

VA Office of Inspector General

OFFICE OF AUDITS AND EVALUATIONS



# Department of Veterans Affairs

*Review of  
the Controls for the  
Pharmaceutical Prime  
Vendor Fast Pay System*

May 17, 2012  
12-01008-185

## ACRONYMS AND ABBREVIATIONS

CMOP	Consolidated Mail Outpatient Pharmacy
FAR	Federal Acquisition Regulation
FMS	Financial Management System
FSC	Financial Services Center
IHS	Indian Health Service
NAC	National Acquisition Center
OGA	Other Government Agency
OIG	Office of Inspector General
PBM	Pharmacy Benefits Management
PPV	Pharmaceutical Prime Vendor
VA	Veterans Affairs
VHA	Veterans Health Administration

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# Report Highlights: Review VA's Controls for the Pharmaceutical Prime Vendor Fast Pay System

## Why We Did This Review

The VA Secretary and the House Committee on Veterans' Affairs requested the Office of Inspector General review VA's Fast Pay system, the system used to process pharmaceutical prime vendor purchases. This review assessed the adequacy of internal controls of the VA's Fast Pay system.

## What We Found

VA's Fast Pay System consistently provided payments to the pharmaceutical prime vendor within 48 hours from the prime vendor's shipment of an order. Further, VA pharmacies paid accurate contract prices for purchased pharmaceutical supplies. However, we found that controls were not reliable to ensure timely correction of improper payments and were not sufficient to reduce the risk of program fraud or abuse.

Pharmacy Benefits Management Services staff did not complete their price analyses and the National Acquisition Center did not resolve pricing differences with the pharmaceutical prime vendor timely. In addition, VA pharmacies lacked effective controls to ensure that supply orders were received and that ordering and receiving duties were adequately segregated.

As a result, the National Acquisition Center had not resolved pricing differences of about \$46.4 million for pharmaceutical prime vendor purchases from December 2009 through April 2011. In addition, inadequate segregation of supply ordering and receiving

duties makes VA facility pharmacies vulnerable to fraudulent activity.

## What We Recommended

We recommended the Principal Executive Director for Acquisition, Logistics, and Construction ensure timely resolution and recovery of pharmaceutical prime vendor purchase pricing errors.

We also recommended that the Under Secretary for Health ensure timely completion of price analyses, proper segregation of supply ordering and receiving duties, and adequate verification of supply receipts.

## Agency Comments

The Principal Executive Director for Acquisition, Logistics, and Construction and the Under Secretary for Health concurred with our recommendations and provided acceptable corrective action plans. We will follow up on the implementation of corrective actions.

A handwritten signature in blue ink that reads "Linda A. Halliday".

LINDA A. HALLIDAY  
Assistant Inspector General  
for Audits and Evaluations

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## INTRODUCTION

### **Objective**

This review assessed the adequacy of internal controls of VA's Fast Pay system in support of the provisions of the pharmaceutical prime vendor (PPV) contract. To meet this objective, the Office of Inspector General (OIG) designed and answered six key questions focused on the ordering, receipt of pharmaceuticals, and payment activities that enabled an assessment of the internal controls of this system.

### **Pharmaceutical Prime Vendor Program**

In 1994, VA implemented the PPV program to reduce its costs for storing and distributing pharmaceutical supplies. The current PPV contract was competitively awarded to the McKesson Corporation. The contract is currently in its final year and will expire on May 9, 2012<sup>1</sup>. Use of the PPV is mandatory for VA pharmacies and optional for Other Government Agencies (OGAs), such as the Indian Health Service (IHS).

VA's PPV program is designed to provide a timely and efficient way for VA facilities to purchase pharmaceutical supplies. Under the program, the prime vendor provides next-day delivery of ordered pharmaceutical supplies. The contract requires VA to pay the PPV within 48 hours of the PPV shipping an order and requires the PPV to provide a current discount of 5.15 percent on the prices for all VA orders. In FY 2011, VA purchased about \$4.3 billion of pharmaceutical supplies from the PPV. Of that total the Consolidated Mail Outpatient Pharmacies (CMOPs) purchased about \$2.7 billion of supplies and VA medical facility pharmacies purchased about \$1.6 billion of supplies.

### **Program Management**

VA's National Acquisition Center (NAC) is aligned under the Deputy Assistant Secretary for the Office of Acquisition and Logistics and is responsible for awarding and administering the PPV contract. Duties of the PPV contracting officer include monitoring prime vendor performance and resolving disputes.

