Department of Veterans Affairs
Office of Inspector General

Combined Assessment Program Review of the Canandaigua VA Medical Center Canandaigua, New York

Report No. 04-01562-35 **November 26, 2004**

VA Office of Inspector General
Washington, DC 20420

Office of Inspector General

Combined Assessment Program Reviews

Combined Assessment Program (CAP) reviews are part of the Office of Inspector General's (OIG's) efforts to ensure that high quality health care and benefits services are provided to our Nation's veterans. CAP reviews combine the knowledge and skills of the OIG's Offices of Healthcare Inspections, Audit, and Investigations to provide collaborative assessments of VA medical facilities and regional offices on a cyclical basis. The purposes of CAP reviews are to:

- Evaluate how well VA facilities are accomplishing their missions of providing veterans convenient access to high quality medical and benefits services.
- Determine if management controls ensure compliance with regulations and VA policies, assist management in achieving program goals, and minimize vulnerability to fraud, waste, and abuse.
- Provide fraud and integrity awareness training to increase employee understanding of the potential for program fraud and the **requirement** to refer suspected **criminal activity** to the OIG.

In addition to this typical coverage, CAP reviews may examine issues or allegations referred by VA employees, patients, Members of Congress, or others.

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Contents

Executive Summary

Introduction

During the week of May 3-7, 2004, the Office of Inspector General (OIG) conducted a Combined Assessment Program (CAP) review of the Canandaigua VA Medical Center (the medical center), which is part of Veterans Integrated Service Network (VISN) 2. The purpose of the review was to evaluate selected operations, focusing on patient care administration, quality management (QM), and financial and administrative controls. During the review, we also provided fraud and integrity awareness training to 78 employees.

Results of Review

This CAP review focused on 18 areas. The medical center complied with selected standards in the following 14 areas.

- Accounts Receivable
- Accrued Services Payable
- Clinic Waiting Times and Patient Enrollment
- Controlled Substances Accountability
- Environment of Care
- General Post Funds
- Medical Care Collections Fund
- Part-Time Physician Timekeeping
- Peer Review
- Personal Funds of Patients
- Pharmacy Security
- Physician Conflict of Interest
- Quality Management
- Undelivered Orders

We identified four areas that needed additional management attention. To improve operations, the following recommendations were made:

- Strengthen monitoring of contractor performance and improve contract administration.
- Establish controls to strengthen accountability and reduce excess inventories of engineering and medical supplies.
- Ensure Government purchase cardholders seek competition for open market purchases exceeding $2,500, consider using preferred purchasing sources such as Federal Supply Schedule (FSS) vendors, and prosthetic representatives maintain documentation supporting patient education and training on the safe use and maintenance of home durable medical equipment (DME).

A suggestion for improvement was made in the following area:

- Improve the storage location for backup tapes and terminate former employees Veterans Health Information Systems and Technology Architecture (VistA) access in a timely manner.

This report was prepared under the direction of Mr. Thomas L. Cargill, Jr., Director, and Mr. Philip D. McDonald, CAP Review Coordinator, Bedford Audit Operations Division.

VISN and Medical Center Director Comments

The VISN and Medical Center Directors agreed with the CAP review findings, recommendations, suggestion, and monetary benefits; and provided acceptable improvement plans. (See Appendixes A and B, pages 11-21, for the full text of the Directors' comments.) We will follow up on the implementation of recommended improvement actions until they are completed.

(original signed by:)
RICHARD J. GRIFFIN
Inspector General

Introduction

Medical Center Profile

Organization. Located in Canandaigua, New York, the medical center is a psychiatric and long-term care facility that provides a broad range of inpatient and outpatient health care services. Outpatient care is also provided at a community-based outpatient clinic located in Rochester, New York. The medical center is part of VISN 2 and serves a veteran population of about 15,800 in a primary service area that includes 5 counties in upstate New York.

Programs. The medical center provides primary care, psychiatry, extended care, geriatrics, and rehabilitation services. Specialty programs include acute behavioral health, domiciliary care, dementia care, general nursing home care, and homeless outreach. The medical center has 88 psychiatry beds, 138 nursing home beds, and 50 domiciliary beds.

Affiliations and Research. The medical center is affiliated with the University of Rochester and supports 3.1 medical residents in 6 training programs. The medical center does not have any current research activity.

Resources. In Fiscal Year (FY) 2003, medical care expenditures totaled $61.1 million. The FY 2004 medical care budget is $63.6 million, a 4 percent increase over FY 2003 expenditures. FY 2003 staffing was 794.3 full-time equivalent employees (FTE), including 24 physician and 267 nursing FTE.

Workload. In FY 2003, the medical center treated 15,831 unique patients, a 2 percent increase from FY 2002. In FY 2003, the average daily census was 130, including nursing home patients, and 36 in the domiciliary. The outpatient workload was 187,890 visits.

