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VETERANS HEALTH ADMINISTRATION

Stronger Financial
Management Practices Are
Needed at VA's Maryland
Health Care System

REVIEW

REPORT #19-07719-113

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Executive Summary

There is a critical need for sound financial management practices within VA medical centers and their related clinics to ensure funds are used appropriately, effectively, and efficiently. Given the importance of these practices, the VA Office of Inspector General (OIG) conducted this review to determine if VA's Maryland Health Care System (HCS) effectively managed purchasing and payment for medical equipment and supplies. The review team also examined fiscal oversight of purchase cards and internal controls governing the use of overtime.

What the Review Found

The OIG found ineffective processes, internal control weaknesses, and inadequate oversight in five areas. Findings 1–3 address three aspects of financial management for equipment and supplies, and the remaining two findings focus on purchase card and overtime controls:

1. The Maryland HCS and the Enterprise Equipment Request Portal need improved controls for approving equipment purchases.
2. HCS staff and the prime vendor should prepare timely and accurate planning information to ensure adequate supplies are on hand to fill Maryland HCS orders.
3. Even though no inaccurate payments were identified in Maryland HCS's inventory, VA's inventory system needs controls to ensure correct recording of supply units and costs.
4. The Maryland HCS purchase card program requires closer monitoring to ensure that purchases are supported by documentation.
5. The Maryland HCS should strengthen its overtime payment controls to ensure that supervisors verify overtime hours were completed before approving the timecards for payment.

The Maryland HCS Needs Improved Controls for Approving Equipment Purchases

To assess whether the Maryland HCS effectively managed purchases and payment for medical equipment, the review team evaluated a statistical sample of 105 payments, totaling \$8.6 million, made during the first and second quarters of fiscal year (FY) 2019.¹ The team determined that Maryland HCS officials had not implemented a July 2016 requirement to use the Enterprise Equipment Request (EER) Portal tool for equipment purchases as of September 30, 2019.

¹ Appendixes A and B detail the review's scope and methodology, including sampling.

Instead, the Maryland HCS used an internally developed workflow request system referred to as the Light Electronic Action Framework (LEAF).

However, Maryland HCS logistics officials did not use LEAF to document advance approval of purchases as required. For 35 equipment purchases (payments for which totaled approximately \$2.2 million), Maryland HCS logistics officials were unable to provide documentation showing purchase requests were submitted and approved in LEAF, another system, or on paper.

Additionally, the review team determined that 15 of the 105 payments (totaling approximately \$600,000) that were recorded in LEAF did not have evidence that all required approvals were obtained or waived. As a result, the OIG considered the \$600,000 and the \$2.2 million in expenditures as questioned costs, for a total of \$2.8 million in questioned costs for 50 payments. (This amount is among the monetary benefits listed in appendix C.)

In October 2019, after an OIG site visit, the Maryland HCS discontinued the use of LEAF and implemented EER to process equipment requests. However, a review of the EER user manual and a comparison of FY 2020 equipment payments with EER system requests and approvals led the team to conclude that the previously discussed control weaknesses in LEAF could also occur in EER's equipment purchase approval process.² An EER user might consider an equipment purchase an "emergency," purchase it outside of EER, and not enter the purchase into EER. The review team concluded that without controls to validate whether a purchase is an emergency, nonemergency equipment purchases could also be inappropriately ordered as emergency items and the approval process could be circumvented. Also, the review team determined that from October 2019 through September 2020, the Maryland HCS paid approximately \$9.8 million for equipment purchases that lacked documentation showing they were approved as required.

Healthcare System Staff and the Prime Vendor Did Not Adequately Plan for Supply Purchases

The Medical/Surgical Prime Vendor-Next Generation (MSPV-NG) Program is a collection of contracts managed by VA's Healthcare Commodities Program Office. The contracts provide streamlined procurement and delivery of medical, surgical, dental, and select prosthetics and laboratory supplies. American Medical Depot was the prime vendor for the Maryland HCS and was contractually required to fill 95 percent of Maryland HCS purchase requests in FY 2019. However, the Maryland HCS did not provide the prime vendor with monthly supply usage information. As a result, the prime vendor did not maintain an adequate inventory of supplies, and American Medical Depot filled just 82 percent of HCS supply orders. In turn, the Maryland HCS did not achieve the potential cost savings associated with the MSPV-NG program. In FY 2019, Maryland HCS spent approximately \$132,000 more for supplies from

² *User's Guide, Enterprise Equipment Request Portal*, ver. 2.4, April 17, 2020.

other contractors when the prime vendor was unable to meet purchase requests within the needed time frame. The OIG considered the \$132,000 as funds that could be put to better use.

VA's Inventory System Needs Controls to Ensure Correct Recording of Supply Units and Costs

Although the Maryland HCS accurately paid and maintained supporting documentation for the entire OIG sample of 105 medical supply payments, Maryland HCS logistics staff often recorded inaccurate supply unit costs and inventory on hand in VA's Generic Inventory Package. These inaccuracies occurred when Maryland HCS logistics staff incorrectly recorded per-item costs. For example, if the Maryland HCS purchased a case of 24 bottles of water for \$24, the unit cost for the case is \$24, but the unit cost of the bottle is just \$1 at issuance. The Maryland HCS's logistics managers said that due to a lack of training, logistics staff incorrectly calculated unit conversion factors for supplies. Because logistics staff calculated incorrectly, the quantity on hand and value of medical supplies in the Generic Inventory Package system were often unreliable, which could result in the purchase of unnecessary supplies. More importantly, errors that indicate items are in inventory when they are not increase the risk that not enough supplies are purchased, which could have an adverse impact on patient care.

The Maryland HCS logistics staff significantly reduced the conversion factor errors from about 2,500 errors in July 2019 to fewer than 40 in February 2020. However, conversion factor reports showed an increase in errors to just over 90 instances in June 2020 and approximately 130 in February 2021. Because the number of errors decreased but then continued increasing, monitoring the conversion factor report should be an ongoing process to make certain that errors are promptly corrected.

The Maryland HCS Purchase Card Program Requires Closer Monitoring

The review team also separately reviewed the Maryland HCS's purchase card program. Government purchase cards enable authorized government employees to make purchases on behalf of the federal government in support of their organizations' missions, enabling agencies to simplify acquisition procedures and provide a low-cost, efficient vehicle for obtaining goods and services. However, purchase card approving officials for the Maryland HCS did not ensure that cardholders retained supporting documentation to verify that purchase card transactions were properly approved and payments were accurate. Cardholders did not follow guidance from the agency program coordinator regarding maintaining documentation for purchase card transactions. Based on the OIG team's sample, cardholders did not retain the required supporting documentation for approximately 9,800 of 26,000 purchase card transactions (38 percent). Due to the missing documentation, the team questioned all 9,800 transactions, totaling approximately \$2.6 million.

The Maryland HCS Properly Approved Overtime but Should Strengthen Its Overtime Payment Controls

Although the review team found that the Maryland HCS adequately documented approval for employees to work overtime, employees' first-line supervisors did not verify that the authorized hours were completed before approving the timecards for overtime payments. This lapse occurred because Maryland HCS senior leaders did not require staff to follow overtime approval procedures. Instead, the HCS relied on an informal overtime process that was not approved as HCS policy and disseminated to all staff. The overtime request and approval process required the employee to send an email to the front-line supervisor confirming that the authorized overtime was completed before payment was approved. Because the Maryland HCS did not provide documentation to verify that the approved overtime was completed for about \$20,000 of approximately \$22,000 in payments sampled, the OIG considered those payments as questioned costs.

What the OIG Recommended

The OIG made eight recommendations regarding the internal control and oversight issues identified in the review. For equipment purchases, the OIG recommended the Maryland HCS director implement internal controls to ensure all equipment requests are properly submitted and their approval documented in EER before purchase and payment. The Maryland HCS director should also implement controls to document the waiver of approvals ordinarily required to purchase an equipment item. Further, the Maryland HCS director should inform the appropriate Veterans Health Administration officials of the internal control weakness in EER for corrective action, if deemed necessary.

For the use and oversight of the MSPV-NG program, the OIG recommended the Maryland HCS logistics service develop a plan to work with the prime vendor to ensure estimated supply data are timely, accurate, and meet healthcare system supply requirements.

To correct the inaccuracies in supplies recorded in VA's Generic Inventory Package, the OIG recommended that the Maryland HCS logistics service implement a plan to monitor for unit conversion factor errors and correct them consistently and promptly.

To improve the oversight of purchase card transactions, the Maryland HCS director should establish controls to ensure cardholders comply with record retention requirements as stated in the Federal Acquisition Regulation and VA financial policy.

To strengthen overtime controls, the OIG recommended the Maryland HCS director disseminate policies and procedures for overtime to all staff. In addition, the director should implement policies and procedures for first-line supervisors to effectively monitor overtime worked and maintain documentation required to support related payments.

VA Management Comments

The director of the VA Capitol Health Care Network and the director of the VA Maryland Health Care System concurred with all eight recommendations and provided corrective action plans that are responsive to the recommendations for six of the recommendations.³ The directors did not provide acceptable corrective action plans for recommendations 2 and 4.

The Maryland HCS director requested closure of recommendations 2, 3, and 4. The network director also requested their closure, plus recommendation 7. The OIG considers all recommendations still open. The OIG will monitor the implementation of all planned actions and will close the recommendations when the Maryland HCS provides sufficient evidence demonstrating progress in addressing the intent of the recommendations and the issues identified. Appendixes D and E include the full text of the network director and Maryland HCS director comments, respectively.



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³ The Veterans Health Administration is organized into 18 regional networks called Veterans Integrated Service Networks (VISNs). Each VISN is led by a director who is responsible for the coordination and oversight of administrative and clinical activities at medical facilities within the network. VISN 5 is known as the VA Capital Health Care Network.

Contents

Executive Summary	i
Abbreviations	viii
Introduction.....	1
Results and Recommendations	4
Finding 1: The Maryland HCS Needs to Improve Controls for Approving Equipment Purchases.....	4
Recommendations 1–3	8
Finding 2: Healthcare System Staff and the Prime Vendor Did Not Adequately Plan for Supply Purchases	10
Recommendation 4	14
Finding 3: VA’s Inventory System Needs Controls to Ensure Correct Recording of Supply Units and Costs	15
Recommendation 5	18
Finding 4: The Maryland HCS Purchase Card Program Requires Closer Monitoring.....	19
Recommendation 6	21
Finding 5: The Maryland HCS Properly Approved Overtime but Should Strengthen Its Overtime Payment Controls.....	23
Recommendations 7–8.....	25
Appendix A: Scope and Methodology.....	27

Appendix B: Statistical Sampling Methodology29

Appendix C: Monetary Benefits in Accordance with Inspector General Act Amendments35

Appendix D: Management Comments, Director VA Capitol Health Care Network36

Appendix E: Management Comments, Director for VA Maryland Health Care System.....37

OIG Contact and Staff Acknowledgments44

Report Distribution45

Abbreviations

EER	Enterprise Equipment Request
FY	fiscal year
HCS	Health Care System
LEAF	Light Electronic Action Framework
MSPV-NG	Medical/Surgical Prime Vendor-Next Generation
OIG	Office of Inspector General
VHA	Veterans Health Administration
VISN	Veterans Integrated Service Network



Introduction

There is a critical need for sound financial management practices within VA medical centers and their related clinics to ensure funds are used appropriately, effectively, and efficiently. The VA Office of Inspector General (OIG) is increasingly focusing on these practices and initiated this review to examine the efficacy of the VA Maryland Health Care System's (HCS)

- financial management practices for equipment and supplies,⁴
- oversight of the purchase card program and risks associated with transactions, and
- internal controls governing the use and payment of overtime.