Veterans Health Administration's (VHA) Pharmacy Benefits Management (PBM) Services is aligned under the Deputy Under Secretary for Health for Policy and Services and is responsible for developing policies to improve the safety and efficiency of VA's medical facility inpatient and outpatient pharmacies.

The Financial Services Center (FSC) is a business enterprise that operates under the VA Franchise Fund and is aligned under the Deputy Assistant Secretary for Finance. The FSC manages VA's Fast Pay system on a fee-for-service basis rather than through VA's General Administration appropriation.

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<sup>1</sup> Prior to the publication of this report VA awarded McKesson a short-term contract through August 9, 2012 and eventually a long-term contract which begins August 10, 2012.

## RESULTS AND RECOMMENDATIONS

### Question 1 Does VA's Fast Pay System Provide Timely Payments of Ordered Pharmaceutical Supplies?

#### *What We Did*

To address whether VA's Fast Pay system provides timely payment of ordered pharmaceutical supplies, we reviewed and tested payment controls at the FSC. To determine if the PPV was paid within 48 hours of the date of the PPV's shipment of an order, we reviewed 160 invoices representing pharmacy orders from 8 VA pharmacy facilities (4 CMOPs and 4 VA medical facility pharmacies).<sup>2</sup> For each invoice, we compared the date U.S. Bank paid the PPV and the date the FSC paid U.S. Bank with the date of the PPV shipment of an order to the purchasing facility.

#### *Purpose of Fast Pay System*

The Federal Acquisition Regulation (FAR) allows the use of fast payment procedures to help agencies meet payment timeliness requirements of the Prompt Payment Act. The current PPV contract requires all VA PPV orders to be processed using the Fast Pay system. The PPV contract defines the Fast Pay system as an expedited payment procedure whereby payments are made to the PPV within 48 hours of shipment of an order. The Fast Pay system procedures generally occur in the following sequence.

- Authorization and ordering
- Receipt of the invoice
- Payment approval and authorization
- Disbursement of funds
- Receipt and acceptance of items ordered

Fast Pay allows agencies to authorize and pay vendors after the vendor's invoice is received, but prior to receipt and acceptance of the order. Payments are made when the invoice is received, based on the vendor's certification that it has delivered the supplies on the invoice and will remedy deficiencies in the supplies it delivers. The reliability of the Fast Pay system depends on promptly verifying that purchased items have been received, ensuring that receiving reports and payment documents match, and correcting discrepancies after payments have been made.

#### *VA's Fast Pay System*

VA's Fast Pay system uses a U.S. Bank credit card-like account to pay the PPV for each VA pharmacy ordering facility's prime vendor purchases. When the PPV fills a facility's order, U.S. Bank processes the purchase

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<sup>2</sup> All of our testing to answer the review's six key questions involved purchases from the PPV. Open market purchases were not part of the review.

through the facility's Fast Pay account using an electronic interface between the prime vendor and U.S. Bank. U.S. Bank pays the PPV each day for the orders it receives and transmits a daily transaction file of purchases to VA's FSC.

The FSC staff reviews the files before transmitting payment information to VA's Financial Management System (FMS). The FSC staff issues a single payment to U.S. Bank for the prior day's purchases from the PPV then charges each facility's prime vendor obligation account for the payment amount of the billed PPV pharmaceutical supplies. Facilities then reconcile payments made to the PPV with their prime vendor orders.

*Payments of  
Ordered Supplies  
Timely*

For all 160 invoices reviewed, U.S. Bank paid the PPV within 48 hours of the date of PPV's shipment of an order, and the FSC paid U.S. Bank also within this same 48-hour period. Appendix A provides more detail on the review's scope and methodology.

**Assessment**

VA's Fast Pay system consistently provided payments to the PPV within the required 48 hours from the date of PPV's shipment of an order. U.S. Bank was also paid by the FSC within the same 48-hour period from the date of PPV's shipment of an order.

## **Question 2 Does VA Have Reasonable Assurance It Is Paying Accurate Amounts for Actual Goods Received?**

### ***What We Did***

To address whether VA has reasonable assurance it is paying accurate amounts for actual goods received, we reviewed and tested purchasing controls at four CMOPs and four VA medical facility pharmacies.

- To determine whether the VA pharmacy facilities paid accurate contract prices for purchased pharmaceutical supplies, we reviewed 160 invoices representing pharmacy orders from eight VA pharmacy facilities.
- To determine whether all pharmaceutical items listed on PPV invoices were delivered to VA facilities, we tested 20 invoices from each of the 4 CMOPs and 4 VA medical facility pharmacies.

