



Office of Inspector General

Evaluation of Allegations Concerning Supply Management Practices at the Blind Rehabilitation Center, VA Medical Center Augusta, Georgia

Properly setting and monitoring stock levels and reorder points would reduce excess blind rehabilitation supply inventory.

**Report No. 9R8-E04-164
Date: September 23, 1999**

**Office of Inspector General
Washington DC 20420**



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to the VA Medical Center Director

**Evaluation of Allegations Concerning Supply Management
Practices at the Blind Rehabilitation Center,
VA Medical Center Augusta, Georgia**

1. Introduction. The Office of Inspector General conducted an evaluation of supply management practices in the Blind Rehabilitation Center (BRC) at VA Medical Center (VAMC) Augusta to determine the validity of complainants' allegations that:

- a. BRC resources may have been mismanaged. The complaint specifically alleged ineffective control of the inventory of prosthetic supplies used in the blind rehabilitation program.
- b. Contracting irregularities may have occurred in the procurement of BRC supplies. The complaint alleged improper selection of vendors for low vision closed circuit televisions (CCTVs) and optical character readers (OCRs) for the blind.
- c. Appropriated funds may have been mismanaged. The complaint alleged that CCTVs and OCRs were inappropriately issued to patients.

2. Summary of Results. Of the three allegations, the one about ineffective supply inventory control was substantiated and the other two were not substantiated. The BRC had significant excess inventory and controls had not been effective in limiting inventory to current operating needs. Our evaluation determined that a 30-day supply generally met the BRC's needs. BRC inventory consisted of 567 items and was valued at about \$190,000. Inventory levels exceeded 30 days for all 567 items. Further, for about 41 percent of the inventory items there had been no usage for more than a year. The primary cause of the excess inventory was that the BRC's start-up estimates of their supply needs had been much too high. Another reason for the excess inventory was that the normal stock levels and reorder point settings in the inventory control system were also too high and were not based on usage. To address this issue, we recommended that BRC staff perform a complete review of supply inventory and adjust stock levels and reorder points to reflect current operating needs.

We found no evidence that the BRC had improperly purchased CCTVs or OCRs. Although BRC staff specified products and recommended vendors, the final decision on which vendors to use was made by Acquisition and Materiel Management Service (A&MMS) staff. A&MMS purchasing agents based purchase prices on General Services Administration Federal Supply Schedule (FSS) rates and normally compared the prices of several vendors before selecting a

vendor. We compared the prices paid by the BRC to prices paid by two other VAMCs and found that the prices were about the same.

We concluded that the BRC had not improperly issued CCTVs and OCRs to patients. The Veterans Health Administration (VHA) had not established specific criteria for the issuance of these items, but the BRC had established reasonable local criteria. We found that BRC staff had followed these criteria when issuing CCTVs and OCRs to patients.

Our evaluation was done in accordance with generally accepted government auditing standards for staff qualifications, independence, and due professional care; field work standards for planning, supervision, and evidence; and reporting standards for performance audits.

3. Details of Evaluation

Supply Inventory Management. BRC prosthetic supplies were managed jointly by the BRC and Prosthetics Service. BRC staff determined the products to be issued, requested supplies, and controlled the inventory. Prosthetics Service had overall fund control, initiated purchase orders based on BRC requests, and maintained the Generic Inventory Package (GIP), which was the automated inventory control information system used by the VAMC. GIP offers a variety of supply usage and inventory status reports which can help managers maintain inventory at optimum levels. One feature of GIP is that for each inventory line item the normal stock level and reorder point can be set and adjusted whenever usage changes. BRC and Prosthetics Service staff conducted joint physical inventory reconciliations annually. Although Prosthetics Service maintained the GIP system, the BRC was responsible for evaluating supply usage and setting normal stock levels and reorder points.

At the time of our review (June 1999), GIP showed that the BRC had 567 line items of supplies valued at \$188,498. This value was conservative, because many of the items had not been assigned dollar values. We considered inventory over a 30-day supply to be excess. This criterion was based on prior audit work which found that for most supply items a 30-day supply was the maximum amount required to meet current operating needs. BRC staff agreed that the 30-day criterion was reasonable.

The BRC's inventory was much higher than required to meet current needs, both in terms of the item count and numbers of items carried. All 567 items had more than a 30-day supply. In addition, 230 of the 567 line items (41 percent of the inventory) reflected no usage in over a year.