The OIG details five findings in this report. The first three relate to equipment and supplies, the fourth addresses the purchase card program, and the fifth pertains to overtime controls. The OIG made eight recommendations to improve the system's controls and monitoring capabilities that will help advance the strong stewardship of taxpayer dollars.

Before presenting the OIG's findings and recommendations in each of the areas examined, the report provides background information on the Maryland HCS structure and its investments in equipment and supplies, the extent to which purchase cards are used, and processes for approving overtime.

VA Maryland Health Care System Profile

The Maryland HCS, located within Veterans Integrated Service Network (VISN) 5, consists of nine facilities:⁵

- The Baltimore VA Medical Center is the acute medical and surgical care facility for the Maryland HCS.
- The Baltimore VA Annex is home to administrative and clinical support operations and offers a variety of outpatient services and veteran resource programs.
- The Loch Raven VA Medical Center offers specialized inpatient, outpatient, and primary care services.
- The Perry Point VA Medical Center provides comprehensive mental health care.

⁴ The review team analyzed budget object codes specific to supplies (expendable goods) and equipment (durable goods), which included medical, dental, and scientific equipment. However, the team did not differentiate by equipment types in its review of the sample.

⁵ The Veterans Health Administration is organized into 18 regional networks called VISNs. Each VISN is led by a director who is responsible for the coordination and oversight of administrative and clinical activities at medical facilities within the network. VISN 5 is known as the VA Capital Health Care Network.

- Five community-based outpatient clinics provide common outpatient services such as health and wellness visits.

Equipment and Supplies

Medical equipment used in patient care typically has a useful life of two years or more and costs more than \$300 to purchase. Some examples include instrument sterilization equipment, ultrasound machines, and microscopes. Beginning in fiscal year (FY) 2017, the Veterans Health Administration (VHA) mandated that medical centers and VISNs use the Strategic Equipment Planning Guide and the Enterprise Equipment Request Portal (EER) as the two main tools for strategically planning, requesting, and approving equipment purchases. During FY 2019—October 2018 thru September 2019—the Maryland HCS spent over \$15 million on equipment.

In contrast, supplies are expendable goods that are ordered and tracked using different tools and systems. Of the purchases reviewed by the team, medical and dental supplies included surgical, laboratory, and radiology supplies used in patient care and disposable goods or products that are typically used once, such as gloves, catheters, syringes, sutures, and x-ray film.⁶

An interactive dashboard called the Supply Chain Common Operating Picture tracks summary and individual performance metrics relating to purchasing and inventory levels for supplies. The dashboard metrics include use of the Medical/Surgical Prime Vendor-Next Generation (MSPV-NG) contracts, days of stock on hand, and inactive items (those not used for 90 days or more). The Generic Inventory Package, VA's system for tracking the receipt and distribution of supplies, provides the data in the dashboard for those metrics. The dashboard for VISNs and medical centers uses daily monitoring tools and makes them available for authorized user review.

Purchase Cards

These charge cards enable authorized government employees to make purchases on behalf of the federal government in support of their organizations' missions.⁷ Charge cards help agencies simplify acquisition procedures and provide a low-cost, efficient vehicle for obtaining goods and services directly from vendors. There are, however, strict limitations on when and how the cards can be used. These limitations ensure that government employees take advantage of prime vendor contracts that generally provide more favorable pricing and have been subject to more extensive administrative controls or oversight. The Maryland HCS used purchase cards for over \$37 million in transactions during FY 2019.

Due to the potential risks associated with purchase cards, it is important to have strong controls over business transacted with them. To that end, the Maryland HCS program coordinator for

⁶ VHA Directive 1761(2), *Supply Chain Inventory Management*, October 24, 2016, amended on October 26, 2018.

⁷ "GSA SmartPay Saves! The GSA SmartPay Program," General Services Administration website, accessed June 7, 2019, <https://smartpay.gsa.gov/content/about-gsa-smartpay>.

purchase cards provides local oversight of related policy and procedures. VA policy also requires cardholders to upload supporting documentation for purchase card transactions into an imaging system and to retain the documentation for six years in accordance with the Federal Acquisition Regulation.

Overtime

The Maryland HCS paid approximately \$1.8 million to employees working more than 40 hours of overtime over three pay periods during the period of review. Before permitting or requiring the performance of overtime work by an employee, supervisors must obtain proper authorization for overtime. Administration heads, assistant secretaries, and other key officials are authorized to prescribe overtime in their responsible areas and must ensure controls are in place to prevent abuse of overtime. Overtime, either voluntary or under emergency circumstances, may be authorized verbally or in writing.⁸ According to the acting executive assistant to the associate director of finance, Maryland HCS procedures require the front-line supervisor to approve the overtime in advance via email; then the employee must validate his or her completed overtime in an email to the direct supervisor.

⁸ VA Handbook 5007/51, part V, chap. 2, *Overtime and Compensatory Time Off*, August 3, 2017.

Results and Recommendations

Finding 1: The Maryland HCS Needs to Improve Controls for Approving Equipment Purchases

Although a July 2016 VHA memo required medical centers to use the EER portal tool to request and approve equipment purchases as of October 2016, the OIG found that as of September 30, 2019, the Maryland HCS was not using the portal tool.⁹ According to the logistics chief, the Maryland HCS needed to improve inventory accuracy rates before an effective transition to EER would be appropriate. In FY 2019, the physical inventory accuracy rate for equipment was 85 percent, below the VHA performance goal of 95 percent. Neither the Maryland HCS logistics managers nor the VISN chief logistics officer was able to provide the review team with the physical inventory accuracy rates for equipment in FY 2017 and FY 2018.

Instead of EER, Maryland HCS staff used an internally developed workflow system, the Light Electronic Action Framework (LEAF), to request and approve equipment purchases. Within this system, the review team determined that the Maryland HCS did not have adequate controls to ensure equipment requests were properly submitted and approved before payment, as required by federal government internal control standards.¹⁰ In some cases, there was no evidence that the requester entered the purchase request in LEAF, and in other instances purchase approval signatures were missing. Maryland HCS logistics managers stated that these actions were not taken because the equipment was not directly related to patient care. If accurate, officials still did not use LEAF to document the justification for or the person who approved the waiver.

In October 2019, after the review team conducted a site visit, the Maryland HCS implemented EER as required and stopped using LEAF. However, the review team concluded that EER (which is used at facilities other than Maryland HCS) also allows equipment purchases to be made that have not been approved, much like LEAF. Specifically, just as in LEAF, equipment can be ordered outside of EER, justified as an “emergency” purchase, and later entered into EER “for informational purposes.” However, the Maryland HCS does not have controls to validate that the purchase is truly an emergency.¹¹ In addition, there is no control to ensure equipment ordered outside of EER is entered for approval before payment. Therefore, a requester could order an equipment item outside of the EER portal, delay entering the request, or not submit the request in EER at all. In these situations, the item could still be received, and the payment could be made without approval in EER.

⁹ VHA, Memo 10NA2, “Mandatory Use of the Strategic Equipment Planning Guide and Enterprise Equipment Request Portal,” July 8, 2016.

¹⁰ GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014.

¹¹ *User’s Guide, Enterprise Equipment Request Portal*, ver. 2.3, September 10, 2018, and ver. 2.4, April 17, 2020.

The OIG found that in FY 2019 the Maryland HCS made 35 payments for equipment totaling \$2.2 million but the purchase requests were not submitted for approval in LEAF. Another 15 payments for approximately \$600,000 were submitted in LEAF but did not have the required approvals. The OIG therefore identified a total of \$2.8 million in questioned costs for these 50 payments, which are among the monetary benefits listed in appendix C.

Because the HCS had not yet implemented EER at the time of the OIG site visit, the team expanded its review to assess whether FY 2020 equipment purchase requests and approvals were documented in EER. For FY 2020, the review team verified that equipment requests were entered into EER but, as of March 1, 2021, none of the requests in EER to purchase equipment had been approved. Even without these approvals, the Maryland HCS made \$9.8 million in payments for equipment purchases in FY 2020. Also, according to HCS logistics leaders, Maryland HCS staff purchased about 37 equipment items in FY 2020. Therefore, the review team concluded that just as with LEAF, internal control weaknesses exist in EER and the HCS equipment purchase approval process.

What the OIG Did

To assess whether the Maryland HCS implemented effective financial management over purchases of equipment, the review team evaluated a statistical sample of 105 payments, totaling \$8.6 million, made during the first and second quarters of FY 2019.¹² The team sampled data from VA's Financial Management System, interviewed VISN 5 leaders and Maryland HCS managers and staff, analyzed the equipment purchase and approval process, reviewed controls in LEAF and EER, and assessed the appropriateness of payments for the 105 transactions in the sample. In addition, the team analyzed whether equipment acquisitions were approved before purchase and payment.

This finding focuses on two areas of deficiency in equipment purchases:

- Equipment purchases were not requested and approved in LEAF, and some documented waivers were also missing signatures.
- Inadequate controls for purchase approvals identified in LEAF persist in EER.

Equipment Purchases Were Not Requested and Approved in LEAF and Some Documented Waivers Were Also Missing Signatures

Managers are responsible for implementing an effective internal control system that includes reasonable safeguards for preventing an unauthorized purchase.¹³ As previously mentioned, the review team found that Maryland HCS logistics officials were unable to provide documentation

¹² See appendixes A and B for a detailed description of the review team's sampling methodology.

¹³ GAO, *Standards for Internal Control in the Federal Government* GAO-14-704G, September 2014.

showing that equipment purchases during FY 2019 for 35 payments (totaling approximately \$2.2 million) were requested and approved in advance in LEAF, as required. Maryland HCS logistics staff were also unable to provide evidence to document that the purchase requests were submitted and approved in another system or in writing. Documentation was unavailable because the logistics officials did not have adequate controls during the period that system was used to ensure requests were submitted and approved in LEAF before equipment was purchased and payments were made. Also, according to the HCS logistics chief, Maryland HCS staff did not submit the equipment purchase requests in LEAF for approval. Regardless of the system used, the review team concluded that strong controls are needed to ensure equipment purchases are requested and approved before payment, in accordance with VHA policy.

The review team also identified an internal control weakness regarding the approvals required for equipment purchases that were submitted to LEAF. Specifically, equipment requests for 15 of 105 payments (totaling approximately \$600,000) in the review team's sample were submitted but did not include evidence in LEAF that all required approvals were obtained. The LEAF system was designed to require seven electronic signatures for approving purchases, but seven of the 15 payments were missing approvals from biomedical engineering, and the other eight lacked approvals from other areas of the facility. LEAF did not contain documentation to support that any of the approvals were waived. As a result, the OIG considered the \$600,000 in expenditures as questioned costs, for a total of \$2.8 million in questioned costs.

The OIG concluded that, as the Maryland HCS moves forward with EER, it needs to improve its controls to ensure equipment purchases are submitted and approved as required.

Inadequate Controls for Purchase Approvals Persist in EER

Because the Maryland HCS did not implement EER until after the review team's site visit, the team was unable to assess how equipment purchases were processed and approved in EER. However, by reviewing the equipment purchase and approval process in the EER user guide and comparing FY 2020 equipment payments to EER system requests and purchase approvals, the team concluded that the previously discussed control weaknesses in the LEAF equipment purchase approval process could also occur in EER.¹⁴ The EER user guide states that if the purchase of an equipment item is considered an emergency, the item may be purchased outside of EER and entered later "for informational purposes." However, the EER user guide does not include a requirement to enter an emergency equipment purchase request within a specified period. The review team found that six of the 35 equipment payments not requested or approved in LEAF were ostensibly for emergency purchases. As in LEAF, an EER user might consider an equipment purchase an "emergency," purchase it outside of EER, and not enter the purchase into EER for approval before payment. If the requester does not submit an emergency purchase

¹⁴ *User's Guide, Enterprise Equipment Request Portal.*

request immediately upon ordering the item, equipment could be paid for based on shipping documents and invoices without being approved in EER. The review team concluded that without controls in EER to validate whether a purchase is an emergency, users could order nonemergency equipment as emergency items and circumvent the approval process.