### ***Controls Over***

VA accurately paid the amounts charged by the PPV. The eight VA facilities' staff reconciled their prime vendor purchases with summary payment reports provided by the FSC on a weekly basis, ensuring that payment amounts were correct. VA fiscal staff also researched FMS transactions that had been rejected during payment processing by the FSC and monitored the facilities' PPV obligations. We did not identify any reconciliations that were not resolved, including open items or rejected transactions that were not paid timely.

At seven of eight facilities, we found adequate evidence that controls had been implemented to identify pharmaceutical items listed on the PPV invoices but not received. Designated pharmacy staff at seven facilities inspected the orders and certified that all items billed had been received.

One VA medical facility pharmacy could not confirm that all PPV items billed were received. According to PPV records, the facility purchased about \$29.1 million of non-controlled substances from the PPV in FY 2011. The pharmacy staff at this facility did not inventory PPV shipments of non-controlled pharmaceutical supplies with enclosed invoices to ensure that all items had been received. The facility pharmacy staff did check invoices of controlled substances to ensure all billed controlled substances were received. VA requires persons receiving supplies to verify that items purchased have been received, that they are not defective, and that they are priced correctly. When asked why the pharmacy staff did not perform that task, the pharmacy manager stated she did not have sufficient staff to inspect all received shipments but they did spot-check some shipments. We found no evidence that they had spot-checked our 20 sample shipment invoices.

### ***Assessment***

VA pharmacy facilities paid accurate contract prices for purchased pharmaceutical supplies for the orders we reviewed. At four CMOPs and



three VA medical facility pharmacies, controls over paying for and receiving pharmaceutical supplies were effective. Although one VA medical facility pharmacy lacked controls to ensure that non-controlled pharmaceutical supplies purchased from the PPV were received, the facility pharmacy did review invoices of controlled substances to ensure all billed controlled substances were received. As a result, we concluded the issue identified at the one site was not systemic. We considered the practice of spot checking a small number of shipments to be inadequate as a control. However, immediate management attention is needed to address the control weakness.

### **Question 3 Does VA Have Reliable Controls To Ensure Timely Corrections of Overpayments?**

#### ***What We Did***

To address the reliability of VA's controls to ensure timely corrections of inaccurate payments, we reviewed procedures for identifying and resolving pricing differences at the NAC, the PBM office, four CMOPs, and four VA medical facility pharmacies. Controls over corrections of price differences are critical under the Fast Pay system since corrections are identified and adjustments made after payments are processed.

Although the contracting officer is responsible for resolving PPV price differences, PBM performs PPV item pricing validations and provides the results of those analyses to the contracting officer. PBM's business practice is to review prices for all pharmaceutical items purchased from the PPV each month, beginning 3 months after the purchase. For example, purchases made in July 2011 would be reviewed in October 2011. This delay allows sufficient time for price adjustments initiated by purchasing activities or the PPV to be adjusted to reflect correct amounts. PBM provides the NAC contracting officer a monthly price analysis, which shows differences between amounts paid and the contract prices for specific pharmaceutical items.

PBM staff completed their March 2011 pricing analysis in August 2011—2 months late. Their price analysis for April 2011 purchases was completed in December 2011—5 months late. According to PBM officials, they reprioritized their work because the NAC's PPV contracting officer was not timely resolving potential pricing differences identified by the PBM and completing additional analyses would only have increased the contracting officer's backlog.

Although the NAC's PPV contracting officer is responsible for resolving potential pricing differences identified by PBM with the PPV, we found no evidence that these responsibilities were being properly executed. According to the NAC PPV contracting officer, he used to routinely follow up on PBM's monthly price reviews by requiring the PPV to respond in detail to pricing differences. He then worked with the PPV to resolve pricing disagreements. However, he fell behind in this work and held his most recent follow-up review of November 2009 PPV purchases in August 2010.

Since September 2010, the NAC PPV contracting officer has provided PBM's price reviews to the PPV without following up on the results. The total value of potential pricing differences identified by PBM for the monthly reviews of PPV purchases from December 2009 through April 2011 was about \$46.4 million. The process the NAC put in place had stopped. As a result, VA is at risk of not processing appropriate pricing adjustments. PBM

data show they identified about \$1.3 million in potential price differences for October and November 2009, of which the NAC PPV contracting officer resolved and collected about \$122,000 (9.1 percent). The following table shows collection rates for FYs 2007–2010.