Objectives and Scope of the CAP Review

Objectives. CAP reviews are one element of the OIG's efforts to ensure that our Nation's veterans receive high quality VA health care services. The objectives of the CAP review are to:

- Conduct recurring evaluations of selected medical center operations, focusing on patient care, QM, and financial and administrative controls.

- Provide fraud and integrity awareness training to increase employee understanding of the potential for program fraud and the requirement to refer suspected criminal activity to the OIG.

Scope. We reviewed selected clinical, financial, and administrative activities to evaluate the effectiveness of patient care administration, QM, and management controls. Patient care administration is the process of planning and delivering patient care. QM is the process of monitoring the quality of patient care to identify and correct harmful practices or conditions. Management controls are the policies, procedures, and information systems used to safeguard assets, prevent errors and fraud, and ensure that organizational goals are met. The review covered facility operations for FY 2003 and FY 2004 through April 30, 2004, and was done in accordance with OIG standard operating procedures for CAP reviews.

In performing the review, we inspected work areas; interviewed managers, employees, and patients; and reviewed clinical, financial, and administrative records. The review covered the following activities:

Accounts Receivable	Part-Time Physician Timekeeping
Accrued Services Payable	Peer Review
Clinic Waiting Times and Patient Enrollment	Personal Funds of Patients
Controlled Substances Accountability	Pharmacy Security
Environment of Care	Physician Conflict of Interest
General Post Funds	Quality Management
Government Purchase Card Program	Service Contracts
Information Technology Security	Supply Inventory Management
Medical Care Collections Fund	Undelivered Orders

As part of the review, we used questionnaires and interviews to survey patient and employee satisfaction with timeliness of service and the quality of care. Questionnaires were sent to all medical center employees, 154 of whom responded. We also interviewed 15 patients during the review. The full survey results were provided to medical center management.

During the review, we presented fraud and integrity awareness briefings for medical center employees. These briefings, attended by 78 employees, covered procedures for reporting suspected criminal activity to the OIG and included case-specific examples illustrating procurement fraud, false claims, conflict of interest, and bribery.

Activities needing improvement are discussed in the Opportunities for Improvement section (pages 3-10). For these activities, we make recommendations and a suggestion for improvement. Recommendations pertain to issues that are significant enough to be monitored by the OIG until corrective actions are implemented. A suggestion pertains to an issue that should be monitored by VISN and medical center management until corrective action is completed. For the activities not discussed in the Opportunities for Improvement section, there were no reportable deficiencies.

Results of Review

Opportunities for Improvement

Service Contracts – Contract Monitoring and Administration Should Be Strengthened

Conditions Needing Improvement. VISN and medical center management needed to strengthen monitoring of contractor performance and improve contract administration. To determine if contracts were properly administered, we reviewed a sample of VISN and medical center current service contracts valued at approximately $3.6 million and $626,000, respectively. We identified deficiencies in 1 of 4 VISN contracts and 3 of the 6 medical center contracts that require management attention.

VISN Contract

Monitoring of Ophthalmology Services Contract. A Contracting Officer's Technical Representative (COTR) is responsible for monitoring contractor performance and ensuring that services are provided and payments are made in accordance with contract terms. The contracting officer and the COTR did not ensure that the ophthalmology services contract was adequately monitored. This 24-month non-competitive contract for ophthalmology services with the medical center's affiliate, the University of Rochester, Department of Ophthalmology, began on October 1, 2001, and ended on September 30, 2003. The contract was extended an additional 8 months to May 31, 2004. The contractor was to provide general ophthalmology services at three clinics in VISN 2. The contractor was also to provide subspecialty services that included consultations, surgical, laser, and diagnostic procedures for VA ophthalmology patients at Strong Memorial Hospital, located in Rochester, New York. Payments to the contractor were based on an 8 hour per day clinic rate for general ophthalmology and on Medicare rates applied to current procedural terminology codes for subspecialty services. For the 32-month contract period, the contractor was paid $559,525 for general ophthalmology services and $519,691 for 490 subspecialty service procedures. We found the following deficiencies.

Contractor Self-Referral of Services. A contracted clinic physician referred patients in need of subspecialty services to herself and other full-time faculty physicians employed by the contractor. We reviewed a sample of 10 subspecialty services provided to patients and determined that the contracted clinic physician referred 7 patients to herself and 3 patients to other full-time faculty physicians. The self-referral of patients by the contracted clinic physician appears to be a potential conflict of interest. Contracting officials did not establish a process to review self-referrals to determine that the proposed treatments were the most efficient, appropriate, and cost effective options versus others that may be available, including but not limited to, utilization of the same specialty

services available at the VISN's tertiary care medical centers. To avoid a potential conflict of interest, VISN management should seek VA Regional Counsel guidance in the area of contractor self-referral of services.

Delegation of Authority. VA policy prohibits the COTR from delegating his authority granted by the contracting officer. The COTR inappropriately delegated his authority to monitor subspecialty services to a medical care line program assistant.