Although controls do exist in EER for approval of certain types of purchases (such as x-ray and laser equipment), those controls do not apply to items that the purchaser deems an “emergency.” Emergency equipment purchases only require the requester to explain why the request is an emergency; no one outside the requesting organization is required to validate that the request is an emergency. The review team concluded that, for equipment ordered outside of EER and deemed “emergency” equipment, VA should implement controls to ensure that the request is an emergency, entered in EER, and approved before payment. Otherwise, much as in LEAF, unauthorized equipment purchases could be repeated in EER.

In FY 2020, after EER had been implemented, the Maryland HCS paid an estimated \$9.8 million for equipment. The OIG determined that from October 2019 through September 2020, almost 160 HCS emergency and nonemergency equipment requests were entered into the EER portal. According to HCS logistics leaders, 37 equipment purchases were approved by the HCS facility equipment committee verbally and via email. However, the review team determined the EER portal did not contain documentation to show that any of the facility equipment committee members had voted to approve the 37 purchases as required by VHA policy.

The OIG concluded that Maryland HCS staff purchased almost \$10 million of equipment in FY 2020 without the required approvals documented in EER. This finding is consistent with the internal control weakness the team identified during the review of FY 2019 equipment purchases in LEAF.

Finding 1 Conclusion

During the three years that the Maryland HCS used LEAF instead of EER, LEAF's inadequate controls contributed to improper approvals for purchasing and paying for equipment, totaling approximately \$2.8 million in questioned costs.¹⁵ While the Maryland HCS implemented EER in October 2019, it too is subject to control weaknesses for questionable equipment purchases and payments. Therefore, the OIG determined the Maryland HCS director should ensure all equipment purchases are approved by the facility equipment committee in the EER portal in accordance with VHA policy. In addition, the director should inform VHA officials of the control weakness in EER found during this review so they can take necessary corrective actions.

¹⁵ 2 C.F.R. § 200.84. The term “questioned cost” includes a cost that is questioned by the auditor because of an audit finding where the costs, at the time of the audit, are not supported by adequate documentation.

Recommendations 1–3

The OIG made three recommendations to the Maryland Health Care System director regarding finding 1:

1. Implement internal controls for healthcare system staff to submit and document approvals for all equipment requests in the Enterprise Equipment Request Portal before ordering and paying for equipment.
2. Implement a control requiring staff to justify the waiver of any healthcare system approvals ordinarily required to purchase equipment in the Enterprise Equipment Request Portal.
3. Inform the deputy under secretary for health for operations and management for procurement and logistics of the internal control weakness in the Enterprise Equipment Request Portal and request a response regarding whether corrective action is necessary.

VA Management Comments

The directors of the VA Capitol Health Care Network and the VA Maryland HCS concurred with recommendations 1–3. Their responses to all report recommendations are provided in full in appendixes D and E.

To address recommendation 1, the VA Maryland HCS director reported the facility will continue implementing its current equipment purchase and approval process, which started during the first quarter of FY 2020. In addition, the HCS will implement quarterly audits of “all equipment submissions and purchases” to ensure compliance, which will also be reported monthly, and clarify relevant committee roles and processes for equipment approval. For recommendation 2, the director reported that most HCS system staff do not have unrestricted ability to waive healthcare system approvals. The director stated only the HCS equipment committee co-chairs have been designated to approve equipment requests on an emergency basis. For recommendation 3, the director stated the VISN director will inform the deputy undersecretary for health for operations and management for procurement and logistics that the OIG identified a control weakness in EER.

OIG Response

While the Maryland HCS director requested closure of recommendation 2 based on the current HCS processes, the OIG identified that compliance with the stated processes was being bypassed and additional controls are needed. Therefore, a responsive action plan and completion date are still necessary. The network director also requested closure of recommendation 3, for which the Maryland HCS provided a responsive action plan in addition to an acceptable plan for implementing the first recommendation. The OIG considers all three recommendations open

until the HCS has provided sufficient evidence to demonstrate the planned actions have been implemented and that they effectively addressed the intent of the OIG's recommendations.

Finding 2: Healthcare System Staff and the Prime Vendor Did Not Adequately Plan for Supply Purchases

The Medical/Surgical Prime Vendor-Next Generation (MSPV-NG) Program is a collection of contracts managed by VA's Healthcare Commodities Program Office. The contracts provide streamlined procurement and delivery of medical, surgical, dental, and select prosthetic and laboratory supplies to VA medical centers, which are required to use the MSPV-NG program to purchase supplies when possible.¹⁶ Further, for supply inventory planning purposes, VA medical centers should provide the prime vendor with facility usage data for supplies. The prime vendor is required by contract to fill at least 95 percent of the supply orders from the Maryland HCS.

This finding addresses three issues:

- The healthcare system did not consistently assess demand for supplies to improve prime vendor monthly supply estimates.
- American Medical Depot could not meet contract requirements to fill FY 2019 orders because the Maryland HCS did not provide timely feedback needed to maintain proper supply levels.
- The Maryland HCS did not meet VA's goal for using the prime vendor contract to achieve cost savings.

What the OIG Did

The review team assessed the Maryland HCS's purchasing practices for medical supplies according to VA's MSPV-NG program goal. The team interviewed Maryland HCS managers and staff; reviewed criteria for purchasing MSPV-NG medical supplies; and assessed the Maryland HCS's processes, controls, and procedures for meeting the MSPV-NG goal. Further, the review team analyzed data for supplies purchased via MSPV-NG from October 1, 2018, through September 30, 2019, to assess the Maryland HCS's practices for purchasing medical supplies.

The Healthcare System Did Not Consistently Assess Demand for Supplies to Improve Prime Vendor Monthly Supply Estimates

According to the contract, the prime vendor is required to make monthly inventory supply recommendations to the HCS. Specifically, the prime vendor must monitor facility demand patterns, provide inventory recommendations to bring new line-items into stock when indicated, and remove stock items that are no longer in demand. The MSPV-NG contract prohibits the

¹⁶ VHA, Memo 10N, "Transition to Medical Surgical Prime Vendor Next Generation Program," November 23, 2016.

prime vendor from making changes to product usage data without documented facility concurrence. Therefore, it is important that HCS logistics staff consistently analyze, update, and provide timely feedback to the prime vendor regarding commitment levels for supplies and product usage. To assist in planning for future supply needs, and in compliance with the contract, the prime vendor requested that the HCS provide a list of supplies ordered at least once a month. This list would serve as the HCS's best estimate for 30-day usage. According to its deputy logistics chief, the HCS tried to prepare the usage analysis, but staff were unable to perform the analysis due to higher-priority workload requirements. The HCS deputy logistics chief provided a written response to the review team's question regarding planning for and establishing commitment levels for supplies:

[American Medical Depot] has pressured us (and other facilities) to enable them to do "blanket commitments." This is where [American Medical Depot] does the predictive usage analysis and then asks us to validate their estimates. Prior to June of this year [2019], we resisted this and did our own analysis. Where we ran into issues is that we simply couldn't devote the man-hours to it without other things falling by the wayside. In early June [2019], we agreed to authorize blanket commitments. What we've learned since then is that we still have to devote time and effort into deep diving their recommendations ourselves. If we don't, [American Medical Depot] will either under-commit our levels and short us, or over-commit us and put us in the position of having to pay them for product committed to, but not subsequently ordered.

Maryland HCS logistics officials provided the review team with nine canceled order reports prepared by the prime vendor in May and June 2019. The reports show that American Medical Depot was unable to meet Maryland HCS requests to fill about 180 supply items for the following reasons:

- The HCS did not provide a commitment level to the prime vendor.
- The HCS did not update the commitment level before the purchase request.
- The requested items were no longer on the formulary (the catalog or list from which facilities can order supplies).
- The requested items were on backorder because the prime vendor did not have the supplies on hand.

American Medical Depot provided fill-rate reports, which show if it met the 95 percent contract requirement to fill orders for the facility. The reports documenting the FY 2019 monthly fill-rate percentages showed the prime vendor did not meet the required 95 percent fill rate in any month in FY 2019. The average fill rate was 82 percent, and the monthly percentages for FY 2019 ranged from 71 to 91 percent, as shown in figure 1.

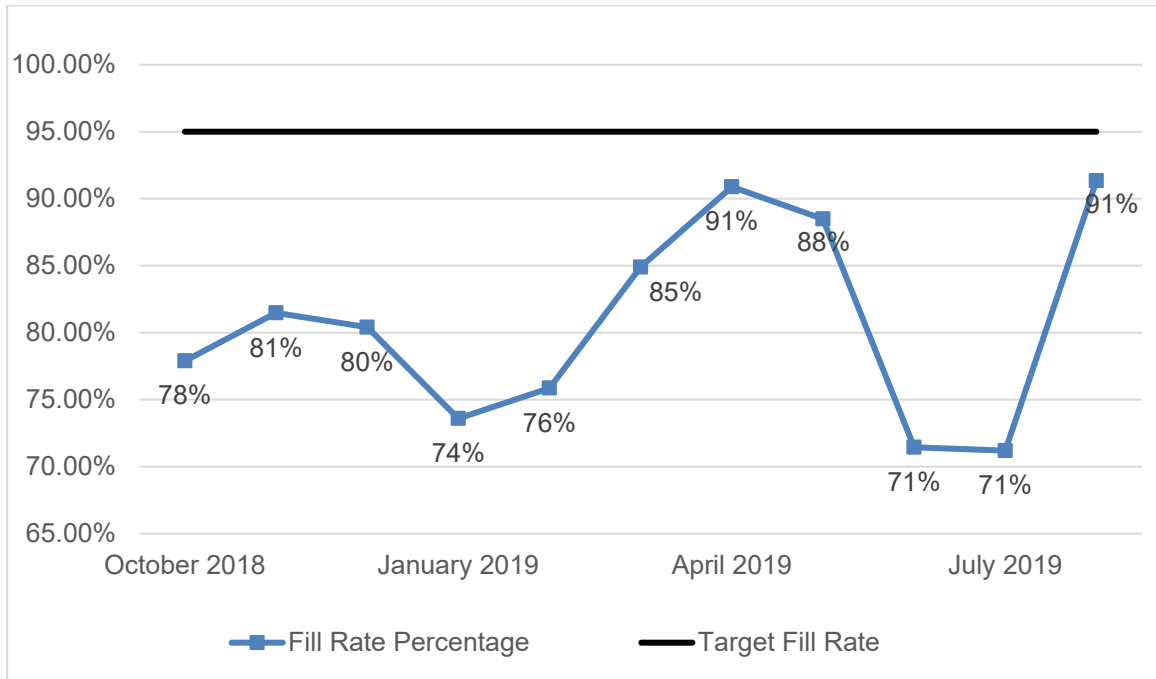


Figure 1. American Medical Depot fill rates, October 2018–August 2019.

Source: American Medical Depot reports obtained from the Maryland HCS.

Note: The OIG requested the September 2019 fill rate, but the Maryland HCS did not provide it.

Based on the OIG review of canceled order reports and fill-rate reports, both the prime vendor and the Maryland HCS need to improve planning for supply purchases. The review team concluded American Medical Depot was unable to fill supply purchase requests because the Maryland HCS did not consistently provide the prime vendor with critical feedback regarding usage and commitment levels in a timely manner. Also, the prime vendor did not consistently ensure supplies were on hand to meet HCS supply needs.