The main reason given for the excess inventory was that initial start-up estimates of supply needs were very high. When the BRC was established in January 1996, the supply manager had no historical basis for estimating supply needs. Because the primary concern was to have enough of what might be needed, the supply manager purchased a wide variety of supplies used by other BRCs. The actual need for many of these supplies proved to be much lower than estimated.

The second reason for the excess inventory was that the normal stock levels and reorder points were set too high. Although the supply manager stated that the BRC had adjusted normal stock levels, the process was not systematic and he was not familiar with the automated usage reports available in GIP. This problem could have been avoided if the GIP reports had been used.

In addition, inventory reconciliations were too infrequent. During the last joint inventory conducted in October 1998, Prosthetics Service identified significant inventory discrepancies. Although some of these had been corrected, we still noted other discrepancies between BRC and Prosthetics Service supply issue records. There had not been a follow-up reconciliation since October 1998.

The BRC could significantly reduce inventory by basing normal stock levels and reorder points on actual usage. It could also reduce inventory levels by limiting the products maintained to those that are necessary to meet patient needs. In addition, the BRC could improve the reliability of inventory control information by reconciling inventory balances with Prosthetics Service records at least quarterly.

BRC Supply Purchases. The allegation pertaining to irregularities in the purchase of CCTVs and OCRs was not substantiated. To evaluate this issue, we interviewed BRC staff who requested the purchase of CCTVs and OCRs, researched related contract files, and compared purchases with those at other medical centers. We found no indication that the BRC had improperly purchased CCTVs or OCRs.

BRC managers and clinicians made team evaluations of the products to be requested and recommended vendors for these products. However, A&MMS purchasing agents made the final decision on which vendors to use. According to the Chief of Purchasing, the purchasing agents based prices on FSS rates and normally compared the prices of several vendors before selecting a supplier. They then selected the lowest price vendor unless the using service could support the need for selecting another supplier. The BRC Chief stated that some staff members have had frequent contact with various vendors through product demonstrations, but they all knew that they could not authorize any purchases.

Our review of CCTV and OCR purchase files showed that the purchasing agents had used FSS prices in all cases. The files showed that agents had compared CCTV vendors before the initial purchases of those items. They did not indicate similar comparisons for OCRs because only one company supplied that product. A comparison of CCTV and OCR purchases for VAMCs Augusta, Birmingham, and Seattle showed that the prices paid by VAMC Augusta were about the same as those paid by the other VAMCs.

CCTVs and OCRs Issued to Patients. We found no evidence to support the allegation that the BRC may have inappropriately issued CCTVs and OCRs to patients. Because VHA had not established standard criteria for issuing CCTVs or OCRs, we reviewed the local written policy. For CCTVs the BRC had a two-step evaluation process. First, BRC staff determined the reading needs and abilities of low vision patients. Then, at the completion of the CCTV training, they tested patients to determine whether the CCTVs had improved their reading abilities. The type of CCTV issued depended on the comparative advantages of the particular models. Typically, a color CCTV recipient could read longer than before because of the color model's ability to vary contrasts. For OCRs, the BRC limited consideration to patients who were legally blind or incapable of long-term reading using visual aids. Such patients had to demonstrate that they could understand the OCR's synthetic speech. In addition, they had to pass a test designed to show whether they could use the machine to improve their access to printed materials.

To determine whether the BRC used these criteria to issue CCTVs and OCRs, we examined five sample cases for each type of equipment. After reviewing patient notes and interviewing the responsible healthcare specialists, we determined that the BRC had issued CCTVs and OCRs in accordance with their policies.

4. Recommendation 1. We recommend that the VAMC Director ensure that:

- a. BRC staff conduct a complete review of prosthetic supply stock levels. During the review they should adjust normal stock levels and reorder points to reflect current operating needs and eliminate line items that are rarely used, that duplicate other products offered, or that are not cost effective in meeting patient needs.
- b. The BRC reconciles its inventory with Prosthetics Service inventory records at least quarterly.

The associated monetary benefits for Recommendation 1 are shown in Appendix II, page 7.