Non-Validation of Subspecialty Services. VA policy requires COTRs to obtain sufficient evidence to ensure that services have been rendered. The program assistant did not adequately verify that VA patients received subspecialty services at Strong Memorial Hospital. The program assistant relied on medical record notes showing referrals to Strong Memorial Hospital and follow-up consultations provided at the VA Medical Center Rochester, New York outpatient clinic. The COTR needed to obtain evidence of actual performance (i.e., surgery, diagnostic, and consultative reports), or confirmations from patients that services had been received.

We requested surgery, diagnostic, or consultative reports for 10 subspecialty procedures totaling $5,957 provided at Strong Memorial Hospital. The procedures included 5 laser surgeries, 2 other surgical procedures, 2 consultations, and 1 diagnostic procedure. The medical center staff was unable to provide the surgery reports for 4 of 10 procedures (40 percent) totaling $2,949. These services included 3 laser surgeries and 1 other surgical procedure. We also found that a resident, rather than a full-time faculty physician, provided services for 1 of 7 surgical procedures totaling $664. The contract stipulated that full-time faculty physicians would provide surgical procedures.

Deficient Patient Medical Records and Related Questionable Costs. VA policy requires that patient medical records reflect the results of procedures performed on VA patients. Our review of 10 subspecialty procedures performed showed that VA patient medical records did not include surgical, diagnostic, and consultative reports for services provided by contracted physicians at Strong Memorial Hospital. Patient medical records should have included these reports to provide assurance that services were rendered and to provide complete records of patient care. As a result, the medical center does not have assurance that an estimated 490 subspecialty procedures, valued at $519,691, provided by the contractor at Strong Memorial Hospital from October 1, 2001, to April 14, 2004, were entered into patient medical records.

Workload Analysis. The Federal Acquisition Regulation (FAR) requires contracting officers to conduct a workload analysis to estimate the quantity and types of services needed and estimate the total cost of the contract. The contracting officer did not conduct a workload analysis to estimate the cost of subspecialty services. However, a workload

analysis was conducted to estimate the cost of general ophthalmology services. For a 24-month period that included the base and option year, the contracting officer estimated the total cost of ophthalmology services at $396,916. For the same period, the estimated cost of subspecialty services was not included in the contract price. During the 24-month period of the original contract, payments made to the contractor for subspecialty services totaled $382,386.

Legal/Technical Reviews and Pre-award Audits. The VA Acquisition Regulation (VAAR) requires contracting officers to forward non-competitive contracts exceeding $500,000 to the VA Office of Acquisition & Materiel Management (OA&MM) to be reviewed and concurred in. The VAAR states that Office of General Counsel legal reviews of such contracts will be performed when requested and determined necessary by OA&MM. VHA policy requires contracting officers to forward requests for pre-award audits of these contracts directly to the OIG Contract Review and Evaluation Division. Had the contracting officer included an estimated cost for the subspecialty services, the contract would have exceeded $500,000. Because of this omission, neither a legal/technical review or a pre-award audit was conducted as required.

Warrant Authority. VA policy requires that contracting officers be warranted with the authority to make acquisitions for services prior to executing a contract. A contracting officer warranted to acquire services up to $100,000 inappropriately extended the ophthalmology contract for 6 of the 8-month extension period. Payments made for the 6-month period totaled $236,146.

Background Investigations. VA policy requires that background investigations for contractor personnel with access to VA computer systems and sensitive information be initiated prior to contract performance. The contracting officer did not initiate background investigations for the two ophthalmologists with access to VA computer systems and sensitive information prior to contract performance. Background investigations were initiated 18 months after the contract began.

Medical Center Contracts

Background Investigations. Contracting officers did not initiate VA required background investigations prior to contract performance for a physician and 2 physician assistants providing compensation and pension (C&P) health examinations, 2 psychologists providing C&P mental health examinations, and a nurse practitioner providing gynecology services. The value of the two C&P health examination contracts and the gynecology contract was $195,350. Background investigations were initiated 2 to 15 months after the contracts began.

Recommended Improvement Action 1. We recommended that the VISN Director ensure that the Medical Center Director takes action to: (a) establish an effective process to seek VA Regional Counsel guidance to prevent conflict of interest and monitor subspecialty service physician self-referrals, (b) ensure COTRs do not delegate their authority, (c) ensure COTRs monitor contract performance and obtain sufficient evidence to validate services and certify payments, (d) ensure full-time faculty physicians provide subspecialty surgical services, (e) ensure subspecialty reports are entered into patient medical records, (f) conduct workload analysis that includes an estimated cost of subspecialty services, (g) forward contracts valued over $500,000 to VA OA&MM staff for legal/technical reviews and to the OIG Contract Review and Evaluation Division for pre-award audits, (h) ensure contracting officers do not exceed their warrant authority, and (i) initiate background investigations for contractor personnel with access to VA computer systems and sensitive information prior to contract performance.