American Medical Depot Could Not Meet FY 2019 Contract Requirements because Maryland HCS Did Not Always Provide the Information Needed to Maintain Proper Supply Levels

As one of four vendors used for the MSPV-NG program, American Medical Depot was the prime vendor for the Maryland HCS and was contractually required to fill 95 percent of Maryland HCS purchase requests in FY 2019.¹⁷ However, American Medical Depot filled an average of 82 percent of HCS supply orders because it did not receive estimated monthly supply usage information, which affected available supply levels.

¹⁷ According to VHA officials, American Medical Depot’s contract was terminated for cause effective August 1, 2020.

The Maryland HCS, in turn, did not consistently achieve the potential cost savings associated with the MSPV-NG program. Prime vendor contracts typically offer better negotiated pricing than can be obtained from another vendor. Specifically, in FY 2019, the review team determined Maryland HCS spent approximately \$132,000 more for supplies from other contractors when the prime vendor was unable to meet purchase requests within the needed time frame. The review team considered the \$132,000 as funds that could be put to better use.¹⁸

The HCS Did Not Meet VA's Goal for Using the Prime Vendor Contract to Achieve Cost Savings

VA set a utilization goal as the primary metric for measuring the success of the MSPV-NG program and to assess if it meets medical center needs. Specifically, the Healthcare Commodities Program Office's recommended utilization goal is for VA medical centers to purchase 90 percent of items available through the MSPV-NG program formulary.¹⁹

The Maryland HCS's overall MSPV-NG formulary utilization rate averaged 73 percent in FY 2019. Figure 2 shows the FY 2019 monthly MSPV-NG utilization rates.

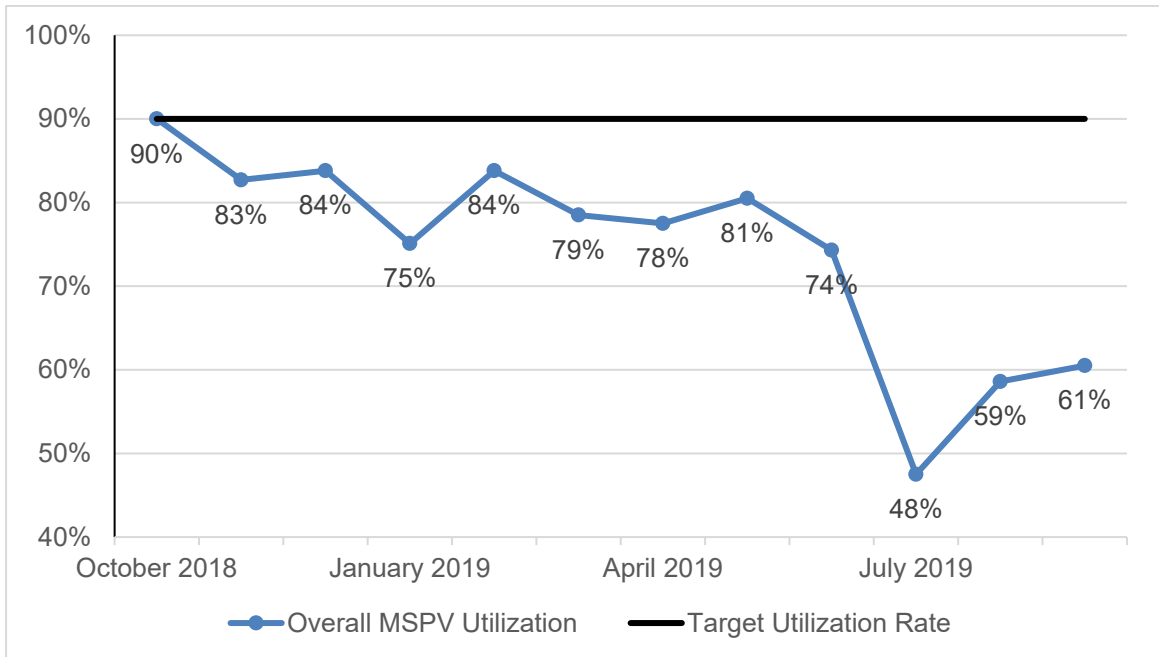


Figure 2. Maryland HCS's overall MSPV-NG formulary use, October 2018–September 2019.

Source: VA OIG analysis of the Supply Chain Common Operating Picture MSPV formulary utilization report.

The Maryland HCS only met the 90 percent goal in October 2018. The significant drop in the July 2019 recorded rate was due to an information technology system update that affected order

¹⁸ Inspector General Act of 1978, as amended, current through Pub. L. 113-126, enacted July 7, 2014.

¹⁹ The Healthcare Commodities Program Office, an entity within VHA's Procurement and Logistics Supply Chain Program Office, oversees strategic sourcing efforts for supplies ordered through the MSPV-NG program.

tracking. Further, the review team estimated that the Maryland HCS was unable to achieve about \$132,000 in cost savings on the purchases of lower-cost medical supplies available from the prime vendor in FY 2019.

Finding 2 Conclusion

Supplies should be available when and where they are needed to meet veterans' healthcare needs. The prime vendor contracts are meant to help achieve that goal while making the most effective use of taxpayer dollars. The Maryland HCS and prime vendor did not effectively plan and communicate requirements for supplies. Inaccurate or untimely product usage information makes it difficult for a prime vendor to fulfill supply orders. The HCS should better assist the prime vendor's efforts to meet facilities' supply needs. In addition, the prime vendor should improve its planning efforts and ensure supplies are on hand to consistently fill HCS purchase requests in accordance with the contract rate.

Recommendation 4

The OIG made the following recommendation to the Maryland Health Care System director:

4. Require the logistics service to develop a plan for working with the prime vendor to ensure historical and current estimated supply data are timely, accurate, and meet healthcare system supply requirements.

VA Management Comments

The Capitol Health Care Network and VA Maryland HCS directors concurred with recommendation 4. To address recommendation 4, the VA Maryland HCS director reported on past and ongoing actions since January 2018. The director noted that the facility will continue to verify usage data on a regular basis and hold meetings with the MSPV-NG on-site representative.

OIG Response

While the facility and network directors requested closure of the recommendation, the OIG will monitor how the ongoing and planned communications detailed in the VA response will remediate the identified problems. The OIG will close the recommendation upon receiving sufficient evidence demonstrating progress in addressing the intent of the recommendation and the issues identified.

Finding 3: VA's Inventory System Needs Controls to Ensure Correct Recording of Supply Units and Costs

The Maryland HCS accurately paid and maintained supporting documentation for the entire OIG sample of 105 medical supply payments reviewed. However, supply unit costs and inventory on hand were inaccurate in VA's Generic Inventory Package. These inaccuracies occurred when Maryland HCS logistics staff recorded incorrect calculations for per-item costs.

For example, if the Maryland HCS purchased a case of 24 bottles of water for \$24, the unit cost when purchased is the price of the case, which is \$24. However, if the water is issued to Maryland HCS staff one bottle at a time, the unit cost when issued is the price of the bottle, which is \$1. In this scenario, the difference is \$23, requiring Maryland HCS logistics staff to complete calculations that ensure the unit cost when issued, inventory on hand, and the value of supply items are accurate in the Generic Inventory Package system. To reconcile the unit cost when purchased and the unit cost when issued, the logistics staff therefore had to divide the cost of the case by 24 to reach the cost of each unit. This number is called the conversion factor.

A conversion factor is required for all supply purchases. However, the Maryland HCS's logistics managers said that due to a lack of training, logistics staff incorrectly calculated unit conversion factors for supplies. Moreover, Maryland HCS logistics managers did not address the errors in a timely manner. If unit conversion factor errors are not promptly corrected, the Maryland HCS risks being unable to effectively plan and budget for the purchase of medical supplies to meet patient care needs. In addition, these errors caused the quantity-on-hand and value of medical supplies in the Generic Inventory Package system to be unreliable. Unreliable inventory quantities could result in the purchase of unnecessary supplies. More importantly, errors indicating that items are in inventory when they are not increase the risk that not enough supplies are purchased, which could have an adverse effect on patient care.

What the OIG Did

To assess whether the Maryland HCS implemented effective financial management practices for purchasing medical supplies, the review team analyzed the controls and accuracy of payments for supplies based on data obtained from the VA Financial Management System. Specifically, the team analyzed purchase orders, invoices, and receiving reports for 105 payments for supplies made in the first two quarters of FY 2019 to examine whether there was proper authorization, payment, and receipt. In addition, the review team obtained inventory management reports to assess the accuracy of the quantity and dollar value of supplies purchased and on hand.²⁰ The team considered the effectiveness of controls meant to ensure medical supplies were purchased

²⁰ See appendixes A and B for a detailed description of the review team's sampling methodology.

based on accurate and reliable inventory data. The review team also conducted interviews with Maryland HCS managers and staff.

Supply Costs and Inventory Data Were Inaccurate Due to Unit Conversion Factor Errors

The unit conversion factor is computed by dividing the quantity purchased by the quantity issued. Because logistics staff often incorrectly entered the unit conversion factors, they caused inaccuracies in the Generic Inventory Package system for the unit-of-issue cost, dollar value of the supplies, and quantity on hand.

In the Generic Inventory Package, an accurate unit cost for individual supply items is necessary to determine both the cost and the value of the supply inventory. The review team examined a conversion factor report received in July 2019 that identified unit cost conversion errors. The report identified approximately 2,500 supply items for which Maryland HCS logistics staff entered an inaccurate conversion factor. The review team found that Maryland HCS logistics managers did not ensure their staff were properly trained on how to calculate the factor. The unit conversion factor only equals 1 when the unit of purchase and the unit of issue are the same. For example, the purchase of a box containing 12 needles must also be issued to the end user as a complete box of 12 in order for the unit conversion factor to be 1. However, if the needles are issued one at a time, the conversion factor is 12 (quantity purchased of 12 divided by quantity issued of 1). The Maryland HCS logistics managers acknowledged that the unit conversion factor was a systemic issue because a conversion factor of 1 was consistently and incorrectly entered even when the unit of purchase and unit of issue differed.

For example, the Maryland HCS purchased a case of rubber gloves containing 200 pairs for \$325.28. Accordingly, the Generic Inventory Package identified the unit of purchase cost based on the price of one case at \$325.28. However, according to HCS staff, the gloves are issued one pair at a time and not one case at a time. Therefore, a unit conversion factor other than 1 was needed. Instead, the factor should have been 200 (for the 200 pairs of gloves purchased divided by one pair of gloves issued at a time). As a result of the error, the Generic Inventory Package incorrectly calculated the unit cost when issued of a single pair of gloves to be \$325.28 instead of the correct cost of \$1.63 ($\$325.28/200$). This error overstated the unit price by \$323.65 per pair of gloves. According to the Generic Inventory Package, as of August 2019, 130 of the 200 pairs of gloves purchased in April 2019 remained in inventory. The total value of the gloves on hand was inaccurately reported as \$42,286 ($\325.28 per pair for 130 pairs). The correct value on hand for those gloves should have been \$212 ($\1.63 per pair for 130 pairs). This error caused the inventory value on hand to be overstated by more than \$42,000.