**Table**

Credits Received for Potential Pricing Differences Identified by PBM			
Fiscal Year	Potential Credits (\$ in thousands)	Credits Received (\$ in thousands)	Percentage
2010	\$1,345	\$122	9.1%
2009	\$4,806	\$2,560	53.3%
2008	\$2,507	\$875	34.9%
2007	\$818	\$459	56.1%

Source: VA's Pharmacy Benefits Management Services

The contracting officer stated the primary reason for not resolving pricing differences with the PPV was that he needed to use that time to prepare the next PPV contract. These performance lapses place VA at unnecessary risk of making improper payments.

**VA Pharmacy Facilities' Payment Corrections Timely**

Facility pharmacy staff made timely payment corrections for overpayments. According to PPV records, the PPV reimbursed VA pharmacy facilities a total of about \$23.5 million (.5 percent of \$4.3 billion) in overpayment corrections and about \$15.4 million (.4 percent) in return credits in FY 2011. Pricing corrections occur for several reasons, such as retroactive price adjustments, item count errors, and product returns. For example, a retroactive price adjustment is required when the PPV changes a price of an item on January 5, 2012, but applies it to all purchases of that item from January 1, 2012. The following is an illustration of a product return credit.

On December 29, 2011, a CMOP returned 596 bottles of a heart medication to McKesson because the manufacturer acknowledged problems with broken tablets in the lot. The CMOP received a credit of about \$165,000 for the full purchase price for the returned items on January 11, 2012.

**Assessment**

We determined that PBM and NAC controls did not reliably ensure timely correction of improper payments by identifying and resolving pricing differences. PBM was not providing the NAC timely pricing analyses and the NAC was not ensuring timely pricing reviews by the PPV. Controls at VA facility pharmacies were adequate. Facility pharmacy staff made timely payment corrections for overpayments.

## **Question 4 Does VA Process Payments to the PPV in Accordance With Laws, Regulations, and Current Terms of the PPV Contract?**

### ***What We Did***

To address whether VA processes payments to the PPV in accordance with laws, regulations, and current terms of the PPV contract, we tested payments and reviewed purchasing and payment procedures at the FSC, four CMOPs, and four VA medical pharmacy facilities.

- To determine the timeliness of PPV payments, we reviewed 160 invoices representing pharmacy orders from 4 CMOPs and 4 VA medical facility pharmacies. For each invoice, we compared the date U.S. Bank paid the PPV and the date the FSC paid U.S. Bank with the date of the PPV shipment of an order to the purchasing facility.
- To determine the effectiveness of payment processing controls at the FSC, we tested the accuracy and timeliness of payments to U.S. Bank by comparing the payments the FSC made to U.S. Bank to 20 invoices from each of the 4 CMOPs and 4 VA medical facility pharmacies.

### ***Prompt Payment Act***

VA uses Fast Pay provisions of the Prompt Payment Act to meet contractual requirements to pay the PPV within 48 hours of shipment of an order. VA uses an expedited payment process that requires U.S. Bank to make payments to the PPV within 48 hours based on invoices for pharmaceutical items delivered to VA ordering facilities. U.S. Bank electronically submits the transactions to the FSC the morning following the day the facility placed the order. The FSC reviews the files before transmitting payment information to the FMS for same-day reimbursement to U.S. Bank.

For all 160 invoices reviewed, U.S. Bank paid the PPV within 48 hours of the date of PPV's shipment of an order, and the FSC paid U.S. Bank also within this same 48-hour period.

### ***Federal Acquisition Regulation***

The FAR states that the following conditions must be met for agencies to use Fast Pay.

- Individual purchases may not exceed \$30,000, except as specifically authorized.
- Conditions are present that make timely payments based on evidence of acceptance of the items purchased impractical.
- Title to supplies purchased passes to the Government upon delivery or receipt of the supplies.
- The purchase instrument is a firm-fixed-price contract, purchase order, or delivery order.

- The supplier agrees to remedy incomplete, damaged, or noncompliant orders.
- A control system is in place that documents contractor performance and reports contractor deficiencies timely.

VA is able to use Fast Pay by addressing these conditions in the contract development process and through PPV contract provisions. The Fast Pay system requires VA to make payments before verifying that ordered items have been received and accepted. However, ordering facilities are still required by the FAR to inspect and accept items timely, to match receiving reports and payment documents, to correct discrepancies, and to assure that ordered items paid for were received.

Seven of the eight ordering facilities had sufficient controls in place to ensure that pharmaceutical purchases were checked against invoices at delivery and discrepancies corrected. One VA medical facility did not verify the accuracy of invoices to ensure orders for non-controlled pharmaceutical supplies were complete. The facility pharmacy did check invoices of controlled substances to ensure all billed controlled substances were received. As a result, the facility risks paying for products not received, lacks accountability over its pharmaceutical inventories, and has increased its risk of theft or diversion of pharmaceutical products.