5. VAMC Director Comments and Implementation Plan. The Director agreed with the evaluation findings and recommendation. To implement the recommendation, the VAMC will (a) review inventory levels and usage rates for all BRC prosthetic supplies and will reduce inventory levels to no more than a 30-day supply and (b) reconcile BRC inventory with Prosthetics Service inventory records every quarter. The Director estimated that these actions would result in a cost reduction/avoidance of \$75,000. (See Appendix I, pages 5-6, for the full text of the VAMC Director's comments and implementation plan.)

6. Office of Inspector General Comments. The VAMC Director concurred with the recommendation and provided acceptable implementation plans. During the evaluation we could not estimate the value of BRC inventory that could be reduced because some of the supplies stocked had not been assigned dollar values. We believe the Director's estimated cost reduction of \$75,000 is a reasonable estimate of the funds that could be used for other purposes if the BRC reduced inventory levels to a 30-day supply. We consider all evaluation issues resolved and we will follow up on the completion of planned corrective actions.

For the Assistant Inspector General for Auditing

(Original signed by:)

DAVID SUMRALL

Director, Seattle Audit Operations Division

APPENDICES

- I** -- VA Medical Center Director's Comments
- II** -- Monetary Benefits in Accordance with IG Act Amendments
- III** -- Final Report Distribution

VA Medical Center Director's Comments

**Department of
Veterans Affairs**

Memorandum

Date: September 10, 1999

From: Director, VA Medical Center, Augusta, GA (509/00)

Subj: Response – Evaluation of Allegations Concerning Supply Management Practices at the Blind Rehabilitation Center, VA Medical Center, Augusta, GA (Project No. 9R8-168)

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

1. Attached is the facility response to the IG Report of the Evaluation of the Allegations Concerning Supply Management Practices of the Blind Rehabilitation Center, VAMC Augusta, GA. We concur with the recommendations included in this report.
2. If there are any questions, please feel free to contact Mrs. Ellen Harbeson, Quality Management Coordinator, at (706) 823-2286.

(Original signed by:)
Ellen DeGeorge-Smith, FACHE

Attachment

VA Medical Center Director's Comments (Continued)**FACILITY RESPONSE:**

OIG's "Evaluation of Allegations Concerning Supply Management Practices
at the Blind Rehabilitation Center, VAMC, Augusta, Georgia

RECOMMENDATION 1a: We recommend that the VAMC Director ensure that BRC staff conduct a complete review of prosthetics supply stock levels. During the review, they should adjust normal stock levels and reorder points to reflect current operating needs and eliminate line items that are rarely used, that duplicate other products offered, or that are not cost effective in meeting patient needs.

VAMC DIRECTOR COMMENTS AND IMPLEMENTATION PLAN:

We concur. All BRC stock items will be individually reviewed and adjusted or eliminated to reflect no more than a 30-day supply based on historically usage as defined by GIP package documentation. To date, approximately 15% of all stock identified as duplicate or as not being used has been deleted from the inventory. Inventory list will be completely reviewed. Items that have not been used within the last year will be identified. Items in excess will be offered to other VA facilities for usage or will be excessed according to policy. Levels of all items will be evaluated and readjusted based on the usage patterns for the first three quarters of FY99. It is anticipated that readjustment/deletion of items will result in a cost reduction/avoidance of approximately \$75,000.

Completion Date: September 30, 1999

RECOMMENDATION 1b: We recommend that the VAMC Director ensure that the BRC reconciles its inventory with Prosthetic Service inventory records at least quarterly.

VAMC DIRECTOR COMMENTS AND IMPLEMENTATION PLAN:

We concur. Full audit of BRC stock will be conducted quarterly by BRC and Prosthetic staff. Feedback will be provided by prosthetics on usage patterns, volume/use of high cost items and any back order situations. Inventory levels will then be adjusted quarterly. Results of the audit and corrective actions will be documented as a part of the quality management program of the BRC.

Completion Date: First audit by September 30, 1999 and ongoing quarterly thereafter.

Monetary Benefits in
Accordance with IG Act Amendments

Report Title: Evaluation of Allegations Concerning Supply Management Practices at the Blind Rehabilitation Center, VA Medical Center Augusta, Georgia

Project Number: 9R8-168

<u>Recommendation Number</u>	<u>Category/Explanation Of Benefits</u>	<u>Better Use Of Funds</u>	<u>Questioned Costs</u>
1a, b	Better use of funds by reducing BRC excess inventory and reconciling BRC inventory with Prosthetics Service inventory records.	\$75,000	

Final Report Distribution

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