The VISN and Medical Center Directors agreed with the findings and recommendations and reported that since the expiration of the ophthalmology contract, the Network Authorization Office has pre-approved and reviewed sub-specialty physician referrals. COTRs will receive remedial training regarding delegation of authority, and COTRs will monitor contract performance for compliance and audit medical files prior to approval of invoices. On June 1, 2004, the Medical Center Director implemented a process to scan all medical records from contract sources into VistA. In addition, the contracting officer and COTR will conduct quarterly audits of medical contracts. Workload analysis will be conducted during the acquisition planning phase and documented in the contract files. Training regarding legal/technical reviews was completed for all Network Contract Specialists on July 1, 2004. Contract Specialists will be required to submit proof that legal/technical reviews were submitted to VA Central Office. Contracting officers will forward requests for pre-award audits of non-competitive contracts exceeding $500,000 to the OIG Contract Review and Evaluation Division. The Network Contract Manager will conduct training with all Contract Specialists regarding warrant authority level and use of warrants by December 31, 2004. Background investigations will be initiated for all contractor personnel requiring access to VA's computer system prior to contractor performance. The improvement plans are acceptable, and we will follow up on planned actions until they are completed.

Supply Inventory Management – Controls Should Be Established and Excess Inventories Reduced

Conditions Needing Improvement. Medical center management needed to establish controls to strengthen accountability, reduce excess inventories of engineering and medical supplies, and make better use of automated controls to more effectively manage supply inventories. In FY 2003, the medical center spent approximately $600,500 on engineering and medical supplies. Veterans Health Administration (VHA) policy

established a 30-day supply level goal and requires that medical facilities use VA's automated Generic Inventory Package (GIP) to manage engineering and medical supply inventories. Inventory managers should use GIP reports to establish normal stock levels and analyze usage patterns to determine optimum order quantities.

Engineering Supplies. Facilities Management Service (FMS) staff had not conducted an annual physical inventory of engineering supplies as required by VA policy since 1989. In addition, FMS staff did not implement GIP to manage the engineering supply inventory. As a result, engineering supplies were not managed effectively to safeguard assets, ensure stock levels were adequate to meet demands, and did not exceed 30-day supply goals. We inspected four engineering supply storage areas with substantial quantities of engineering supplies on hand. Without sufficient inventory records, we could not determine the amount of engineering supplies inventory that exceeded current needs.

At our request, FMS staff completed a physical inventory of engineering supplies after our onsite visit and identified a total of 7,451 supply items valued at $824,026. We discussed the need to implement GIP and the opportunities to identify excess inventory with medical center management, and they agreed to report back to the OIG any savings resulting from reducing the inventory of engineering supplies.

Medical Supplies. Supply Processing and Distribution (SPD) Section staff needed to improve the accuracy of GIP data and reduce inventory levels to more effectively manage the medical center's medical supply inventory. As of March 31, 2004, the GIP primary inventory points included 493 line items valued at $44,323.

To test the accuracy of stock on hand and reasonableness of inventory levels, we selected a sample of 11 supply items. We conducted a physical inventory of the 11 items and found that for 4 items the counts did not agree with the balances shown in GIP. For the 11 items reviewed, the GIP reported value was $2,487. However, the actual value of the stock was $2,313, which was only 93 percent of the GIP reported value. Applying the 93 percent figure to the $44,323 total for the entire supply stock as shown in GIP would yield an estimated value of $41,220.

Additionally, SPD Section staff needed to improve supply inventory operations to achieve the 30-day supply goal. We found the 11 sampled items had inventory stock levels that ranged from 75 days to 633 days. The value of stock exceeding 30 days was $1,972, or 85 percent of the stock on hand, for the 11 items ($2,313).

The inaccuracies in GIP stock quantities and excess stock levels occurred because medical center staff did not always record usage. Because GIP data was inaccurate, we could not determine the value of stock on hand or the value of excess stock for the entire inventory. However, by applying the 85 percent of excess stock for the 11 items

reviewed to the entire stock, we estimated that the value of excess stock was $35,037 (85 percent x $41,220 estimated value of stock).

Recommended Improvement Action 2. We recommended that the VISN Director ensure that the Medical Center Director requires: (a) FMS to conduct an annual physical inventory of engineering supplies, fully implement GIP, reduce excess inventory, and report back any resultant savings; (b) SPD to monitor medical supply usage rates, adjust GIP stock levels, improve accuracy of GIP data, and reduce excess inventory; and (c) FMS and SPD to conduct spot inventory checks to ensure GIP data is accurate and reliable.

The VISN and Medical Center Directors agreed with the findings and recommendations and reported that FMS will conduct an annual physical inventory of engineering supplies. FMS will complete implementation of GIP by January 1, 2005. Stock levels on hand are currently being assessed to determine a 30-day supply level and excess stock on hand; and this will be completed by February 1, 2005. FMS will report back to the OIG resultant savings upon identification of excess stock. SPD has increased monitoring of item usage rates, reduced excess inventory, and adjusted GIP stock inventory levels. In addition, FMS will conduct spot inventory checks upon implementation of GIP, and SPD is presently conducting daily spot inventory checks. The improvement plans are acceptable, and we will follow up on planned actions until they are completed.