*PPV Contract*

The FSC accurately paid U.S. Bank for PPV purchases in accordance with the PPV contract. For all 160 payments, the payment dates and amounts agreed with the dates and amounts on the PPV invoices.

*Assessment*

VA processed payments to the PPV in accordance with the Prompt Payment Act and met FAR conditions to use Fast Pay. One VA medical facility pharmacy did not verify the accuracy of invoices, as required by the FAR, to ensure orders for non-controlled pharmaceutical supplies were complete. The facility pharmacy did check invoices of controlled substances to ensure all billed controlled substances were received. The FSC consistently processed accurate payments to U.S. Bank for PPV purchases in accordance with the PPV contract.

## **Question 5 Is VA Reimbursed by Other Government Agencies Timely and in the Correct Amounts?**

**What We Did** To address whether VA was reimbursed by OGAs timely and in the correct amounts, we reviewed the controls over VA's reimbursement process for payments made by VA on behalf of OGAs under the Fast Pay system and tested payment processing controls at the FSC.

**Fast Pay and OGAs** The PPV contract allows other entities to use the PPV contract and the Fast Pay system. VA reported in February 2012 that State Veterans Homes, Howard University Hospital, and five Governmental agencies use the contract. The following are the five agencies.

- Indian Health Service (IHS)
- Bureau of Prisons
- Department of State (Peace Corps)
- U.S. Public Health Service
- Department of Homeland Security

According to FSC officials, use of the PPV contract by the State Veterans Homes, Howard University Hospital, and the five governmental agencies was minimal and only IHS used the Fast Pay system. In FY 2011, IHS purchased about \$46 million representing about 1 percent of the total \$4.3 billion of PPV purchases. We did not review PPV items purchased by OGAs that did not use the Fast Pay System because no funds were at risk of loss to VA.

FSC pays the prime vendor for IHS purchases using VA funds and records payments as advances to IHS. FSC officials stated that the FSC has the authority to initiate transfers of IHS funds through the Intergovernmental Payment and Collection System to reimburse the advances and generally transfer funds to cover previous advances about once a week. FSC staff review a report of IHS's outstanding advances every 2 weeks to ensure advances had been reimbursed timely.

**OGA Reimbursements Timely and Accurate**

We examined FSC's outstanding advances reports to review 66 IHS purchases made from September 12, 2011, through November 30, 2011. IHS reimbursements were paid in the correct amounts, and IHS reimbursed VA within an average of 23 days from the date an order was placed. We considered IHS reimbursements to VA timely based on the applicable Federal Prompt Payment Act requirement that payment be made within 30 days.

**Assessment** IHS was the only OGA that used the Fast Pay system and it reimbursed VA timely and in the correct amounts.

**Question 6 Does VA Have Controls To Reduce the Risk of Fraudulent Payments and Other Program Abuses?**

**What We Did** To address whether VA has established controls to reduce the risk of fraudulent payments and other program abuses for PPV purchases, we assessed VA pharmacy facilities' ordering and receiving operations as the highest risk area. We evaluated pharmacy ordering and receiving operations at four CMOPs and four VA medical facility pharmacies. At each pharmacy, we assessed whether the ordering and receiving duties of pharmacy staff were adequately segregated.

**Importance of Segregation of Duties** Segregation of duties is a strong fundamental control in ordering and receiving functions. Duties such as ordering supplies, receiving supplies, making payments, and certifying funding should be assigned to separate individuals to the greatest extent possible. By separating certain duties within an organization, no single employee should be in the position to perpetrate and conceal fraud.

**Medical Facility Pharmacy Segregation of Duties Needs Improvement** Three of four VA medical facility pharmacies needed to strengthen controls to ensure an adequate segregation of duties existed. The three VA medical facility pharmacies did not segregate duties among different staff to prevent any one individual from having the ability to both order and receive non-controlled pharmacy supplies. However, at the four VA medical pharmacy facilities, the receipt of controlled substances was properly segregated. An illustration follows of effective segregation of duties found at one medical facility pharmacy.

A medical facility had implemented a system of controls for its inpatient and outpatient pharmacies. For both pharmacies, they had assigned staff responsible to confirm the delivery of pharmacy supplies and different staff responsible to order pharmaceutical products based on volume necessities. At each pharmacy a different staff member reviewed each order prior to submission to the PPV. Upon receiving ordered pharmaceutical products, a team of staff members was responsible for certifying that all billed products were received.