The logistics managers acknowledged the conversion factor errors and that these errors changed the valuation of the Maryland HCS medical supply inventory. After the review team brought this issue to the managers' attention in July 2019, Maryland HCS logistics staff worked to reduce the

errors. As a result of their efforts, unit conversion factor errors decreased from approximately 2,500 in July 2019 to almost 40 in February 2020. However, updated reports the review team obtained showed an increase to just over 90 errors in June 2020 and about 130 in February 2021. Therefore, although the conversion factor errors were reduced, monitoring the conversion factor report should be a recurring process to make certain that errors are promptly corrected. To that end, Maryland HCS logistics managers decided that only a select number of staff who had been properly trained on how to compute the factor would be allowed to enter it into the Generic Inventory Package. Although the unit conversion factor errors caused the inventory values and quantity on hand to be unreliable, the review team found that all 105 payment transactions were adequately supported by purchasing, receiving, and invoice documents.

An accurate unit conversion factor is necessary for the inventory controls to automatically compute the correct amount of stock on hand and autogenerate supply purchase orders when the reorder point is met.²¹ VHA guidance requires the use of the autogenerate function for creating orders to replenish inventory.²² However, because the unit conversion factor was inaccurate, Maryland HCS logistics staff could not effectively use the automated reorder capability in the Generic Inventory Package. Instead, facility staff relied primarily on manual counts to determine when to purchase medical supplies. The physical inventory accuracy rates using manual counts were 47 percent for FY 2018 and 69 percent for FY 2019, both of which fell below the VHA goal of 95 percent accuracy.

Finding 3 Conclusion

The review team determined the Maryland HCS needs to improve the accuracy of recorded unit costs to effectively plan and budget for medical supply purchases that can promptly meet patient care needs. Incorrect supply unit costs could result in wasted funds for unnecessary purchases and diminish the Maryland HCS's ability to ensure adequate funds are available to meet other patient care needs. Overstocking items can also result in greater risks of expiration, degradation, or loss and can take up valuable storage space. Processes and controls regarding unit costs and inventory values must be effectively implemented to reduce the risk of unexpected shortages of critical items.

²¹ VHA, *Integrated Funds Distribution, Control Point Activity, Accounting and Procurement (IFCAP) Version 5.1 Generic Inventory User's Guide*, October 2000, rev. October 2011. The autogenerate function in the Generic Inventory Package identifies all supplies in the inventory system that are at or below the standard reorder point.

²² VHA Directive 1761(2).

Recommendation 5

The OIG made one recommendation to the Maryland Health Care System director:

5. Ensure the logistics service implements a plan to monitor for and correct unit conversion factor errors consistently and promptly.

VA Management Comments

The directors of the VA Capitol Health Care Network and the VA Maryland Health Care System concurred with recommendation 5. To address recommendation 5, the VA Maryland HCS director reported that the expendables logistics management specialist

will continue to review the Generic Inventory Package (GIP) “Conversion Factor” and SCRT Tool “Conversion Factor Report” and take corrective action weekly to ensure all items have appropriate conversion factors and pricing data is being corrected in GIP at all facilities.

The expendables logistics management specialist will report to the chief supply chain manager every month for six consecutive months to ensure there is sustained compliance.

OIG Response

The VA Maryland HCS director's action plan is responsive to the recommendation. The OIG will monitor implementation of the planned actions and will close the recommendation when the OIG receives sufficient evidence demonstrating progress in addressing the intent of the recommendation and the issues identified.

Finding 4: The Maryland HCS Purchase Card Program Requires Closer Monitoring

In addition to the equipment approval system discussed in finding 1, the review team assessed purchase card transactions and found that approving officials for the Maryland HCS did not perform effective oversight. Cardholders should have retained supporting documentation to verify that purchase card transactions were properly approved and that payments were accurate. However, as discussed in further detail in this finding, Maryland HCS audits confirmed that complete supporting documentation for purchases was lacking, constituting a significant vulnerability. Proper supporting documentation could reduce the risk of inaccurate or improper payments and unauthorized purchases.

VA financial policy requires cardholders to upload and store supporting documents for purchase card transactions electronically to a VA-approved document imaging system in accordance with the Federal Acquisition Regulation.²³ The OIG determined, however, that as of October 2020, the imaging system was still under development and had not been deployed. In the absence of an imaging system, the Maryland HCS did not use effective alternate processes and controls to ensure cardholders maintained required supporting documentation for purchase card transactions in accordance with the Federal Acquisition Regulation and VA policy.

In FY 2019, the Maryland HCS purchase card coordinator provided interim guidance and training to address the deficiencies identified in documentation for purchase card transactions. However, the actions taken did not resolve the problem with maintaining documentation. Due to the inadequate supporting documentation for purchase card transactions, the OIG could not determine if the purchases were properly approved or if payments were accurate. As a result, the OIG considered the estimated \$2.6 million in payments as questioned costs.²⁴

What the OIG Did

The OIG reviewed the purchase card program separately from the system of approvals for equipment discussed in finding 1. The review team did not look at purchases of any particular type of item but looked at purchase card use broadly in the Maryland HCS. From a population of approximately 26,000 purchase card transactions, the review team selected and examined a statistical sample of 105 purchase card transactions, totaling \$803,269, made by Maryland HCS cardholders during the first two quarters of FY 2019.²⁵ The team reviewed supporting documentation to verify the purchases were approved, the correct amount was paid, and goods or

²³ VA, *Financial Policy*, vol. XVI, "Charge Card Program," chap. 1B, June 2018.

²⁴ 2 C.F.R. § 200.84. The term "questioned cost" includes a cost that is questioned by the auditor because of an audit finding where the costs, at the time of the audit, are not supported by adequate documentation.

²⁵ See appendixes A and B for a detailed description of the review team's sampling methodology.

services paid for were received. The review team also assessed whether there were potential split purchases or duplicate payments.²⁶ The supporting documentation included approved purchase requests, purchase orders, vendor invoices, and evidence of the receipt of goods. The team also reviewed applicable criteria, policies, and procedures, and interviewed managers and staff responsible for purchase card oversight at the facilities in the Maryland HCS.

Procedures Were Insufficient to Ensure Purchase Cardholders Maintained Supporting Documentation for Transactions

In accordance with the Federal Acquisition Regulation, VA financial policy requires cardholders to maintain documentation supporting purchase card transactions for a minimum of six years.²⁷ However, the Maryland HCS did not make certain that there were appropriate systems and procedures for complying with this requirement. Cardholders should upload and store all original, unaltered supporting documents electronically to a VA-approved document imaging system. The supporting documentation includes approved purchase requests, vendor invoices, receipts, purchase orders or electronic requests, packing slips or receiving reports, and any other pertinent documentation. This documentation can be divided between purchase approval documentation, which includes approved purchase requests, and payment accuracy documentation, which includes invoice and receiving reports to validate payments for goods received. Some transactions were missing approval documentation, some were missing payment accuracy documentation, and some were missing both. Because of the missing documentation, the review team estimated based on its sample that the required supporting documentation was not retained for some 9,800 of 26,000 purchase card transactions (38 percent), totaling approximately \$2.6 million in questioned costs (table 1 and appendix B, table B.3).

Table 1. Questioned Cost Transaction Documentation

Number of transactions	Approval documentation	Payment accuracy documentation
4,900	No	Yes
3,100	Yes	No
1,800	No	No
9,800		

Source: VA OIG estimates based on transactions from October 2018 through March 2019.

²⁶ VA Financial Policy, vol. XVI, chap. 1B, “Charge Card Program,” June 2018. Split purchases occur when a cardholder intentionally modifies a known requirement into two or more purchases to circumvent the micropurchase threshold (\$10,000) for a single purchase. The review team did not find any split purchases or duplicate payments.

²⁷ VA Financial Policy.

According to the HCS purchase card coordinator, the National Purchase Card office at VA's Financial Services Center is responsible for deploying a VA-approved document imaging system for the facility to implement. However, without the required imaging system, the purchase card program coordinator instructed cardholders to keep the current and previous year's documentation at their desk or in a locked file. Also, Maryland HCS purchase card program officials provided guidance to cardholders about what constituted adequate supporting documentation. Even with this guidance, purchase cardholders could not provide required documentation for 44 of the 105 sampled transactions (42 percent) the review team tested, indicating that oversight and instruction provided to cardholders was not effective.

Audits completed by the purchase card coordinator during the first three quarters of FY 2019 identified incomplete supporting documentation for purchases as the most significant challenge related to purchase cards. Each HCS audit recommended that approving officials review documentation of all reconciled transactions to ensure it was adequate to support the purchase card transactions. However, based on the OIG review team's findings, the Maryland HCS's actions to address the recommendations were not effective.

Finding 4 Conclusion

The OIG found that the Maryland HCS lacked effective oversight of the purchase card program, consistent with the findings of its own purchase card coordinator. To advance the effective stewardship of taxpayer funds, the Maryland HCS needs to improve oversight of the purchase card program by ensuring purchase cardholders retain any transaction documentation required by the Federal Acquisition Regulation, VA policy, and Maryland HCS procedures. Further, effective oversight of the purchase card program would mitigate the risks associated with unauthorized purchases and improper payments.

Recommendation 6

The OIG made the following recommendation to the Maryland Health Care System director:

6. Establish processes and controls for cardholders to comply with the record retention requirements in the Federal Acquisition Regulation and VA's Financial Policy, Volume XVI, "Charge Card Program."

VA Management Comments

The directors of the VA Capitol Health Care Network and the Maryland HCS concurred with recommendation 6, and the VA Maryland HCS director reported that all purchase cardholders will be retrained. Additional audits will be completed to verify policy is being followed.

OIG Response

The Maryland HCS director's corrective action plan is responsive to the recommendation. The OIG will monitor implementation of the planned actions and will close the recommendation when the OIG receives sufficient evidence demonstrating progress in addressing the intent of the recommendation and the issues identified.

Finding 5: The Maryland HCS Properly Approved Overtime but Should Strengthen Its Overtime Payment Controls

Another financial management challenge involves the proper approval of and accurate supporting documentation for overtime. VA policy provides general guidance on overtime usage but does not specify how supervisors should approve overtime for employees.²⁸ The OIG found that the Maryland HCS adequately documented approval for employees to work overtime. However, the OIG found missing employee emails to support approval of timecards for overtime payments. Per policy, such emails are required to be reviewed by first-line supervisors. Further, Maryland HCS senior leaders did not establish a written process that required staff to follow the overtime approval procedures. Instead, the HCS relied on an overtime process that was neither approved as HCS policy nor disseminated to all staff. As a result, the Maryland HCS should consider how to effectively mitigate the risks associated with potential fraud, waste, and abuse of overtime. Because the Maryland HCS did not provide documentation to verify that the approved overtime was completed for about \$20,000 of approximately \$22,000 in payments sampled, the OIG considered those payments as questioned costs.

What the OIG Did

The review team statistically selected two samples to review overtime. Initially, to assess the controls for approving employees to work overtime, the team sampled 60 employees who worked 40 or more hours of overtime for at least three pay periods during the first two quarters of FY 2019. Then, to evaluate the Maryland HCS's process for approving the related overtime payments, the review team selected a second sample that included a review of four overtime payments for 19 of the 60 employees in the original sample.

Maryland HCS Outlined Overtime Procedures

The Maryland HCS acting executive assistant outlined the email review process for approving overtime and preventing overtime abuse:

1. The first-line supervisor authorizes the employee to work overtime.
2. The employee completes the preapproved overtime.
3. The employee sends an email to his or her direct supervisor and timekeeper to confirm overtime has been completed as authorized.
4. Subsequently, the timekeeper posts the premium pay allotment into the time and attendance system. Doing this prompts the first-line supervisor to approve the request.

²⁸ VA Handbook 5007/51, part V, chap. 2, *Pay Administration*, August 2017.

The Maryland HCS appeared to have adequate controls for authorizing the use of overtime hours. However, the documentation of proper approvals of payments for authorized overtime hours was lacking because hours completed could not be verified through email.