Government Purchase Card Program – Full Compliance With The Federal Acquisition Regulation, and VA and VISN Policy Is Needed

Conditions Needing Improvement. Medical center management needed to strengthen controls to ensure Government purchase cardholders seek competition for open market purchases exceeding $2,500 and consider the use of preferred purchasing sources such as FSS vendors. Prosthetic Service staff who were cardholders needed to maintain documentation supporting patient education and training on the safe use and maintenance of home DME. From October 1, 2002, to February 29, 2004, the medical center's 57 cardholders and 28 approving officials processed 32,474 transactions totaling $10 million.

Competitive Procurements. Purchase cardholders did not maintain documentation to support competition for purchases exceeding $2,500. The FAR requires purchasing officials to promote competition to the maximum extent possible and to obtain supplies and services from the source whose offer is most advantageous to the Government. Further, a cardholder must consider three sources to promote competition or document a sole source justification.

We reviewed a sample of 20 open market transactions totaling $138,572 made by Prosthetic Service staff and evaluated the level and appropriateness of competitive purchasing efforts. We found that cardholders did not obtain bids from 3 sources or document sole source justifications for all 20 procurements of DME (wheelchairs, wheelchair lifts, stair-glides, and scooter lifts). As a result, cardholders did not have reasonable assurance that fair and reasonable prices were obtained or that procurements were made in VA's best interest.

Preferred Purchasing Sources. Purchase cardholders did not consider preferred purchasing sources before purchasing prosthetic supplies on the open market. The FAR and VA policy require purchase cardholders to consider preferred purchasing sources such as FSS vendors before purchasing supplies on the open market.

We obtained data from the VA National Acquisition Center that showed that FSS vendors offered comparable items at lower prices. For example, cardholders purchased six electric wheelchairs on the open market for a total of $47,400. We determined that cardholders could have purchased six comparable wheelchairs for $29,159. As a result, the medical center could have saved $18,241 (38 percent) by purchasing the six wheelchairs from FSS vendors.

Documentation of Patient Education and Training - Home DME. Prosthetic Service staff who were cardholders did not maintain supporting documentation that patients received education and training on the safe and proper use and maintenance for 19 of 20 purchases of home DME valued at $121,414. VISN policy requires that prosthetic representatives ensure outside vendors educate and train patients on the safe and proper use and maintenance of home DME. Prosthetic Service staff are required to maintain vendor patient education/training documentation.

Recommended Improvement Action 3. We recommended that the VISN Director ensure that the Medical Center Director requires that: (a) cardholders document that competition was sought for purchases greater than $2,500 or document sole source justifications, (b) cardholders procure from preferred purchasing sources such as FSS vendors in lieu of more costly open market sources, and (c) Prosthetic Service staff maintain documentation supporting patient education and training on the safe and proper use and maintenance of home DME.

The VISN and Medical Center Directors agreed with the findings and recommendations and reported that VISN 2 has developed and implemented a VISN-Wide Prosthetic Action Plan to monitor and review prosthetic orders greater than $2,500. A sample of non-contract orders costing $2,500 or more will be reviewed to ensure compliance with the FAR, use of the Hierarchy of Required Sources of Supply, and documentation of competition for the order. Periodic reviews of prosthetic purchasing activities will also

be conducted. Procurement training will continue to ensure staff receive 40 hours of training every 2 years. In addition, documentation of patient education training related to safe use and maintenance of home DME will be forwarded to the Prosthetics Service. The improvement plans are acceptable, and we will follow up on planned actions until they are completed.

Information Technology Security – Controls Over Backup Data Storage and System Access Should Be Improved

Condition Needing Improvement. Information technology security controls needed to be strengthened in the area of backup data storage and system access. The following areas require management attention.

Backup Data Storage. VHA policy requires that critical data be backed up and stored in a location physically separate from the computer room and that this location must be selected by performing a risk analysis. The storage site for the facility backup tapes was located in a building adjacent to the main computer room and was connected by a tunnel system to the building housing the computer room. While the two sites were in different buildings, both could be exposed to the same potential disaster. Additionally, the backup tapes were stored in a non-fireproof metal cabinet instead of a fireproof safe.

System Access. VHA policy requires that facilities review VistA user access and privileges at least every 90 days for appropriate levels of access or continued need. To determine if VistA access was terminated for former employees of the facility, we selected a sample of 10 former employees and found that 4 VistA user accounts were not terminated. The separation dates of the former employees ranged from February 2004 to April 2004. Prior to the completion of our onsite visit, the Information Security Officer (ISO) took action to terminate VistA user access for the four former employees.

Suggested Improvement Action. We suggested that the VISN Director ensure that the Medical Center Director requires the ISO to: (a) designate a less vulnerable location for backup storage and store backup tapes in a fireproof safe, and (b) monitor VistA user access and promptly terminate access for all individuals who do not have a continued need.