Inadequate segregation of duties for ordering and receiving system functions makes facility pharmacies vulnerable to fraudulent activity.

**CMOP Ordering and Receiving Controls Adequate** The four CMOPs had adequate controls to segregate duties among designated ordering officers and staff who verified that ordered items were received. Controls in place were working effectively to ensure ordering officers and receiving staff held separate system access keys to log in to the

prime vendor account. At no point were individuals allowed to perform ordering and receiving functions. VA policy requires CMOPs establish unique individual user identification and passwords for all functions related to inventory maintenance and control, to include ordering and receiving on the PPV and CMOP automated inventory systems.

**Assessment**

Controls were not effective in mitigating the risk of program fraud. At four CMOPs and one medical facility pharmacy, supply ordering and receiving duties were properly segregated. However, at three VA medical facility pharmacies, one or more individuals were responsible for both ordering and receiving non-controlled pharmaceutical supplies. Ordering and receiving duties should be segregated to the greatest extent possible, and individuals responsible for ordering should never receive orders that they place themselves.



## Summary and Recommendations

### Summary

VA's PPV program is designed to provide a timely and efficient way for VA facilities to purchase pharmaceutical supplies, worth approximately \$4.3 billion annually. Under the program, the PPV contractor provides next-day delivery of ordered pharmaceutical supplies. In return, the contract requires VA to pay the PPV contractor within 48 hours of the shipped order. It also requires the PPV contractor to provide a discount on the prices for all VA orders.

This review assessed the adequacy of internal controls of the VA's Fast Pay system, as used by the PPV program, and consisted of observations as a result of six high-level questions designed by the OIG project team.

Question 1: Does VA's Fast Pay System Provide Timely Payments of Ordered Pharmaceutical Supplies? Yes

Question 2: Does VA Have Reasonable Assurance It Is Paying Accurate Amounts for Actual Goods Received? Yes

Question 3: Does VA Have Reliable Controls To Ensure Timely Corrections of Overpayments? No

Question 4: Does VA Process Payments to the PPV in Accordance With Laws, Regulations, and Current Terms of the PPV Contract? Yes

Question 5: Is VA Reimbursed by Other Government Agencies Timely and in the Correct Amounts? Yes

Question 6: Does VA Have Controls To Reduce the Risk of Fraudulent Payments and Other Program Abuses? No

### Conclusion

VA has implemented controls to provide timely and accurate payments for pharmaceutical items processed through VA's Fast Pay system. Additionally, VA is processing payments to the PPV in accordance with the Prompt Payment Act, the Federal Acquisition Regulation, and contract terms and is being timely reimbursed by OGAs. However, system controls to identify and correct overpayments by the PPV and to reduce the risk of fraud and other program abuses were either not in place or were not effective. Without strong system controls over these two areas, VA risks spending funds on incorrectly priced pharmaceutical items and increasing their vulnerability to program fraud.

**Recommendations** 1. We recommended that the Principal Executive Director for Acquisition, Logistics, and Construction implement a mechanism to ensure timely

resolution and recovery of funds expended as a result of pharmaceutical prime vendor purchase pricing disparities.

2. We recommended that the Principal Executive Director for Acquisition, Logistics, and Construction perform a retroactive review of pricing differences not previously resolved by the National Acquisition Center Pharmaceutical Prime Vendor Contracting Officer and resolve the differences found.
3. We recommended that the Under Secretary for Health implement a mechanism to ensure timely completion of price analysis of pharmaceutical items purchased from the Pharmacy Prime Vendor.
4. We recommended that the Under Secretary for Health implement an oversight mechanism to properly segregate pharmaceutical ordering and receiving duties to ensure VA medical facility pharmacies prevent the possibility that a single employee is in a position to both perpetrate and conceal fraud.
5. We recommended that the Under Secretary for Health establish procedures to enforce current requirements for pharmacy staff receiving supplies to verify that items purchased have been received.

**Management  
Comments  
and OIG  
Response**

The Principal Executive Director for Acquisition, Logistics, and Construction concurred with review recommendations 1 and 2. He stated the NAC will complete reviews of price discrepancies identified within 30 days of receiving pricing analyses and OALC will retroactively review pricing differences not previously resolved by May 1, 2012.

The Under Secretary for Health also concurred with review recommendations 3-5. He stated that PBM has established a process to ensure that it provides timely PPV pricing analyses to the contracting officer. VHA will also ensure that all pharmacy chiefs certify that ordering and receiving duties are appropriately segregated and procedures are in place to ensure that all items purchased are received. Any facilities that have not complied will be required to provide and implement corrective action plans. The target date for completion of these actions is September 30, 2012.