Maryland HCS Properly Approved Requests to Work Overtime

Overtime is only to be used when necessary operations cannot be performed during an employee's regular (non-overtime) workweek.²⁹ Based on its review of VA Time and Attendance System documentation, the review team found that approvals for overtime requested were adequate for the 60 employees sampled. Documentation such as employee timesheets and overtime payment requests contained adequate justification and authorization for employees to work overtime. For example, 42 of the 60 employees reviewed were in healthcare positions such as nurses, respiratory therapists, and pharmacy staff, and their approved overtime was directly related to patient care. The remaining 18 employees, such as police officers and laborers, worked overtime to perform duties necessary to support Maryland HCS operational requirements not directly related to patient care. Further, VA policy delegates responsibility to officials such as the Maryland HCS director to monitor and oversee overtime approval and payment. The OIG found that the Maryland HCS director used an executive resource management committee and other senior managers to monitor overtime and its effect on the budget.

Maryland HCS Supervisors Did Not Verify Time Worked before Approving Payments

The review team found that Maryland HCS first-line supervisors need to do more to strengthen controls for completed overtime by properly verifying time worked before approving payments. Maryland HCS procedures, as detailed via email by the acting executive assistant to the associate director of finance, require the employees to send an email to their direct supervisors confirming that the authorized overtime was completed before payment is approved. For 17 of 19 employees selected in the second sample, the Maryland HCS could not provide emails to the review team in accordance with the requirement that first-line supervisors maintain emails as documentation that the overtime was completed.

In August 2019, the review team asked the acting chief financial officer whether the overtime approval process or procedures were included in an official policy document. The acting chief financial officer stated, "We don't have a formal written local policy on this process currently. This is the same process that we use pretty much at all of the medical facilities." In October 2019, the review team asked additional questions of the acting chief financial officer about how the overtime approval process or procedures, if not formalized, would be disseminated to the Maryland HCS staff. The acting chief financial officer, who transferred to

²⁹ VA Handbook 5007/51, *Pay Administration*.

another VA facility as of October 2019, initially referred the team to his replacement for a reply; however, a response was not provided due to unfamiliarity on the part of the replacement. The previous acting chief financial officer then responded to the team's inquiry:

When an employee asks a supervisor if they can perform overtime, they will learn about this process. Obviously, this would only be the case the first time. After that they will know about the procedure.

The review team sent additional inquiries to the Maryland HCS to verify the statements provided and confirm that an overtime policy does not exist, but HCS leaders did not respond.

For the 19 employees in the review team's second sample (each of whom were paid overtime four times), the Maryland HCS did not provide 55 of 76 emails requested (72 percent) to show that overtime was completed, even though VA policy requires that the time and attendance source documents be retained.³⁰ The overtime in the statistically selected sample was for payments during the first two quarters of FY 2019. Therefore, all payroll-related documents and files related to overtime payments, such as the emails verifying the approved overtime was completed, should have been maintained and available for the team's review.

Finding 5 Conclusion

As a steward of taxpayer funds intended to benefit veterans, the Maryland HCS has the responsibility to ensure that overtime is properly approved and verified as worked before payment. While the HCS properly approved the requests for overtime, it could not verify that work was completed before payment. The review team determined that if the Maryland HCS strengthened its guidance and oversight of the overtime process, it could ensure adequate documentation to reduce the risks of unsupported payments and questioned costs.

Recommendations 7–8

The OIG made the following recommendations to the Maryland Health Care System director:

7. Ensure all staff are provided clear guidance on overtime approval and payment policies and procedures that meet VA requirements.
8. Implement policies and procedures for supervisors to effectively monitor overtime worked and maintain documentation required to support related payments.

VA Management Comments

The directors of the VA Capitol Health Care Network and the Maryland HCS concurred with recommendations 7 and 8 (although the network director requested closure on

³⁰ VA Financial Policies and Procedures, vol. XV, chap. 5, "Payroll Hours of Duty and Leave," October 2011.

recommendation 7). To address recommendation 7, the Maryland HCS director reported that training is provided and required for all timekeepers and certifying officials on time and attendance that “specifically covers overtime approval processes, required documentation, payment policies, and reporting procedures.” In addition to detailing current practices, VA’s response indicated compliance for timekeepers and certifying officials will be reviewed annually and included in the VA Maryland HCS Annual Internal Audit Plan to ensure the overtime approval process and payment policies are complying with VA requirements. Additionally, an overtime approval policy reminder will be distributed semiannually to timekeepers and certifying officials, as well as continuing to provide refresher courses. For recommendation 8, the director also reported that the VA Maryland HCS will conduct monthly business acumen meetings with the business managers and service chiefs to notify them of overtime usage and service-related expenses. The Maryland HCS plans to conduct quarterly audits to ensure guidelines are being followed for all overtime payment controls, the results of which will be reported monthly along with training completions to the Executive Leadership Board.

OIG Response

The Maryland HCS director has submitted acceptable corrective action plans. Despite the network director’s request for closure of recommendation 7, the OIG will monitor implementation of the planned actions and will close both the recommendations when the OIG receives sufficient evidence demonstrating progress in addressing the intent of the recommendation and the issues identified.

Appendix A: Scope and Methodology

Scope

The team conducted its review from June 2019 to July 2020, including on-site visits in June and July 2019. The team analyzed purchases and payments for medical, dental, and scientific equipment (durable goods) as well as for medical and dental supplies (expendable goods). The team also reviewed purchase card transactions and overtime payments in the first two quarters of FY 2019.

Methodology

To accomplish its objectives, the review team interviewed facility leaders and staff. The team also identified and reviewed applicable laws, regulations, VA policies, operating procedures, and guidance related to purchasing and paying for medical and dental equipment and supplies, as well as overseeing purchase card transactions and the use of overtime.

In performing this audit, the team reviewed five samples:

- The first was a random sample of 105 payments for durable goods made during the first two quarters of FY 2019. The team examined whether purchases were properly authorized, whether payments were made in accordance with invoice review and certification requirements, and if payments were accurate. Finding 1 is based on this sample.
- The second was a random sample of 105 payments for expendable supplies made during the first two quarters of FY 2019. The team examined whether payments were properly authorized, whether invoices were reviewed and certified, and if payments were accurate. Finding 3 is based on this sample.
- The third was a random sample of 105 payments made to government purchase cards to establish if there was proper oversight and governance of the purchase card program, as well as to assess the risk for illegal, improper, or erroneous purchases. Finding 4 is based on this sample.
- The fourth and fifth samples related to overtime payments. First, the team tested an initial sample of 60 Maryland HCS employees with over 40 hours of paid overtime in three or more pay periods in the first two quarters of FY 2019 to determine if employees were properly approved to work overtime. Then, the review team selected a second sample of 19 employees from the original sample of 60 to determine if overtime worked was verified before payment approval. Finding 5 is based on these two samples.

Appendix B provides more information on the review team's statistical sampling methodology and results.

Fraud Assessment

The review team assessed the risk that fraud, violations of legal and regulatory requirements, and abuse could occur during this audit. The review team exercised due diligence in staying alert to any fraud indicators by taking the following actions:

- soliciting the OIG's Office of Investigations for potential fraud indicators
- performing an assessment to identify fraud indicators and the likelihood of their occurrence
- reviewing for appropriate quality control reviews
- developing a list of potential fraud risks and ratings

The OIG did not identify any instances of fraud or potential fraud during this review.

Data Reliability

The review team used computer-processed data from the Financial Management System, the Integrated Funds Distribution Control Point Activity, the Accounting and Procurement system, VA's Invoice Payment Processing System, the Personnel and Accounting Integrated Data System, and VA's time and attendance system. In addition, computer-processed data included reports from the dashboard to determine MSPV-NG utilization rates. To test for reliability, the review team determined whether any data were missing from key fields, included any calculation errors, or were outside the time frame requested. The review team also assessed whether the data contained obvious duplication of records, alphabetic or numeric characters in incorrect fields, or illogical relationships among data elements. Further, the review team compared purchase order numbers, payment dates, payee names, payment amounts, vendor ID number, and check number as provided in the data received in the samples reviewed. Testing of the data disclosed that they were sufficiently reliable for the review objectives.

Government Standards

The OIG conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

Appendix B: Statistical Sampling Methodology

Approach

To accomplish the objective, the review team assessed statistical samples of the following payments and transactions that were made in the first two quarters of FY 2019:

1. Payments for durable goods such as medical, dental, and scientific equipment (sample 1)
2. Payments for expendable goods such as medical and dental supplies (sample 2)
3. Purchase card transactions (sample 3)
4. Approved overtime payments (samples 4 and 5)

Weights

The OIG calculated estimates in this report using weighted sample data. Samples were weighted to represent the population from which they were drawn. The review team used the weights to compute estimates. For example, the review team calculated the error rate point estimates by summing the sampling weights for all sample records that contained an error, then dividing that value by the sum of the weights for all sample records.

Projections and Margins of Error

The point estimate (e.g., estimated error) is an estimate of the population parameter obtained by sampling. The margin of error and confidence interval associated with each point estimate is a measure of the precision of the point estimate that accounts for the sampling methodology used. If the OIG repeated this audit with multiple samples, the confidence intervals would differ for each sample but would include the true population value 90 percent of the time.

An OIG statistician employed statistical analysis software to calculate the weighted population estimates and associated sampling errors. This software uses replication or Taylor Series Approximation methodology to calculate margins of error and confidence intervals that correctly account for the complexity of the sample design.

The sample size was determined after reviewing the expected precision of the projections based on the sample size, potential error rate, and logistical concerns of sample review. While precision improves with larger samples, the rate of improvement does not significantly change as more records are added to the sample review. Figure B.1 shows the effect of progressively larger sample sizes on the margin of error.

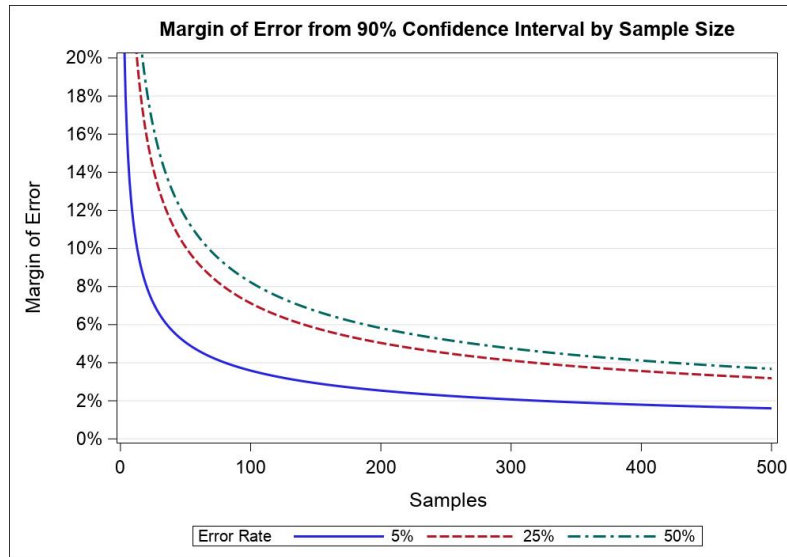


Figure B.1. Effect of sample size on margin of error.

Source: VA OIG statistician's analysis.

Sample 1: Payments for Medical, Dental, and Scientific Equipment

To determine whether the Maryland HCS implemented effective financial management practices for the payment, purchase, and accountability of durable goods such as medical, dental, and scientific equipment, the review team selected a statistical sample from the population of paid invoices in the Financial Management System's payment history records.

Population

The review team identified 328 payments for medical, dental, and scientific equipment with a total value of \$8,828,987.74.