The VISN and Medical Center Directors agreed with the findings and suggestion and reported that a secure location has been designated as the storage site for backup tapes and that tapes are now stored in a fireproof safe. In addition, the Human Resource Management Service will furnish the ISO with a list of employees dropped from the roles at the end of each pay period. The ISO will ensure that VistA access for all former employees is terminated. The improvement plans are acceptable.

Appendix A

VISN 2 Director Comments

Department of Veterans Affairs **Memorandum**

Date: September 22, 2004

From: VISN 2 Director (10N2)

Subject: **VA Medical Center Canandaigua, New York**

To: Assistant Inspector General for Auditing

1. Attached is the response from the VA Medical Center Canandaigua, New York to the Combined Assessment Program Review conducted at that facility May 3-7, 2004.

2. The medical center has carefully reviewed all items identified as opportunities for improvement and has concurred in all the recommendations that were made. Appendix B provides the detailed responses to each recommendation along with a completion date for each item. The network concurs with the recommendations, suggestions, and monetary benefits contained in the report.

3. If you have any questions or need additional information, please contact David Krueger, Health System Specialist at (585) 393-7205.

(original signed by:)

William F. Feeley

William F. Feeley

Attachment

Appendix B

Medical Center Director Comments

Department of Veterans Affairs **Memorandum**

Date: September 7, 2004

From: Medical Center Director

Subject: **VA Medical Center Canandaigua, New York**

To: Assistant Inspector General for Auditing

Thru: Network Director, VISN 2 (10N2)

1. Attached please find the action plans for the three recommendations and one suggestion from the Office of the Inspector General Combined Assessment Program Review conducted May 3-7, 2004.

2. If you have any questions regarding the information provided, please contact David Krueger, Health System Specialist at (585) 393-7205.

3. I concur with the recommendations, suggestions and monetary benefits contained in the report.

(original signed by:)

W. David Smith, CHE

Medical Center Director's Comments to Office of Inspector General's Report

The following Director's comments are submitted in response to the recommendation and suggestions in the Office of Inspector General Report:

OIG Recommendations

Recommended Improvement Action 1. We recommend that the VISN Director ensure that the Medical Center Director takes action to: (a) establish an effective process to seek VA Regional Counsel guidance to prevent conflict of interest and monitor subspecialty service physician self-referrals, (b) ensure COTRs do not delegate their authority, (c) ensure COTRs monitor contract performance and obtain sufficient evidence to validate services and certify payments, (d) ensure full-time faculty physicians provide subspecialty surgical services, (e) ensure subspecialty reports are entered into patient medical records, (f) conduct workload analysis that includes estimated cost of subspecialty services, (g) forward contracts valued over $500,000 to VA Central Office OA&MM staff for legal/technical reviews and pre-award audits, (h) ensure contracting officers do not exceed their warrant authority, and (i) initiate background investigations for contractor personnel with access to VA computer systems and sensitive information prior to contract performance.

Concur Target Completion Date: See Below

The VISN Network Contracting Activity (NCA) agrees with the findings and recommendations. The Network Contract Manager (NCM) or designee will audit all contracts to ensure compliance with FAR, VA Acquisition Regulations, and other directives, policies, and requirements. Contracting Officers will provide remedial COTR training regarding the scope of work contained in the contract and appropriate documentation of files. Completion Date: Training regarding

technical review requirements and background investigations was conducted at the Network Contracting Activity retreat held June 29, 30, and July 1, 2004. Formal and informal training for all Network Contract Specialists will be ongoing and documented.

(a) Establish an effective process to seek VA Regional Counsel guidance to prevent conflict of interest and monitor sub-specialty service physician referrals.

The ophthalmology contract expired on May 31, 2004. Since then, all sub-specialty physician referrals have been reviewed and pre-approved by the Network Authorization Office (NAO). The NCM or designee is establishing a process to address and correct this item. Target Completion Date: December 31, 2004; In process.

(b) Ensure COTRs do not delegate their authority.

The Contracting Officer will provide remedial COTR training regarding the terms and conditions contained in the COTR delegation of authority. Remedial training can be written or verbal, but must be documented. COTR Refresher Training was specifically provided to the COTR of the Ophthalmology contract on August 30, 2004. Contracting Officers will conduct refresher training to COTRs on an annual basis and document such training. All COTRs will be encouraged to take the Federal Acquisition Institute course available on-line. Completion Date: August 30, 2004; Refresher training to be conducted annually.

(c) Ensure COTRs monitor contract performance and obtain sufficient evidence to validate services and certify payments.

COTRs will monitor contract performance for compliance and document findings. Additionally, the Contracting Officer will audit COTR files relating to all contracts on an annual basis and document findings

and recommendations for improvement. Completion Date: Process implemented August 30, 2004.

(d) Ensure full-time faculty physicians provide subspecialty surgical services.