**OIG Evaluation**

We considered those corrective actions to be acceptable and will follow up on their implementation. The Principal Executive Director for Acquisition, Logistics, and Construction's comments are at Appendix B and the Under Secretary for Health's comments are at Appendix C.

## Appendix A Scope and Methodology

We conducted our review of Fast Pay controls during the period from January through April 2012.

### *Methodology*

We reviewed the current PPV contract, governing laws and regulations, and related policies and procedures. We also discussed program requirements, organizational responsibilities, and operational procedures for Fast Pay with VA and VHA program management officials.

We tested controls at the NAC and PBM offices in Hines, IL; the FSC in Austin, TX; and the four CMOPs and four VA medical facilities listed below.

<b>VA Facility Visited</b>	<b>Location of Facility</b>
Tucson CMOP	Tucson, AZ
Great Lakes CMOP	Hines, IL
Leavenworth CMOP	Leavenworth, KS
Dallas CMOP	Lancaster, TX
Southern Arizona Health Care System	Tucson, AZ
Edward Hines VA Hospital	Hines, IL
Eastern Kansas Health Care System	Leavenworth, KS
North Texas Health Care System	Dallas, TX

We evaluated pharmacy controls for ensuring that purchased non-controlled and controlled pharmaceutical items were received and were correctly priced. We also evaluated segregation of purchasing and receiving duties to safeguard against fraud. We interviewed pharmacy technicians and supervisors, as well as fiscal service accountants and managers. We reviewed policies and procedures to identify processes used to order, receive, and record payments for PPV purchases. We observed ordering, receiving, and payment reconciliation processes at each facility. We traced a sample of 20 PPV orders at each facility through the ordering, receiving, and payment process. We also reviewed a sample of 10 returned supply transactions at each facility to verify that credits for returned supplies were received promptly.

We discussed program requirements and contract oversight with the NAC contracting officer responsible for the PPV contract. We did not assess the risks associated with reliance on the PPV as a major supplier since the contract is expected to end in FY 2012. We also determined procedures and controls for ensuring PPV prices paid were correct and pricing errors were credited timely when appropriate. We interviewed PBM staff responsible for

PPV national price reviews, observed the procedures used, and reviewed the results of monthly price analyses.

At the FSC, we tracked payments for 160 sample invoices, verified the payments were correct and timely, and determined whether the Fast Pay system met contract terms. We also reviewed procedures for recovering the costs of Fast Pay system purchases for OGAs.

**Reliability of  
Data**

We used computer-processed data from FMS to identify sample purchases for review at four CMOPs and four VA medical facility pharmacies. To test the reliability of this data, we compared the data with printed documents at each of the visited VA facility pharmacies.

We also used computer-processed pharmaceutical contract pricing data provided by PBM to determine the significance of pricing errors for our sample purchases. To test the reliability of the pricing information, we compared the results of our sample review with those of the most recent price review completed by PBM. We concluded the data were sufficiently reliable to answer the six review questions.

**Government  
Inspection  
Standards**

We conducted this review under the *Quality Standards for Inspection and Evaluation*, issued by the Council of the Inspectors General on Integrity and Efficiency in January 2012. Those standards require that the evidence supporting our findings, conclusions, and recommendations should be sufficient, competent, and relevant and should lead a reasonable person to sustain the findings, conclusions, and recommendations. Our work was also consistent with *Standards for Internal Control in the Federal Government*, issued by the United States Government Accountability Office in November 1999.

## Appendix B Principal Executive Director for Acquisition, Logistics, and Construction Comments

Department of  
Veterans Affairs

# Memorandum

**Date:** April 24, 2012  
**From:** Principal Executive Director, Office of Acquisition, Logistics, and Construction (003)  
**Subj:** Draft Report - Review of the Controls for the Pharmaceutical Prime Vendor Fast Pay System Project Number 2012-01008-R8-0066 (VAIQ 7222792)  
**To:** Assistant Inspector General for Audits and Evaluations (52)

1. The Office of Acquisition, Logistics, and Construction (OALC) reviewed the Draft Report and transmittal memorandum dated April 5, 2012, Draft Report, Review of the Controls for the Pharmaceutical Prime Vendor Fast Pay System. The two recommendations with concurrence and implementation plans are as follows:

a. **OIG Recommendation:** We recommend that the Principal Executive Director for Acquisition, Logistics, and Construction implement a mechanism to ensure timely resolution and recovery of funds expended as a result of pharmaceutical prime vendor purchase pricing disparities.

