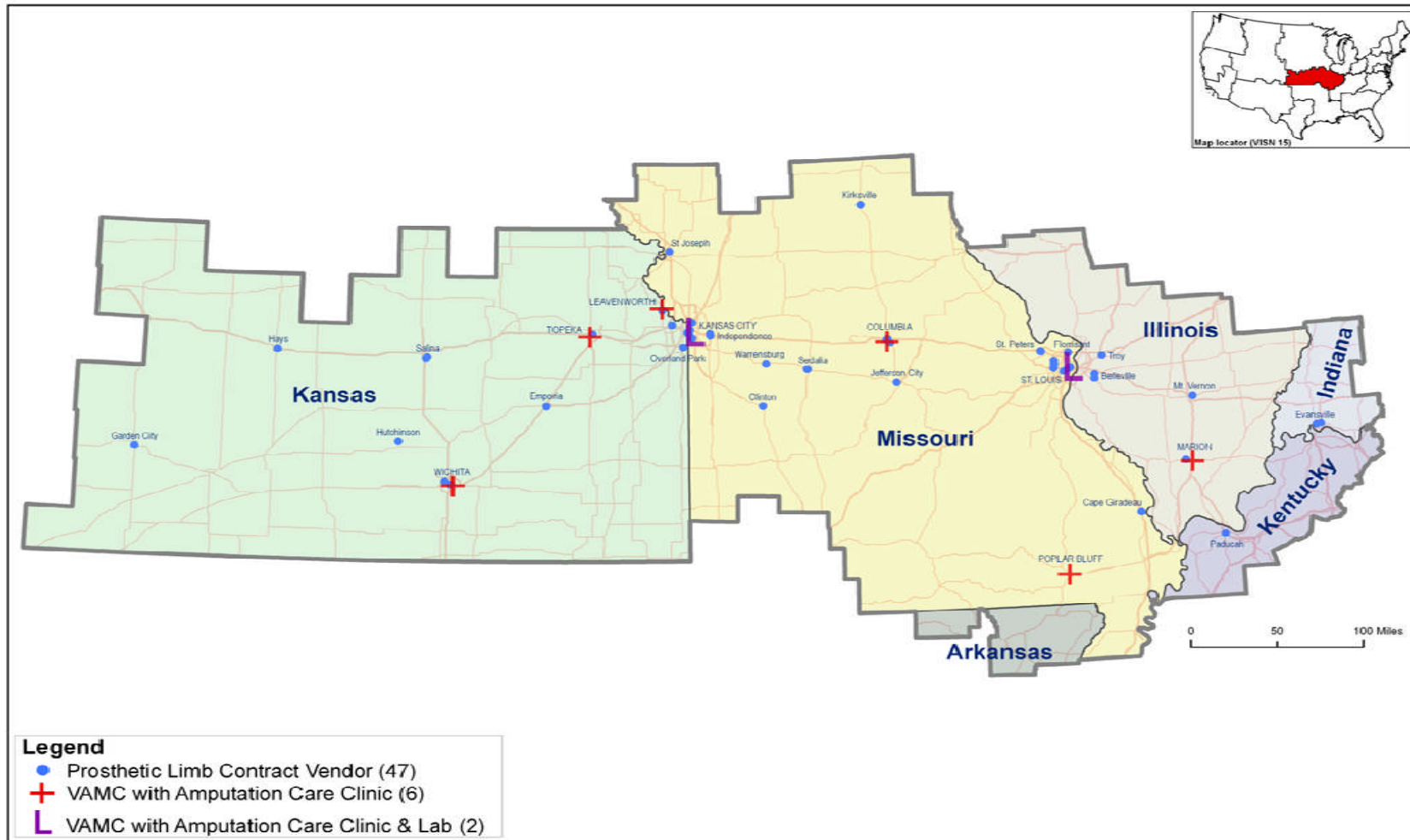
Source: VA OIG

## Appendix E VISN 8 – Map of Prosthetic Limb Vendors with Awards



Source: VA OIG

## Appendix F VISN 15 – Map of Prosthetic Limb Vendors with Awards



Source: VA OIG

**Appendix G Potential Monetary Benefits in Accordance With Inspector General Act Amendments**

<b>Recommendation</b>	<b>Explanation of Benefits</b>	<b>Better Use of Funds</b>	<b>Questioned Costs</b>
1	Strengthen internal controls to reduce the risk of overpaying for prosthetic limbs over the next 4 years.	\$8,607,540	\$0
3	Establish collection actions to recover funds overpaid to vendors.	\$0	\$2,151,885
<b>Totals</b>		<b>\$8,607,540</b>	<b>\$2,151,885</b>
<b>Total Monetary Benefits:</b>			<b>\$10,759,425</b>

## Appendix H Office of Inspector General Contact and Staff Acknowledgments

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OIG Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
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Acknowledgments	Nick Dahl, Director Maureen Barry Michael Cannata John Cintolo Ron Comtois Michael Derick Karen Hatch Benjamin Howe Jenna Lamy Jennifer Leonard Yurong Tan Nelvy Viguera Butler
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