Sampling Design

The review team used probability-proportional-to-size sampling. The selection was based on total paid amount in the universe, so all transactions would have a chance of being selected (thus large amounts would have a larger probability of selection with this technique). To make sure there was coverage over the entire population, the review team grouped transactions based on auditor criteria of potential duplicates, transactions deemed suspicious according to Benford's law, purchase cards, and remaining items not in one of the other areas mentioned.³¹ The team reviewed 30 purchase card transactions, 10 Benford's law transactions, and 65 remaining

³¹ Benford's law is a mathematical theory of leading digits. It implies that a number is more likely to begin with a smaller digit than a larger digit. The Benford's law analysis is used to identify abnormality in the distribution of numerical data, in this case the total dollar amounts.

transactions that did not fall within the other categories, for a total of 105 sample items. The 65 transactions were further stratified by paid amount as follows:

- less than \$100,000 (60 transactions)
- from \$100,000 to \$250,000 (two transactions)
- above \$250,000 (three transactions)

Sample 2: Payments for Medical and Dental Supplies

To determine whether the Maryland HCS implemented effective financial management practices for the payment, purchase, and accountability for expendable goods such as medical and dental supplies, the review team selected a statistical sample from the population of paid invoices within budget object code 2632 in the Financial Management System payment history records. Budget object code 2632 includes hospital and surgical supply items, laboratory supplies, animals used for medical experimentation and research, x-ray films and tubes for medical and dental purposes; physical medicine and rehabilitation supplies; radioisotopes for research, clinical diagnosis, and therapy; dental supplies such as amalgams and gold; and items of glassware including test tubes and beakers.

Population

The review team identified 16,724 payments for medical and dental supplies with a total value of \$7,305,298.

Sampling Design

The review team used probability-proportional-to-size sampling. The selection was based on the total paid amount in the universe, so each transaction would have a chance of being selected (thus large amounts would have a larger probability of selection with this technique). To make sure there was coverage over the entire population, the review team grouped transactions based on auditor criteria of potential duplicates, transactions deemed suspicious under Benford's law, purchase cards, and remaining items not in one of the other areas mentioned. The team reviewed nine potential duplicate transactions, 30 purchase card transactions, 30 Benford's law transactions, and 36 remaining transactions that did not fall within the other categories for a total of 105 sample items. Table B.1 depicts the sampling categories for medical and dental supply payments.

Table B.1. Medical and Dental Supply Payments Sampling Categories

Category	Transactions in universe	Total amount in universe (\$)	Sample size
Potential duplicates	18	10,079.68	9
Purchase cards	14,510	4,276,798.27	30
Benford's law suspicious transactions	148	1,193,760.86	30
Remaining transactions	2,048	1,824,658.88	36
Total	16,724	7,305,297.69	105

Source: OIG sampling plan developed by OIG statistician.

Sample 3: Purchase Cards

The review team used statistical sampling to quantify the extent of questioned costs for purchase card transactions that did not have supporting documentation, to verify whether the transactions were properly approved and payments were accurate.

Population

The review population included 25,997 payments with total value of \$17,139,473 for purchase card transactions during the first two quarters of FY 2019 at the Maryland HCS.

Sampling Design

The review team selected a statistical sample of 105 payments from the population of 25,997 payments based on US Bank payment history records. The population was stratified by auditor-determined criteria and categorized in seven strata shown in table B.2:

Table B.2. Strata

Category	Transactions in universe	Total amount in universe (\$)	Sample size
Potential duplicate payment transactions	8,563	1,722,201	19
Potential split purchases transactions	164	1,417,961	25
Transactions made on weekends	1,552	1,019,570	15
Transactions over the single purchase or card limit	28	21,699	6

Category	Transactions in universe	Total amount in universe (\$)	Sample size
Approving officials with more than 40 cardholders*	-	-	-
Benford's law suspicious transactions	683	4,394,040	15
Remaining transactions	15,007	8,564,002	25
Total	25,997	17,139,473	105

Source: VA OIG statistician's stratified population. Data obtained from US Bank payment records.

*The review team used seven categories to stratify the population; however, only six categories returned data that could be used in a sample. There were no approving officials with more than 40 cardholders.

Projections

Based on the sample of 105 payments, the OIG estimated that the Maryland HCS made 9,761 (rounded to 9,800) payments in the amount of \$2,582,987 (rounded to \$2,600,000) during the first two quarters of FY 2019 for purchase card transactions that did not have supporting documentation to verify whether the purchase was approved and payments were accurate.

Table B.3 summarizes the questioned costs projections.

Table B.3. Summary of Questioned Costs Projections

Category	Projection	Margin of error	90 percent confidence interval lower limit	90 percent confidence interval upper limit	Number of errors	Total sample size
Number of payments	9,800	2,500	7,200	12,300	44	105
Total amount of questioned costs	\$2,600,000	\$925,000	\$1,700,000	\$3,500,000	44	105

Source: OIG statistical analysis performed by VA OIG statistician.

Note: The numbers in the table are rounded to the nearest dollar amount.

Samples 4 and 5: Overtime

To determine if the Maryland HCS implemented financial processes to ensure effective fiscal oversight, financial stewardship, and accountability for overtime compensation, the team reviewed a statistical sample of employees who worked a high volume of overtime. The review team defined a high volume of overtime as overtime exceeding 40 hours over three pay periods or an aggregate of 130 or more hours during the period of review.

Population

The review team identified 113 employees with 39,361 total hours of overtime and overtime payments of approximately \$1.8 million during the period of review, the first two quarters of FY 2019.

Sampling Design

From the universe of 113 employees, the review team identified those employees who worked 40 or more hours of overtime for three or more pay periods, or an aggregate of 130 hours or more of overtime during the six months of review. This resulted in a sample of 60 employees with 21,088 hours of overtime and overtime payments totaling \$982,970. A second sample of four overtime payments for each of the 19 of 60 employees in the original sample was selected, for a total of 76 overtime payments totaling approximately \$22,000 (four payments multiplied by 19 employees to arrive at 76 payments). The second sample was based on a random selection of pay periods with paid overtime for each of the 19 employees. The purpose of this subsample was to review the overtime completed emails for each of the 76 payments.

Appendix C: Monetary Benefits in Accordance with Inspector General Act Amendments

Recommendation	Explanation of Benefits	Better Use of Funds	Questioned Costs
1-2	The Maryland HCS needs to implement internal controls for healthcare system staff to submit and document approvals for all equipment requests in the Enterprise Equipment Request Portal before ordering and paying for equipment. It should also implement a control to justify the waiver of any healthcare system approvals ordinarily required to purchase equipment in the Enterprise Equipment Request Portal.	\$0	\$2.8 million
4	The Maryland HCS needs to require logistics service to develop a plan to work with the prime vendor to ensure estimated supply data are accurate, updated in a timely manner, and meet the healthcare system's supply requirements.	\$132,000	\$0
6	The Maryland HCS needs to establish processes and controls for cardholders to comply with the record retention requirements in the Federal Acquisition Regulation and VA's Financial Policy, Volume XVI, "Charge Card Program."	\$0	\$2.6 million
7-8	The Maryland HCS needs to ensure all staff are provided clear guidance on overtime approval and payment policies and procedures that meet VA requirements. It should also implement policies and procedures for supervisors to effectively monitor overtime worked and maintain documentation required to support related payments.	\$0	\$20,000
	Total	\$132,000	\$5.42 million

Appendix D: Management Comments, Director VA Capitol Health Care Network

Department of Veterans Affairs Memorandum

Date: April 8, 2021

From: Director, VA Capitol Health Care Network (10N5)

Subj: Draft Report, Review of Financial Management Practices at VA's Maryland Health Care System

To: Assistant Inspector General for Audits and Evaluations (52)

1. I have reviewed and concur with the findings and recommendations in the Office of Inspector General (OIG's) draft report entitled OIG Draft Report: Review of Financial Management Practices at VA's Maryland Health Care System.
2. Furthermore, I have reviewed and concur with the VA's Maryland Health Care System, Medical Center Director's response and request to close Recommendations #2, 3, 4, and 7. Implementation of actions for Recommendations #1, 5, 6, and 8 are open and in progress.
3. Thank you for this opportunity to focus on continuous performance improvement.

The OIG removed point of contact information prior to publication.

(Original signed by)

Robert M. Walton, FACHE

Appendix E: Management Comments, Director for VA Maryland Health Care System

Department of Veterans Affairs Memorandum

Date: April 8, 2021

From: Director, VA Maryland Health Care System (512/00)

Subj: Draft Report, Review of Financial Management Practices at VA's Maryland Health Care System

To: Director, Operations Division, Office of Management & Administration (53B)

Thru: Director, VA Capitol Health Care Network (10N5)

1. I have reviewed and concur with the findings and recommendations in the Office of Inspector General (OIG) Draft Report: Review of Financial Management Practices at VA's Maryland Health Care System.
2. The VA Maryland Health Care System is requesting closure of Recommendations #2, 3 and 4. Recommendations #1 and 5 through 8 remain open and still in progress.
3. Please express my gratitude to the OIG survey team for their professionalism and assistance to us.

The OIG removed point of contact information prior to publication.

(Original signed by)

Sandra L. Marshall for and in the absence of Jonathan R. Eckman, P.E.

Attachment

What the OIG Recommended

The OIG made eight recommendations regarding the internal control and oversight issues identified in the review. For equipment purchases, the OIG recommended the Maryland HCS director implement internal controls to ensure all equipment requests are properly submitted and the approval is documented in EER before purchase and payment. The Maryland HCS director should also implement waiver controls for approvals ordinarily required to purchase an equipment item. Further, the Maryland HCS director should inform the appropriate VHA officials of the internal control weakness in the EER portal for corrective action, if deemed necessary. For the use and oversight of the MSPV-NG program, the OIG recommended the Maryland HCS logistics service develops a plan to work with the prime vendor to ensure historical and current estimated supply data is timely, accurate, and meets healthcare system supply requirements. To correct the inaccuracies in supplies recorded in VA's Generic Inventory Package, the OIG recommended that the Maryland HCS logistics service implement a plan to consistently and promptly monitor for and correct unit conversion factor errors. To improve the oversight of purchase card transactions, the Maryland HCS director should ensure cardholders comply with record retention requirements as stated in the Federal Acquisition Regulation and VA financial policy and establish controls to ensure compliance.

To strengthen overtime controls, the OIG recommended the Maryland HCS director disseminate policies and procedures for overtime to all staff. In addition, the director should implement policies and procedures for first-line supervisors to effectively monitor overtime worked and maintain documentation required to support related payments.

Management Comments

Concur.

The VA Maryland Health Care System (VAMHCS) has reviewed and concur with the findings and recommendations in the Office of Inspector General (OIG) Draft Report: Review of Financial Management Practices at VA's Maryland Health Care System. The VA Maryland Health Care System is requesting closure of Recommendations #2, 3 and 4. Recommendations #1 and 5 through 8 remain open and still in progress.

Finding 1 Conclusion

During the three years that the Maryland HCS used LEAF instead of EER, LEAF's inadequate controls contributed to improper approvals for purchasing and paying for equipment, totaling approximately \$2.8 million in questioned costs.¹³ While the Maryland HCS implemented EER in October 2019, it too is subject to control weaknesses for questionable equipment purchases and payments. Therefore, the OIG determined the Maryland HCS director should inform VHA officials of the control weakness in EER found during this review so they can take necessary corrective actions.

Recommendations 1–3

The OIG made three recommendations to the Maryland HCS director regarding finding 1:

1. Implement internal controls for healthcare system staff to submit and document approvals for all equipment requests in the Enterprise Equipment Request Portal before ordering and paying for equipment.
2. Implement a control requiring staff to justify the waiver of any healthcare system approvals ordinarily required to purchase equipment in the Enterprise Equipment Request Portal.