**OALC Response:** Concur. The National Acquisition Center (NAC) will work with Veterans Health Administration Pharmacy Benefits Management (PBM) to complete reviews of price discrepancies identified within 30 days of the date that PBM provides NAC with the data.

**Target Completion Date:** May 1, 2012.

b. **OIG Recommendation:** We recommend that the Principal Executive Director for Acquisition, Logistics, and Construction perform a retroactive review of pricing differences not previously resolved by the National Acquisition Center Pharmaceutical Prime Vendor Contracting Officer and resolve the differences found.

**OALC Response:** Concur.

**Target Completion Date:** May 1, 2012.

2. If you have questions, need additional information, or desire to discuss any of the proposed actions, please contact Mr. Craig Robinson, Associate Deputy Assistant Secretary for National Healthcare Acquisitions, at (708) 786-5157 or via email at [craig.robinson@va.gov](mailto:craig.robinson@va.gov).

  
for Glenn D. Haggstrom

## Appendix C Under Secretary for Health Comments

**Department of  
Veterans Affairs**

# Memorandum

**Date:** May 8, 2012

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

**Subj:** OIG Draft Report: Veterans Health Administration Review of the Controls for the Pharmaceutical Prime Vendor Fast Pay System (VAIQ 7223974)

**To:** Assistant Inspector General for Healthcare Inspections (54)

1. I have reviewed the draft report and concur with the report's recommendations.
2. Thank you for the opportunity to review the draft report. Attached is the complete corrective action plan for the report's recommendations. 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, Review of the Controls for the Pharmaceutical Prime Vendor Fast Pay System**

**Date of Draft Report: April 5, 2012**

<b>Recommendations/ Actions</b>	<b>Status</b>	<b>Completion Date</b>
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**Recommendation 3. We recommend that the Under Secretary for Health implement a mechanism to ensure timely completion of price analysis of pharmaceutical items purchased from the Pharmacy Prime Vendor.**

VHA Response

Concur

The Veterans Health Administration (VHA) has confirmed that the mechanism currently in place ensures timely completion of price analysis of pharmaceutical items purchased from the Pharmaceutical Prime Vendor (PPV). The delays identified by the Office of Inspector General (OIG) resulted from a reprioritization of VHA Pharmacy Benefits Management (PBM) work in response to delays in resolution of potential pricing differences by the Department of Veterans Affairs (VA) National Acquisition Center PPV contracting officer. VHA will continue to ensure that data is available to the VA contracting officer for price analysis adjudication on a timely basis.

Completed

**Recommendation 4. We recommend that the Under Secretary for Health implement an oversight mechanism to properly segregate pharmaceutical ordering and receiving duties to ensure VA medical facility pharmacies prevent the possibility that a single employee is in a position to both perpetrate and conceal fraud**

VHA Response

Concur

VHA provided information about the requirement for separation of duties for ordering and receiving to the Veterans Integrated Service Network (VISN) Pharmacy Executives on March 27, 2012 and to the Chiefs of Pharmacy on March 27, 2012 and to the Chiefs of Pharmacy on March 21, 2012. VHA will require all Chiefs of Pharmacy to certify compliance with separation of duties for ordering and receiving via a SharePoint survey in June 2012. The results of the SharePoint survey will be reviewed by staff from the Office of the Deputy Under Secretary for Health for Operations and Management (DUSHOM) to ensure compliance. The DUSHOM will review the certifications and require any facilities

that have incomplete compliance to provide corrective action plans with appropriate timelines and milestones. The DUSHOM will monitor completion of the action plans.

In process                      NLT September 30, 2012

**Recommendation 5. We recommend that the Under Secretary for Health establish procedures to enforce current requirements for pharmacy staff receiving supplies to verify that items purchased have been received**

VHA Response

Concur

VHA provided information about the requirement to verify all items purchases have been received to the VISN Pharmacy Executives on March 27, 2012 and to the Chiefs of Pharmacy on March 21, 2012. VHA will require all Chiefs of Pharmacy to certify compliance with the requirement to verify all items purchased have been received via a SharePoint survey in June. The results of the SharePoint survey will be reviewed by staff from the DUSHOM to ensure compliance. The DUSHOM will review the certifications and require any facilities that have incomplete compliance to provide corrective action plans with appropriate timelines and milestones. The DUSHOM will monitor completion of the action plans.

In process                      NLT September 30, 2012

May 2012



## **Appendix D 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	Gary Abe, Director Kevin Day Sophia Demco Marisa Harvey Barry Johnson Tom Phillips Matt Rutter Ron Stucky
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