COTRs will audit medical files for compliance and document findings prior to approval of invoices. COTRs will advise the Contracting Officer in writing immediately of any instance of noncompliance and the Contracting Officer will take corrective action. Completion Date: Process implemented June 1, 2004.

(e) Ensure subspecialty reports are entered into patient medical records.

All pertinent medical records from contract sources will be scanned into VistA. The Contracting Officer and COTR will conduct quarterly audits of medical contracts for compliance and document findings and recommendations. Completion Date: Process implemented June 1, 2004.

(f) Conduct workload analysis that includes estimated cost of subspecialty services.

In accordance with FAR Part 7, workload analysis will be conducted during the acquisition planning phase and documented in contract files. Workload analysis training will be conducted. Target Completion Date: December 31, 2004; In process.

(g) Forward contracts valued over $500,000 to VA Central Office OA&MM staff for legal/technical reviews and pre-award audits.

All contracts in excess of $500,000 receive technical review as prescribed. A technical review of the VISN 2 contract, identified in the survey, is not practical since it expired in May 2004 and will not be renewed. Training regarding Legal/Technical reviews was conducted and documented for all Network Contract

Specialists at the Network Contracting Activity Retreat held during June 29, 30, and July 1, 2004. NCM or designee shall review all VAF 90-2268 – RECORD OF PROCUREMENT REQUEST REVIEW submitted by Contract Specialists to identify acquisitions requiring legal/technical review. The NCM or designee will require all Contract Specialists to submit proof that legal/technical reviews were submitted to VA Central Office as needed. The NCM will establish a suspense file for review of requests and responses. Contracting officers will forward requests for pre-award audits of non-competitive contracts exceeding $500,000 to the OIG. Completion Date: Process implemented June 1, 2004 for mandatory 100% compliance.

(h) Ensure contracting officers do not exceed their warrant authority.

The NCM shall conduct and document training with all Contract Specialists regarding the authority of each warrant level and proper use of warrants. Target completion date: December 31, 2004. The NCM shall include review of contracting officer warrant level in every contract audit performed. Misuse of a contracting officer's warrant level will be noted and remedial training provided. Target Completion Date: December 31, 2004; In process.

(i) Initiate background investigations for contractor personnel prior to contract performance.

The Contracting Officer has initiated all outstanding background investigations identified by the audit. In accordance with IL 90-01-6 - Contractor Personnel Security Requirements, all future background investigations will be initiated with the Office of Security and Law Enforcement (07) for all contractor personnel requiring access to the VA's computer system after contract award and prior to contractor performance. The Contracting Officer shall initiate

background investigations within thirty (30) calendar days after contract award. The NCM or designee will audit contract files to ensure compliance. Completion Date: June 1, 2004.

Recommended Improvement Action 2. We recommend that the VISN Director ensure that the Medical Center Director requires: (a) FMS to conduct an annual physical inventory of engineering supplies, fully implement GIP, reduce excess inventory, and report back any resultant savings, (b) SPD to monitor supply usage rates, adjust GIP stock inventory levels, improve accuracy of GIP data, and reduce excess inventory, and (c) FMS and SPD to conduct spot inventory checks to ensure GIP data is accurate and reliable.

Concur Target Completion Date: See Below

(a) FMS to conduct an annual physical inventory of engineering supplies, fully implement GIP, reduce excess inventory, and report back any resultant savings.

FMS will conduct an annual physical inventory of engineering supplies as required. The initial inventory has been completed as noted in the CAP Survey report and is being maintained in conjunction with the GIP implementation. FMS is currently in the process of implementing the GIP and will have high-volume stock items operational by October 15, 2004, with full implementation completed by January 1, 2005. As a part of these actions, FMS is in the process of assessing the current stock level of materials on hand to determine what the 30-day supply level should be, and from there, determine what excess stock is on hand. This will be completed by February 1, 2005. Once the excess is determined, procedures will be initiated to reduce the excess materials with proper procedures through A&MM. An estimated completion date for the reduction of the identified excess stock cannot be estimated until quantities are determined. At this same time, FMS will report the estimated resultant savings. Over the past year, FMS has changed its

purchasing procedures for engineering supplies to comply with the 30-day supply level and reduce overall inventory levels. Stock is continually being assessed to address emergency situations, availability and utilization with efforts to reduce the overall inventory to a minimum. Target Implementation Date: February 1, 2005 with stocks to be reduced by end of Fiscal Year 2005.

(b) SPD to monitor supply usage rates, adjust GIP stock inventory levels, improve accuracy of GIP data, and reduce excess inventory.

SPD has increased the monitoring of item usage rates since the CAP Survey was conducted and has begun a more aggressive reduction in excess inventory. All items that are excessed are adjusted in the GIP and records are on file. Target Completion Date: October 29, 2004; In process.

(c) FMS and SPD to conduct spot inventory checks to ensure GIP data is accurate and reliable.