3. Inform the deputy under secretary for health for operations and management for procurement and logistics of the internal control weakness in the Enterprise Equipment Request Portal and request a response regarding whether corrective action is necessary.

Management Comments

Recommendation 1: Implement internal controls for healthcare system staff to submit and document approvals for all equipment requests in the Enterprise Equipment Request Portal before ordering and paying for equipment.

Concur.

Target date for completion: October 1, 2021

The VAMHCS Supply Chain Management Service (SCMS) Service Chief will ensure continued sustainment of the following controls, established by Office of Acquisitions and Logistics (OAL), and implemented since 1st Quarter, FY 2020:

1. SCMS Service Chief creates and send SEP-G item plan to VAMHCS Equipment Committee.
2. VAMHCS Equipment Committee reviews and approves plan and sends to VAMHCS Director for review and approval.
3. VAMHCS Director reviews and approves plan (Proceed to Step 4 if no station cost threshold exists; VISN reviews and approves if station cost threshold exists).
4. VAMHCS Equipment Committee notifies Service Chief to proceed with submitting Enterprise Equipment Request (EER) based off approval of SEP-G item plan.
5. Service Chief or designee creates and submits EER to VAMHCS Equipment Committee for review and approval.
6. VAMHCS Equipment Committee and designated subject matter experts (SME) review and approve equipment request.
7. SCMS staff creates and executes purchase order.

Both portals are designed for each step in the approval process to happen in sequence: Committee, SMEs, Station Director, VISN (below threshold or above threshold).

The Chief, SCMS will immediately implement ongoing, quarterly audits of all equipment submissions and purchases to ensure compliance. Compliance will be monitored and reported monthly and logged and published in the facility Equipment Committee Meeting minutes. In addition, the VAMHCS Equipment Committee Charter will be updated to include an addendum that clearly defines the process and the roles that are necessary to approve all equipment prior to purchase.

Recommendation 2: Implement a control requiring staff to justify the waiver of any healthcare system approvals ordinarily required to purchase equipment in the Enterprise Equipment Request Portal.

Concur.

Target date for completion: We request closure based on the evidence provided in this statement.

VAMHCS staff do not now, nor have they ever had unrestricted ability to waive any healthcare system approvals ordinarily required to purchase equipment in the EER Portal. As of November 2019, the Equipment Committee co-chairs (VAMHCS SCMS Chief and Bio-Medical Engineering Chief) are the

Medical Center Director designated authorities with systems permissions to approve equipment requests submitted on an emergency basis that may necessitate by-passing established healthcare system approval protocols required to purchase equipment in the EER Portal. These permissions are enabled in the EER *Facility Administrator Tools Menu*. No other staff in the facility retains this menu permission. The NX Deputy SCMS Service Chief retains sole authority to grant or extend this menu permission on behalf of the committee co-chairs.

Recommendation 3: Inform the deputy undersecretary for health for operations and management for procurement and logistics of the internal control weakness in the Enterprise Equipment Request Portal and request a response regarding whether corrective action is necessary.

Concur.

Target date for completion: May 31, 2021

The VISN Director will inform the deputy undersecretary for health for operations and management for procurement and logistics that the OIG reviewed the Enterprise Equipment Request (EER) Portal user's manual subsequent to their VAMHCS review and identified a control weakness in EER. A response will be requested. This recommendation will be considered compliant when documentation is provided that the DUSHOM was informed of the OIG's identification of the control weakness in EER and that a response was requested. Also, if the DUSHOM responds, VISN 5 will provide the OIG with a copy of the response.

Supporting Documentation

VAMHCS POLICY MEMORANDUM 512-001/BIOM-002 VAMHCS Committee Charter; EER FAQs v2.4; ELCM SEPG_EER One Pager 09132018

[...]

Finding 2 Conclusion

It is critical that supplies are available when and where they are needed to meet veterans' healthcare needs. The prime vendor contracts are meant to help achieve that goal while making the most effective use of taxpayer dollars. The Maryland HCS and prime vendor did not effectively plan and communicate requirements for supplies. Inaccurate or untimely product usage information makes it difficult for a prime vendor to fulfill supply orders. The HCS should better assist the prime vendor's efforts to meet the facilities' supply needs. In addition, the prime vendor should improve its planning efforts and ensure supplies are on hand to consistently fill HCS purchase requests in accordance with the contract rate.

Recommendation 4

The OIG made the following recommendation to the Maryland HCS director:

4. Require the logistics service to develop a plan for working with the prime vendor to ensure historical and current estimated supply data is timely, accurate, and meets healthcare system supply requirements.

Management Comments

Recommendation 4: Require the logistics service to develop a plan for working with the prime vendor to ensure historical and current estimated supply data is timely, accurate, and meets healthcare system supply requirements.

Concur.

Target date for completion: We request closure based on the evidence provided.

Continued sustainment of all past and ongoing actions since January 2018: Medical Supply Prime Vendor Contract Officer Representative (MSPV COR) and Expendables Logistics Management Specialist (EX LMS) continue to verify usage data for MSPV Core items on a daily, weekly and monthly basis. All changes and updates to usage continue to be shared via in-person meetings and various electronic communication platforms with MSPV On-Site Representative (OSR) to effectively communicate commitments according to true facility usage.

Continued sustainment of all past and ongoing actions since January 2018: MSPV COR and EX LMS continue to hold bi-monthly meetings with MSPV On-site Representative (OSR). During these meetings, MSPV OSR shares "velocity" reports with VAMHCS (containing slow, fast and no-move items). Collective and cooperative usage analysis of these reports continues to be addressed in real time between the LMS, Acquisition Utilization Specialist (AUS), and MSPV OSR enabling comprehensive review and validation of MSPV commitments on a regularly scheduled basis. Additional and ad hoc requests for commitment updates continue to be communicated by VAMHCS staff to On-site Representative (OSR) and vice versa as needed and addressed on a daily basis. Embedded are eight examples of communication between the Prime Vendor and VAMHCS SCMS staff.

[...]

Finding 3 Conclusion

The review team determined the Maryland HCS needs to improve the accuracy of recorded unit costs to effectively plan and budget for medical supply purchases that can promptly meet patient care needs. Incorrect supply unit costs could result in wasted funds for unnecessary purchases and diminish the Maryland HCS's ability to ensure adequate funds are available to fully address other patient care needs. Overstocking items can also result in greater risks of expiration, degradation, or loss and can take up valuable storage space. Processes and controls regarding unit costs and inventory values must be effectively implemented to reduce the risk of unexpected shortages of critical items.

Recommendation 5

The OIG made one recommendation to the Maryland HCS director:

5. Ensure the logistics service implements a plan to consistently and promptly monitor for and correct unit conversion factor errors.

Management Comments

Recommendation 5: Ensure the logistics service implements a plan to consistently and promptly monitor for and correct unit conversion factor errors.

Concur.

Target date for completion: October 1, 2021

Expendables Logistics Management Specialist (EX LMS) continue to review the Generic Inventory Package (GIP) "Conversion Factor" and SCRT Tool "Conversion Factor Report" and take corrective action weekly to ensure all items have appropriate conversion factors and pricing data is being corrected in GIP at all facilities. EX LMS will report to Chief, SCMS monthly for six consecutive months to ensure sustained compliance. Monthly reporting will consist of:

- Number of Conversion Factor errors identified in the prior month
- Number of Conversion Factor errors corrected in the prior month.

Finding 4 Conclusion

The OIG found that the Maryland HCS lacked effective oversight of the purchase card program, consistent with the findings of its own purchase card coordinator. To advance the effective stewardship of taxpayer funds, the Maryland HCS needs to improve oversight of the purchase card program by ensuring purchase cardholders retain any transaction documentation required by the Federal Acquisition Regulation, VA policy and Maryland HCS procedures. Further, effective oversight of the purchase card program would mitigate the risks associated with unauthorized purchases and improper payments.

Recommendation 6

The OIG made the following recommendation to the Maryland HCS director:

6. Establish processes and controls for cardholders to comply with the record retention requirements in the Federal Acquisition Regulation and VA's Financial Policy, Volume XVI, "Charge Card Program."

Management Comments

Recommendation 6: Establish processes and controls for cardholders to comply with the record retention requirements in the Federal Acquisition Regulation and VA's Financial Policy, Volume XVI, "Charge Card Program."

Concur.

Target date for completion: October 1, 2021

Re-Training for all Purchase Card Holders will be completed by the Purchase Card Program Coordinator (PCPC)/designee for the VAMHCS. The PCPC for Maryland has been instructed to complete additional audits to verify policy is being followed. Audits will be completed within six months for the Logistics Team. The training information and audit results will be reported via the finance chain of command, ending with VAMHCS Executive Leadership Board (ELB).

Finding 5 Conclusion

As a steward of taxpayer funds intended to benefit veterans, the Maryland HCS has the responsibility to ensure that overtime is properly approved and verified as worked prior to payment. While the HCS properly approved the requests for overtime, it could not verify that work was completed prior to payment. The review team determined that if the HCS strengthened its guidance and oversight of the overtime process it could ensure adequate documentation to reduce the risks of unsupported payments and questioned costs.

Recommendations 7-8

The OIG made the following recommendations to the Maryland HCS director:

7. Ensure all staff are provided clear guidance on overtime approval and payment policies and procedures that meet VA requirements.

8. Implement policies and procedures for supervisors to effectively monitor overtime worked and maintain documentation required to support related payments.

Management Comments

Recommendation 7: Ensure all staff are provided clear guidance on overtime approval and payment policies and procedures that meet VA requirements.

Concur.

Target date for completion: June 30, 2021

Talent Management System (TMS) training on time and attendance (T&A) reporting is provided and required by all timekeepers and certifying officials. The training specifically covers overtime approval processes, required documentation, payment policies and reporting procedures.

TMS tracks compliance automatically when it comes to T&A policy. Supervisors are sent an email for any timekeepers or certifying officials that are not compliant/up to date on their time and attendance trainings. TMS course compliance is also tracked by Employee Education.

Compliance for Timekeepers and Certifying Officials will be reviewed annually by Fiscal and included in the VAMHCS Annual Internal Audit Plan to ensure the overtime approval process and payment policies are being followed in accordance with VA requirements. Additionally, an overtime approval policy reminder will be distributed semi-annually to timekeepers and certifying officials in addition to the refresher courses already being provided.

The VAMHCS will continue to conduct monthly business acumen meetings with the Business Managers and Service Chiefs of each service to provide notice of overtime usage and service-related expenses.

Recommendation 8: Implement policies and procedures for supervisors to effectively monitor overtime worked and maintain documentation required to support related payments.

Concur.

Target date for completion: June 30, 2021

VAMHCS will continue to conduct monthly business acumen meetings with the Business Managers and Service Chiefs of each service to provide notice of overtime usage and service-related expenses. TMS training is provided and required by all timekeepers and certifying officials. The training specifically covers overtime approval processes, required documentation, payment policies and reporting procedures. The VA's time and attendance system otherwise known as VATAS has an internal control that is activated whenever premium pay such as compensatory time or overtime is charged, requiring a second line approval. This internal control also requires a justification by the timekeeper, further strengthening documentation and payment controls requirements. A quarterly audit will be conducted by Fiscal to ensure guidelines are being followed for all overtime payment controls. Training completions and audit results will be reported monthly to the ELB.

Supporting Documentation:

[...]

For accessibility, the original format of this appendix has been modified to comply with Section 508 of the Rehabilitation Act of 1973, as amended.

OIG Contact and Staff Acknowledgments

Contact	For more information about this report, please contact the Office of Inspector General at (202) 461-4720.
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