Once the GIP is implemented, FMS will conduct a monthly spot check of a sample quantity of materials to assess and ensure that the GIP data is accurate and reliable. Target completion date: January 1, 2005. SPD is presently conducting daily inventory item spot checks to ensure the GIP is accurate. Completion Date: Implemented June 1, 2004.

Recommended Improvement Action 3. We recommend that the VISN Director ensure that the Medical Center Director requires that: (a) cardholders document that competition was sought for purchases greater than $2,500 or document sole source justification, (b) cardholders procure from preferred purchasing sources such as FSS vendors in lieu of more costly open market sources, and (c) prosthetic representatives maintain documentation supporting patient education on the safe use and maintenance of home DME.

Concur Target Completion Date: See Below

(a) Cardholders document that competition was sought for purchases greater than $2,500 or document sole source justification:

VISN 2 has developed and implemented a VISN-Wide Prosthetic Action Plan to monitor and review process of prosthetic orders greater than $2500:

1. Once a month, VISN 2 Prosthetics will utilize a Fileman template to identify all orders placed in the Prosthetics package that cost $2500 or more and do not reference a contract number. A Financial Compliance Auditor will periodically sample Logistic orders over $2,500 to ensure that Federal Acquisition Regulations are followed. Completion Date: Process implemented July 1, 2004.

2. For those orders that do not reference a contract number, Prosthetic Representatives for the involved site will have two weeks to review each order on the list to ensure that the order is annotated to indicate review of the Hierarchy of Required Sources of Supply, and there is documentation of competition for the order filed appropriately. Appropriate administrative actions will be taken to maintain local accountability. Completion Date: Process implemented July 1, 2004

(b) Cardholders procure from preferred purchasing sources such as FSS vendors in lieu of more costly open market sources.

1. A Financial Compliance Auditor will initiate and team with Logistics and Prosthetics staff to ensure that periodic reviews are conducted as outlined in VHA Handbook 1173.2 dated November 3, 2002 regarding Prosthetic Activities. “Managers of Fiscal Service and

Acquisition and Materiel Management Service will conduct periodic reviews to ensure that Prosthetic purchasing activities are in compliance with applicable acquisition and accounting regulations." Target Completion Date: November 1, 2004; Reviews will be ongoing.

2. Logistics and VISN Prosthetics have provided considerable procurement training with Prosthetic staff and will continue to build on this to ensure staff receive the required 40-hours of procurement training every two years. As part of the warranting process, staff receives extensive training regarding procurement responsibilities. Completion Date: Implemented June 1, 2004; Training will be ongoing.

3. In collaboration with VISN Logistics, VISN Prosthetics is finalizing a procurement process document and flow chart to be used as a simplified reference guide by Prosthetics staff. This will take a complicated procurement process and break it into more easily understandable steps. Target Completion Date: October 7, 2004.

(c) Prosthetic representatives maintain documentation supporting patient education on the safe use and maintenance of home DME.

All vendors have been instructed to fax/mail verification of training to prosthetics. After the OIG visit, all prosthetic vendors were instructed to forward these to the Prosthetics department. Prosthetics has been receiving these without fail. These sheets are attached to the purchase order and are on file. Completion date: June 1, 2004.

OIG Suggestion

Suggested Improvement Action. We suggest that the VISN Director ensure that the Medical Center Director requires the ISO to: (a) designate a less vulnerable location for backup storage and store backup tapes in a fireproof safe and (b) monitor VistA user access and promptly terminate access for all individuals who do not have a continued need.

Concur Target Completion Date: See Below

(a) Designate a less vulnerable location for backup storage and store backup tapes in a fireproof safe

Building #12 has been designated as the appropriate storage site for backed up tapes. The location is physically separate from the computer room and the interconnected design of the main campus through the system of enclosed tunnels. All backed up tapes are now stored at this location in a fireproof safe. Completion Date: September 1, 2004.

(b) Monitor VistA user access and promptly terminate access for all individuals who do not have a continued need.

As a safeguard to the current employee clearance system, Human Resource Management Service has been tasked to furnish the Information Security Officer (ISO) with a list of employees dropped from the roles at the end of each pay period. The ISO in turn insures that all former employees have been removed from access. Any inconsistencies identified are communicated to the System Access Administrator for account termination. In support of this action, the ISO maintains a spreadsheet (VistA Monitor for Access Termination) including Pay Period, Date Range, Separations, Title, Date, Termination, and ISO Action. Completion Date: Implemented June 1, 2004.

Appendix C

Monetary Benefits in Accordance with IG Act Amendments

Recommendation	Explanation of Benefit(s)	Better Use of Funds	Questioned Costs
1c, 1e	Questioned costs resulting from COTR not validating services and an estimated 490 subspecialty procedures valued at $519,691 were not entered into patient medical records.		$519,691
2b	Better use of funds by reducing the excess medical supply inventory.	$35,037	
3b	Better use of funds by obtaining competitive prices from preferred purchasing sources.	18,241	
	Totals	$53,278	$519,691

Appendix D

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